



*January 22, 2020*

**To:** Finance and Administration Committee

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

Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Fiscal Year 2018-19 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. Crowe, LLP, an independent accounting firm, has completed its annual audits of the Orange County Transportation Authority and related entities for the fiscal year 2018-19. 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 2018-19 annual financial statement audits and agreed-upon procedures reports as information items.

### **Background**

Pursuant to Section 28770 of the Public Utilities Code, the Orange County Transportation Authority (OCTA) prepares an annual set of financial statements presenting its 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 25, 2019. In connection with the CAFR audit, Crowe, LLP (Crowe) provides opinions on other financial reports of OCTA and applies certain agreed-upon procedures to determine compliance with certain federal, state, and local requirements.

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***

Crowe has completed its annual financial audits and has issued independent auditor opinions for the fiscal year ended June 30, 2019. Results of agreed-upon procedures reviews have also been issued. Reports are included as Attachments A through J.

There were no recommendations resulting from audits and agreed-upon procedures performed for the fiscal year ended June 30, 2019.

### ***Summary***

Crowe has completed its annual audits of OCTA and related entities for the fiscal year 2018-19. Additionally, reports have been issued on the results of agreed-upon procedures applied to determine compliance with certain state, federal, and local requirements.

***Attachments***

- A. Orange County Transportation Authority Single Audit Year Ended June 30, 2019
- B. Orange County Local Transportation Authority (A Component Unit of the Orange County Transportation Authority) Annual Financial and Compliance Report Year Ended June 30, 2019
- C. Orange County Transportation Authority Local Transportation Fund Financial Statements Year Ended June 30, 2019
- D. Orange County Transportation Authority State Transit Assistance Fund Financial Statements Year Ended June 30, 2019
- E. Orange County Transportation Authority Independent Auditor's Report on Proposition 1B and the Transportation Development Act Year Ended June 30, 2019
- F. Orange County Local Transportation Authority Report on Agreed-Upon Procedures Applied to Measure M2 Status Report Year Ended June 30, 2019
- G. Orange County Transportation Authority Independent Accountant's Report on Applying Agreed-Upon Procedures with Respect to the Treasury Department Year Ended June 30, 2019
- H. Orange County Transportation Authority Independent Accountant's Report on Applying Agreed-Upon Procedures Related to Article XIII-B Appropriations Limit Calculation for the Fiscal Year Ended June 30, 2019
- I. Orange County Transportation Authority Agreed-Upon Procedures Performed with Respect to the National Transit Database Report June 30, 2019
- J. Orange County Local Transportation Authority Independent Accountant's Report on Applying Agreed-Upon Procedures Related to Article XIII-B Appropriations Limit Calculation for the Fiscal Year Ended June 30, 2019

**Prepared by:**



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

**ORANGE COUNTY  
TRANSPORTATION AUTHORITY**

**SINGLE AUDIT**  
Year ended June 30, 2019

ORANGE COUNTY TRANSPORTATION AUTHORITY  
Orange, California

SINGLE AUDIT  
Year ended June 30, 2019

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INDEPENDENT AUDITOR'S 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 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, 2019, 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, 2019.

### **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.

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(Continued)

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCTA's financial statements are free of 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 over financial reporting 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.



Crowe LLP

Costa Mesa, California  
October 31, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL 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 Orange County Transportation Authority (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, 2019. 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.

***Auditor's 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, 2019.

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(Continued)

## 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, 2019, and the related notes to the financial statements, which collectively comprise OCTA's basic financial statements. We issued our report thereon dated October 31, 2019, which contained unmodified opinions on those financial statements. 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.



Crowe LLP

Costa Mesa, California  
December 19, 2019

ORANGE COUNTY TRANSPORTATION AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2019

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Identification Number	Federal Expenditures	Passed Through to Subrecipients
<b><u>U.S. Department of Transportation</u></b>				
Direct Assistance:				
Federal Transit Cluster:				
Federal Transit - Capital Improvement Grants	20.500	Multiple	\$ 15,231,020	\$ 394,349
Federal Transit - Formula Grants	20.507	Multiple	69,494,218	477,216
State of Good Repair Program	20.525	Multiple	7,487,234	-
Bus and Bus Facilities Formula Program	20.526	Multiple	3,179,312	-
Total Federal Transit Cluster			95,391,784	871,565
Transit Services Program Cluster:				
Passed through California Department of Transportation:				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	64AM16-00157	2,455,138	-
Direct Grants:				
Job Access and Reverse Commute Program	20.516	CA-37-X113	1,074,459	580,895
Total Transit Services Program Cluster			3,529,597	580,895
Highway Planning and Construction Cluster:				
Passed Through California Department of Transportation:				
Highway Planning and Construction	20.205	Multiple	40,768,490	-
Direct Grants:				
Transportation Infrastructure Finance and Innovation Act (TIFIA) Program	20.223	TIFIA-20171012A	122,000,000	-
Total U.S. Department of Transportation			261,689,871	1,452,460
<b><u>U.S. Department of Homeland Security</u></b>				
Direct Grants:				
Office of Security Operations:				
National Explosives Detection Canine Team Program	97.072	Multiple	93,262	-
Passed Through State of California				
Office of Emergency Services:				
Rail and Transit Security Grant Program (TSGP)	97.075	Multiple	19,924	-
Total U.S. Department of Homeland Security			113,186	-
<b>Total Expenditures of Federal Awards</b>			<b>\$ 261,803,057</b>	<b>\$ 1,452,460</b>

See accompanying notes to the schedule of expenditures of federal awards.

ORANGE COUNTY TRANSPORTATION AUTHORITY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2019

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**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents only the expenditures incurred by OCTA that are reimbursable under federal programs of federal financial assistance for the year ended June 30, 2019. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. 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.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. OCTA has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 2 – TRANSPORTATION INFRASTRUCTURE FINANCE AND INNOVATION ACT (TIFIA) PROGRAM LOAN**

In July 2017, OCTA executed a TIFIA loan agreement with the United States Department of Transportation in an amount not to exceed \$628,930,000 to finance a portion of OCTA's I-405 improvement project. Total TIFIA draws during the fiscal year ended June 30, 2019 totaled \$122,000,000. As of June 30, 2019, \$287,000,000 was drawn on the TIFIA Loan and the amount outstanding including interest was \$294,761,438.

ORANGE COUNTY TRANSPORTATION AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2019

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**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ Yes      X   No

Significant deficiency(ies) identified?

\_\_\_\_\_ Yes      X   None reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes      X   No

*Federal Awards*

Internal control over major federal programs:

Material weakness(es) identified?

\_\_\_\_\_ Yes      X   No

Significant deficiencies identified not considered to be material weaknesses?

\_\_\_\_\_ Yes      X   None reported

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

Unmodified

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

\_\_\_\_\_ Yes      X   No

Identification of major federal programs:

CFDA Numbers

20.500 / 20.507 / 20.525 / 20.526

Federal Transit Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$   3,000,000  

Auditee qualified as low-risk auditee?

  X   Yes    \_\_\_\_\_ No

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

ANNUAL FINANCIAL AND  
COMPLIANCE REPORT

Year Ended June 30, 2019

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

Audited Financial Statements

Year Ended June 30, 2019

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## INDEPENDENT AUDITOR'S 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 fiscal year ended June 30, 2019, 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.

### ***Auditor's 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, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information for the Local Transportation Authority Special Revenue Fund, as listed in the table of contents, 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 the 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise OCLTA's basic financial statements. The budgetary comparison schedule for the Local Transportation Authority Debt Service Fund 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 were derived from and relate 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 budgetary comparison schedule for the Local Transportation Authority Debt Service Fund 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 29, 2019, on our consideration of OCLTA's internal control over financial reporting and our on 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.

  
Crowe LLP

Costa Mesa, California  
October 29, 2019

**Orange County Local Transportation Authority**  
**Management's Discussion and Analysis**  
**(unaudited)**  
**For the Fiscal Year Ended June 30, 2019**

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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 (FY) ended June 30, 2019. 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 \$625,919 as of June 30, 2019. The net position of the OCLTA is restricted for transportation projects, Environmental Mitigation Program and debt service.
- Net position increased by \$62,963 during FY 2018-19. This increase was primarily due to general and program revenues exceeding program expenses. In FY 2018-19, sales tax revenue increased by \$11,735 compared to FY 2017-18. In addition, operating grants and contributions increased by \$57,709, or 67.5 percent, compared to the prior FY.
- OCLTA's governmental funds reported combined ending fund balances of \$1,303,547 reflecting an increase of \$457,779 from the prior FY. The increase is primarily due to the issuance of sales tax revenue bonds. For more information related to this bond issuance, refer to note 7.

**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

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

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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 FY. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

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 FY. 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 and related reconciliations to governmental activities 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 16-32 of this report.

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

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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 33 and the LTA debt service fund as other supplementary information on page 35 to demonstrate compliance with the annual appropriated budget.

**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, 2019, the OCLTA's assets and deferred outflows of resources exceeded liabilities by \$625,919, a \$62,963 increase from June 30, 2018. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the OCLTA's governmental activities.

Table 1  
Orange County Local Transportation Authority  
Net Position

	Governmental Activities	
	2019	2018
Current and other assets	\$1,428,831	\$ 964,182
Assets held for resale	371	1,095
Total assets	1,429,202	965,277
Deferred outflows of resources		
Deferred charge on refunding	1,499	-
Current liabilities	100,688	90,881
Long-term liabilities	704,094	311,440
Total liabilities	804,782	402,321
Total net position	\$ 625,919	\$ 562,956

Total assets increased by \$463,925, or 48.1 percent, from June 30, 2018. This increase is primarily due to an increase in cash and investments, which resulted primarily from the issuance of sales tax revenue bonds.

Total liabilities increased by \$402,461, or 100 percent, from June 30, 2018. This increase is primarily due to the issuance of sales tax revenue bonds.

Total net position from governmental activities changed from \$562,956 at June 30, 2018 to \$625,919 at June 30, 2019. This increase was primarily due to increased operating grants and contributions, sales tax revenues and investment earnings, offset by lower program expenses such as infrastructure.

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

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Table 2  
Orange County Local Transportation Authority  
Changes in Net Position

	Governmental Activities	
	2019	2018
Revenues:		
Program revenues:		
Charges for services	\$ 454	\$ 733
Operating grants and contributions	143,173	85,464
General revenues:		
Sales taxes	333,187	321,452
Unrestricted investment earnings	46,824	11,592
Other miscellaneous revenue	110	-
Total revenues	<u>523,748</u>	<u>419,241</u>
Measure M program expenses	<u>460,785</u>	<u>474,219</u>
Change in net position	62,963	(54,978)
Net position - beginning	562,956	617,934
Net position - end of year	<u>\$ 625,919</u>	<u>\$ 562,956</u>

OCLTA expenses shown on the statement of activities consist of:

	Governmental Activities	
	2019	2018
Supplies and services	\$ 92,893	\$ 93,194
Contributions to other local agencies	109,443	106,863
Bond issuance	826	-
Infrastructure	184,048	239,570
Interest expense	24,253	20,312
Contributions to other OCTA funds	49,322	14,280
Total expenses	<u>\$ 460,785</u>	<u>\$ 474,219</u>

Governmental activities increased the OCLTA's net position by \$62,963.

Total revenues increased by \$104,507, or 24.9 percent, from FY 2017-18 primarily due to an increase in operating grants and contributions for freeway projects including the I-405 Improvement Project. Also, investment earnings increased by \$35,232 due to market performance. Sales taxes, which ultimately financed a significant portion of the OCLTA's net costs, increased by \$11,735 from the prior year as a result of continued improvement in the economy.

Program expenses decreased by \$13,434 primarily due to a decrease in expenses related to the I-405 Improvement Project.

**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, 2019, the OCLTA’s governmental funds reported combined ending fund balances of \$1,303,547, an increase of \$457,779 compared to FY 2017-18. The majority of fund balances, 96.5 percent, are restricted for transportation projects funded by the Measure M Program. The remaining fund balances are restricted for the Environmental Mitigation Program and for debt service on M2 sales tax revenue bonds issued to accelerate funding for transportation projects.

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

The LTA fund balance increased by \$444,900 primarily due to the issuance of sales tax revenue bonds.

The LTA Debt Service fund balance increased by \$12,879, due to interest earned and transfers received from the LTA fund in excess of debt service payments.

**Capital Asset and Debt Administration**

Capital Assets

As of June 30, 2019, 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	
	2019	2018
Machinery	\$ 21	\$ 32
Total capital assets	21	32
Less accumulated depreciation	(21)	(32)
Total capital assets, net	\$ -	\$ -

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: \$750,499 for the I-405 Improvement Project, \$47,739 for the I-5 Improvement Project, and \$16,952 for the Laguna San Juan Project.

Debt Administration

As of June 30, 2019, the OCLTA had \$635,220 in sales tax revenue bonds compared to \$310,235 as of the prior FY.

## **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 2010 M2 Sales Tax Revenue Bonds. The 2019 M2 Sales Tax Revenue Bonds have an "AA+" rating from S&P and an "AA+" from Fitch.

Additional information on the OCLTA's long-term debt can be found in note 7 to the financial statements.

### **Economic and Other Factors**

The OCLTA is responsible for administering Measure M, the half-cent transportation sales tax, which originally passed in 1990 and was delivered as promised to the residents of Orange County, with over \$4 billion invested in improvements to freeways, streets and roads and transit services. Measure M1 (M1) ended in March 2011, and collection of sales tax under Measure M2 (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 through March 31, 2041. Allocation of M2 funds remains the same as the original M1 with 43 percent slated for freeway improvements, 32 percent for streets and roads, and 25 percent for transit projects and programs.

Although revenue collection for M2 projects did not begin until April 2011, OCTA began delivering projects early based on the five-year M2 Early Action Plan (EAP) adopted in 2007 and subsequent M2020 Plan adopted in 2012. Both delivery plans were developed to accelerate M2 freeway, streets and roads, transit, and environmental projects. In response to lower actual sales tax revenue, a new forecasting methodology was adopted in March 2016. This prompted the need to revisit the assumptions built into the M2020 plan. A new program/project delivery framework for the next ten years, called the Next 10 Plan, was adopted by the Board of Directors on November 14, 2016 and was updated and re-adopted by the Board of Directors on September 10, 2018.

Based on the forecast provided by MuniServices, LLC, the estimated sales tax growth rate for FY 2019-20 is 4.3 percent for M2. Sales tax for the M2 Program is estimated to be \$13.4 billion over the life of the measure.

The OCLTA adopted its FY 2019-20 annual budget on June 10, 2019. Approximately \$664 million in 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 \$366 million to make improvements along Interstate 405, Interstate 5, State Route 55, State Route 57, and State Route 91. Approximately \$159 million is budgeted to improve streets and roads, including \$58 million to fund the Local Fair Share Program, \$57 million for the Regional Capacity Program, and \$34 million for Regional Traffic Signal Synchronization. In addition, the M2 transit budget consists of \$110 million in bus and rail projects, including \$49 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, 2019**

<i>(amounts expressed in thousands)</i>	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and investments	\$ 1,288,440
Receivables:	
Interest	4,847
Operating grants	9,876
Other	1,290
Due from other OCTA funds	1,787
Due from other governments	95,603
Condemnation deposits	9,284
Note receivable	3,862
Restricted investments	9,534
Other assets	4,308
Assets held for resale	371
<b>Total Assets</b>	<b>1,429,202</b>
<b>Deferred Outflows of Resources</b>	
Deferred charge on refunding	1,499
<b>Total Deferred Outflows of Resources</b>	<b>1,499</b>
<b>Liabilities</b>	
Accounts payable	54,906
Accrued interest payable	12,920
Due to other OCTA funds	13,151
Due to other governments	11,746
Unearned revenue	6,839
Other liabilities	17
Advance from other OCTA funds	1,109
Noncurrent liabilities:	
Due within one year	8,530
Due in more than one year	695,564
<b>Total Liabilities</b>	<b>804,782</b>
<b>Net Position</b>	
Restricted for:	
Transportation projects	580,367
Debt service	36,018
Environmental Mitigation Program	9,534
<b>Total Net Position</b>	<b>\$ 625,919</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, 2019**

<i>(amounts expressed in thousands)</i>	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Program governmental activities:				
Measure M program	\$ 460,785	\$ 454	\$ 143,173	\$ (317,158)
General revenues:				
Sales taxes				333,187
Unrestricted investment earnings				46,824
Other miscellaneous revenue				110
Total general revenues				380,121
Change in net position				62,963
Net position - beginning				562,956
<b>Net position - ending</b>				<b>\$ 625,919</b>

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, 2019**

<i>(amounts expressed in thousands)</i>	LTA	LTA Debt Service	Total OCLTA
<b>Assets</b>			
Cash and investments	\$ 1,254,613	\$ 33,827	\$ 1,288,440
Receivables:			
Interest	4,790	57	4,847
Operating grants	9,876	-	9,876
Other	1,290	-	1,290
Due from other OCTA funds	1,787	-	1,787
Due from other governments	93,469	2,134	95,603
Condemnation deposits	9,284	-	9,284
Note receivable	3,862	-	3,862
Restricted investments	9,534	-	9,534
Other assets	4,308	-	4,308
<b>Total Assets</b>	<b>\$ 1,392,813</b>	<b>\$ 36,018</b>	<b>\$ 1,428,831</b>
<b>Liabilities</b>			
Accounts payable	\$ 54,906	\$ -	\$ 54,906
Due to other OCTA funds	13,151	-	13,151
Due to other governments	11,746	-	11,746
Unearned revenue	6,839	-	6,839
Other liabilities	17	-	17
Advance from other OCTA funds	1,109	-	1,109
<b>Total Liabilities</b>	<b>87,768</b>	<b>-</b>	<b>87,768</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - grant reimbursements	22,460	-	22,460
Unavailable revenue - reimbursements from others	15,056	-	15,056
<b>Total Deferred Inflows of Resources</b>	<b>37,516</b>	<b>-</b>	<b>37,516</b>
<b>Fund Balances</b>			
Nonspendable:			
Condemnation deposits	9,284	-	9,284
Other assets - prepaids	4,308	-	4,308
Restricted for:			
Debt service	-	36,018	36,018
Environmental Mitigation Program	9,534	-	9,534
Transportation projects	1,244,403	-	1,244,403
<b>Total Fund Balances</b>	<b>1,267,529</b>	<b>36,018</b>	<b>1,303,547</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 1,392,813</b>	<b>\$ 36,018</b>	<b>\$ 1,428,831</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, 2019**

*(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>	\$	1,303,547
Assets held for resale are not financial resources and, therefore, are not reported in the funds.		371
Earned but unavailable revenue is not available to liquidate current liabilities and, therefore, is reported as a deferred inflow of resources in the funds.		37,516
Interest payable on bonds outstanding is not due and payable in the current period and, therefore, is not reported in the funds.		(12,920)
Deferred outflows of resources related to deferred charge on refunding are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		1,499
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(704,094)</u>
<b>Net position of governmental activities (page 10)</b>	<b>\$</b>	<b><u>625,919</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, 2019**

<i>(amounts expressed in thousands)</i>	LTA	LTA Debt Service	Total OCLTA
<b>Revenues</b>			
Sales taxes	\$ 338,666	\$ -	\$ 338,666
Contributions from other agencies	59,492	-	59,492
Contributions from other OCTA funds	75,649	-	75,649
Interest	40,024	6,800	46,824
Miscellaneous	456	-	456
<b>Total Revenues</b>	<b>514,287</b>	<b>6,800</b>	<b>521,087</b>
<b>Expenditures</b>			
Current:			
General government:			
Supplies and services	92,893	-	92,893
Transportation:			
Contributions to other local agencies	109,443	-	109,443
Contributions to other OCTA funds	49,322	-	49,322
Capital outlay	182,952	-	182,952
Debt service:			
Principal payments on long-term debt	-	8,165	8,165
Interest	47	20,630	20,677
Bond issuance costs	826	-	826
<b>Total Expenditures</b>	<b>435,483</b>	<b>28,795</b>	<b>464,278</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>78,804</b>	<b>(21,995)</b>	<b>56,809</b>
<b>Other financing sources (uses)</b>			
Transfers in	-	34,874	34,874
Transfers out	(34,874)	-	(34,874)
Bond issuance	376,690	-	376,690
Bond premium	69,342	-	69,342
Payment to refunded bond escrow agent	(45,062)	-	(45,062)
<b>Total other financing sources (uses)</b>	<b>366,096</b>	<b>34,874</b>	<b>400,970</b>
<b>Net change in fund balances</b>	<b>444,900</b>	<b>12,879</b>	<b>457,779</b>
Fund balances - beginning	822,629	23,139	845,768
<b>Fund balances - ending</b>	<b>\$ 1,267,529</b>	<b>\$ 36,018</b>	<b>\$ 1,303,547</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, 2019**

*(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>	\$	457,779
The transfer of land to private party is a decrease to net position.		(1,095)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		2,660
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 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.		(396,381)
<b>Change in net position of governmental activities (page 11)</b>	<b>\$</b>	<b>62,963</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, 2019**

(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 ensure that all revenues collected from Measure M are 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, 2019  
(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 and indirect expenses, which are identifiable with Measure M. Interest expense related to the sales tax revenue bonds 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 fiscal year ended June 30, 2019, interest expense of \$24,253 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, investment earnings 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 special revenue fund 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, 2019  
(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 and availability criteria met. 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 10, 2019. 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.

OCLTA participates in the OCTA comingled investment pool which invests 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 which are carried at fair value based on quoted prices of similar assets. In addition, OCLTA invests in money market and mutual funds 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 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, other mutual funds, mortgage or asset-backed securities, LAIF, OCIP, variable and floating rate securities and bank deposits.

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2019  
(in thousands)

Investment of debt proceeds held by trustees are governed by provisions of the indentures for each obligation, rather than the general provisions of the California Government Code or OCTA's investment policy. The investment of these debt proceeds is in accordance with the Permitted Investments section and applicable account restrictions outlined in the indenture of each debt obligation. Under certain indentures, guaranteed investment contracts are allowed. OCTA's investment in a guaranteed investment contract is carried at fair value.

In addition, OCTA has restricted investments held by the California Community Foundation (CCF). The amount invested in the CCF investment pool is a restricted asset as approved for funding by the OCTA Board of Directors in October of 2014. The CCF is headquartered in Los Angeles, California. The CCF is a community foundation and holds a 501 (c) 3 status, which meets California State Government Code requirements for community foundations. Legislation providing for OCTA to use a qualified organization to hold and manage the endowment is provided in Government Code §§65965-65968. An investment committee of 14 members has full discretion over investment decisions. The Endowment Pool is a diversified pool invested for long-term growth and appreciation while providing a relatively predictable stream of distributions that keeps the pace with inflation over time. The target asset allocation is approximately 50 percent equities, 14 percent alternative investments, 14 percent real assets and 22 percent fixed income.

The purpose of the agreement between CCF and OCTA is to provide for the establishment of a fund within the CCF to receive and hold M2 Environmental Mitigation Program contributions made by OCTA during the endowment funding period for use in establishing the permanent endowment pursuant to the conservation plan. OCTA is the beneficiary of the fund and, therefore, has reported a restricted asset in the financial statements.

The CCF shall hold, administer, invest, and reinvest the fund in accordance with the CCF's proposal and the objectives set forth in the Scope of Work of the Request for Proposal, each of which is incorporated into the agreement by reference, and in compliance with all applicable state and federal laws, including, but not limited to, Sections 65965, 65966, 69667, and 65968 of the California Government Code and the Uniform Prudent Management of Institutional Funds Act, California Probate Code Section 18501 et seq. The agreement shall remain in place in full force and effect through December 31, 2029.

The fair value of OCTA's investment in this pool is reported in the accompanying financial statements at amounts based upon OCTA's pro-rata share of the fair value provided by the CCF for the entire CCF portfolio (in relation to the amortized cost of that portfolio).

#### **Due To/From Other OCTA Funds**

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.

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2019  
(in thousands)

**Contributions To/From Other OCTA Funds**

Transfers between OCLTA and other OCTA funds are reported as program expenses and revenues in the statement of activities and as revenues and expenditures in the statement of revenues, expenditures and changes in fund balances.

**Administrative Services Costs**

OCTA allocates indirect costs related to administrative services from certain funds to benefiting funds. For fiscal year 2018-19, \$21,209 of administrative services were charged to the OCLTA and are reported as general government expenditures in the statement of revenues, expenditures and changes in fund balances and as program expenses in the statement of activities.

**Assets Held for Resale**

OCLTA holds title to property in connection with the purchase of rights-of-way for infrastructure not held by OCLTA. These assets are reported as assets held for resale in the governmental activities column in the government-wide financial statements except in cases in which OCLTA has entered into a sales contract prior to the issuance of the financial statements. In these cases, the assets held for resale are reported in the governmental funds financial statements. Proceeds received will be reimbursed to the fund in which the initial expenditure was recorded.

**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. 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, 2019  
(in thousands)

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the financial statements 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.

OCLTA has one item reported as deferred outflow of resources. This item is the deferred charge on refunding, which results from the difference in the carrying value of refunded debt and its reacquisition price. This item is reported in the government-wide statement of net position. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the financial statements 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 and reimbursements from others. 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 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.

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2019  
(in thousands)

### **Net Position**

In the government-wide financial statements, net position represents the difference between assets plus deferred outflow of resources and liabilities plus deferred inflow of resources 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, net of related debt. This net position is generally not accessible for other purposes.
- *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 OCLTA government-wide statement of net position reports net position restricted for debt service, Environmental Mitigation Program and transportation projects funded by the Measure M Program.
- *Unrestricted net position* - This balance represents the net position that is available for general use.

### **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. As of June 30, 2019, OCLTA reported nonspendable balance for condemnation deposits and other assets - prepaids.
- *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. As of June 30, 2019, OCLTA reported restricted fund balance for debt service, Environmental Mitigation Program and transportation projects.
- *Committed* - amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board, as the highest level of decision-making authority, has the ability to commit fund balances through the adoption of a resolution. These committed amounts cannot be used for any other purpose unless the Board removes or modifies the use through the adoption of a subsequent resolution.

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2019  
(in thousands)

- *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.

**Reclassifications**

Prior year amounts were reclassified to conform to current year presentation. Fund balance did not change due to these reclassifications.

**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 \$(704,094) difference are as follows:

Bonds payable	\$ (635,220)
Plus unamortized bond issuance premium (to be amortized to interest expense)	<u>(68,874)</u>
Net adjustment to decrease fund balances - total governmental funds to arrive at net position - governmental activities	<u><u>\$ (704,094)</u></u>

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2019  
(in thousands)

**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 amortized in the statement of activities.”

The details of this \$(396,381) difference are as follows:

Bond issuance	\$ (376,690)
Bond premium	(69,342)
Payment to refunded bond escrow agent	45,062
Principal repayments	8,165
Change in accrued interest	(5,226)
Amortization of premium and deferred charge on refunding	1,650
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net position - governmental activities	<u><u>\$ (396,381)</u></u>

**3. Cash and Investments**

Cash and investments are comprised of the following at June 30, 2019:

Investments:	
With OCTA Commingled Investment Pool	\$ 798,836
With Trustee	489,604
With CA Community Foundation	9,534
Total Cash and Investments	<u><u>\$ 1,297,974</u></u>

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

Unrestricted Cash and Investments	\$ 1,288,440
Restricted Cash and Investments	9,534
Total Cash and Investments	<u><u>\$ 1,297,974</u></u>

Orange County Local Transportation Authority  
Notes to The Financial Statements

Year Ended June 30, 2019  
(in thousands)

As of June 30, 2019, OCLTA had the following investments:

Investment	Fair Value	Interest Rate	Yield	Maturity Range	Weighted Average Maturity (Years)
OCTA Commingled Investment Pool	\$798,836	*	*	*	*
Money Market Funds **	122,904	Various	1.93%-2.28	7/1/19	1 Day
Guaranteed Investment Contract	366,700	2.02%	0.00%	4/1/21	1.756
CA Community Foundation Investment Fund	<u>9,534</u>	N/A	N/A	N/A	N/A
Total Investments	<u>\$1,297,974</u>				

\* Refer to the OCTA Comprehensive Annual Financial Report (CAFR) for information related to the OCTA Commingled Investment Pool.

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

The Portfolio Weighted Average Maturity is 2.53 years.

As of June 30, 2019, OCLTA had \$798,836 invested in the OCTA's Commingled Investment Pool (CIP). Refer to the OCTA's 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, 2019 is uncategorized, not defined as Level 1, Level 2, or Level 3 input.

As of June 30, 2019, OCLTA had \$9,534 invested in the CA Community Foundation (CCF) investment fund. The amount invested is valued using significant unobservable inputs and, therefore, classified as Level 3. Unobservable inputs used by CCF include the foundations own assumptions, market comparable rates, capitalization and occupancy rates.

As of June 30, 2019, OCLTA had \$366,700 invested in a guaranteed investment contract. This investment is valued using quoted prices of similar assets and, therefore, classified as Level 2.

### 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.

Orange County Local Transportation Authority  
Notes to The Financial Statements

Year Ended June 30, 2019  
(in thousands)

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, 2019. (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	% of Portfolio
OCTA Commingled Investment Pool	NR	NR	61.54%
CA Community Foundation	NR	NR	0.74%
Held by Trustee:			
Money Market Funds	AAA	Aaa	9.47%
Guaranteed Investment Contract	A	Aa	28.25%
Total			100.00%

#### 4. Due From/To Other Governments

Amounts due from other governments as of June 30, 2019 in the fund financial statements are \$95,603 and are comprised of \$60,576 of sales taxes, \$32,893 of project reimbursements and \$2,134 representing the interest receivable on Build America Bonds.

Amounts due to other governments as of June 30, 2019 are \$11,746 and are comprised of \$11,545 for transportation projects and \$201 for other miscellaneous transactions.

#### 5. Related Party Transactions and Interfund Transfers

##### Related party transactions:

As of June 30, 2019, OCLTA has \$1,787 receivable from other OCTA funds. \$203 is due from the 91 Express Lanes fund for the SR-91 Improvement project and \$1,584 is due from the Service Authority for Freeway Emergencies fund for project expenditures.

As of June 30, 2019, OCLTA owes \$13,151 to other OCTA funds as follows:

	Amount	Explanation
General Fund	\$ 593	Placentia Rail Station and ARTIC
OCUTT	48	Local Fair Share funds withheld from City of Placentia
General Capital Project	11,966	OC Streetcar project
OCTD	544	Mission Viejo Transit Circle & iShuttle operations
Total	\$ 13,151	

Orange County Local Transportation Authority  
Notes to The Financial Statements

Year Ended June 30, 2019  
(in thousands)

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 (2.39 percent for fiscal year 2018-19). As of June 30, 2019, OCLTA owes OCTA \$1,109. OCLTA began repaying OCTA when Measure M funds were collected.

**Contributions from Other OCTA Funds:**

During fiscal year 2018-19, OCLTA received \$70,243 from the I-405 EL Fund for the I-405 Improvement project. In addition, OCLTA received \$659 from the 91 EL Fund for freeway improvements and \$4,747 from OCTA for the sale of land related to the Measure M Program.

**Contributions to Other OCTA Funds:**

During fiscal year 2018-19, OCLTA made contributions to the following funds:

- \$10 to the General Fund for the Placentia Rail Station.
- \$36,409 to the General Capital Projects Fund for the OC Streetcar project.
- \$396 to the OC Streetcar Fund for the OC Streetcar project.
- \$12,507 to the OCTD Fund for La Habra service, Irvine Shuttle, Commuter Rail, Fare Stabilization and Senior Mobility Program.

**Interfund Transfers:**

During fiscal year 2018-19, the LTA Fund transferred \$34,874 to the LTA Debt Service Fund for debt service payments.

**6. Capital Assets**

Capital assets activity for the OCLTA governmental activities for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Machinery and equipment	\$ 32	\$ -	\$ (11)	\$ 21
Total capital assets, being depreciated	32	-	(11)	21
Less accumulated depreciation for:				
Machinery and equipment	(32)	-	11	(21)
Total accumulated depreciation	(32)	-	11	(21)
Total capital assets, being depreciated, net	-	-	-	-
Total governmental activities capital assets, net	\$ -	\$ -	\$ -	\$ -

Orange County Local Transportation Authority  
Notes to The Financial Statements

Year Ended June 30, 2019  
(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.

On February 12, 2019, OCLTA issued \$376,690 in Measure M2 Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2019 (the "Series 2019 Bonds"), i) to refinance costs of certain transportation projects located in Orange County, consisting of the general purpose lanes of the I-405 Improvement Project; ii) to refund and defease \$43,540 of the 2010 Series A Bonds, which resulted in gross cumulative cash flow savings of approximately \$2,867 and net present value cumulative savings of approximately \$2,584; and to fund costs of issuance related to the Series 2019 Bonds. A reserve fund is not required in connection with the Series 2019 Bonds per the bond indenture. The transaction closed on February 26, 2019.

The OCLTA's outstanding debt obligations related to M2 Sales Tax Revenue Bonds contain a provision that in the event of default, bondholders have the right to sue in order to force the OCLTA to cure the event of default, which may result in financial related consequences.

A summary of the bonds outstanding is as follows:

	2010 Series A (Taxable Build America Bonds)	2010 Series B (Tax-Exempt Bonds)	2019 Series B (Tax-Exempt Bonds)
Issuance date	12/9/10	12/9/10	2/12/19
Original issue amount	\$ 293,540	\$ 59,030	\$ 376,690
Original issue premium	-	6,023	69,342
<b>Net Bond Proceeds</b>	<b>\$ 293,540</b>	<b>\$ 65,053</b>	<b>\$ 446,032</b>
Issuance costs	\$ 1,905	\$ 274	\$ 970
Interest rates	5.56%-6.91%	3.00%-5.00%	3.00%-5.00%
Maturity range	2021-2041	2014-2020	2021-2041
Final maturity	2041	2020	2041
Bonds outstanding	\$ 250,000	\$ 8,530	\$ 376,690
Plus unamortized premium	-	602	68,272
<b>Total</b>	<b>\$ 250,000</b>	<b>\$ 9,132</b>	<b>\$ 444,962</b>

Orange County Local Transportation Authority  
Notes to The Financial Statements

Year Ended June 30, 2019  
(in thousands)

Annual debt service requirements on the sales tax revenue bonds as of June 30, 2019, are as follows:

Year Ending June 30,	Principal	Interest
2020	\$ 8,530	\$ 35,592
2021	8,065	35,774
2022	8,455	35,371
2023	19,935	34,949
2024	20,920	33,952
2025-2029	123,440	151,202
2030-2034	156,585	111,323
2035-2039	197,110	61,479
2040-2041	92,180	8,146
Total	\$ 635,220	\$ 507,788

### Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Measure M program activities:					
Sales tax revenue bonds	\$ 310,235	\$ 376,690	\$ (51,705)	\$ 635,220	\$ 8,530
Unamortized premium	1,205	69,342	(1,673)	68,874	-
Total Measure M program activities long-term liabilities	\$ 311,440	\$ 446,032	\$ (53,378)	\$ 704,094	\$ 8,530

### Pledged Revenue

OCLTA has debt issuances outstanding that are repaid and secured by the pledging of certain revenues. For the year ended June 30, 2019, debt service payments in relation to 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	\$ 258,085	\$ 28,795	8.96

### Line of Credit

On July 26, 2017, OCTA and the Department of Transportation Build America Bureau Credit Programs Office (Bureau) executed a TIFIA loan of up to \$628,930 for eligible project costs for the I-405 Improvement Project. The Bureau required OCTA to secure a \$900,000 line of credit

Year Ended June 30, 2019  
(in thousands)

secured by future M2 debt issuances to be committed at the time of closing on the TIFIA loan. The OCTA Board of Directors selected Bank of America N.A. (BANA) to provide a \$900,000 line of credit to meet the Bureau's requirement. The line of credit was set up as two separate Credit and Fee Agreements, one with a 2019 maturity in the amount of \$450,000 and the other with a 2021 maturity, also in the amount of \$450,000. The cost for the BANA Line is 26 basis points per year for the 2019 maturity and 36 basis points per year for the 2021 maturity. The two Credit and Fee Agreements were also executed on July 26, 2017. There were no amounts drawn on the line of credit as of June 30, 2019. The 2019 Credit and Fee Agreement line of credit matured in early 2019. Therefore, the unused balance is \$450,000.

The payment obligations owed to BANA under the Credit and Fee Agreements is payable and secured by a pledge of, lien on, and security interest in the M2 sales tax revenues, including earnings on such amounts, subject only to the provisions of the Master Indenture. The pledge, lien, and security interest shall be junior and subordinate only to the pledge of M2 sales tax revenues in favor of the Senior Lien Debt pursuant to the express terms of the Master Indenture.

## **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, 2019, were \$1,150,140, the majority of which relate to the expansion of Orange County's freeway and road systems.

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

### **GASB Statement No. 83**

In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2019  
(in thousands)

This Statement is effective for OCLTA's fiscal year ending June 30, 2019. OCLTA has determined that this Statement does not have a material impact on the financial statements.

**GASB Statement No. 84**

In January 2017, GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This Statement is effective for OCLTA's fiscal year ending June 30, 2020. OCLTA has not determined the effect of this Statement.

**GASB Statement No. 87**

In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for OCLTA's fiscal year ending June 30, 2021. OCLTA has not determined the effect of this Statement.

**GASB Statement No. 88**

In April 2018, GASB issued Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement is effective for OCLTA's fiscal year ending June 30, 2019. See note 7.

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2019  
(in thousands)

**GASB Statement No. 89**

In June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement is effective for OCLTA's fiscal year ending June 30, 2021. OCLTA, however, has early implemented this Statement in this fiscal year. OCLTA has determined that this Statement does not have a material impact on the financial statements.

**GASB Statement No. 90**

In August 2018, GASB issued Statement No. 90, Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement is effective for OCLTA's fiscal year ending June 30, 2020. OCLTA has not determined the effect of this Statement.

**GASB Statement No. 91**

In May 2019, GASB issued Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement is effective for OCTA's fiscal year ending June 30, 2022. OCLTA has not determined the effect of this Statement.

**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, 2019**

<i>(amounts expressed in thousands)</i>	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Sales taxes	\$ 332,170	\$ 332,170	\$ 338,666	\$ 6,496
Contributions from other agencies	60,646	60,646	106,488	45,842
Contributions from other OCTA funds	14,521	14,521	75,649	61,128
Interest	7,470	7,470	40,024	32,554
Miscellaneous	4,665	4,665	456	(4,209)
<b>Total revenues</b>	<b>419,472</b>	<b>419,472</b>	<b>561,283</b>	<b>141,811</b>
<b>Expenditures:</b>				
Current:				
General government - supplies and services	169,600	168,819	110,311	58,508
Transportation:				
Contributions to other local agencies	175,551	175,517	109,552	65,965
Contributions to other OCTA funds	51,405	51,405	49,322	2,083
Capital outlay	972,401	972,401	842,762	129,639
Debt service:				
Interest	-	-	47	(47)
Bond issuance costs	-	1,000	826	174
<b>Total expenditures</b>	<b>1,368,957</b>	<b>1,369,142</b>	<b>1,112,820</b>	<b>256,322</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(949,485)</b>	<b>(949,670)</b>	<b>(551,537)</b>	<b>398,133</b>
<b>Other financing sources (uses):</b>				
Transfers in	17,624	17,624	-	(17,624)
Transfers out	(48,535)	(48,535)	(34,874)	13,661
Bond issuance	-	-	376,690	376,690
Bond premium	-	-	69,342	69,342
Payment to refunded bond escrow agent	-	-	(45,062)	(45,062)
<b>Total other financing uses</b>	<b>(30,911)</b>	<b>(30,911)</b>	<b>366,096</b>	<b>397,007</b>
<b>Net change in fund balance</b>	<b>\$ (980,396)</b>	<b>\$ (980,581)</b>	<b>\$ (185,441)</b>	<b>\$ 795,140</b>
<b>Reconciliation to GAAP:</b>				
Net change in fund balance (budgetary basis)			\$ (185,441)	
Less: Estimated revenues for encumbrances outstanding at June 30			46,996	
Add: Current year encumbrances outstanding at June 30			677,337	
Net change in fund balance (GAAP basis)			\$ 444,900	

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, 2019**

(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. Supplies and Services includes Contributions to Other Local Agencies, Debt Service and Transfers. Appropriation transfers between major objects require approval of the Board. Accordingly, the legal level of budgetary control, that is the level that expenditures cannot exceed appropriations, for budgeted funds, is at the major object level for the budgeted governmental funds. A Fourth Quarter Budget Status Report, June 2019 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 2018-19.

**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, 2019**

<i>(amounts expressed in thousands)</i>	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Interest	\$ 6,726	\$ 6,726	\$ 6,800	\$ 74
<b>Total revenues</b>	<b>6,726</b>	<b>6,726</b>	<b>6,800</b>	<b>74</b>
<b>Expenditures:</b>				
Debt service:				
Principal payments on long-term debt	11,279	11,279	8,165	3,114
Interest on long-term debt	33,086	33,086	20,630	12,456
<b>Total expenditures</b>	<b>44,365</b>	<b>44,365</b>	<b>28,795</b>	<b>15,570</b>
<b>Deficiency of revenues under expenditures</b>	<b>(37,639)</b>	<b>(37,639)</b>	<b>(21,995)</b>	<b>15,644</b>
<b>Other financing sources:</b>				
Transfers in	37,638	37,638	34,874	(2,764)
Transfers out	(6,726)	(6,726)	-	6,726
<b>Total other financing sources</b>	<b>30,912</b>	<b>30,912</b>	<b>34,874</b>	<b>3,962</b>
<b>Net change in fund balance</b>	<b>\$ (6,727)</b>	<b>\$ (6,727)</b>	<b>\$ 12,879</b>	<b>\$ 19,606</b>

**INDEPENDENT AUDITOR'S 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, 2019, and the related notes to the financial statements, which collectively comprise OCLTA's basic financial statements, and have issued our report thereon dated October 29, 2019.

**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 of 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 over financial reporting 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.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, professional style.

Crowe LLP

Costa Mesa, California  
October 29, 2019

**ORANGE COUNTY  
TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND**

**FINANCIAL STATEMENTS**

Year ended June 30, 2019

ORANGE COUNTY TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND

FINANCIAL STATEMENTS  
JUNE 30, 2019

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## INDEPENDENT AUDITOR'S 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, 2019, and the related notes to 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.

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(Continued)

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LTF, of OCTA, as of June 30, 2019, 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, 2019, the changes in its financial position, or, where applicable, its cash flows 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.

**Other Matter***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of disbursements is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of disbursements is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of disbursements 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 29, 2019 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.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, professional style.

Crowe LLP

Costa Mesa, California  
October 29, 2019

ORANGE COUNTY TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND  
BALANCE SHEET  
June 30, 2019

---

**ASSETS**

Cash and investments	\$ 14,274,883
Interest receivable	21,259
Due from other governments (Note 3)	<u>32,735,258</u>

Total assets	<u>\$ 47,031,400</u>
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**LIABILITIES**

Due to other governments (Note 4)	\$ 243,286
Due to other funds (Note 5)	<u>13,832,577</u>
Total liabilities	14,075,863

**FUND BALANCE**

Restricted for transportation programs	<u>32,955,537</u>
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Total liabilities and fund balance	<u>\$ 47,031,400</u>
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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, 2019

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**REVENUES**

Local transportation sales tax allocations	\$ 180,736,991
Investment income	<u>210,905</u>
Total revenues	180,947,896

**EXPENDITURES**

Current:	
Supplies and services	2,178,208
Contributions to other agencies	<u>2,504,746</u>
Total expenditures	4,682,954

Excess of revenues over expenditures 176,264,942

**OTHER FINANCING USES**

Transfers to other OCTA funds (Note 6)	<u>172,408,879</u>
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Net change in fund balance 3,856,063

Fund balance, beginning of year 29,099,474

**Fund balance, end of year** \$ 32,955,537

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See accompanying notes to financial statements.

ORANGE COUNTY TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND  
NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2019

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**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, 2019, 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 California Department of Tax and Fee Administration (CDTFA) 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.

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(Continued)

ORANGE COUNTY TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND  
NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2019

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting: The LTF financial statements have been prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized 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. Amounts not collected within the availability period are classified as deferred inflows of resources – unavailable revenue. Expenditures are recorded when the liability is incurred. Liabilities are considered current when they are expected to be liquidated with available financial resources.

Cash and Investments: The LTF maintains its deposits in the Orange County Investment Pool (OCIP), as required by State statute. Oversight of the OCIP is performed by the Orange County Treasury Oversight Committee. The fair value of the LTF's investment in this pool is reported in the accompanying financial statements at amounts based upon the LTF's pro-rata share of the fair value provided by OCIP for the entire OCIP portfolio (in relation to the amortized cost of that portfolio). Deposits and withdrawals are made on the basis of \$1.00 (absolute dollars) and not fair value. Investment income earned by the pooled cash and investments in the OCIP is allocated based on average cash and investment balance. The OCIP is not rated.

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

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

Fund Balance: 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, 2019 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 TDA.

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 \$32,735,258 represents a TDA receivable due from the State of California.

**NOTE 4 – DUE TO OTHER GOVERNMENTS**

Due to other governments of \$243,286 represents amounts due to other agencies for use in transit projects.

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(Continued)

ORANGE COUNTY TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND  
NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2019

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**NOTE 5 – DUE TO OTHER FUNDS**

Due to other funds for the year ended June 30, 2019 consisted of the following:

OCTD for transit operations	\$ 12,743,395
OCTA for planning and administration	<u>1,089,182</u>
	<u>\$ 13,832,577</u>

**NOTE 6 – TRANSFERS**

Transfers to other OCTA funds during the fiscal year ended June 30, 2019 consisted of the following:

OCTD for transit operations	\$ 168,328,897
OCTA for planning and administration	<u>4,079,982</u>
	<u>\$ 172,408,879</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

ORANGE COUNTY TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN  
FUND BALANCE – BUDGET AND ACTUAL (BUDGETARY BASIS)  
For the year ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local transportation sales				
tax allocations	\$ 170,866,805	\$ 170,866,805	\$ 180,736,991	\$ 9,870,186
Investment income	<u>46,993</u>	<u>46,993</u>	<u>210,905</u>	<u>163,912</u>
Total revenues	170,913,798	170,913,798	180,947,896	10,034,098
<b>EXPENDITURES</b>				
Current:				
Supplies and services	2,192,762	2,192,762	2,178,208	14,554
Contributions to other local agencies	<u>2,415,636</u>	<u>2,415,636</u>	<u>2,504,746</u>	<u>(89,110)</u>
Total expenditures	4,608,398	4,608,398	4,682,954	(74,556)
Excess of revenues over expenditures	166,305,400	166,305,400	176,264,942	9,959,542
<b>OTHER FINANCING USES</b>				
Transfers to other OCTA funds	<u>(166,305,400)</u>	<u>(166,305,400)</u>	<u>(172,408,879)</u>	<u>(6,103,479)</u>
Net change in fund balance	-	-	3,856,063	3,856,063
Fund balance, beginning of year	<u>29,900,940</u>	<u>29,900,940</u>	<u>29,099,474</u>	<u>(801,466)</u>
<b>Fund balance, end of year</b>	<u>\$ 29,900,940</u>	<u>\$ 29,900,940</u>	<u>\$ 32,955,537</u>	<u>\$ 3,054,597</u>

ORANGE COUNTY TRANSPORTATION AUTHORITY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For the year ended June 30, 2019

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**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.

Contributions to other local agencies and transfers exceeded appropriations in the amount of \$89,110 and \$6,103,479 respectively, as a result of OCTA receiving more sales tax revenue over the 12-month apportionment period than anticipated and transferred out to OCTD based on monthly sales tax receipts.

ORANGE COUNTY TRANSPORTATION AUTHORITY  
 LOCAL TRANSPORTATION FUND  
 SCHEDULE OF DISBURSEMENTS  
 For the year ended June 30, 2019

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<u>Claimant</u>	<u>Article 3 Administration</u>	<u>Article 3 Planning</u>	<u>Article 4 Operating and Capital</u>	<u>Article 4.5 Paratransit Operating and Capital</u>	<u>Total</u>
City of Laguna Beach	\$ -	\$ -	\$ 1,185,090	\$ -	\$ 1,185,090
County of Orange	7,804	-	-	-	7,804
Orange County Transit District	-	-	159,853,198	8,475,699	168,328,897
Orange County Transportation Authority	144,425	3,935,557	-	-	4,079,982
Southern California Association of Governments	-	1,311,852	-	-	1,311,852
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total disbursements	<u>\$ 152,229</u>	<u>\$ 5,247,409</u>	<u>\$ 161,038,288</u>	<u>\$ 8,475,699</u>	<u>\$ 174,913,625</u>

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**INDEPENDENT AUDITOR'S 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, 2019, and the related notes to financial statements, which collectively comprise the LTF's financial statements, and have issued our report thereon dated October 29, 2019. 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, the changes in its financial position, or where applicable, its cash flows in conformity with accounting principles generally accepted in the United States of America.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered OCTA's internal control over financial reporting and compliance (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, as it relates to the LTF. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control, as it relates to the LTF.

*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.

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(Continued)

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LTF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 over financial reporting 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.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, flowing style.

Crowe LLP

Costa Mesa, California  
October 29, 2019

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

**FINANCIAL STATEMENTS**

Year ended June 30, 2019

ORANGE COUNTY TRANSPORTATION AUTHORITY  
STATE TRANSIT ASSISTANCE FUND

FINANCIAL STATEMENTS  
JUNE 30, 2019

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## INDEPENDENT AUDITOR'S 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, 2019, and the related notes to 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.

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(Continued)

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the STAF, of OCTA, as of June 30, 2019, 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, 2019, the changes in its financial position, or, where applicable, its cash flows 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.

## **Other Matter**

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the financial statements. The budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison 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 29, 2019 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.



Crowe LLP

Costa Mesa, California  
October 29, 2019

ORANGE COUNTY TRANSPORTATION AUTHORITY  
STATE TRANSIT ASSISTANCE FUND  
BALANCE SHEET  
June 30, 2019

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**ASSETS**

Cash and investments	\$ 77,794
Interest receivable	8,852
Due from other governments (Note 3)	<u>10,340,550</u>

Total assets	<u>\$ 10,427,196</u>
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**LIABILITIES**

Due to other OCTA funds (Note 4)	\$ 10,340,550
Due to other governments	<u>4</u>
Total liabilities	10,340,554

**FUND BALANCE**

Restricted for transportation programs	<u>86,642</u>
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Total liabilities and fund balance	<u>\$ 10,427,196</u>
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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, 2019

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**REVENUES**

State transit assistance sales tax allocations	\$ 35,400,528
Transportation improvement fee	5,603,075
Interest and investment income	<u>41,117</u>
Total revenues	41,044,720

**EXPENDITURES**

Current:	
Supplies and services	<u>1,291</u>
Excess of revenues over expenditures	41,043,429

**OTHER FINANCING USES**

Transfers to other OCTA funds (Note 5)	<u>(42,879,637)</u>
Net change in fund balance	(1,836,208)
Fund balance, beginning of year	<u>1,922,850</u>
<b>Fund balance, end of year</b>	<b><u>\$ 86,642</u></b>

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See accompanying notes to financial statements.

ORANGE COUNTY TRANSPORTATION AUTHORITY  
STATE TRANSIT ASSISTANCE FUND  
NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2019

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**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, 2019, 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 State Transit Assistance (STA) funds transferred to the Orange County Transit District (OCTD) for operations and fare assistance for seniors and disabled persons.

The STA funds provide 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 Road Repair and Accountability Act of 2017 signed into law April 2017, provided additional funding to existing programs as well as created new programs. STA revenues are then distributed based on several demographic factors.

The STA funds are allocated through an appropriation to the State Controller by the Legislature for allocation by formula to each Transportation Planning Agency (TPA). 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 STA allocations are deposited in the OCTA's STAF, which is maintained by the Auditor-Controller of the County. The allocation to OCTA's STA funds 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 STA funds may not be allocated to fund administration or streets and roads projects. Operators receiving the STA 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.

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(Continued)

ORANGE COUNTY TRANSPORTATION AUTHORITY  
STATE TRANSIT ASSISTANCE FUND  
NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2019

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting: The STAF financial statements have been prepared using the current financial resources measurement focus and 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 by the County Auditor-Controller within 90 days of year end. Amounts not collected within the availability period are classified as deferred inflows of resources – unavailable revenue. Expenditures are recorded when the liability is incurred. Liabilities are considered current when they are expected to be liquidated with available financial resources.

Cash and Investments: The STAF maintains its deposits in the Orange County Investment Pool (OCIP), as required by State statute. Oversight of the OCIP is performed by the Orange County Treasury Oversight Committee. The fair value of the STAF's investment in this pool is reported in the accompanying financial statements at amounts based upon the STAF's pro-rata share of the fair value provided by OCIP for the entire OCIP portfolio (in relation to the amortized cost of that portfolio). Deposits and withdrawals are made on the basis of \$1.00 (absolute dollars) and not fair value. Investment income earned by the pooled cash and investments in the OCIP is allocated based on average cash and investment balance. The OCIP is not rated.

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.

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, 2019 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 TDA.

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 \$10,340,550 represents a TDA receivable due from the State of California.

**NOTE 4 – DUE TO OTHER OCTA FUNDS**

Due to other OCTA funds of \$10,340,550 represents a TDA payable due to OCTD.

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(Continued)

ORANGE COUNTY TRANSPORTATION AUTHORITY  
STATE TRANSIT ASSISTANCE FUND  
NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2019

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**NOTE 5 – TRANSFERS TO OTHER OCTA FUNDS**

Transfers to OCTD of \$42,879,637 for the year ended June 30, 2019 were for the purpose of funding transit operations.

**SUPPLEMENTARY INFORMATION**

ORANGE COUNTY TRANSPORTATION AUTHORITY  
STATE TRANSIT ASSISTANCE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN  
FUND BALANCE – BUDGET AND ACTUAL (BUDGETARY BASIS)  
For the year ended June 30, 2019

	<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	\$ 29,933,406	\$ 29,933,406	\$ 35,400,528	\$ 5,467,122
Transportation improvement fee	5,673,043	5,673,043	5,603,075	(69,968)
Interest and investment income	<u>5,765</u>	<u>5,765</u>	<u>41,117</u>	<u>35,352</u>
Total revenues	35,612,214	35,612,214	41,044,720	5,432,506
<b>EXPENDITURES</b>				
Supplies and services	<u>-</u>	<u>-</u>	<u>1,291</u>	<u>(1,291)</u>
Excess of revenues over expenditures	35,612,214	35,612,214	41,043,429	5,431,215
<b>OTHER FINANCING USES</b>				
Transfers to other OCTA funds	(35,612,214)	(35,612,214)	(42,879,637)	(7,267,423)
Net change in fund balance	-	-	(1,836,208)	(1,836,208)
Fund balance, beginning of year	<u>23,303</u>	<u>23,303</u>	<u>1,922,850</u>	<u>1,899,547</u>
<b>Fund balance, end of year</b>	<u>\$ 23,303</u>	<u>\$ 23,303</u>	<u>\$ 86,642</u>	<u>\$ 63,339</u>

ORANGE COUNTY TRANSPORTATION AUTHORITY  
STATE TRANSIT ASSISTANCE FUND  
NOTES TO SUPPLEMENTARY INFORMATION  
For the year ended June 30, 2019

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**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.

Expenditures exceeded appropriations for transfers in the amount of \$7,267,423. This was a result of receiving more sales tax revenue than budgeted in the current year being transferred to OCTD.

**INDEPENDENT AUDITOR'S 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, 2019, and the related notes to financial statements, which collectively comprise the STAF's financial statements, and have issued our report thereon dated October 29, 2019. 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, the changes in its financial position, or where applicable, its cash flows in conformity with accounting principles generally accepted in the United States of America.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered OCTA's internal control over financial reporting and compliance (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, as it relates to the STAF. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control, as it relates to the STAF.

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.

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(Continued)

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the STAF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 over financial reporting 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.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, flowing style.

Crowe LLP

Costa Mesa, California  
October 29, 2019

**ORANGE COUNTY  
TRANSPORTATION AUTHORITY**

**INDEPENDENT AUDITOR'S REPORT ON  
PROPOSITION 1B AND THE  
TRANSPORTATION DEVELOPMENT ACT**  
Year ended June 30, 2019

ORANGE COUNTY TRANSPORTATION AUTHORITY  
Orange, California

PROPOSITION 1B AND THE  
TRANSPORTATION DEVELOPMENT ACT  
Year ended June 30, 2019

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**INDEPENDENT AUDITOR'S 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 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 fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise OCTA's basic financial statements. We issued our report thereon dated October 31, 2019 which contained unmodified opinions on those financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Proposition 1B Schedule of Unspent Funds and Cash Disbursements is presented for the 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. The 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 basic financial statements as a whole.



Crowe LLP

Costa Mesa, California  
October 31, 2019

ORANGE COUNTY TRANSPORTATION AUTHORITY  
PROPOSITION 1B  
SCHEDULE OF UNSPENT FUNDS AND CASH DISBURSEMENTS  
Year ended June 30, 2019

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	<u>PTMISEA (1)</u>	<u>TSSSDRA (2)</u>	<u>Total</u>
Unspent Prop 1B funds as of July 1, 2018	\$ 4,932,356	\$ 9,016,675	\$ 13,949,031
Prop 1B funds received	-	-	-
Interest revenue earned on unspent Prop 1B funds	103,713	94,393	198,106
Prop 1B disbursements spent	<u>1,561,238</u>	<u>(9,111,068)</u>	<u>(7,549,830)</u>
Unspent Prop 1B funds as of June 30, 2019	<u>\$ 6,597,307</u>	<u>\$ -</u>	<u>\$ 6,597,307</u>

(1) Public transportation, modernization, improvement, and service enhancement account

(2) Transit system safety, security & disaster recovery account

**INDEPENDENT AUDITOR'S 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 Orange County Transportation Authority (OCTA) as of and for the year ended June 30, 2019, 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, 2019.

### **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.

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(Continued)

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the applicable provisions of the Transportation Development Act 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 over financial reporting 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.



Crowe LLP

Costa Mesa, California  
October 31, 2019

**ORANGE COUNTY LOCAL  
TRANSPORTATION AUTHORITY**

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

Year Ended June 30, 2019

**ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

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

Year Ended June 30, 2019

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INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES

Board of Directors  
Orange County Local Transportation Authority  
and the Taxpayers' Oversight Committee of the  
Orange County Local Transportation Authority  
Orange, California

We have performed the procedures enumerated below, which were agreed to by the Orange County Local Transportation Authority ("OCLTA" or "Authority") and the Taxpayers' Oversight Committee of the Authority ("TOC") (the specified parties), on the Measure M2 Status Report of the Authority. The Authority and the TOC are responsible for the Measure M2 Status Report. 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 enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are included in Appendix A.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Measure M2 Status Report. Accordingly, we do not express such an opinion or conclusion. 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 OCLTA'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.



Crowe LLP

Costa Mesa, California  
December 19, 2019

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY  
APPENDIX A – SCHEDULE OF PROCEDURES AND FINDINGS  
Year ended June 30, 2019

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The procedures and associated findings are as follows:

The Measure M2 Status Report is separated into three sections: Section A describes the procedures applied to Schedule 1; Section B describes the procedures applied to Schedule 2; and Section C describes the 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, 2019 amounts (Column A) to the audited trial balances of the OCLTA Special Revenue Fund (Fund 17) and the OCLTA Debt Service Fund (Fund 72) and additional detailed information from the underlying accounting records.
2. Compared Period from Inception through June 30, 2019 amounts (Column B) by adding the prior year's Period from Inception through June 30, 2018 amounts with year to date June 30, 2019 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, 2019 (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, 2019 (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, 2019 amounts (Columns D.1 and D.2) to Schedule 1, Column B. For professional services, non-project related, and other non-project related amounts, we compared the total of the amounts allocated to Revenues and to Bond Revenues at June 30, 2019 (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, 2019 (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, 2019 (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, 2019 (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, 2019. Agreed Column J, by project description, to the project job ledger by fiscal year.

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(Continued)

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY  
APPENDIX A – SCHEDULE OF PROCEDURES AND FINDINGS  
Year ended June 30, 2019

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4. Selected a sample of 40 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, 2019 (Column K) to Schedule 1, Column B. Agreed Oversight and Annual Audits line item to summary of Measure M2 administrative costs through June 30, 2019.
6. Agreed Column K to the supporting revenue summary by project and fiscal year. Selected a sample of 40 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, 2019 (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, 2019 (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: No exceptions were found as a result of these procedures.

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(Continued)

**Measure M2**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**as of June 30, 2019**  
**(Unaudited)**

<i>(\$ in thousands)</i>	Year to Date June 30, 2019 (A)	Period from Inception to June 30, 2019 (B)
<b>Revenues:</b>		
Sales taxes	\$ 338,666	\$ 2,413,729
Other agencies' share of Measure M2 costs:		
Project related	43,475	667,785
Non-project related	-	454
Interest:		
Operating:		
Project related	636	1,228
Non-project related	29,244	52,356
Bond proceeds	10,169	61,487
Debt service	506	813
Commercial paper	-	393
Right-of-way leases	30	941
Proceeds on sale of assets held for resale	-	12,201
Donated assets held for resale:		
Project related	2,071	2,071
Non-project related	(2,071)	-
Miscellaneous:		
Project related	-	270
Non-project related	-	100
Total revenues	<u>422,726</u>	<u>3,213,828</u>
<b>Expenditures:</b>		
Supplies and services:		
Sales tax administration fees	3,473	26,292
Professional services:		
Project related	36,692	381,802
Non-project related	4,784	26,785
Administration costs:		
Project related	10,088	73,269
Non-project related:		
Salaries and Benefits	2,574	25,107
Other	5,302	42,015
Other:		
Project related	86	5,027
Non-project related	908	4,915
Payments to local agencies:		
Project related	107,923	945,857
Capital outlay:		
Project related	169,281	1,025,983
Non-project related	-	31
Debt service:		
Principal payments on long-term debt	8,165	50,500
Interest on long-term debt and commercial paper	20,676	178,614
Total expenditures	<u>369,952</u>	<u>2,786,197</u>
Excess of revenues over expenditures	<u>52,774</u>	<u>427,631</u>
<b>Other financing sources (uses):</b>		
Transfers out:		
Project related	(166,072)	(204,679)
Transfers in:		
Project related	75,770	158,470
Bond proceeds	446,032	804,625
Payment to refunded bond escrow agent	(45,062)	(45,062)
Total other financing sources (uses)	<u>310,668</u>	<u>713,354</u>
Excess of revenues over expenditures and other sources (uses)	<u>\$ 363,442</u>	<u>\$ 1,140,985</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, 2019**  
**(Unaudited)**

<i>(\$ in thousands)</i>	Year to Date June 30, 2019 (actual) (C.1)	Period from Inception through June 30, 2019 (actual) (D.1)	Period from July 1, 2019 through March 31, 2041 (forecast) (E.1)	Total (F.1)
<b>Revenues:</b>				
Sales taxes	\$ 338,666	\$ 2,413,729	\$ 10,657,522	\$ 13,071,251
Operating interest	29,244	52,356	139,989	192,345
Subtotal	<u>367,910</u>	<u>2,466,085</u>	<u>10,797,511</u>	<u>13,263,596</u>
Other agencies share of M2 costs	-	454	-	454
Miscellaneous	-	100	-	100
Total revenues	<u>367,910</u>	<u>2,466,639</u>	<u>10,797,511</u>	<u>13,264,150</u>
<b>Administrative expenditures:</b>				
Sales tax administration fees	3,473	26,292	123,125	149,417
Professional services	4,784	23,010	97,884	120,894
Administration costs:				
Salaries and Benefits	2,574	25,107	113,436	138,543
Other	5,302	42,015	185,485	227,500
Other	82	1,914	8,546	10,460
Capital outlay	-	31	-	31
Environmental cleanup	7,118	41,865	213,116	254,981
Total expenditures	<u>23,333</u>	<u>160,234</u>	<u>741,592</u>	<u>901,826</u>
<b>Net revenues</b>	<u>\$ 344,577</u>	<u>\$ 2,306,405</u>	<u>\$ 10,055,919</u>	<u>\$ 12,362,324</u>
	(C.2)	(D.2)	(E.2)	(F.2)
<b>Bond revenues:</b>				
Proceeds from issuance of bonds	\$ 446,032	\$ 804,625	\$ 1,425,000	\$ 2,229,625
Interest revenue from bond proceeds	10,169	61,487	94,619	156,106
Interest revenue from debt service funds	506	813	4,685	5,498
Interest revenue from commercial paper	-	393	-	393
Total bond revenues	<u>456,707</u>	<u>867,318</u>	<u>1,524,304</u>	<u>2,391,622</u>
<b>Financing expenditures and uses:</b>				
Professional services	-	3,775	4,988	8,763
Payment to refunded bond escrow	45,062	45,062	-	45,062
Bond debt principal	8,165	50,500	2,060,220	2,110,720
Bond debt and other interest expense	20,676	178,614	932,293	1,110,907
Other	826	3,001	-	3,001
Total financing expenditures and uses	<u>74,729</u>	<u>280,952</u>	<u>2,997,501</u>	<u>3,278,453</u>
<b>Net bond revenues (debt service)</b>	<u>\$ 381,978</u>	<u>\$ 586,366</u>	<u>\$ (1,473,197)</u>	<u>\$ (886,831)</u>

See Notes to Measure M2 Status Report (Unaudited)

**Measure M2**  
**Schedule of Revenues and Expenditures Summary**  
**as of June 30, 2019**  
**(Unaudited)**

Project	Description	Net Revenues through June 30, 2019	Total Net Revenues	Expenditures through June 30, 2019	Reimbursements through June 30, 2019	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	\$ 90,907	\$ 487,263	\$ 7,486	\$ 7,101	\$ 385
B	I-5 Santa Ana/SR-55 to El Toro	58,065	311,226	9,601	6,515	3,086
C	I-5 San Diego/South of El Toro	121,274	650,029	143,362	46,689	96,673
D	I-5 Santa Ana/San Diego Interchange Upgrades	49,902	267,476	2,179	527	1,652
E	SR-22 Garden Grove Freeway Access Improvements	23,211	124,407	4	-	4
F	SR-55 Costa Mesa Freeway Improvements	70,792	379,442	27,830	14,200	13,630
G	SR-57 Orange Freeway Improvements	50,038	268,202	51,174	12,071	39,103
H	SR-91 Improvements from I-5 to SR-57	27,079	145,142	34,792	824	33,968
I	SR-91 Improvements from SR-57 to SR-55	80,559	431,798	23,265	6,782	16,483
J	SR-91 Improvements from SR-55 to County Line	68,122	365,136	6,937	5,294	1,643
K	I-405 Improvements between I-605 to SR-55	207,501	1,112,203	488,526	104,049	384,477
L	I-405 Improvements between SR-55 to I-5	61,836	331,442	9,163	6,941	2,222
M	I-605 Freeway Access Improvements	3,868	20,735	2,106	16	2,090
N	All Freeway Service Patrol	29,013	155,509	2,379	-	2,379
	Freeway Mitigation	49,588	265,790	53,421	2,935	50,486
	Subtotal Projects	991,755	5,315,800	862,225	213,944	648,281
	Net (Bond Revenue)/Debt Service	-	-	44,913	-	44,913
	<b>Total Freeways</b>	<b>\$ 991,755</b>	<b>\$ 5,315,800</b>	<b>\$ 907,138</b>	<b>\$ 213,944</b>	<b>\$ 693,194</b>
	<b>%</b>					<b>37.0%</b>
<b>Street and Roads Projects (32% of Net Revenues)</b>						
O	Regional Capacity Program	\$ 230,643	\$ 1,236,248	\$ 742,532	\$ 461,670	\$ 280,862
P	Regional Traffic Signal Synchronization Program	92,253	494,477	60,311	4,950	55,361
Q	Local Fair Share Program	415,153	2,225,218	401,621	77	401,544
	Subtotal Projects	738,049	3,955,943	1,204,464	466,697	737,767
	Net (Bond Revenue)/Debt Service	-	-	49,885	-	49,885
	<b>Total Street and Roads Projects</b>	<b>\$ 738,049</b>	<b>\$ 3,955,943</b>	<b>\$ 1,254,349</b>	<b>\$ 466,697</b>	<b>\$ 787,652</b>
	<b>%</b>					<b>42.0%</b>

See Notes to Measure M2 Status Report (Unaudited)

**Measure M2**  
**Schedule of Revenues and Expenditures Summary**  
**as of June 30, 2019**  
**(Unaudited)**

Project	Description	Net Revenues through June 30, 2019	Total Net Revenues	Expenditures through June 30, 2019	Reimbursements through June 30, 2019	Net M2 Cost
(G)		(H)	(I)	(J)	(K)	(L)
	<i>(\$ in thousands)</i>					
<b>Transit Projects (25% of Net Revenues)</b>						
R	High Frequency Metrolink Service	\$ 217,441	\$ 1,232,958	\$ 290,390	\$ 98,736	\$ 191,654
S	Transit Extensions to Metrolink	203,602	1,091,307	56,858	2,133	54,725
T	Metrolink Gateways	30,144	63,187	98,220	60,956	37,264
U	Expand Mobility Choices for Seniors and Persons with Disabilities	74,208	428,665	71,627	88	71,539
V	Community Based Transit/Circulators	46,116	247,181	9,875	94	9,781
W	Safe Transit Stops	5,090	27,283	1,093	26	1,067
	Subtotal Projects	576,601	3,090,581	528,063	162,033	366,030
	Net (Bond Revenue)/Debt Service	-	-	27,899	-	27,899
	<b>Total Transit Projects</b>	<b>\$ 576,601</b>	<b>\$ 3,090,581</b>	<b>\$ 555,962</b>	<b>\$ 162,033</b>	<b>\$ 393,929</b>
	<b>%</b>					<b>21.0%</b>
	<b>Measure M2 Program</b>	<b>\$ 2,306,405</b>	<b>\$ 12,362,324</b>	<b>\$ 2,717,449</b>	<b>\$ 842,674</b>	<b>\$ 1,874,775</b>

Project	Description	Revenues through June 30, 2019	Total Revenues	Expenditures through June 30, 2019	Reimbursements through June 30, 2019	Net M2 Cost
(G)		(H.1)	(I.1)	(J)	(K)	(L)
	<i>(\$ in thousands)</i>					
<b>Environmental Cleanup (2% of Revenues)</b>						
X	Clean Up Highway and Street Runoff that Pollutes Beaches	\$ 49,322	\$ 265,272	\$ 41,865	\$ 292	\$ 41,573
	Net (Bond Revenue)/Debt Service	-	-	-	-	-
	<b>Total Environmental Cleanup</b>	<b>\$ 49,322</b>	<b>\$ 265,272</b>	<b>\$ 41,865</b>	<b>\$ 292</b>	<b>\$ 41,573</b>
	<b>%</b>					<b>1.7%</b>

**Taxpayer Safeguards and Audits**

	Collect Sales Taxes (1.5% of Sales Taxes)	\$ 36,206	\$ 196,069	\$ 26,292	\$ -	\$ 26,292
	<b>%</b>					<b>1.1%</b>
	Oversight and Annual Audits (1% of Revenues)	\$ 24,661	\$ 132,636	\$ 25,107	\$ 446	\$ 24,661
	<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, 2019

### 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 for 20 years. On November 7, 2006, 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 M2 sales tax program, which commenced on April 1, 2011 for a period of 30 years. The M1 sales tax program was completed and closed out in June 2015.

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, 2019 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, 2019 (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, 2019. 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 \$363,442 agrees with the combined change in fund balances of \$350,563 in the M2 special revenue fund and \$12,879 in the M2 debt service fund in the trial balance for the year ended June 30, 2019.

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, 2019

Period from Inception through June 30, 2019 (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, 2019. 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 \$1,140,985 agrees with the combined ending fund balances of \$1,104,967 in the M2 special revenue fund and \$36,018 in the M2 debt service fund, as presented in the trial balance for the year ended June 30, 2019.

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, 2019 (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, 2019. Revenues, administrative expenditures, and capital outlay for the year ended June 30, 2019 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 sales tax administration 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, 2019

Period from Inception through June 30, 2019 (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, 2019. Revenues, administrative expenditures, and capital outlay for the period from inception through June 30, 2019 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, 2019 are presented in Schedule 3 as "Net Revenues through June 30, 2019" (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 sales tax administration 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, 2019 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, 2019 through March 31, 2041. Revenues and administrative expenditures for subsequent years from July 1, 2019 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, 2019 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 sales tax administration 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, 2019 (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, 2019. Bond revenues and financing expenditures and uses for the year ended June 30, 2019 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.

**ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**  
**Notes to Measure M2 Status Report (Unaudited)**

Year Ended June 30, 2019

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 Inception through June 30, 2019 (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, 2019. Bond revenues and financing expenditures and uses for the period from inception through June 30, 2019 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, 2019 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, 2019 through March 31, 2041. Bond revenues and financing expenditures and uses for subsequent years from July 1, 2019 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, 2019

Net Revenues through June 30, 2019 (Column H)

This column presents total M2 program net revenues for the period from inception through June 30, 2019, 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, 2019 (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 including 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 agrees with the total net bond revenue (debt service) expenditures 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, 2019 (Column K)

This column presents total reimbursements for the period from inception through June 30, 2019, 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, proceeds on sale of assets held for resale, donated assets held for resale, 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, 2019

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, 2019 (Column H.1)

The total environmental cleanup revenue for the period from inception through June 30, 2019, 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, 2019, 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, 2019, 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 ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES  
WITH RESPECT TO THE TREASURY DEPARTMENT**

Year ended June 30, 2019

INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES

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" or "Authority") (the specified party), on the Investment Policy of the Authority. OCTA's management is responsible for the Investment Policy. 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 enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are included in Appendix A.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Investment Policy. Accordingly, we do not express such an opinion or conclusion. 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's Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.



Crowe LLP

Costa Mesa, California  
October 17, 2019

ORANGE COUNTY TRANSPORTATION AUTHORITY  
APPENDIX A – SCHEDULE OF PROCEDURES AND FINDINGS  
Year ended June 30, 2019

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The procedures performed and associated results are as follows:

1. We conducted inquiries of personnel involved in the Treasury Department operations, obtained the Debt and Investment Management Manual and observed the procedures performed to determine whether the procedures provided 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 accounting for custody of resources; and
  - g. Periodic reconciliation of investments between the custodian statements and the general ledger.

Finding: No exceptions were noted as a result of this procedure. We observed the procedures performed to determine whether the procedures provided for items a.-g. by observing documented procedures in the Investment Management Manual (Manual) and determining the attributes above were provided for in the Manual.

2. We compared the Investment Policies dated June 11, 2018, February 25, 2019, and June 10, 2019 to California Government Code Section 53601 to determine compliance.

Finding: No exceptions were noted as a result of this procedure.

3. We observed system related controls to determine they were in place to appropriately limit access to cash and investment information.

Finding: We observed system related controls surrounding the Clearwater system and no exceptions were noted as a result of this procedure. Specifically, we observed that access to the system was password protected and that the user access listing was restricted to those individuals requiring access for their job duties.

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

Finding: No exceptions were noted as a result of this procedure.

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

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(Continued)

ORANGE COUNTY TRANSPORTATION AUTHORITY  
APPENDIX A – SCHEDULE OF PROCEDURES AND FINDINGS  
Year ended June 30, 2019

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Finding: No exceptions were noted as a result of this procedure.

6. We selected a sample of four authorization letters (and changes to them) 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, we inspected 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.

Finding: No exceptions were noted as a result of this procedure.

7. We selected a sample of 60 investment purchases during the fiscal year ended June 30, 2019 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.

Finding: We inspected the investment policies obtained in procedure two and compared the policies outlined for investment purchases contained within to the sample of investments purchased during the year and noted no exceptions. We agreed Asset ID, ISIN number, Maturity date, Principal (Value), and Security Ratings to the Clearwater report to ensure proper recording of the securities. We recalculated investment earnings on matured investments and agreed to the Clearwater system. No exceptions were noted as a result of this procedure.

8. We sampled ten weekly holdings reports for each external investment manager during the fiscal year ended June 30, 2019 and determined whether they were monitored by Treasury Department personnel and were in compliance with the Investment Policy. Specifically:
  - a. We obtained the holdings report for each external manager for each week selected;
  - b. We inspected that the Treasury Department's review was documented on the holdings report;
  - c. We compared the holdings report to the Investment Policy limits and diversification guidelines to determine whether the external investment manager complied; and
  - d. We determined that any instances of noncompliance were identified and corrected by the Treasury Department and that probationary and reporting procedures were followed.

Finding: No exceptions were noted as a result of this procedure.

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(Continued)

ORANGE COUNTY TRANSPORTATION AUTHORITY  
APPENDIX A – SCHEDULE OF PROCEDURES AND FINDINGS  
Year ended June 30, 2019

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9. We selected a sample of three monthly bank reconciliations during the fiscal year ended June 30, 2019 and performed the following:
- a. Traced 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.

Finding: No exceptions were noted as a result of this procedure. We determined the items in b. - e. by observing the reconciliations contained the information listed.

10. We selected a sample of three monthly investment account reconciliations and inspected the supporting documentation to determine that:
- a. Reconciliations were completed and approved by the end of the month following the month being reconciled, and were performed 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.

Finding: The Bank of New York Mellon is accessed using a computer login, therefore procedure (d) listed above was not applicable. The remainder of the procedures were performed with no exceptions noted.

11. We inspected 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.

Finding: No exceptions were noted as a result of this procedure. For procedure d., weekly communications were observed.

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(Continued)

ORANGE COUNTY TRANSPORTATION AUTHORITY  
APPENDIX A – SCHEDULE OF PROCEDURES AND FINDINGS  
Year ended June 30, 2019

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12. We inspected monthly Investment and Debt Programs reports for required reporting of downgrades and credit watch placements.

Finding: No exceptions were noted as a result of this procedure.

13. We inspected minutes of both the Board of Directors and the Finance and Administration Committee, inquired with Treasury Department personnel, and inspected 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, 2019
- d. The Internal Audit Department performed 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.

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

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

Finding: Based upon our inquiry no changes in Treasury policies and procedures, organization or function were noted as a result of any prior year findings or as a result of the Treasury Department Agreed-Upon Procedures.

**ORANGE COUNTY TRANSPORTATION AUTHORITY**

**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES RELATED TO**  
**ARTICLE XIII-B APPROPRIATIONS LIMIT CALCULATION**  
For the fiscal year ended June 30, 2019

INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES

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) (the specified party), related to the Appropriations Limit Calculation of OCTA, prepared in accordance with Section 1.5 of Article XIII-B of the California Constitution, for the fiscal year ended June 30, 2019. OCTA's management is responsible for the Appropriations Limit Calculation. The sufficiency of these procedures is solely the responsibility of OCTA. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and associated findings are as follows:

1. We obtained the completed worksheets setting forth the calculations necessary to establish OCTA's appropriations limit and compared the 2018-2019 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 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 this procedure.

2. We added last year's limit to the annual adjustment amount and compared the resulting amount to the 2018-2019 appropriations limit.

Finding: No exceptions were noted as a result of this procedure.

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 this procedure.

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 this procedure.

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(Continued)

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Appropriations Limit Calculation. Accordingly, we do not express such an opinion or conclusion. 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 and is not intended to be, and should not be, used by anyone other than these specified parties.

  
Crowe LLP

Costa Mesa, California  
October 17, 2019

ORANGE COUNTY TRANSPORTATION AUTHORITY  
APPROPRIATIONS LIMIT CALCULATIONS  
Year ended June 30, 2019

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	<u>Amount</u>	<u>Source</u>
A. Last year's limit	\$ 11,087,013	
B. Adjustment factors:		
1. Population change	1.0367	State Finance
2. Per capital change	1.0069	State Finance
Total adjustments [(B.1 x B.2) - 1.0]	0.04390	
C. Annual adjustment	<u>486,720</u>	A x B
D. This year's limit	<u>\$ 11,573,733</u>	A + C

**ORANGE COUNTY TRANSPORTATION AUTHORITY**  
**AGREED-UPON PROCEDURES PERFORMED**  
**WITH RESPECT TO THE NATIONAL TRANSIT DATABASE REPORT**  
June 30, 2019

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 performed 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 *2019 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, 2019, 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 *2019 Policy Manual*. OCTA's management is responsible for OCTA's compliance with those standards and the accuracy of the FFA-10 form. The sufficiency of these procedures is solely the responsibility of OCTA and FTA. 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.

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(Continued)

The procedures and findings described in Attachment 1 of this report, which are referenced in order to correspond to the *2019 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, 2019, 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).

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance 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 *2019 Policy Manual* or on the FFA-10. Accordingly, we do not express such an opinion or conclusion. 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.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, flowing style.

Crowe LLP

Costa Mesa, California  
October 31, 2019

**ATTACHMENT 1**

The procedures to be applied to each applicable mode and type of service (TOS) (directly operated (DO) and purchased transportation (PT)) are:

- a. 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 *2019 Policy Manual*. If there are no procedures available, discuss the procedures with the personnel assigned responsibility for supervising the NTD data preparation and maintenance.

Finding: We obtained and read a copy of OCTA's written instructions for Passenger Counting and Reporting (PCR) schedule generation. Based on inquiry surrounding collection, retention and reporting of NTD data, we noted that OCTA maintains and follows an informal set procedures in accordance with NTD requirements and definitions set forth in 49 CFR Part 630, *Federal Register*, January 15, 1993 and as presented in the *2019 Policy Manual*. No exceptions were noted as a result of this procedure.

- 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 *2019 Policy Manual*.

Finding: We inquired regarding OCTA's procedures for the MBDO, CBDO, MBPT, CBPT, DRPT, DTPT, and VPPT services and were informed that the informally asserted procedures were followed on a consistent and continual basis. In addition, based on our inquiry with the Business Unit Analyst of the Transit Division and the Section Manager of the 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 *2019 Policy Manual*. No exceptions were noted as a result of this procedure.

- 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.

Finding: We inquired with the Business Unit Analyst of the Transit Division, Section Manager of the Vanpool Program, and other key NTD personnel, 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. No exceptions were noted as a result of this procedure.

- 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.

Finding: 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 by observing OCTA's shared drive without exception:

Type of Service	Source Document	Months Tested
MBDO	<ul style="list-style-type: none"> <li>· Operating Days by Month</li> <li>· Passenger Survey Detail</li> <li>· Revenue Vehicle Miles by Month</li> </ul>	<ul style="list-style-type: none"> <li>· <i>September 2018</i></li> <li>· <i>December 2018</i></li> <li>· <i>April 2019</i></li> </ul>

(Continued)

**ATTACHMENT 1**

<b>Type of Service</b>	<b>Source Document</b>	<b>Months Tested</b>
	<ul style="list-style-type: none"> <li>· Scheduled Daily Line Summaries</li> <li>· Unlinked Passenger Trips</li> <li>· Vehicle Revenue Miles by Service, Route, and Urbanized Area</li> </ul>	<ul style="list-style-type: none"> <li>· Three years of data were noted to be archived on OCTA's network.</li> </ul>
CBDO	<ul style="list-style-type: none"> <li>· Operating Days by Month</li> <li>· Passenger Survey Detail</li> <li>· Revenue Vehicle Miles by Month</li> <li>· Scheduled Daily Line Summaries</li> <li>· Unlinked Passenger Trips</li> <li>· Vehicle Revenue Miles by Service, Route, and Urbanized Area</li> </ul>	<ul style="list-style-type: none"> <li>· <i>September 2018</i></li> <li>· <i>December 2018</i></li> <li>· <i>April 2019</i></li> <li>· Three years of data were noted to be archived on OCTA's network.</li> </ul>
MBPT	<ul style="list-style-type: none"> <li>· Operating Days by Month</li> <li>· Passenger Survey Detail</li> <li>· Revenue Vehicle Miles by Month</li> <li>· Scheduled Daily Line Summaries</li> <li>· Unlinked Passenger Trips</li> <li>· Vehicle Revenue Miles by Service, Route, and Urbanized Area</li> </ul>	<ul style="list-style-type: none"> <li>· <i>September 2018</i></li> <li>· <i>December 2018</i></li> <li>· <i>April 2019</i></li> <li>· Three years of data were noted to be archived on OCTA's network.</li> </ul>
CBPT	<ul style="list-style-type: none"> <li>· Operating Days by Month</li> <li>· Passenger Survey Detail</li> <li>· Revenue Vehicle Miles by Month</li> <li>· Scheduled Daily Line Summaries</li> <li>· Unlinked Passenger Trips</li> <li>· Vehicle Revenue Miles by Service, Route, and Urbanized Area</li> </ul>	<ul style="list-style-type: none"> <li>· <i>September 2018</i></li> <li>· <i>December 2018</i></li> <li>· <i>April 2019</i></li> <li>· Three years of data were noted to be archived on OCTA's network.</li> </ul>
DRPT	<ul style="list-style-type: none"> <li>· Contractor Provided NTD Program Data Reports</li> <li>· Driver Manifests</li> <li>· ACCESS - Passenger and Mileage Summaries</li> </ul>	<ul style="list-style-type: none"> <li>· <i>September 2018</i></li> <li>· <i>December 2018</i></li> <li>· <i>April 2019</i></li> <li>· Three years of data were noted to be archived on OCTA's network.</li> </ul>
DTPPT	<ul style="list-style-type: none"> <li>· Contractor Provided NTD Program Data Reports</li> <li>· Same Day Taxi - Passenger and Mileage Summaries</li> </ul>	<ul style="list-style-type: none"> <li>· <i>September 2018</i></li> <li>· <i>December 2018</i></li> <li>· <i>April 2019</i></li> <li>· Three years of data were noted to be archived on OCTA's network.</li> </ul>
VPPT	<ul style="list-style-type: none"> <li>· Passenger Trips and Miles</li> <li>· Revenue Miles Summaries</li> </ul>	<ul style="list-style-type: none"> <li>· <i>September 2018</i></li> <li>· <i>December 2018</i></li> <li>· <i>April 2019</i></li> <li>· Three years of data were noted to be archived on OCTA's network.</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.

(Continued)

## ATTACHMENT 1

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Finding: 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. For the Purchased Transportation modes, we also inquired of the Independent Contractors regarding the system of internal controls surrounding the data collection process and transfer of NTD-related information to OCTA. We were informed that review is performed on a monthly basis and again at year-end for the MBDO, CBDO, MBPT, CBPT, DRPT, DTPT and VPPT modes. No exceptions were noted as a result of this procedure.

- 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.

Finding: We selected a random sample of 11 and 16 Random Check Trip Sheets for the MBDO and MBPT services, respectively, 6 Random Check Trip Sheets each for both the CBDO and CBPT services, 40 random sample Drivers Manifests for the DRPT service, and 14 Invoices for DTPT services, noting supervisory signatures documenting reviews of the data presented in the various services, without exception. For VPPT, we noted supervisory signatures on the source documents 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.

Finding: We obtained the worksheets utilized by OCTA to transcribe statistics to the Federal Funding Allocation Statistics (FFA-10) form and compared the data to summaries without exception. We recomputed 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 *2019 Policy Manual*.

Finding: Sampling was conducted for the MBDO, CBDO, MBPT, and CBPT modes. We inspected the sampling methodologies and noted that the sampling methodology was used in accordance with the requirements of the *2019 NTD Policy Manual*.

The remaining three modes of services do not involve sampling. These modes use a 100% count of actual Passenger Miles and compilations of actual Revenue Miles, which is in accordance with the *2019 NTD Policy Manual*. No exceptions were noted as a result of this procedure.

- 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 (2017) 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.

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(Continued)

## ATTACHMENT 1

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Finding: Not applicable - OCTA did not meet the specific requirements per 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.

Finding: The transit agency did not use average trip length for sampling. For the MBDO, CBDO, MBPT, and CBPT modes, we obtained a copy of OCTA's methodology used in the statistical sampling to estimate Passenger Miles Travelled (PMT) and determined that the methodology used by OCTA resulted in a random selection of runs and that the stated sampling procedure was followed. No exceptions were noted as a result of this procedure.

- 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 accumulations periods that were tested. Test the arithmetical accuracy of the summary.

Finding: For MBDO, we randomly selected 11 surveyed routes throughout the year. We recomputed the mathematical accuracy of the survey count sheets and observed that all required data was recorded in the accumulation worksheet designed to perform the PMT calculation. No exceptions were found as a result of this procedure.

For CBDO, we randomly selected 6 surveyed routes throughout the year. We recomputed the mathematical accuracy of the survey count sheets and observed that all required data was recorded in the accumulation worksheet designed to perform the PMT calculation. No exceptions were found as a result of this procedure.

For MBPT, we randomly selected 16 surveyed routes throughout the year. We recomputed the mathematical accuracy of the survey count sheets and observed that all required data was recorded in the accumulation worksheet designed to perform the PMT calculation. No exceptions were found as a result of this procedure.

For CBPT, we randomly selected 6 surveyed routes throughout the year. We recomputed the mathematical accuracy of the survey count sheets and observed all required data was recorded in the accumulation worksheet designed to perform the PMT calculation. No exceptions were found as a result of this procedure.

For DRPT and DTPT modes, we selected 40 routes performed during September 2018, December 2018 and April 2019 and compared the PMT reported against the signed driver manifests. We noted exceptions for 11 of the route selections for DRPT, in which the PMT data recorded on driver manifests was inconsistent with PMT data recorded in Trapeze, resulting in an understatement of Passenger Miles Traveled for the fiscal year of 136 miles.

For VPPT, we compared ridership being entered on the Vanpool internet database for September 2018, January 2019 and March 2019 against amounts uploaded to the Data Warehouse without exception. We also traced revenue miles reported in the Vanpool Participation Log reports for September 2018, January 2019, and March 2019 to the Monthly Summary reports of the same months and recomputed the accuracy of calculations used to determine PMT without exception.

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(Continued)

## ATTACHMENT 1

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- I. Discuss the procedures for systematic exclusion of charter, school bus, and other ineligible vehicle miles from the calculation of actual Vehicle Revenue Miles (VRM) 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.

Finding: The procedure identified above is not applicable. Per inquiry with the Business Unit Analyst of the Transit Division and the Section Manager of Accounting & Financial Reporting, OCTA did not provide charter or school bus services.

- m. For actual 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.

Finding: 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 was computed by dividing the number of service hours actually operated by the number of service hours scheduled. This percentage was applied to scheduled VRMs to determine the number of VRMs actually operated and the number of missed VRMs. We selected all days from 9 months of the year, 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.

Finding: 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.

Finding: For the DRPT mode, Revenue Miles are calculated based on the odometer readings from the first pickup to the last drop off. There are no deadhead miles included in the Revenue Miles calculations due to the nature of the service being comprised of non-dedicated trips. No exceptions were noted as a result of this procedure.

For the DTPT mode, Revenue Miles are calculated by the contractors based on pick up and drop off data entered into the scheduling software. 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. No exceptions were noted as a result of this procedure.

For the VPPT mode, deadhead miles are automatically excluded because only commuter miles are entered into the calculation of Revenue Miles and the results are reviewed by the Section Manager of the Vanpool Program. No exceptions were noted as a result of this procedure.

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(Continued)

## ATTACHMENT 1

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

Finding: 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 D or worse on a parallel adjacent highway; and
    - 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.

Finding: We interviewed the Business Unit Analyst of the Transit Division and determined that OCTA's Motor Bus services operate over HIB lanes that appear consistent with the FTA's definition of HIB lanes. No exceptions were noted as a result of this procedure.

- p. Discuss the measurement of FG and HIB DRM with the person reporting NTD data and determine that 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.

Finding: Per inquiry, we determined that the mileage was computed in accordance with the FTA definitions of FG/HIB DRM. We were informed that there were no increases or decreases in DRMs during the year. No exceptions were noted as a result of this procedure.

- 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.

Finding: Per inquiry with the Business Unit Analyst of the Transit Division and Section Manager of Financial Planning & Analysis, there were no temporary interruptions in transit service during the report year. No exceptions were noted as a result of this procedure.

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

Finding: We recalculated the length of all HIB directional routes for the MBDO, CBDO and CBPT modes of service using publicly available maps without exception. The MBPT mode does not operate over HIB lanes. No exceptions were noted as a result of this procedure.

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(Continued)

## ATTACHMENT 1

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- 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 Operating Expense (OE) for the service operated over the same FG/HIB.

Finding: We interviewed the Business Unit Analyst of the Transit Division and noted that OCTA does share 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. No exceptions were noted as a result of this procedure.

- t. Review the FG/HIB segments form. Discuss the Agency Revenue Service Start Date for any segments added in the 2019 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 2019 report year, the Agency Revenue Service Date must occur within the transit agency's 2019 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.

Finding: We obtained the HIB segments form noting the High Intensity segments and dates. It was noted that OCTA added no new segments during the year, as evidenced in the HIB segments form and per inquiry with the Section Manager of Accounting & Financial Reporting. No exceptions were noted as a result of this procedure.

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

Finding: 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.

Finding: Per inquiry and inspection, we determined that the transit agency purchased transportation services. We then identified the PT fare revenues reported on the Contractual Relationship form and agreed 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.

Finding: The data for purchased transportation are included in the reporting by OCTA, and therefore, no IAS for the purchased transportation services is included. No exceptions were noted as a result of this procedure.

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(Continued)

## ATTACHMENT 1

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- 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.

Finding: 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 of the Transit Division and Section Manager of the Vanpool Program, regarding OCTA's retention policy for executed contracts for purchased transportation programs. Per inquiry, the current retention practice meets NTD requirements of a minimum of three years. No exceptions were noted as a result of this procedure.

- 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.

Finding: Per inquiry, 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. We recalculated 8 UZA allocations for mathematical accuracy for the MBDO, MBPT, CBDO and CBPT services, with no exceptions noted.

- 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.

Finding: The following fluctuations were noted on the FFA-10 Form:

- A 17.8% decrease in Revenue Miles for CBPT was noted. Per inquiry, this was attributed to the prior year discontinuation of line 212 and 216, which is still affecting current year RVMs, as well as adjustments and reductions of various other lines within this mode.
- A 14.4% increase in Passenger Miles and a 26.5% increase in Operating Expenses for DTPT was noted. Per inquiry, this was attributed to a new service contract entered into in September 2018, which increased the scope of work, resulting in increased rates and ridership.

No exceptions were noted as a result of this procedure.

- 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.

Finding: We have documented the procedures followed based on the FTA 2019 Policy Manual Exhibit 79 - Federal Funding Allocation Data Review - Suggested Procedures, and noted the documents inspected and tests performed in our workpapers. Additional procedures were not performed.

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**ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES RELATED**  
**TO ARTICLE XIII-B APPROPRIATIONS LIMIT CALCULATION**  
For the fiscal year ended June 30, 2019

INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES

Board of Directors  
Orange County Local Transportation Authority  
Orange, California

We have performed the procedures enumerated below, which were agreed to by the Orange County Local Transportation Authority (OCLTA), to the Appropriations Limit Calculation of OCLTA, prepared in accordance with Section 1.5 of Article XIII-B of the California Constitution for the fiscal year ended June 30, 2019. OCLTA's management is responsible the Appropriations Limit Calculation. The sufficiency of these procedures is solely the responsibility of OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and associated findings are as follows:

1. We obtained the completed worksheets setting forth the calculations necessary to establish OCLTA's appropriations limit and compared the 2018-2019 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 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 this procedure.

2. We added last year's limit to the annual adjustment amount and compared the resulting amount to the 2018-2019 appropriations limit.

Finding: No exceptions were noted as a result of this procedure.

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 this procedure.

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 this procedure.

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(Continued)

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Appropriations Limit Calculation. Accordingly, we do not express such an opinion or conclusion. 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 and is not intended to be, and should not be, used by anyone other than these specified parties.

  
Crowe LLP

Costa Mesa, California  
October 17, 2019

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY  
APPROPRIATIONS LIMIT CALCULATIONS  
Year ended June 30, 2019

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	<u>Amount</u>	<u>Source</u>
A. Last year's limit	\$ 1,675,556,032	
B. Adjustment factors:		
1. Population change	1.0367	State Finance
2. Per capital change	1.0069	State Finance
Total adjustments [(B.1 x B.2) - 1.0]	0.04390	
C. Annual adjustment	<u>73,556,910</u>	A x B
D. This year's limit	<u>\$ 1,749,112,942</u>	A + C