MEASURE M
TAXPAYERS OVERSIGHT COMMITTEE
AUDIT SUBCOMMITTEE MEETING
AGENDA

Tuesday, January 10, 2012
5:00 p.m. – 6:00 p.m.

Orange County Transportation Authority
600 S. Main Street, Orange, CA
Conference Room 101

Conference room is on the first floor.

1. Review and approve minutes from October 11, 2011
2. External Auditor Communication/Annual Audit Reports — *Kevin Pullium, Partner, Vavrinek, Trine, Day & Co. LLP*
3. Measure M1 and M2 Status Reports for FY2010-11 — *Kenneth Phipps*
4. Fare Stabilization — *Kenneth Phipps*
5. Repayment of the Orange County Unified Transportation Trust Fund for Measure M2 Early Action Plan Costs — *Kenneth Phipps*
6. Internal Audit Plan, First Quarter Update — *Janet Sutter*
7. Environmental Program Review — *James Kelly*
8. Triennial Performance Assessment — *Tamara Warren*
9. Other Matters
10. Public Comments*

The Agenda listings are intended to give notice to members of the public of items of business to be transacted or discussed. The Audit Subcommittee may take any action which it deems appropriate on an agenda item.

*Public Comments: At this time, members of the public may address the Audit Subcommittee regarding any items within the subject matter jurisdiction of the Subcommittee provided that NO action may be taken off-agenda items unless authorized by law. Comments shall be limited to five (5) minutes per person and 20 minutes for all comments, unless different time limits are set by the Chairman, subject to the approval of the Subcommittee.

MEASURE M
COC/TOC AUDIT SUBCOMMITTEE MEETING
Minutes

Orange County Transportation Authority
550 S. Main Street, 600 Building
Orange, CA
Conference Room 506
Tuesday, October 11, 2011
5:00 p.m. – 6:00 p.m.

- COC/TOC members present: Howard Mirowitz, Richard Egan, Jim Kelly, David Sundstrom

- OCTA staff present: Kenneth Phipps, Janet Sutter, Andrew Oftelie, Kirk Avila, Alice Rogan, Kim Bowman, Lloyd Sullivan

Meeting was called to order at: 5:00pm

Review and approve minutes from April 26, 2011: The Audit Subcommittee approved minutes for the April 26, 2011 meeting.

Fiscal Year 2011-12 Annual Audit Plan: Janet Sutter, Executive Director of Internal Audit, presented to the Audit Subcommittee (Subcommittee) the Fiscal Year 2011-12 Annual Internal Audit Plan (audit plan) that was approved by the Finance and Administration Committee in August. Janet told the Subcommittee that quarterly updates will be provided to the Subcommittee throughout the year, as well as any audits relating to Measure M (MM) projects or programs. Janet indicated she plans to meet with Executive Directors to add to the list of auditable entities and to better assess risk next year. Howard Mirowitz asked if it had been concluded that turnback reviews would not be in-sourced by OCTA's auditors. Janet said turnback reviews have not been in-sourced, and added the Internal Audit Department (Internal Audit) is not currently in a position to be able to in-source turnback reviews. Internal Audit staff did perform MM Agreed-upon Procedures (AUP) follow-up reviews for cities, but the MM AUP audits will be performed by Vavrinek, Trine, Day, & Co., LLP.

At this time, Jim Kelly shared with the Subcommittee that he also sits on the Environmental Oversight Committee (EOC). Jim explained that a minimum of five percent of the M2 Freeway Mitigation Program budget will be made available subject to a master agreement to provide a comprehensive mitigation of the environmental impacts of the freeway improvements. These funds are being designated, in coordination with the Orange County Board of Supervisors and OCTA's Board of Directors, to acquire property that is or will be designated as conservation land. Properties have been identified but Jim believes it is important to have independent oversight. Jim has written an audit scope for review of this program and the funds that are being spent under this part of the program to determine whether funds are being spent in accordance with the ordinance and whether appraisal practices are appropriate. Chairman David Sundstrom asked what fellow EOC members think. Jim thinks it is probably mixed. Jim asked if there is a written opinion by Ken Smart, General Counsel from Woodruff, Spradlin and Smart, with respect to the process for appraisal and purchase of these properties. David asked Jim if he had asked for an opinion from Ken Smart. Jim said he didn't ask for an opinion specifically, but, opined it might be appropriate to get an opinion. Jim also stated that the original bid for the appraisers went out and it was a single bid, single appraisal. Jim raised this issue as something that should be part of the audit review process. Because of other issues that were raised in the drafts of the review, Jim thinks it warrants oversight.

David wanted to state a couple of concerns and offer a couple remedies. David said one concern is that Jim is oversight and is representing the Audit Subcommittee on the EOC, and expressed appreciation for Jim's participation on that committee. David's inclination as much as possible is to make sure Jim has expressed his concerns to the EOC and has exhausted remedies within that committee prior to the Audit Subcommittee's involvement. Otherwise, David said we are going to start going crosswise between committees and he doesn't know if that should really be done unless necessary. David has no problem with that, but there might be other mechanisms to consider also, since Jim is proposing some potential issues that are certainly of real concern. David suggested Jim bring it up directly with the committee and request a written opinion from Ken Smart as a first step. Currently, Janet has a full audit plan and is short staffed. Janet has indicated the M2 environmental mitigation program is included in her risk assessment, however, it was not selected to be audited this year. Richard Egan interjected that Jim is not getting the answers to an issue he needs, but that doesn't necessarily mean that Janet should change her audit plan because someone says she should look into it unless it's a major issue.

Jim said he will start by asking for a formal connection with Ken Smart. Jim thinks the answer will come back as 'yes I think so'; if so, where do we go from there? Jim is also concerned not just about the appraisal process but the selection of the appraisers. David said if Ken Smart comes back and believes it is more prudent to do the appraisals this way, then it can come back to the EOC. David thinks going through all the remedies, Jim has to work first through the EOC as a committee member.

Alice Rogan, Community Relations Officer for External Affairs, asked Jim if he has made a motion or proposed doing more than one appraisal to the committee members. Jim said no, but that he had asked why and the answer was this is the way it's normally done for conservation acquisitions; it's too costly to go outside. Jim can logically see how there's a tie in to a federal matching funds; what he can't see is a federal government agency agreeing to pay more than the asking price because that's what the appraised value is. This is not eminent domain. The price should be negotiated. Jim is not so much concerned that the process is being handled incorrectly, he believes the amount of money and circumstances involved warrant more oversight.

Alice said she agrees with David to work through the committee, and propose motions to consider doing two appraisals. Alice told Jim he could take David's suggestion and go through the committee and ask for the opinion. Depending on the outcome, the Audit Subcommittee could then agendize the issue. Jim believes this to be a routine internal review. If Internal Audit does not have the staff to perform the review, maybe the Audit Subcommittee can look to perform a review of this as part of the annual audit.

It was agreed that Jim would start by meeting with Ken Smart and then go from there. Howard Mirowitz asked Jim what he would be asking Ken Smart for. Jim replied he will be asking if there is a formal tie-in connection with how appraisals are set, how appraisals are conveyed, and how the property is acquired. If formal guidelines are not followed, the ability to secure matching highway finds may be jeopardized for any of these programs, which could be a significant portion of the freeway projects.

Annual Audits – Elimination of Debt Service Coverage Test Reports: Janet mentioned that review of the M2 bond indenture revealed the Debt Service Coverage Test Report is not required and proposed this report be eliminated from the annual audit. Howard asked if there is something else in the indenture that should be checked. Kirk Avila, Treasurer, answered this area deals with additional bonds. When OCTA issues additional bonds, OCTA must go through a process showing OCTA can meet 1.3 times the coverage based upon the most recent 12 out of 18 months of sales tax collections. This applies to both MM and the new ongoing M2 program. The difference is the MM ordinance required external auditors to prepare the report; M2 states OCTA will prepare the report. With respect to events of default, there are requirements that OCTA must pay principle and interest on debt service payments if OCTA fails to make those payments. There are mechanisms in place that OCTA must go through legally to show that OCTA can resume compliance. Howard asked if there was a single term sheet of the indenture that the Subcommittee could review. Kirk said the excerpt from the indenture is three pages but he can make a copy of the entire indenture available to Subcommittee members for review. Janet offered to email the indenture as an information item.

Results of Follow-up to City of San Juan Capistrano and City of Westminster, Fiscal Year 2010-11 MM AUP's: Janet told the Subcommittee that the MM city audits are currently underway with VTD, however Internal Audit staff performed follow-up reviews for the cities of San Juan Capistrano (SJC) and Westminster, the results of which have already been transmitted. This item is on the Audit Subcommittee agenda in case Subcommittee members have any questions regarding the follow-up reviews. Janet indicated the two items with Westminster have been cleared. Regarding SJC, one of the two items is no longer applicable; the secondary item is an outstanding item. Internal Audit has a mechanism for tracking outstanding items as part of the quarterly update. Another follow-up of SJC will be performed in six months to see if it's been cleared.

M2 Finance Director's Workshop: Andrew Oftelie, Director of Finance and Administration, told the Subcommittee that a new requirement under the M2 ordinance is that each local agency that receives MM funds is required to fill out an expenditure report. This report is modeled after the State Controller's report. The template for OCTA's expenditure report was brought to the TOC for approval, and was also approved by OCTA's Board of Directors in February. Since the TOC has asked that the expenditure report be signed by that agency's finance director, OCTA conducted a workshop for the finance directors in order to walk them through the process. The first expenditure reports are due December 2011.

OCTA was asked to send out a sample resolution that could be taken back to the local agencies' council. The ordinance specifies the expenditure report is to be adopted by each local agency. OCTA interprets that to mean the city council must adopt the expenditure report. The report will be submitted to OCTA within six months from the end of the fiscal year, and the expenditure report will be reviewed by the TOC.

Alice said that at an internal meeting today, it was asked which subcommittee should receive the expenditure report. Alice indicated the Annual Eligibility Review Committee (AERC) should review the reports first, and then they should go to the Audit Subcommittee. Janet opined she is not sure if the expenditure reports need to be reviewed by the Audit Subcommittee. Janet indicated she has no plans to receive the expenditure reports, nor verify data within the reports. Currently VTD is doing the city audit reports for 2011, but the expenditure reports for fiscal year 2010 won't be issued until December 31st. Because of the timing between the audits and when the expenditure reports are due, there isn't a way to incorporate the expenditure reports into the audit. Alice said the reports should go through the AERC, and could be provided to the Subcommittee. OCTA has asked that finance directors sign the eligibility form attesting to its accuracy. Planning staff will review the reports first; the next step will be the timing of the reports' submittal which is out of sync.

Richard Egan said if Internal Audit reviewed the incoming reports, then word of this practice would spread to the agencies. Alice said that staff looks at the reports, and if there is a problem they will go back and question the city first. Then if the TOC finds something or the city disagrees, the next step is taken and they could move to the front of the line for audit. Andy believes the template is very clear, and though it is possible to misinterpret what is being asked for, he finds it highly unlikely. Howard confirmed that reviewing expenditure reports is not part of the audit plan, but agreed that if it was requested, it could be done under unscheduled reviews, but it would be a different type of task because right now the way audits are performed, the auditors perform the FY 2010 audits before the expenditure reports are submitted. Alice suggested that this topic be put on the agenda for further discussion at a later date.

Other Matters: Alice asked Janet to give a quick schedule of the annual audit. Janet replied that typically the committee receives the reports in January and that so far everything is running on schedule.

Public Comments: None

Meeting Adjourned at: 5:58 p.m.

Next meeting scheduled for January 10, 2012 5:00 p.m. CR 101.

Orange County Local Transportation Authority

(A Component Unit of the Orange County Transportation Authority)

Annual Financial and Compliance Report

Year Ended June 30, 2011

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

Audited Financial Statements

Year Ended June 30, 2011

Contents

INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Orange County Local Transportation Authority (OCLTA), a component unit of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2011, which collectively comprise OCLTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of OCLTA's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OCLTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, OCLTA has adopted the provisions of GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

Also, as described in Note 11 to the financial statements, the beginning fund balance and net assets have been restated to reflect a change in OCLTA's period of availability and other adjustments.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011 on our consideration of OCLTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

The management's discussion and analysis on pages 3 through 9, the budgetary comparison schedules on page 42 and the related notes on pages 43 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 the purpose of additional analysis and is not a required part of the basic financial statements. The budgetary comparison schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 9, 2011

As management of the Orange County Local Transportation Authority (OCLTA), we offer readers of the OCLTA's financial statements this narrative overview and analysis of the OCLTA's Measure M financial activities for the fiscal year ended June 30, 2011. 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 assets of the OCLTA were $379,471 and consisted of net assets invested in capital assets, net of related debt, of $184,100; restricted net assets of $10,195; and unrestricted net assets of $185,176.

- Beginning net assets were restated $8,583 due to revenues earned in the prior fiscal year that were not recorded (see note 11). Net assets decreased $93,392 during fiscal year 2010-11. This decrease was primarily due to the transfer of $120,000 to the Commuter and Urban Rail Endowment (CURE) Fund to fund the Metrolink Service Expansion Program and rail operations.

- Total capital assets, net of accumulated depreciation, were $184,100 at June 30, 2011.

- The OCLTA's governmental funds were restated $(1,302) due to revenues earned in the prior fiscal year that were not recorded and changing the availability period from 180 days to 90 days for revenue recognition. OCLTA's governmental funds reported combined ending fund balances of $519,225, an increase of $151,614 from the prior year. This increase is primarily due to the issuance of Renewed Measure M (M2) sales tax revenue bonds offset by the transfer to the CURE fund for the MSEP.

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 assets presents information on all of the OCLTA's assets and liabilities, with the difference between assets and liabilities reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the fiscal year. All changes in net assets 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 fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the OCLTA's near-term financing requirements.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. As a result, readers may better understand the long-term impact of the OCLTA's near-term financing decisions. Both the governmental funds balance sheet and related statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The OCLTA maintains two individual governmental funds which are considered to be major funds. Information is presented separately in the governmental funds balance sheet and in the related statement of revenues, expenditures and changes in fund balances for the OCLTA's major governmental funds.

The governmental funds financial statements can be found on pages 12-15 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-41 of this report.

The OCLTA adopts an annual budget for its two funds. A budgetary comparison schedule has been provided for the LTA special revenue fund as required supplementary information on page 42 and the LTA debt service fund as other supplementary information on page 44 to demonstrate compliance with the annual appropriated budget.

Government-wide Financial Analysis

As noted previously, net assets may serve over time as a useful indicator of the OCLTA's financial position. At June 30, 2011, the OCLTA's assets exceeded liabilities by $379,471, a $93,392 decrease from June 30, 2010. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the OCLTA's governmental activities.

Current and other assets increased by $172,058 or 33% from June 30, 2010. The increase is primarily due to cash received from the issuance of bonds to fund the M2 program (see note 8).

Restricted assets decreased $73,069 from the prior fiscal year due to the payoff of the Sales Tax Revenue Bonds (see note 8).

Current liabilities decreased $68,553 or 34% from June 30, 2010 primarily due to the pay down of commercial paper (see note 7).

Long-term liabilities increased $275,181 or 332% due to the issuance of bonds to fund the M2 program (see note 8).

Approximately 49% of OCLTA's net assets reflect its investment in capital assets, the majority of which is land purchased for right-of-way. The increase of $14,247 in net assets invested in capital assets, net of related debt was primarily due to the purchase of land for the MSEP.

Restricted net assets, which are resources subjected to external restrictions on how they may be used, decreased $99,460 from June 30, 2010. This decrease is primarily due to program costs in excess of sales tax revenue received.

Table 1
Orange County Local Transportation Authority
Net Assets

	Governmental Activities	
	2011	2010
Current and other assets, as restated	$ 686,343	$ 514,285
Restricted assets	-	73,069
Capital assets, net	184,100	169,853
Total assets, as restated	870,443	757,207
Current liabilities, as restated	132,981	201,534
Long-term liabilities	357,991	82,810
Total liabilities, as restated	490,972	284,344
Net assets:		
Invested in capital assets, net of related debt	184,100	169,853
Restricted	10,195	109,655
Unrestricted, as restated	185,176	193,355
Total net assets, as restated	$379,471	$472,863

Governmental activities decreased the OCLTA's net assets by $93,392. Sales taxes, which ultimately financed a significant portion of the OCLTA's net costs, increased by $13,755, or 6%, from the prior year as a result of a slight improvement in the economy. Operating grants and contributions increased $47,280, or 111%, from the prior year primarily due to reimbursements related to the contribution to Southern California Regional Rail Association (SCRRA) for the MSEP and grade crossing projects.

OCLTA expenses of $412,896 shown on the statement of activities consist of:

Supplies and services	$ 47,106
Contributions to other local agencies	159,815
Infrastructure	67,975
Depreciation expense	43
Interest expense	14,583
Bond issuance costs	2,181
Transfer to other OCTA funds	121,193
Total expenses	$412,896

Total expenses increased $111,612, or 35% from the prior year primarily due to the continued effort to complete the Combined Transportation Funding Program (CTFP) projects and the MSEP and grade crossing projects.

Table 2
Orange County Local Transportation Authority
Changes in Net Assets

	Governmental Activities	
	2011	2010
Revenues:		
Program revenues:		
Charges for services	$ 437	$ 434
Operating grants and contributions, as restated	89,923	42,643
General revenues:		
Taxes	235,610	221,855
Unrestricted investment earnings	11,555	13,002
Total revenues, as restated	337,525	277,934
Expenses:		
Measure M program	412,896	305,024
Indirect Expense Allocation	18,021	14,281
Increase/(decrease) in net assets, as restated	(93,392)	(41,371)
Net assets – beginning, as restated	472,863	514,234
Net assets—end of year	$ 379,471	$ 472,863

Financial Analysis of the OCLTA's Funds

As of June 30, 2011, the OCLTA's governmental funds reported combined ending fund balances of $519,225, an increase of $151,614 compared to 2010. The majority of fund balance, $98%, is assigned for transportation programs related to Measure M projects. $10,195 is restricted for debt service on M2 sales tax revenue bonds issued in the current year to accelerate funding for M2 projects. The remaining fund balance of $2,283 is considered nonspendable as the funds have been deposited with the State for condemnation deposits.

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

The LTA fund increased by $251,074, primarily due to the issuance of bonds to assist in the financing of M2 projects.

The LTA Debt Service fund decreased by $99,460, primarily due to the payoff of the M1 sales tax revenue bonds.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2011, the OCLTA had $184,100, net of accumulated depreciation, invested in a broad range of capital assets including land, improvements and machinery. A summary of the OCLTA's capital assets, net of depreciation, follows:

Land	$183,304
Improvements	1,086
Machinery	26
Total capital assets	184,416
Less accumulated depreciation	(316)
Total capital assets, net	$ 184,100

Total capital assets increased $14,290 or 8%, from the prior year primarily due to the purchase of land for the MSEP. More detailed information about the OCLTA's capital assets is presented in Note 6 to the financial statements.

OCTA has outstanding construction contracts, the most significant of which are $40,274 for Metrolink railroad grade crossing enhancements and safety improvements, $22,170 for the Sand Canyon Grade Separation project and $21,623 for the MSEP.

Debt Administration

As of June 30, 2011, the OCLTA had $377,570 in sales tax revenue bonds and commercial paper notes outstanding. OCTA issued $293,540 in M2 Sales Tax Revenue Bonds, 2010 Series A (Taxable Build America Bonds) and $59,030 in 2010 Series B (Tax-exempt Bonds) to fund the M2 program. OCTA retired $75,000 in M2 commercial paper notes and paid in full the outstanding balance of M1 sales tax revenue bonds of $82,795.

The OCLTA maintains a "AA+" rating from Standard & Poor's, a "AA" rating from Fitch and a "Aa2" rating from Moody's for its M2 Sales Tax Revenue Bonds.

Additional information on the OCLTA's short-term debt and long-term debt can be found in Notes 7 and 8 to the financial statements, respectively.

Economic and Other Factors

The OCLTA includes the Measure M program half cent sales tax which has delivered on promises made to the residents of Orange County in 1990, with over $4 billion invested in improvements to freeways, streets and roads and transit services. M1 ended March 2011, and collection of sales tax under M2 began in April 2011. M2 was overwhelmingly approved by the voters of Orange County in 2006 because of the tangible results that were realized through M1. The passage of M2 has allowed for the continuation of transportation improvements for 30 more years. In an effort to expedite transportation projects, the OCTA Board approved the M2 Early Action Plan (EAP) in 2007, paving the way for financing projects in 2007 through 2012. Under the EAP, five M2 freeway projects were scheduled to be under construction before revenues were collected in 2011.

Despite an economic recession that has led to an approximate 40 percent reduction in program revenues, OCTA made significant progress implementing the EAP by aggressively seeking additional grant funding and taking advantage of a competitive construction market. In July 2010, the Board approved the comprehensive Capital Action Plan (CAP). The CAP expands the scope of the EAP to include additional projects. These projects include freeway improvements projects, transit capital projects, and rail transit projects. These, and other critical capital projects, will now be captured in a more comprehensive capital program document that will ensure coordinated project delivery and decision making with respect to resource management, funding, and procedures.

The OCLTA adopted its fiscal year 2011-12 annual budget on June 13, 2011. This $662.7 million balanced budget includes both M1 and M2. The M1 budget totals $184.9 million and includes payments to cities and the County of Orange for the fair share and competitive programs, and investment in rolling stock for the MSEP. The M2 budget totals $477.8 million and includes funds for the grade separation projects, grade crossing and quiet zones, environmental mitigation and work related to several freeway projects that have been identified in the Board-approved CAP.

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 Assets
June 30, 2011

(amounts expressed in thousands)		Governmental Activities
Assets		
Cash and investments	$	556,923
Receivables:		
Interest		1,642
Operating grants		27,011
Other		62
Due from other OCTA funds		11,270
Due from other governments		78,436
Condemnation deposits		2,283
Other assets		2,093
Assets held for resale		6,623
Capital assets:		
Nondepreciable		183,304
Depreciable, net		796
Total Assets		**870,443**
Liabilities		
Accounts payable		19,566
Accrued interest payable		8,347
Due to other governments		61,856
Unearned revenue		14,061
Other liabilities		21
Advance from other OCTA funds		4,130
Commercial paper notes		25,000
Noncurrent liabilities:		
Due in more than one year		357,991
Total Liabilities		**490,972**
Net Assets		
Invested in capital assets		184,100
Restricted for:		
Debt Service		10,195
Unrestricted for:		
Measure M program		185,176
Total Net Assets	**$**	**379,471**

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, 2011

(amounts expressed in thousands)	Expenses	Indirect Expense Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Program governmental activities:					
Measure M program	$ 412,896	$ 18,021	$ 437	$ 89,923	$ (340,557)
Total governmental activities	412,896	18,021	437	89,923	(340,557)
General revenues:					
Sales taxes					235,610
Unrestricted investment earnings					11,555
Total general revenues					247,165
Change in net assets					(93,392)
Net assets - beginning, as restated					472,863
Net assets - ending					**$ 379,471**

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, 2011

(amounts expressed in thousands)	LTA	LTA Debt Service	Total OCLTA
Assets			
Cash and investments	$ 546,729	$ 10,194	$ 556,923
Receivables:			
Interest	1,641	1	1,642
Operating grants	27,011	-	27,011
Other	62	-	62
Due from other OCTA funds	11,270	-	11,270
Due from other governments	75,841	-	75,841
Condemnation deposits	2,283	-	2,283
Total Assets	**$ 664,837**	**$ 10,195**	**$ 675,032**
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 19,566	$ -	$ 19,566
Due to other governments	61,856	-	61,856
Deferred revenue	45,234	-	45,234
Other liabilities	21	-	21
Advance from other OCTA funds	4,130	-	4,130
Commercial paper notes	25,000	-	25,000
Total Liabilities	**155,807**	**-**	**155,807**
Fund Balances			
Nonspendable:			
Condemnation deposits	2,283	-	2,283
Restricted for:			
Debt service	-	10,195	10,195
Assigned to:			
Transportation programs	506,747	-	506,747
Total Fund Balances	**509,030**	**10,195**	**519,225**
Total Liabilities and Fund Balances	**$ 664,837**	**$ 10,195**	**$ 675,032**

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 Assets
June 30, 2011

(amounts expressed in thousands)

Amounts reported for governmental activities in the Statement of Net Assets (page 10) are different because:

Total fund balances (page 12)	$	519,225
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		184,100
Interest receivable on the Build America Bonds is not reported in the funds.		2,595
Assets held for resale are not a financial resource and, therefore, are not reported in the funds.		6,623
Other long-term assets related to cost of issuance are not financial resources and, therefore, are not reported in the funds.		2,093
Earned but unavailable revenue is not available to liquidate current liabilities and, therefore, is deferred in the funds.		31,173
Interest payable on bonds outstanding is not due and payable in the current period and, therefore, is not reported in the funds.		(8,347)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(357,991)
Net assets of governmental activities (page 10)	**$**	**379,471**

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, 2011

(amounts expressed in thousands)	LTA	LTA Debt Service	Total OCLTA
Revenues			
Sales taxes	$ 235,610	$ -	$ 235,610
Contributions from other agencies	60,054	-	60,054
Interest	7,319	1,438	8,757
Miscellaneous	437	-	437
Total Revenues	**303,420**	**1,438**	**304,858**
Expenditures			
Current:			
General government	67,008	152	67,160
Transportation:			
Contributions to other local agencies	159,815	-	159,815
Capital outlay	82,265	-	82,265
Debt service:			
Principal payments on long-term debt	-	82,795	82,795
Interest	726	7,856	8,582
Bond issuance costs	2,181	-	2,181
Total Expenditures	**311,995**	**90,803**	**402,798**
Excess (deficiency) of revenues over (under) expenditures	**(8,575)**	**(89,365)**	**(97,940)**
Other financing sources (uses)			
Transfers in	74,516	64,421	138,937
Transfers from OCTA	12,154	-	12,154
Transfers out	(64,421)	(74,516)	(138,937)
Transfers to OCTA	(121,193)		(121,193)
Bond issuance	352,570	-	352,570
Bond premium	6,023	-	6,023
Total other financing sources (uses)	**259,649**	**(10,095)**	**249,554**
Net change in fund balances	**251,074**	**(99,460)**	**151,614**
Fund balances-beginning, as restated	257,956	109,655	367,611
Fund balances-ending	**$ 509,030**	**$ 10,195**	**$ 519,225**

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, 2011

(amounts expressed in thousands)

Amounts reported for governmental activities in the Statement of Activities (page 11) are different because:

Net change in fund balances - total governmental funds (page 14)	$	151,614
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation in the current period.		14,247
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		20,513
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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(279,766)
Change in net assets of governmental activities (page 11)	**$**	**(93,392)**

See accompanying notes to the financial statements.

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. Under M1, funds are required to be distributed to four modes: freeways, regional streets and roads, local streets and roads and transit.

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 OCTA for financial reporting purposes.

The OCTA governing board (Board) consists of 17 voting members and functions as the OCLTA governing board. Measure M requires that an eleven-member Taxpayer's Oversight Committee (TOC) monitors the use of Measure M funds and ensures that all revenue collected from Measure M is spent on voter-approved transportation projects.

These financial statements include only the activities of the OCLTA, a component unit of the OCTA. These financial statements are not intended to present the activities of OCTA.

Basis of Presentation

The OCLTA's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Statements: The statement of net assets 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.

The statement of activities demonstrates the degree to which the OCLTA Measure M program expenses are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with Measure M, and allocated indirect expenses. Interest expense related to the sales tax revenue bonds and commercial paper is reported as a direct expense of the Measure M program. The borrowings are considered essential to the creation or continuing existence of the Measure M program. For the year ended June 30, 2011, interest expense of $14,310 was included as Measure M program costs. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by Measure M; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of the Measure M program. Taxes and other items, which are properly not included among program revenues, are reported instead as general revenues.

Fund Financial Statements: The fund financial statements provide information about the OCLTA's governmental funds. The OCLTA considers all of its Measure M funds as major governmental funds. They are comprised of the following:

- *Local Transportation Authority (LTA) Fund* - This fund is the general operating fund for the OCLTA and accounts for revenues received and expenditures made for the implementation of the Orange County Traffic Improvement and Growth Management Plan. Financing is provided by a one-half percent sales and use tax assessed for twenty years pursuant to Measure M, which became effective April 1, 1991, and was recently 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. OCLTA changed its availability period from 180 days to 90 days in fiscal year 2010-11. For further information, see note 11 relating to the prior period adjustment restating the beginning fund balance. 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.

Those revenues susceptible to accrual are sales taxes collected and held by the state at year-end on behalf of the OCLTA, intergovernmental revenues and interest revenue. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the OCLTA; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible-to-accrual criteria are met.

Cash and Investments

The OCLTA maintains cash and investments in a pool with other OCTA cash and investments and in accordance with the Annual Investment Policy (AIP) adopted by the Board on May 8, 1995, and most recently amended May 8, 2011. The AIP 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.

Investments in U.S. government and U.S. agency securities, medium term notes repurchase agreements, variable and floating rate securities, mortgage and asset-backed securities, and corporate notes are carried at fair value based on quoted market prices, except for securities with a remaining maturity of one year or less at purchase date, which are carried at cost. Treasury mutual funds are carried at fair value based on each fund's share price. The Orange County Investment Pool (OCIP) is carried at fair value based on the value of each participating dollar as provided by the OCIP. The state-managed Local Agency Investment Fund (LAIF) is carried at fair value based on the value of each participating dollar as provided by LAIF. Commercial paper is carried at fair value.

The AIP requires that assets in the portfolio consist of the following investments, with maximum permissible concentrations based on book value, and is more restrictive than applicable state statutes for the following investment types:

OCTA Notes and Bonds (25%)

Notes and bonds issued by OCTA, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate.

U. S. Treasuries (100%)

Direct obligations of the United States of America and securities which are fully and unconditionally guaranteed as to the timely payment of principal and interest by the full faith and credit of the United States of America.

U.S. Treasury coupon and principal Separate Trading of Registered Interest and Principal of Securities (STRIPS) and Treasury Inflation Protected Securities (TIPS) are permitted investments pursuant to the AIP.

Federal Instrumentality Securities (Government Sponsored Enterprises) (100%)

Debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of trade settlement issued by the following:

- Federal Home Loan Bank (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
- Federal National Mortgage Association (FNMA or Fannie Mae)
- Federal Farm Credit Bank (FFCB)
- Federal Agricultural Mortgage Corporation (Farmer Mac)

Federal Agencies (100%)

Mortgage-backed securities and debentures with a final maturity not exceeding five years from the date of trade settlement issued by the following:

- Government National Mortgage Association (GNMA or Ginnie Mae)
- Small Business Administration (SBA)
- Export-Import Bank of the United States (EXIMBANK)
- Maritime Administration
- Washington Metro Area Transit
- U.S. Department of Housing & Urban Development
- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)

Any Federal Agency and U.S. Government Sponsored Enterprise security not specifically mentioned above is not a permitted investment.

State of California and Local Agency Obligations (25%)

Registered state warrants, treasury notes or bonds of the State of California and bonds, notes, warrants or other evidences of indebtedness of any local agency, other than OCTA, of the State, including bonds payable solely out of revenues from a revenue producing property owned, controlled, or operated by the state or local agency or by a department, board, agency or authority of the State or local agency. Such obligations must be issued by an entity whose general obligation debt is rated at least A-1 or better by two of the three Nationally Recognized Statistical Rating Organizations (NRSROs) for short-term obligations, or A or the equivalent for long-term debt.

OCTA may also purchase defeased state and local obligations as long as the obligations have been legally defeased with U.S. Treasury securities and such obligations mature or otherwise terminate within five years of the date of purchase.

Public agency bonds issued for private purposes (industrial development bonds) are specifically excluded as allowable investments.

Bankers Acceptance (30%)

- Must be eligible for purchase by the Federal Reserve System.
- Must be rated by at least two of the NRSROs with at least A-1 or the equivalent for short-term deposits.
- May not exceed the 5 percent limit on any one commercial bank.
- Maximum Term: 180 days. (Code)

Commercial Paper (25%)

- Must be rated at least A-1 or the equivalent by two of the three NRSROs.
- Must be issued by corporations rated at least A- or the equivalent rating by a NRSRO for issuer’s debt, other than commercial paper.
- Must be issued by corporations organized and operating within the United States and having total assets in excess of five hundred million dollars $500 million.
- Must not represent more than 10 percent of the outstanding paper of the issuing corporation.
- Maximum Term: 180 days. (Code 270 days)

Negotiable Certificates of Deposit (30%)

- Must be issued by a nationally or state-chartered bank or state or federal association, or by a state licensed branch of a foreign bank, which has been rated by at least two of the NRSROs with at least A-1 or the equivalent for short-term deposits.
- Maximum Term: 270 days.

Repurchase Agreements (75%)

Repurchase agreements collateralized by U.S. Treasuries or Agency securities as defined in the Annual Investment Policy with any registered broker-dealer subject to the Securities Investors Protection Act or any commercial banks insured by the FDIC so long as at the time of the investment such dealer (or its parent) has an uninsured, unsecured and unguaranteed obligation rated P-1 short-term or A2 long-term or better by Moody's, and A-1 short-term or A long-term or better by Standard & Poor's, provided:

- A Public Securities Association (PSA) master repurchase agreement and a tri-party agreement, if applicable, representing a custodial undertaking in connection with a master repurchase agreement, which governs the transaction and has been signed by OCTA.
- The securities are held free and clear of any lien by OCTA's custodian or trustee or an independent third party acting as agent "Agent" for the custodian or trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million and the custodian or trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for OCTA's custodian or trustee.
- A perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of OCTA's custodian or trustee and OCTA.
- The Agent provides OCTA's custodian or trustee and OCTA with valuation of the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required 102 percent collateral percentage is not restored within two business days of such valuation.
- Reverse purchase agreements are not permitted unless used as a permitted investment in the Local Agency Investment Fund.
- Maximum Term: 30 days. (Code 1 year)

Medium-Term Maturity Corporate Securities (30%)

- Corporate securities which are rated A- or better by two of the three NRSROs.
- Must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.
- Medium term notes must not represent more than ten percent (10%) of the issue in the case of a specific public offering. This limitation does not apply to debt that is “continuously offered” in a mode similar to commercial paper, i.e. medium term notes (MTNs). Under no circumstance may any one corporate issuer represent more than 5 percent of the portfolio.
- Maximum Term: 5 years. (Code)

Money Market Funds (20%)

Shares of beneficial interest issued by diversified management companies (commonly called money market funds) which:

- Must be rated AAA (or the equivalent highest ranking) by two of the three NRSROs.
- May not represent more than 10 percent of the money market fund’s assets.

Other Mutual Funds (20%)

Shares of beneficial interest issued by diversified management companies (commonly called mutual funds) which:

- Must be rated AAA (or the equivalent highest ranking) by two of the three NRSROs.
- May not represent more than 10 percent of the fund's or pools assets.

Mortgage or Asset-Backed Securities (20%)

Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond which:

- Is rated AAA or the equivalent (Code AA) by a NRSRO.
- Is issued by an issuer having at least an A or equivalent rating by a NRSRO for its long-term debt.
- Maximum Term: Five year stated final maturity. (Code)

Investment Agreements (100%)

Investment agreements must be approved and signed by OCTA's Treasurer. Investment agreements are permitted with any bank, insurance company or broker/dealer, or any corporation if, at the time of such investment:

1) Such bank has an unsecured, uninsured and unguaranteed obligation rated long-term Aa2 or better by Moody's and AA or better by Standard & Poor's.

2) Such insurance company or corporation has an unsecured, uninsured and unguaranteed claims paying ability rated long-term Aaa by Moody's and AAA by Standard & Poor's.

3) Such bank or broker/dealer has an unsecured, uninsured and unguaranteed obligation rated long-term A2 or better by Moody's and A or better by Standard & Poor's (and with respect to such broker/dealer rated short-term P-1 by Moody's and A-1 by Standard & Poor's); provided, that such broker/dealer or A2/A rated bank also collateralize the obligation under the investing agreement with U.S. Treasuries, Government National Mortgage Association securities, Federal National Mortgage Association securities or Federal Home Loan Mortgage Association securities meeting the following requirements:

   i. The securities are held free and clear of any lien by OCTA's custodian or trustee or an independent third party acting as agent "Agent" for the custodian or trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million and the custodian or trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for OCTA's custodian or trustee; and

ii. A perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of OCTA's custodian or trustee and OCTA; and

iii. The Agent provides OCTA's custodian or trustee and OCTA with valuation of the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required 102 percent collateral percentage is not restored within two business days of such valuation.

The agreement shall include a provision to the effect that if any rating of any such bank, insurance, broker-dealer or corporation is downgraded below a minimum rating to be established at the time the agreement is executed, OCTA shall have the right to terminate such agreement.

State of California Local Agency Investment Fund (LAIF)

LAIF is a pooled fund managed by the State Treasurer referred to in Section 16429.1 of the Code. All securities are purchased under the authority of the Code Section 16430 and 16480.4. It has a $40 million maximum portfolio percentage per entity. See note 3 for additional information.

Orange County Treasury Investment Pool (OCIP)

The OCIP is a pooled fund managed by the Orange County Treasurer and is comprised of two funds, the Money Market Fund and Extended Fund. The Money Market Fund is invested in cash equivalent securities and is based on the investment guidelines detailed in the Code section 53601.7. The Extended Fund is for cash requirements past one year and is based on the Code Sections 53601 and 53635. It has a $40 million maximum portfolio percentage per entity.

California Asset Management Program (CAMP) (10%)

CAMP is a program for the investment of bond and certificates of participation proceeds only. CAMP investments must be rated AA or better by two of the three NRSROs.

Variable and Floating Rate Securities (30%)

Variable and floating rate securities are restricted to investments in securities with a final maturity of not to exceed five years as described above, must utilize traditional money market reset indices such as U. S. Treasury bills, Federal Funds, commercial paper or LIBOR (London Interbank Offered Rate), and must meet all minimum credit requirements previously detailed in the Annual Investment Policy. Investments in floating rate securities whose reset is calculated using more than one of the above indices are not permitted, i.e. dual index notes.

Bank Deposits (5%)

Bank deposits in California banks which have a minimum short-term rating of A-1 by Standard and Poor's and a minimum short-term rating of P-1 by Moody's. The Treasurer shall draft and execute a contract describing provisions for bank deposits.

Derivatives (5%)

Derivatives are to be used as a tool for bonafide hedging investments only where deemed appropriate. Derivatives shall not be used for the purpose of interest rate speculation.

Derivative products in any of the eligible investment categories listed above may be permitted. The Treasurer has the sole responsibility for determining which prospective investments are derivatives. Each prospective investment in a derivative product must be documented by the Treasurer as to the purpose and specific financial risk being hedged. Each such investment must be approved by the Finance and Administration Committee prior to entering into such investment.

No investments shall be permitted that have the possibility of returning a zero or negative yield if held to maturity. In addition, the investment in inverse floaters, range notes, strips derived from mortgage obligations, step-up notes and dual index notes are not permitted investments.

All investments are subject to a maximum maturity of five years, unless specific direction to exceed the limit is given by the Board and as permitted by the Code.

OCTA policy is to invest only in high quality instruments as permitted by the Code, subject to the limitations of the AIP.

Outside portfolio managers must review, on an ongoing basis, the portfolios they manage (including bond proceeds portfolios) to ensure compliance with OCTA's diversification guidelines.

Issuer/Counter-Party Diversification Guidelines For All Securities Except Federal Agencies, Federal Instrumentalities, Investment Agreements, Repurchase Agreements and 91 Express Lanes Debt.

- 5% for any one corporation, bank, local agency, special purpose vehicle or other corporate name for one or more series of securities.

Issuer/Counter-Party Diversification Guidelines For Federal Agencies, Federal Instrumentalities and Repurchase Agreements.

- 35% for any one Federal Agency or Federal Instrumentalities
- 50% for any one repurchase agreement counter-party name if the maturity/term is less than or equal to 7 days.
- 35% for any one repurchase agreement counter-party name if the maturity/term is greater than 7 days.

Issuer/Counter-Party Diversification Guidelines for OCTA's 91 Express Debt

- The OCTA can purchase all or a portion of the Orange County Transportation Authority's Toll Road Revenue Refunding Bonds (91 Express Lanes) Series B Bonds maturing December 15, 2030 providing the purchase does not exceed 25% of the Maximum Portfolio.

Interfund Transactions

During the course of operations, numerous transactions occur between individual funds involving goods provided or services rendered and transfers of revenues from funds authorized to receive the revenue to funds authorized to expend it. Outstanding interfund balances are reported as due to/from other funds. Any residual balances outstanding between the Measure M program governmental activities and other OCTA funds are reported in the government-wide financial statements as due from other OCTA funds.

OCTA allocates indirect costs related to administrative services from certain funds to benefiting funds. For fiscal year 2010-11, $18,021 of administrative services were charged to the OCLTA and are reported as general government expenditures in the governmental funds.

Capital Assets

Capital assets include land, buildings, and machinery and equipment, and 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 estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized.

Freeway construction and certain purchases of right-of-way property, for which title vests with the California Department of Transportation (Caltrans), are included in capital outlay. Infrastructure consisting primarily of freeway construction and right-of-way acquisition is not recorded as a capital asset in those instances where the OCLTA does not intend to maintain or operate the property when complete.

Buildings and machinery and equipment are depreciated using the straight line method over the following estimated useful lives:

Asset Type	Useful Life
Buildings/Right-of-way improvements	10-30 years
Machinery and equipment	3-10 years

Assets Held for Resale

OCLTA holds title to property in connection with the purchase of rights-of-way for infrastructure not held by OCLTA (see above). These assets are reported as assets held for resale in the government-wide financial statements and will be sold and the proceeds reimbursed to the project that funded the expenditure.

Long-Term Debt

In the government-wide financial statements, long-term debt is reported as a liability in the statement of net assets. Bond premiums and discounts and bond refunding costs, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and deferred bond refunding loss. Bond issuance costs are reported as other assets and amortized over the life of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, 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 disbursed to cities for competitive projects, the turnback program, the local fair share program, the senior mobility program and to other agencies for projects which are in accordance with the Measure M ordinance.

Net Assets

In the government-wide financial statements, net assets represent the difference between assets and liabilities and are classified into three categories:

- *Invested in capital assets* - This balance reflects the net assets of the OCLTA that are invested in capital assets. These net assets are generally not accessible for other purposes.

- *Restricted net assets* - This balance represents net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties. The government-wide statement of net assets reports $10,195 of net assets restricted for debt service.

- *Unrestricted net assets* – This balance represents those net assets that are available for general use as specified in the M1 and M2 programs.

Fund Balances

OCLTA implemented GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, in fiscal year 2010-11. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which OCLTA is bound to honor constraints on the specific purposes for which amounts can be spent.

The classifications used in the governmental fund financial statements are as follows:

- *Nonspendable* – amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

- *Restricted* – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

- *Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. Assignments in the General Fund constitute contracts that have been let and have a remaining balance at the end of the fiscal year.

When both restricted and unrestricted resources are available for use, it is OCLTA's policy to use restricted resources first and then unrestricted resources as they are needed. When using unrestricted fund balance amounts, 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.

Year Ended June 30, 2011
(in thousands)

2. Reconciliation of Government-wide and Fund Financial Statements

Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets

The governmental funds balance sheet includes a reconciliation between fund balances - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets.

One element of that reconciliation explains that "Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds." The details of this $184,100 difference are as follows:

Capital assets	$184,416
Less accumulated depreciation	(316)
Net adjustment to increase fund balances - total governmental funds to arrive at net assets - governmental activities	$184,100

Another 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 $(357,991) difference are as follows:

Bonds payable	$ (352,570)
Plus unamortized bond issuance premium (to be amortized as interest	(5,421)
Net adjustment to decrease fund balances - total governmental funds to arrive at net assets - governmental activities	$ (357,991)

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 assets - governmental activities as reported in the government-wide statement of activities.

(in thousands)

One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense." The details of this $14,247 difference are as follows:

Capital outlay	$14,290
Depreciation expense	(43)
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net assets - governmental activities	$ 14,247

Another 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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $(279,766) difference are as follows:

Bond proceeds	$ (352,570)
Premium on long term debt	(6,023)
Cost of issuance	2,181
Principal repayments – sales tax revenue bonds	82,795
Change in accrued interest	(6,618)
Amortization of deferred loss on refunding	(336)
Amortization of premium	953
Amortization of issuance costs	(148)
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net assets -governmental activities	$ (279,766)

3. Cash and Investments

Cash and investments are comprised of the following at June 30, 2011:

Investments:		
With OCTA Commingled Investment Pool	$	318,588
With Trustee		238,335
Total cash and investments	$	556,923

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

Cash and Investments	$	556,923
Total Cash and Investments	$	556,923

(in thousands)

As of June 30, 2011, OCLTA had the following investments:

Investment	Fair Value	Principal	Interest Rate Range	Maturity Range	Weighted Average Maturity (Years)
OCTA Commingled Investment Pool	$318,588	$317,236	Discount .010%-8.00%	7/1/11-6/23/16	1.98
U.S. Treasury Notes	35,186	35,185	.375% - 1.75%	1/31/12-4/15/13	1.08
U.S. Agency Notes	92,584	92,712	Discount .20%-5.0%	7/6/11-2/3/14	.91
Medium Term Notes	38,816	39,016	.52%-7.25%	7/15/11-2/1/13	.69
Mortgage and Asset Backed Securities	15,343	15,393	.21%-6.5%	7/1/11-4/15/15	2.57
Variable Rate Notes	5,601	5,600	Discount .192%-.482%	6/12/12-5/15/15	.82
Money Market & Mutual Funds	34,446	34,446	Variable	7/1/11	1 Day
State of California and Local Agencies	1,668	1,668	Discount 5.0%-6.75%	7/1/11-7/1/31	.25
Commercial Paper	14,691	14,691	Discount	8/3/11-12/14/11	.19
Total Investments	$556,923	$555,947			

Portfolio Weighted Average Maturity 1.67

Interest Rate Risk

OCTA manages exposure to declines in fair value from increasing interest rates by having an investment policy that limits maturities to five years while also staggering maturities. OCTA maintains a low duration strategy, targeting an estimated average portfolio duration of three years or less, with the intent of reducing interest rate risk. Portfolios with low duration are less volatile, therefore, less sensitive to interest rate changes. In accordance with the OCTA investment policy, amounts restricted for debt service reserves are invested in accordance with the maturity provision of their specific indenture, which may extend beyond five years.

As of June 30, 2011, OCLTA was a participant in OCTA's commingled investment pool which had mortgage and asset-backed securities totaling $65,793. The underlying assets are consumer receivables that include credit cards, auto and home loans. The securities have a fixed interest rate and are rated AAA by at least two of the three Nationally Recognized Rating Services Organizations.

(in thousands)

As of June 30, 2011, OCTA's commingled investment pool and OCLTA held the following variable rate notes:

Investment	Fair Value	Coupon Multiplier	Coupon Reset Date
American Express	$ 100	LIBOR + 30 basis points	Monthly
American Express	950	LIBOR + 170 basis points	Monthly
American Express	599	LIBOR + 15 basis points	Monthly
BA Credit Card	1,000	LIBOR + 0 basis points	Monthly
Bank America	1,003	LIBOR + 20 basis points	Quarterly
Citigroup	677	LIBOR + 85 basis points	Quarterly
Citigroup	421	LIBOR + 33 basis points	Quarterly
Eaton Corp	501	LIBOR + 33 basis points	Quarterly
Federal Home Loan Bank	1,000	LIBOR – 9.5 basis points	Monthly
Federal Home Loan Mortgage	2,702	LIBOR – 7 basis points	Quarterly
Goldman Sachs	645	LIBOR + 100 basis points	Quarterly
Goldman Sachs	1,000	LIBOR + 25 basis points	Quarterly
MBNA Credit Card	200	LIBOR + 15 basis points	Monthly
Morgan Stanley	848	LIBOR + 98 basis points	Quarterly
Morgan Stanley	1,027	LIBOR + 250 basis points	Quarterly
NCUA Notes	470	LIBOR + 2 basis points	Monthly
New York Life	1,000	LIBOR + 26 basis points	Quarterly
PACCAR Financial	634	LIBOR + 45 basis point	Monthly
Total Variable Rate Notes	$ 14,777		

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. OCTA's investment policy requires that a third party bank custody department hold all securities owned by OCTA. All trades are settled on a delivery versus payment basis through OCTA's safekeeping agent. At June 30, 2011, OCTA did not have any deposits or securities exposed to custodial credit risk and there was no securities lending.

Credit Risk

The AIP sets minimum acceptable credit ratings for investments from any of the three nationally recognized rating services S&P, Moody's, and Fitch. For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than an "A" by two of the three rating services. The OCTA Commingled Investment Pool are not rated.

(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, 2011. (NR means Not Rated, US means obligations of the United States (U.S.) government or obligations explicitly guaranteed by the U.S. government):

Investments	S&P	Moody's	Fitch	% of Portfolio
OCTA Commingled Investment Pool	NR	NR	NR	57.21%
Held by Trustee:				
U.S. Treasury Notes	US	US	US	6.32%
U.S Agency Notes	AAA	Aaa	AAA	16.62%
Medium Term Notes:				
Corporate Notes	AAA	Aaa	AAA	.93%
Corporate Notes	AAA	Aa1	AA+	.19%
Corporate Notes	AA+	Aa2	NR	.41%
Corporate Notes	AA-	Aa3	NR	.63%
Corporate Notes	AA-	A1	AA-	.41%
Corporate Notes	AA-	A2	NR	.06%
Corporate Notes	A+	Aa1	AA-	.10%
Corporate Notes	A+	Aa1	A+	.09%
Corporate Notes	A+	Aa3	AA-	.10%
Corporate Notes	A+	Aa3	A+	.28%
Corporate Notes	A+	A1	NR	.07%
Corporate Notes	A+	A2	A+	.14%
Corporate Notes	A+	A2	A	.06%
Corporate Notes	A	Aa3	AA-	.08%
Corporate Notes	A	A1	A+	.17%
Corporate Notes	A	A2	A+	.09%
Corporate Notes	A	A2	A	1.15%
Corporate Notes	A	A3	A	.38%
Corporate Notes	A-	A2	A	.78%
Corporate Notes	A-	A3	A-	.21%
Corporate Notes	A-	Baa1	A	.25%
Corporate Notes	A-	NR	A	.10%
Corporate Notes	BBB+	A2	A+	.28%
Mortgage and Asset Backed Securities:				
Securities	AAA	Aaa	AAA	1.19%
Securities	AAA	Aaa	NR	1.02%
Securities	NR	Aaa	AAA	.37%

(in thousands)

Investments	S&P	Moody's	Fitch	% of Portfolio
Securities	NR	Aaa	NR	.18%
Variable Rate Notes:				
Notes	AAA	Aaa	AAA	.88%
Notes	AAA	Aaa	NR	.02%
Notes	BBB+	A2	A+	.11%
Money Market and Mutual Funds	AAA	Aaa	NR	6.18%
State of California and Local Agencies:				
California Street	AAA	Aaa	AAA	.05%
Irvine Ranch	AAA	Aaa	NR	.19%
Los Angeles County	AAA	Aa2	NR	.00%
San Francisco Bay Area RTD	AA+	Aa2	NR	.06%
Commercial Paper:				
Johnson & Johnson	AAA	Aaa	AAA	.90%
Bank of Nova Scotia	AA-	Aa1	AA-	.36%
Citigroup	A	A3	A+	.32%
Coca-cola	A+	Aa3	A+	.70%
National Rural Utilities	A	A1	NR	.36%
Total				100%

As of June 30, 2011, OCTA's commingled investment pool held one investment in Lehman Brothers Holding Inc. Medium Term Notes. The investment had a $1,000 par maturing on January 24, 2013. On September 15, 2008, Lehman Brothers Holding Inc. filed for bankruptcy. As of June 30, 2011, the market value of the security was 26.5% of par.

Concentration of Credit Risk

At June 30, 2011, the Annual Investment Policy stated the following:

Issuer/Counter-Party Diversification Guidelines For All Securities Except Federal Agencies, Federal Instrumentalities, Investment Agreements, Repurchase Agreements and 91 Express Lanes Debt.

- 5% for any one corporation, bank, local agency, special purpose vehicle or other corporate name for one or more series of securities.

Issuer/Counter-Party Diversification Guidelines For Federal Agencies, Federal Instrumentalities and Repurchase Agreements.

- 35% for any one Federal Agency or Federal Instrumentalities.
- 50% for any one repurchase agreement counter-party name if the maturity/term is less than or equal to 7 days.
- 35% for any one repurchase agreement counter-party name if the maturity/term is greater than 7 days.

OCTA did not exceed the Annual Investment Policy limitations as stated above as of June 30, 2011.

Investment in State Investment Pool

The OCTA is a voluntary participant in the Local LAIF that is regulated by the California Government Code. The Local Investment Advisory Board provides oversight for LAIF, consisting of five members as designated by statute, which includes the Treasurer of the State of California as Chairman. The fair value of the 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 LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

4. Due From/to Other Governments

Amounts due from other governments as of June 30, 2011 are $75,841 and are comprised of $44,811 of sales taxes, $30,984 for project reimbursements and $46 related to other miscellaneous transactions.

Amounts due to other governments as of June 30, 2011 are $61,856 and are comprised of $60,769 for transportation projects and $1,087 other miscellaneous transactions.

5. Related Party Transactions and Interfund Transfers

Related party transactions:

During fiscal year 2010-11, transfers of $121,193 from the OCLTA to OCTA were made for the fare stabilization and senior mobility programs and for MSEP. Additionally, $12,154 was transferred from other OCTA funds to OCLTA as contributions for program expenditures. As of June 30, 2011 OCLTA has a receivable of $11,270 from OCTA for the MSEP.

(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 (2.43% at June 30, 2011). OCLTA began repaying OCTA when M2 funds were collected. In fiscal year 2010-11, a total of $8,334 was repaid to OCTA. As of June 30, 2011, OCLTA owes OCTA $4,130.

Interfund Transfers:

During fiscal year 2010-11, the LTA Fund transferred $64,421 to the LTA Debt Service Fund for debt service payments and the LTA Debt Service fund transferred $74,516 in excess bond reserve to the LTA Fund.

6. Capital Assets

Capital assets activity for the OCLTA governmental activities for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 169,014	$14,290	$ -	$ 183,304
Total Measure M capital assets, not being depreciated	$ 169,014	$ 14,290	$ -	$ 183,304
Capital assets, being depreciated:				
Right-of-way Improvements	$ 1,086	$ -	$ -	$ 1,086
Machinery and equipment	26	-	-	26
Total capital assets, being depreciated	1,112	-	-	1,112
Less accumulated depreciation for:				
Right-of-way Improvements	(262)	(36)	-	(298)
Machinery and equipment	(11)	(7)	-	(18)
Total accumulated depreciation	(273)	(43)	-	(316)
Total Measure M capital assets, being depreciated, net	$ 839	$ (43)	$ -	$ 796

Depreciation expense charged to the Measure M program was $43.

7. Short-Term Debt

On January 28, 2008, OCLTA was authorized to issue up to $400,000 in Renewed Measure M Subordinate Tax-Exempt Commercial Paper Notes Series A and Series B (M2 Notes). As a requirement for the issuance of the M2 Notes, OCTA entered into an irrevocable direct-pay Letter of Credit and Reimbursement Agreement issued on a several and not joint basis with Dexia Credit Local, Bank of America, N.A., BNP Paribas, and JP Morgan Chase Bank, National Association as liquidity support for the M2 Notes.

(in thousands)

In December 2010, OCLTA issued taxable and tax-exempt sales tax revenue bonds for the M2 program (see note 8). $75,000 of the bonds issued was used to pay down the M2 Notes, bringing the outstanding balance to $25,000. The M2 Notes program and supporting Letter of Credit were reduced from $400,000 to $50,000.

As of June 30, 2011, OCLTA had outstanding M2 Notes in the amount of $25,000. Interest is payable on the respective maturity dates of the M2 Notes, which are the earlier of 270 days from date of issuance or program termination. The maximum allowable interest rate on the M2 Notes is 12.0%. The average issuance rate during fiscal year 2010-11 was 0.37%.

Changes in Short-Term Debt

Short-term debt activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax exempt commercial paper – M2	$ 100,000	$ -	$75,000	$ 25,000
Total Short-Term Debt	$100,000	$ -	$75,000	$ 25,000

8. Long-Term Debt

Sales Tax Revenue Bonds

During fiscal year 2011, the OCLTA repaid the 1992 1st Senior, 1997 2nd Senior, 1998 2nd Senior and 2001 2nd Senior bonds totaling $82,795.

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, the restructuring of the TECP Program, and to fund capitalized interest and costs of issuance related to the 2010 Series Bonds. $75 million was used to refund outstanding TECP. The Measure M sales tax is the source of revenue for repaying this debt.

Year Ended June 30, 2011
(in thousands)

A summary of the bonds outstanding is as follows:

	2010 Series A (Taxable Build America Bonds)	2010 Series B (Tax-Exempt Bonds)
Issuance date	12/9/10	12/9/10
Original issue amount	$ 293,540	$ 59,030
Original issue premium	-	6,023
Net bond proceeds	$ 293,540	$ 65,053
Issuance costs	$ 1,907	$ 274
Interest rate	5.56% - 6.91%	3.00% - 5.00%
Annual principal payment	$8,915 – $20,900	$6,410 – $8,530
Maturity	2041	2041
Bonds outstanding	$ 293,540	$ 59,030
Plus unamortized premium	-	5,421
Total	$ 293,540	$ 64,451

Annual debt service requirements on the sales tax revenue bonds as of June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest
2012	$ -	$ 22,383
2013	6,410	22,383
2014	6,600	22,191
2015	6,865	21,927
2016	7,210	21,583
2017-2021	40,860	103,111
2022-2026	49,960	91,104
2027-2031	61,800	72,890
2032-2036	76,975	49,539
2037-2041	95,890	20,454
Total	$ 352,570	$ 447,565

(in thousands)

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending	Due within One Year
Measure M program activities:					
Sales tax revenue bonds	$ 82,795	$ 352,570	$ 82,795	$ 352,570	$ -
Unamortized deferred loss on refunding	(336)	-	(336)	-	-
Unamortized premium	351	6,023	953	5,421	-
Total Measure M program activities long-term	$ 82,810	$ 358,593	$ 83,412	$ 357,991	$ -

Arbitrage Rebate

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. In general, arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Failure to follow the arbitrage regulations could result in all interest paid to bondholders retroactively rendered taxable.

In accordance with the arbitrage regulations, if excess earnings were calculated, 90% of the amount calculated would be due to the Internal Revenue Service (IRS) at the end of each five year period. The remaining 10% would be recorded as a liability and paid after all bonds had been redeemed. During the current year, OCTA performed calculations of excess investment earnings on various bond issues. $273 was paid in April 2011.

Pledged Revenue

OCLTA has debt issuances outstanding that are collateralized by the pledging of certain revenues. For M1, all debt was paid as noted on page 36. For M2, the amount and terms of the debt commitments are indicated in the bonds outstanding table found on page 37. The purposes for which the proceeds of the M2 debt issuances were utilized are disclosed in the debt description located on page 36. For the year ended June 30, 2011, debt service payments as a percentage of the pledged gross revenue net of the turnback program for M1 and the local fair share program for M2, are indicated in the following table:

Description of Pledged Revenue	Annual Amount of Pledged Revenue	Annual Debt Service Payments	Debt Service as a Percentage of Pledged Revenue
Measure M1 Sales Tax	$ 183,077	$ 87,422	47.8%
Measure M2 Sales Tax	13,023	2,228	17.1%

(in thousands)

9. 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, 2011, were $623,458, 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.

10. Subsequent Event

On August 4, 2011, OCTA amended the Letter of Credit and Reimbursement Agreement and removed Dexia Credit Local and BNP Paribas. The liquidity support for the M2 Notes will be provided by Bank of America, N.A. and JP Morgan Chase Bank, N. A. until November 2011 (the expiration date of the Letter of Credit and Reimbursement Agreement).

11. Prior Period Adjustment

During the current fiscal year, certain revenues received were related to expenditures incurred in the prior fiscal year. Therefore, this revenue should have been recorded in the prior fiscal year.

During the current fiscal year, OCLTA changed its availability period from 180 days to 90 days for revenue recognition purposes in its governmental funds. The change in availability period allows OCLTA to more accurately reflect revenues in the appropriate fiscal year and minimizes the use of estimates. A prior period adjustment was made to reflect this change in accounting policy.

The following is a summary of the effect of these adjustments:

	Governmental Activities	Local Transportation Authority Fund
Beginning balance, as previously reported	$ 464,280	$ 259,258
Revenues earned on expenditures recorded	8,583	8,583
Change in accounting policy	-	(9,885)
Beginning balance, as restated	$ 472,863	$ 257,956

12. Effect of New Pronouncements

GASB Statement No. 54

In March 2009, GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definition. OCLTA implemented this statement in fiscal year 2011.

GASB Statement No. 59

In June 2010, GASB issued Statement No. 59, Financial Instruments Omnibus. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. OCLTA implemented this statement in fiscal year 2010-11.

GASB Statement No. 60

In November 2010, GASB issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This statement is effective for OCLTA's fiscal year ending June 30, 2013.

GASB Statement No. 61

In November 2010, GASB issued Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. This statement is effective for OCLTA's fiscal year ending June 30, 2013.

GASB Statement No. 62

In June 2011, GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. This statement is effective for OCLTA's fiscal year ending June 30, 2013.

GASB Statement No. 63

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and the resulting net position. This statement is effective for OCLTA's fiscal year ending June 30, 2013.

GASB Statement No. 64

In June 2011, GASB issued Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This statement is effective for OCLTA's fiscal year ending June 30, 2012.

Orange County Local Transportation Authority
(A Component Unit of the Orange County Transportation Authority)
Required Supplementary Information
Budgetary Comparison Schedule – LTA Fund
Year Ended June 30, 2011

	Budgeted Amounts			
(amounts expressed in thousands)	**Original**	**Final**	**Actual Amounts**	**Variance with Final Budget**
Revenues:				
Sales taxes	$ 213,408	$ 213,408	$ 235,610	$ 22,202
Contributions from other agencies	1,969	1,969	60,054	58,085
Interest	4,916	4,916	7,319	2,403
Capital assistance grants	163,307	163,307	-	(163,307)
Miscellaneous	814	814	437	(377)
Total revenues	**384,414**	**384,414**	**303,420**	**(80,994)**
Expenditures:				
Current:				
General government	107,633	145,080	67,008	78,072
Transportation:				
Contributions to other local agencies	336,415	334,115	159,815	174,300
Capital outlay	223,630	223,630	82,265	141,365
Debt service:				
Interest on long-term debt and commercial paper	1,250	3,025	726	2,299
Bond issuance costs	-	425	2,181	(1,756)
Total expenditures	**668,928**	**706,275**	**311,995**	**394,280**
Excess (deficiency) of revenues over (under) expenditures	**(284,514)**	**(321,861)**	**(8,575)**	**313,286**
Other financing sources (uses):				
Transfers in	-	-	74,516	74,516
Transfers from OCTA	-	-	12,154	12,154
Transfers out	(85,842)	(85,842)	(64,421)	21,421
Transfers to OCTA	(9,455)	(9,455)	(121,193)	(111,738)
Bond issuance	-	-	352,570	352,570
Bond premium	-	-	6,023	6,023
Total other financing sources (uses)	**(95,297)**	**(95,297)**	**259,649**	**354,946**
Net change in fund balances	**$ (379,811)**	**$ (417,158)**	**$ 251,074**	**$ 668,232**

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
June 30, 2011
(in thousands)

1. Budgetary Data

The OCLTA establishes accounting control through formal adoption of an annual operating budget for the LTA special revenue and the debt service governmental funds. The operating budget is prepared in conformity with accounting principles generally accepted in the United States (GAAP) except for multi-year contracts, for which the entire amount of the contract is budgeted and encumbered in the year of execution. The adopted budget can be amended by the Board to increase both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Division heads are authorized to approve appropriation transfers within major objects subject to approval by the Finance and Administration Division. Major objects are defined as Salaries and Benefits, Supplies and Services and Capital Outlay. Appropriation transfers between major objects require approval of the Board. Accordingly, the legal level of budgetary control, that is the level that expenditures cannot exceed appropriations, for budgeted funds, is at the major object level for the budgeted governmental funds. A Fourth Quarter Budget Status Report, June 2011 is available from the OCTA Finance and Administration Division. With the exception of accounts which have been encumbered, appropriations lapse at year end.

Orange County Local Transportation Authority
(A Component Unit of the Orange County Transportation Authority)
Other Supplementary Information
Budgetary Comparison Schedule – LTA Debt Service Fund
Year Ended June 30, 2011

(amounts expressed in thousands)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues:				
Interest	$ 1,732	$ 1,732	$ 1,438	$ (294)
Total revenues	**1,732**	**1,732**	**1,438**	**(294)**
Expenditures:				
Current:				
General government	152	152	152	-
Debt service:				
Principal payments on long-term debt	82,795	82,795	82,795	-
Interest on long-term debt and commercial paper	4,627	4,627	7,856	(3,229)
Total expenditures	**87,574**	**87,574**	**90,803**	**(3,229)**
Excess (deficiency) of revenues over (under) expenditures	**(85,842)**	**(85,842)**	**(89,365)**	**(3,523)**
Other financing sources (uses):				
Transfers in	85,841	85,841	64,421	(21,420)
Transfers out	-	-	(74,516)	(74,516)
Total other financing sources (uses)	85,841	85,841	(10,095)	(95,936)
Net change in fund balances	**$ (1)**	**$ (1)**	**$ (99,460)**	**$ (99,459)**

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have audited 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, 2011, and have issued our report thereon dated December 9, 2011. Our report included an explanatory paragraph regarding OCLTA's adoption of GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010. Additionally, our report refers to the restatement of beginning equity to reflect a change in OCLTA's period of availability and other adjustments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of OCLTA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered OCLTA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCLTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OCLTA's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2011-01 that we consider to be a significant deficiency in internal control over financial reporting. 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.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

OCLTA's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit OCLTA's response and, accordingly, we express no opinion on it.

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

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 9, 2011

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENT FINDINGS

Finding 2011-01
PERIOD OF AVAILABILITY

Criteria:

In accordance with GASB Statement No. 34, changes in accounting principles should be reported as restatements of beginning net assets/fund equity.

Condition:

During fiscal year 2010-11, OCLTA changed its period of availability from 180 days to 90 days for revenue recognition purposes in its governmental funds. During our testing, it was noted that OCLTA did not apply the change in accounting principle as of the beginning of the fiscal period. Accordingly, adjustments were proposed to adjust revenue for various funds.

Context:

The above condition was identified during our audit procedures over OCLTA's year end account balances and cut-off procedures.

Cause:

OCLTA did not evaluate the impact of the change in accounting policy and record the necessary entries to restate the beginning balance. OCLTA's year-end closing procedures did not formally include a procedure to evaluate the beginning equity impact of changes in accounting principles adopted during the fiscal period.

Effect:

Adjustments were proposed to various governmental funds to properly reflect current year revenues based on a 90 day period of availability.

Recommendation:

We recommend that OCLTA formally incorporate a procedure to evaluate the beginning equity impact of any change in accounting principles adopted during the current period.

Views of Responsible Officials and Planned Corrective Action:

We concur. Staff will include a procedure at year-end to review the impact on beginning fund equity of any changes in accounting principles.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Report on Agreed-Upon Procedures Applied to Measure M1 Status Report

Year Ended June 30, 2011

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Report on Agreed-Upon Procedures
Applied to Measure M1 Status Report

Year Ended June 30, 2011

Table of Contents

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES TO THE MEASURE M1 STATUS REPORT

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

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee (Committee) of the Orange County Local Transportation Authority (OCLTA), solely to assist you with your review of the Measure M1 Status Report, and to ascertain that the amounts have been derived from the audited financial statements or other published, Board of Director approved documents or internal documents, for the year ended June 30, 2011. The Measure M1 Status Report consists of the following three schedules (Schedules): Schedule of Revenues, Expenditures and Changes in Fund Balance (Schedule 1); Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service) (Schedule 2); and Schedule of Revenues and Expenditures (Schedule 3). Management of the OCLTA is responsible for the Measure M1 Status Report. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The following summary of procedures related to the Measure M1 Status Report is separated into three sections: Section A describes our procedures applied to Schedule 1; Section B describes our procedures applied to Schedule 2; and Section C describes our procedures applied to Schedule 3. All amounts are reported in thousands.

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

1. Compared Year to Date June 30, 2011 amounts (Column A) to the audited trial balances of the OCLTA Special Revenue Fund 10 and the OCLTA Debt Service Fund 70 and additional detailed information from the underlying accounting records.

2. Recalculated Period from Inception through June 30, 2011 amounts (Column B) by adding the prior year's Period from Inception through June 30, 2010 amounts with Year to Date June 30, 2011 amounts (Column A).

3. Recomputed totals and subtotals.

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

1. Compared Year Ended June 30, 2011 (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 Tax revenues and to Bond revenues at June 30, 2011 (C.1 and C.2) to Schedule 1, Column A.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

2. Compared Period from Inception through June 30, 2011 amounts (Columns D.1 and D.2) to Schedule 1, Column B. For the Orange County bankruptcy recovery, professional services, non-project related, Orange County bankruptcy loss and other non-project related amounts, we compared the total of the amounts allocated to Tax revenues and to Bond revenues at June 30, 2011 (D.1 and D.2) to Schedule 1, Column B. For the payment to refunded bond escrow, we compared the Period from Inception through June 30, 2011 amount (D.2) to the total of the advance refunding escrow and payment to refunded bond escrow agent amounts at Schedule 1, Column B.

3. Compared forecast amounts (Column E.1 and E.2) to Measure M1 Forecast Schedule.

4. Recomputed totals and subtotals.

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

1. Compared Net Tax Revenues Program to Date Actual (Column H) and Total Net Tax Revenues (Column I) amounts to Schedule 2, Column D.1 and Column F.1, Net tax revenues (Totals), respectively.

2. Recalculated Net Tax Revenues Program to Date Actual (Column H) and Total Net Tax Revenues (Column I) amounts, by mode and project description, based on the Revised Traffic Improvement and Growth Management Expenditure Plan, as amended (Expenditure Plan).

3. Compared the Project Budget (Column J) for Freeways to the Measure M Project Funding Responsibility 1996 Strategic Plan in June 2011 dollars. Regional streets and road projects, local streets and road projects, and certain transit projects are not budgeted due to the fact that these projects are funded on a "pay as you go" basis. Therefore, funds are budgeted as they are allocated to projects.

4. Compared the Estimate at Completion (Column K) to supporting budget documents.

5. Recalculated the Variance Total Net Tax Revenues to Estimate at Completion (Column L) by subtracting Column K from Column I and the Variance Project Budget to Estimate at Completion (Column M) by subtracting Column K from Column J.

6. Reconciled Expenditures through June 30, 2011 (Column N) to Schedule 1, Column B. Agreed Column N by project description to the project job ledger.

7. We haphazardly selected a sample of 40 expenditures from Column N and compared them to invoices and supporting documentation. We concluded that the sampled expenditures were properly accrued and classified.

8. Agreed Reimbursements through June 30, 2011 (Column O) to Schedule 1, Column B.

9. Agreed Column O to supporting revenue summary by project. We haphazardly selected a sample of 14 reimbursements from Column O and compared them to invoices and remittance advices. We concluded that the sampled reimbursements were properly classified.

10. Recalculated the Net Project Cost (Column P) by subtracting Column O from Column N.

11. Recalculated the Percent of Budget Expended (Column Q) by dividing Column P by Column J.

12. Recomputed total and subtotals.

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

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the Measure M1 Status Report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. The Notes to the Measure M1 Status Report (Notes) have been provided by the OCLTA to describe the purpose, format, and content of the schedules. We were not engaged to and did not perform any procedures on the Notes.

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

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 16, 2011

Measure M1
Schedule of Revenues, Expenditures and Changes in Fund Balance
as of June 30, 2011
(Unaudited)

($ in thousands)	Year to Date June 30, 2011 *(A)*	Period from Inception through June 30, 2011 *(B)*
Revenues:		
Sales taxes	$ 175,170	$ 4,003,972
Other agencies' share of Measure M1 costs:		
Project related	48,122	458,904
Non-project related	-	614
Interest:		
Operating:		
Project related	-	1,052
Non-project related	6,136	262,369
Bond proceeds	-	136,067
Debt service	425	82,054
Commercial paper	-	6,072
Orange County bankruptcy recovery	-	42,268
Capital grants	-	156,434
Right-of-way leases	437	5,583
Proceeds on sale of assets held for resale	-	24,575
Miscellaneous:		
Project related	-	26
Non-project related	-	775
Total revenues	230,290	5,180,765
Expenditures:		
Supplies and services:		
State Board of Equalization (SBOE) fees	2,600	56,883
Professional services:		
Project related	9,234	198,486
Non-project related	1,905	34,052
Administration costs:		
Project related	1,626	21,034
Non-project related	7,659	91,467
Orange County bankruptcy loss	-	78,618
Other:		
Project related	278	1,807
Non-project related	210	15,943
Payments to local agencies:		
Turnback	31,564	594,009
Other	92,991	800,903
Capital outlay	36,169	2,052,897
Debt service:		
Principal payments on long-term debt	82,795	1,003,955
Interest on long-term debt and commercial paper	4,919	561,842
Total expenditures	271,950	5,511,896
Deficiency of revenues under expenditures	(41,660)	(331,131)
Other financing sources (uses):		
Transfers out:		
Project related	(128,237)	(382,901)
Non-project related	-	(5,116)
Transfers in:		
Project related	-	1,829
Bond proceeds	-	1,169,999
Advance refunding escrow	-	(931)
Payment to refunded bond escrow agent	-	(152,930)
Total other financing sources (uses)	(128,237)	629,950
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	$ (169,897)	$ 298,819

See Notes to Measure M1 Status Report (Unaudited)

Measure M1
Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)
as of June 30, 2011
(Unaudited)

($ in thousands)	Year Ended June 30, 2011 (actual)	Period from Inception through June 30, 2011 (actual)	Period from July 1, 2011 forward (forecast)	Total
	(C.1)	*(D.1)*	*(E.1)*	*(F.1)*
Tax revenues:				
Sales taxes	$ 175,170	$ 4,003,972	$ -	$ 4,003,972
Other agencies' share of Measure M1 costs	-	614	-	614
Operating interest	6,136	262,369	3,555	265,924
Orange County bankruptcy recovery	-	20,683	-	20,683
Miscellaneous, non-project related	-	775	-	775
Total tax revenues	181,306	4,288,413	3,555	4,291,968
Administrative expenditures:				
SBOE fees	2,600	56,883	-	56,883
Professional services, non-project related	1,905	25,191	-	25,191
Administration costs, non-project related	7,659	91,467	1,282	92,749
Operating transfer out, non-project related	-	5,116	-	5,116
Orange County bankruptcy loss	-	29,792	-	29,792
Other, non-project related	210	6,843	-	6,843
Total administrative expenditures	12,374	215,292	1,282	216,574
Net tax revenues	$ 168,932	$ 4,073,121	$ 2,273	$ 4,075,394

	(C.2)	*(D.2)*	*(E.2)*	*(F.2)*
Bond revenues:				
Proceeds from issuance of bonds	$ -	$ 1,169,999	$ -	$ 1,169,999
Interest revenue from bond proceeds	-	136,067	-	136,067
Interest revenue from debt service funds	425	82,054	-	82,054
Interest revenue from commercial paper	-	6,072	-	6,072
Orange County bankruptcy recovery	-	21,585	-	21,585
Total bond revenues	425	1,415,777	-	1,415,777
Financing expenditures and uses:				
Professional services, non-project related	-	8,861	-	8,861
Payment to refunded bond escrow	-	153,861	-	153,861
Bond debt principal	82,795	1,003,955	-	1,003,955
Bond debt interest expense	4,919	561,842	-	561,842
Orange County bankruptcy loss	-	48,826	-	48,826
Other, non-project related	-	9,100	-	9,100
Total financing expenditures and uses	87,714	1,786,445	-	1,786,445
Net bond revenues (debt service)	$ (87,289)	$ (370,668)	$ -	$ (370,668)

See Notes to Measure M1 Status Report (Unaudited)

Measure M1
Schedule of Revenues and Expenditures
as of June 30, 2011
(Unaudited)

Project Description	Net Tax Revenues Program to Date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through June 30, 2011	Reimbursements through June 30, 2011	Net Project Cost	Percent of Budget Expended
(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
($ in thousands)										
Freeways (43%)										
I-5 between I-405 (San Diego Fwy) and I-605 (San Gabriel Fwy)	$ 982,130	$ 982,676	$ 810,010	$ 789,022	$ 193,654	$ 20,988	$ 871,309	$ 85,584	$ 785,725	97.0%
I-5 between I-5/I-405 Interchange and San Clemente	68,736	68,774	57,836	59,936	8,838	(2,100)	70,294	10,358	59,936	103.6%
I-5/I-405 Interchange	87,242	87,290	72,802	73,075	14,215	(273)	98,157	25,082	73,075	100.4%
SR-55 (Costa Mesa Fwy) between I-5 and SR-91 (Riverside Fwy)	58,161	58,194	44,511	49,349	8,845	(4,838)	55,514	6,172	49,342	110.9%
SR-57 (Orange Fwy) between I-5 and Lambert Road	29,081	29,097	24,128	22,758	6,339	1,370	25,617	2,859	22,758	94.3%
SR-91 (Riverside Fwy) between Riverside Co. line & Los Angeles Co. line	125,575	125,645	116,136	105,389	20,256	10,747	123,995	18,606	105,389	90.7%
SR-22 (Garden Grove Fwy) between SR-55 and Valley View St.	400,518	400,742	313,297	310,943	89,799	2,354	629,003	318,525	310,478	99.1%
Subtotal Projects	1,751,443	1,752,418	1,438,720	1,410,472	341,946	28,248	1,873,889	467,186	1,406,703	
Net (Bond Revenue)/Debt Service			311,917	311,917	(311,917)	-	311,917		311,917	
Total Freeways	$ 1,751,443	$ 1,752,418	$ 1,750,637	$ 1,722,389	$ 30,029	$ 28,248	$ 2,185,806	$ 467,186	$ 1,718,620	
%				42.6%					45.5%	
Regional Street and Road Projects (11%)										
Smart Streets	$ 153,615	$ 153,701	$ 151,292	$ 151,292	$ 2,409	$ -	$ 155,110	$ 11,739	$ 143,371	94.8%
Regionally Significant Interchanges	89,609	89,659	89,659	89,659	-	-	65,445	146	65,299	72.8%
Intersection Improvement Program	128,012	128,084	128,084	128,084	-	-	107,321	214	107,107	83.6%
Traffic Signal Coordination	64,006	64,042	64,042	64,042	-	-	60,888	1,513	59,375	92.7%
Transportation Systems Management and Transportation Demand Management	12,801	12,808	12,808	12,808	-	-	8,562	149	8,413	65.7%
Subtotal Projects	448,043	448,294	445,885	445,885	2,409	-	397,326	13,761	383,565	
Net (Bond Revenue)/Debt Service			2,409	2,409	(2,409)	-	2,409		2,409	
Total Regional Street and Road Projects	$ 448,043	$ 448,294	$ 448,294	$ 448,294	$ -	$ -	$ 399,735	$ 13,761	$ 385,974	
%				11.1%					10.2%	

See Notes to Measure M1 Status Report (Unaudited)

Schedule 3

Measure M1
Schedule of Revenues and Expenditures
as of June 30, 2011
(Unaudited)

Project Description	Net Tax Revenues Program to Date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through June 30, 2011	Reimbursements through June 30, 2011	Net Project Cost	Percent of Budget Expended
(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
($ in thousands)										
Local Street and Road Projects (21%)										
Master Plan of Arterial Highway Improvements	$ 163,186	$ 163,333	$ 163,333	$ 163,333	$ -	$ -	$ 131,685	$ 99	$ 131,586	80.6%
Streets and Roads Maintenance and Road Improvements	592,169	592,500	592,500	592,500	-	-	594,025	-	594,025	100.3%
Growth Management Area Improvements	100,000	100,000	100,000	100,000	-	-	90,003	431	89,572	89.6%
Subtotal Projects	855,355	855,833	855,833	855,833	-	-	815,713	530	815,183	
Net (Bond Revenue)/Debt Service							-		-	
Total Local Street and Road Projects	$ 855,355	$ 855,833	$ 855,833	$ 855,833	$ -	$ -	$ 815,713	$ 530	$ 815,183	
%				21.1%					21.6%	
Transit Projects (25%)										
Pacific Electric Right-of-Way	$ 19,709	$ 19,720	$ 15,000	$ 14,000	$ 5,720	$ 1,000	$ 16,903	$ 2,958	$ 13,945	93.0%
Commuter Rail	367,603	367,820	352,619	361,194	6,626	(8,575)	411,438	60,805	350,633	99.4%
High-Technology Advanced Rail Transit	446,729	446,979	428,507	440,688	6,291	(12,181)	354,109	66,398	287,711	67.1%
Elderly and Handicapped Fare Stabilization	20,000	20,000	20,000	20,000	-	-	20,000	-	20,000	100.0%
Transitways	164,239	164,330	146,381	126,625	37,705	19,756	162,659	36,765	125,894	86.0%
Subtotal Projects	1,018,280	1,018,849	962,507	962,507	56,342	-	965,109	166,926	798,183	
Net (Bond Revenue)/Debt Service			56,342	56,342	(56,342)	-	56,342		56,342	
Total Transit Projects	$ 1,018,280	$ 1,018,849	$ 1,018,849	$ 1,018,849	$ -	$ -	$ 1,021,451	$ 166,926	$ 854,525	
%				25.2%					22.7%	
Total Measure M1 Program	$ 4,073,121	$ 4,075,394	$ 4,073,613	$ 4,045,365	$ 30,029	$ 28,248	$ 4,422,705	$ 648,403	$ 3,774,302	

See Notes to Measure M1 Status Report (Unaudited)

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Measure M1 Status Report (Unaudited)

Year Ended June 30, 2011

Measure M1 Summary

In November 1990, Orange County voters approved the Revised Traffic Improvement and Growth Management Ordinance, known as Measure M (M1). This implemented a one-half of one percent retail transaction and use tax to fund a specific program of transportation improvements in Orange County. On November 7, 2006, Orange County voters approved the renewal of M1 (M2) for a period of 30 more years from April 1, 2011 to March 31, 2041. The Orange County Local Transportation Authority (OCLTA) is responsible for administering the proceeds of the M1 sales tax program, which commenced on April 1, 1991 for a period of 20 years and the M2 sales tax program, which commenced on April 1, 2011 for a period of 30 years. The final M1 sales tax collections were received in June 2011. While the majority of M1 projects are complete, closeout of a few major projects and administrative expenditures continue to occur. This report includes only the activities of M1 and is not intended to present the activities of M2. Under M1, funds are required to be distributed to four modes: freeways, regional streets and roads, local streets and roads, and transit.

Demonstrating accountability for the receipt and expenditure of M1 funds has been accomplished by the issuance of quarterly reports on M1 activities. The reports for M1 activities through June 30, 2011 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 M1 special revenue and debt service funds. Such financial information has been 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.

<u>Year to Date June 30, 2011 (Column A)</u>

This column presents the revenues, expenditures, and other financing sources (uses) of the combined M1 special revenue and debt service funds for the fiscal year ended June 30, 2011. 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 have been obtained from the general ledger.

The net change in fund balance of $(169,897) agrees with the combined change in fund balances of $(60,242) in the M1 special revenue fund and $(109,655) in the M1 debt service fund in the trial balance for the year ended June 30, 2011.

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

Period from Inception through June 30, 2011 (Column B)

This column presents the revenues, expenditures, and other financing sources (uses) of the combined M1 special revenue and debt service funds for the period from inception through June 30, 2011. 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 have been obtained and summarized from the general ledger.

The net fund balance of $298,819 agrees with the ending fund balance of $298,819 in the M1 special revenue fund, as presented in the trial balance for the year ended June 30, 2011.

Period from inception amounts include adjustments affecting the prior year portion of other agencies share of Measure M1 costs and capital grants. During the current fiscal year, certain revenues received were related to expenditures incurred in the prior fiscal year. A prior period adjustment of $8,583 was made to record revenue associated with these expenditures that should have been recorded in the prior fiscal year. Also during the current fiscal year, OCLTA changed its availability period from 180 days to 90 days for revenue recognition purposes in its governmental funds. The change in availability period allows OCLTA to more accurately reflect revenues in the appropriate fiscal year and minimizes the use of estimates. A prior period adjustment of $6,404 was made to reflect this change in accounting policy.

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

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

This schedule presents calculations of net tax revenues and of net bond revenues (debt service), which are allocated in Schedule 3 to transportation projects specified in the M1 modes.

Net tax revenues are calculated as tax revenues including sales taxes, other agencies’ share of M1 costs, operating interest, Orange County bankruptcy recovery, and miscellaneous revenues, less administrative expenditures that are not project or financing related.

Net bond revenues (debt service) are bond revenues comprised of proceeds from bond issuances, interest, and Orange County bankruptcy recovery, less financing expenditures and uses.

Actual revenues, expenditures, and other financing sources (uses) in this schedule were obtained from amounts on Schedule 1. 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 Tax Revenues

Year Ended June 30, 2011 (actual) (Column C.1)

Tax revenues consisting of sales taxes and operating interest, and administrative expenditures which are non-project and non-financing related for the year ended June 30, 2011 were obtained from Column A in Schedule 1. Net tax revenues represent total tax revenues less total administrative expenditures for year ended June 30, 2011.

Period from Inception through June 30, 2011 (actual) (Column D.1)

Tax revenues consisting of sales taxes, other agencies share of M1 costs, operating interest, Orange County bankruptcy recovery, and miscellaneous revenue, and administrative expenditures, which are non-project and non-financing related for the period from inception through June 30, 2011, were obtained from Column B in Schedule 1. Orange County bankruptcy recovery amounts are distributed between tax revenues and bond proceeds based on the cash account balance in the Orange County Treasury Investment Pool (OCIP) at the OCIP bankruptcy date. Non-project related professional services and other expenditures are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code. Orange County bankruptcy loss amounts are distributed between administrative expenditures and financing expenditures and uses based on the cash account balance in the OCIP at the OCIP bankruptcy date. Net tax revenues represent total cumulative tax revenues less total cumulative administrative expenditures.

Period from July 1, 2011 forward (forecast) (Column E.1)

Tax revenues consisting of projected operating interest and administrative expenditures which are non-project and non-financing related for subsequent years from July 1, 2011 forward were obtained from the Orange County Transportation Authority Forecast Model which is updated annually. Net tax revenues represent total projected tax revenues less total projected administrative expenditures.

Total (Column F.1)

Total net tax revenues are calculated as the sum of columns D.1 and E.1. The total net tax revenues are presented in Schedule 3 as “Total Net Tax Revenues.”

Calculation of Net Bond Revenues (Debt Service)

Year Ended June 30, 2011 (actual) (Column C.2)

Bond revenues, consisting of interest revenue from debt service funds, and financing expenditures and uses, consisting of debt principal payments and interest expenditures, for the year ended June 30, 2011 were obtained from Column A in Schedule 1. Net bond revenues (debt service) represent total bond revenues less financing expenditures and uses for the year ended June 30, 2011.

Period from Inception through June 30, 2011 (actual) (Column D.2)

Bond revenues, consisting of proceeds from the bond issuances, interest revenue from bond proceeds, debt service funds, and commercial paper, and Orange County bankruptcy recovery, and financing expenditures and uses which are non-project and non-operating related for the period from inception through June 30, 2011 were obtained from Column B in Schedule 1. Orange County bankruptcy recovery amounts are distributed between tax revenues and bond proceeds based on the cash account balance in the OCIP at the OCIP bankruptcy date. Non-project related professional services and other expenditures are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code. Orange County bankruptcy loss amounts are distributed between administrative expenditures and financing expenditures and uses based on the cash account balance in the OCIP at the OCIP bankruptcy date. Net bond revenues (debt service) represent total cumulative bond revenues less total cumulative financing expenditures and uses.

Period from July 1, 2011 forward (forecast) (Column E.2)

There are no forecasted bond revenues (debt service) for July 1, 2011 forward.

Total (Column F.2)

Total net bond revenues (debt service) are calculated as the sum of columns D.2 and E.2. The total net bond revenues (debt service) is presented in Schedule 3 as a component of "Project Budget" and "Estimate at Completion." Net bond revenues (debt service) have been allocated to each mode in Schedule 3 based on bond and commercial paper proceeds used to fund the projects.

Schedule 3—Schedule of Revenues and Expenditures

This schedule presents a summary of actual and projected revenues and expenditures, by mode and project description, as specified in the Traffic Improvement and Growth Management Plan, as amended (Expenditure Plan). Total M1 program amounts agree with amounts on Schedules 1 and 2; however, amounts by mode and project description are based on proportionate calculations or are obtained from other documents.

Project Description (Column G)

The project descriptions by mode are in accordance with the Expenditure Plan.

Net Tax Revenues Program to date Actual (Column H)

The total M1 Program net tax revenues for the period from inception through June 30, 2011 agree with net tax revenues in Column D.1 in Schedule 2. Such net tax revenues have been allocated to each of the four modes based on the allocation percentages specified in M1. The net tax revenues for each mode have been 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 Expenditure Plan.

Total Net Tax Revenues (Column I)

The total actual and projected net tax revenues (total net tax revenues) during the 20-year life of M1 agree with total net tax revenues in Column F.1 in Schedule 2. Such total net tax revenues have been allocated to each of the four modes based on the allocations specified in M1. The net tax revenues for each mode have been 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 Expenditure Plan.

Project Budget (Column J)

In accordance with M1, bond financing authority was approved as an alternative to the "pay as you go" financing method. As a result, all freeway mode, certain regional street and road mode, and certain transit mode projects have been accelerated using bond financing, while all local street and road and remaining regional street and road mode and transit mode projects have been funded on the "pay as you go" financing method.

Total project budget for each "pay as you go" project are based on the total net tax revenues presented in Column I, except for Growth Management Area (GMA) Improvements in the local street and road projects mode and Fare Stabilization in the transitway projects mode. GMA Improvements and Fare Stabilization are subject to a maximum funding of $100 million and $20 million, respectively, per M1. Total project budget for the freeway mode and transitway projects included in the transit mode are based on amounts obtained from the 1996 Freeway Strategic Plan, adjusted to 2011 dollars. Smart street project budget and net (bond revenue)/debt service costs for regional street and road mode projects comprise the total smart street project budget, as such projects have been accelerated using bond financing. Pacific Electric Right-of-Way project budget is in accordance with the Expenditure Plan. The total net (bond revenue)/debt service project budget agrees with the total amount from Column F.2 in Schedule 2, and such amounts were allocated based on the projects subject to bond financing.

Estimate at Completion (Column K)

Estimate at completion represents current estimates of costs to complete the projects.

Variance Total Net Tax Revenues to Estimate at Completion (Column L)

This is a calculation of Column I minus Column K.

Variance Project Budget to Estimate at Completion (Column M)

This is a calculation of Column J minus Column K.

Expenditures through June 30, 2011 (Column N)

Total expenditures less net (bond revenue)/debt service materially agree with the sum of project related expenditures and transfers out from Column B in Schedule 1. Project related expenditures are comprised of professional services, administration costs, payments to local agencies for turnback and other projects, capital outlay, and other. Such expenditures are distributed to the projects based on project amounts accumulated in the project job ledger. The total net (bond revenue)/debt service expenditures through June 30, 2011 from Column N in Schedule 3 agree with the total net (bond revenue)/debt service expenditures from Column D.2 in Schedule 2.

Reimbursements through June 30, 2011 (Column O)

Total reimbursements agree with the sum of project related revenues from Column B in Schedule 1. Project related revenues consist of other agencies share of M1 project costs, operating interest, capital grants, right-of-way leases, proceeds on sale of assets held for resale, transfers in, and miscellaneous project revenues. Such revenues are distributed to the related projects based on project amounts accumulated in the project job ledger.

Net Project Cost (Column P)

This is a calculation of Column N minus Column O. For each mode, a percentage amount has been calculated as the net project cost per mode divided by the total M1 Program net project cost. Such percentage can be compared to the required percentage included in M1 as an indication of the progress to date for each mode.

Percent of Budget Expended (Column Q)

This is a calculation of Column P divided by Column J.

ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY

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

Year Ended June 30, 2011

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

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

Year Ended June 30, 2011

Table of Contents

Page

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

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

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee (Committee) of the Orange County Local Transportation Authority (OCLTA), solely to assist you with your review of the Measure M2 Status Report, and to ascertain that the amounts have been derived from the audited financial statements or other published, Board of Director approved documents or internal documents, for the year ended June 30, 2011. The Measure M2 Status Report consists of the following three schedules (Schedules): Schedule of Revenues, Expenditures and Changes in Fund Balance (Schedule 1); Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service) (Schedule 2); and Schedule of Revenues and Expenditures (Schedule 3). Management of the OCLTA is responsible for the Measure M2 Status Report. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

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

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

   1. Compared Year to Date June 30, 2011 amounts (Column A) to the audited trial balances of the OCLTA Special Revenue Fund 17 and the OCLTA Debt Service Fund 72 and additional detailed information from the underlying accounting records.

   2. Recalculated Period from Inception through June 30, 2011 amounts (Column B) by adding the prior year's Period from Inception through June 30, 2010 amounts with Year to Date June 30, 2011 amounts (Column A).

   3. Recomputed totals and subtotals.

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

   1. Compared Year Ended June 30, 2011 (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 Tax revenues and to Bond revenues at June 30, 2011 (C.1 and C.2) to Schedule 1, Column A. For Environmental cleanup, agree to the project job ledger.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

2. Compared Period from Inception through June 30, 2011 amounts (Columns D.1 and D.2) to Schedule 1, Column B. For professional services and non-project related, we compared the total of the amounts allocated to Tax revenues and to Bond revenues at June 30, 2011 (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. Recomputed totals and subtotals.

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

1. Compared Net Tax Revenues Program to Date Actual (Column H) and Total Net Tax Revenues (Column I) amounts to Schedule 2, Column D.1 and Column F.1, Net Tax Revenues (Totals), respectively.

2. Recalculated Net Tax Revenues Program to Date Actual (Column H) and Total Net Tax Revenues (Column I) amounts, by mode and project description, based on the Measure M2 Transportation Investment Plan (Investment Plan).

3. Compared the Project Budget (Column J) for each project to Total Net Tax Revenues (Column I).

4. Compared the Estimate at Completion (Column K) to Total Net Tax Revenues (Column I).

5. Recalculated the Variance Total Net Tax Revenues to Estimate at Completion (Column L) by subtracting Column K from Column I and the Variance Project Budget to Estimate at Completion (Column M) by subtracting Column K from Column J.

6. Reconciled Expenditures through June 30, 2011 (Column N) to Schedule 1, Column B. Agreed Environmental cleanup to Schedule 2, Column D.1. Agreed Column N, by project description to the project job ledger.

7. We haphazardly selected a sample of 65 expenditures from Column N and compared them to invoices and supporting documentation. We concluded that the sampled expenditures were properly accrued and classified.

8. Agreed Reimbursements through June 30, 2011 (Column O) to Schedule 1, Column B.

9. Agreed Column O to the supporting revenue summary by project and fiscal year. We haphazardly selected a sample of six (6) reimbursements from Column O and compared them to invoices and remittance advices. We concluded that the sampled reimbursements were properly classified.

10. Recalculated the Net Project Cost (Column P) by subtracting Column O from Column N.

11. Recalculated the Percent of Budget Expended (Column Q) by dividing Column P by Column J.

12. Recalculated total revenues for Environment Cleanup (2% of revenues) (Column I.1) by multiplying total tax revenues reports per Schedule 2, Column F.1 by 2%.

13. Recomputed total and subtotals.

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

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

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

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 16, 2011

Measure M2
Schedule of Revenues, Expenditures and Changes in Fund Balance
as of June 30, 2011
(Unaudited)

($ in thousands)	Year to Date June 30, 2011 *(A)*	Period from Inception through June 30, 2011 *(B)*
Revenues:		
Sales taxes	$ 61,121	$ 61,121
Other agencies' share of Measure M2 costs:		
Project related	11,932	14,159
Interest:		
Bond proceeds	2,248	2,248
Debt service	8	8
Commercial paper	-	393
Total revenues	75,309	77,929
Expenditures:		
Supplies and services:		
State Board of Equalization (SBOE) fees	636	636
Professional services:		
Project related	33,212	90,624
Non-project related	1,658	4,478
Administration costs:		
Project related	3,563	8,214
Non-project related	5,173	11,605
Other:		
Project related	23	155
Non-project related	2,305	3,326
Payments to local agencies:		
Project related	35,261	66,274
Capital outlay:		
Project related	46,096	49,411
Non-project related	-	26
Debt service:		
Interest on long-term debt and commercial paper	3,663	4,689
Total expenditures	131,590	239,438
Deficiency of revenues under expenditures	(56,281)	(161,509)
Other financing sources (uses):		
Transfers out:		
Project related	(193)	(377)
Transfers in:		
Project related	19,392	23,699
Bond proceeds	358,593	358,593
Total other financing sources (uses)	377,792	381,915
Excess of revenues over expenditures and other sources (uses)	$ 321,511	$ 220,406

See Notes to Measure M2 Status Report (Unaudited)

Measure M2
Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)
as of June 30, 2011
(Unaudited)

($ in thousands)	Year Ended June 30, 2011 (actual)	Period from Inception through June 30, 2011 (actual)	Period from July 1, 2011 through March 31, 2041 (forecast)	Total
	(C.1)	*(D.1)*	*(E.1)*	*(F.1)*
Tax revenues:				
Sales taxes	$ 61,121	$ 61,121	$ 15,303,595	$ 15,364,716
Operating interest	-	-	367,504	367,504
Total tax revenues	61,121	61,121	15,671,099	15,732,220
Administrative expenditures:				
SBOE fees	636	636	229,644	230,280
Professional services, non-project related	1,138	1,816	102,517	104,333
Administration costs, non-project related	5,173	11,605	390,776	402,381
Operating transfer out, non-project related	-	-	21,421	21,421
Other, non-project related	2,305	3,326	29,072	32,398
Capital outlay, non-project related	-	26	-	26
Environmental cleanup	1,086	1,582	313,422	315,004
Total expenditures	10,338	18,991	1,086,852	1,105,843
Net tax revenues	$ 50,783	$ 42,130	$ 14,584,247	$ 14,626,377

	(C.2)	*(D.2)*	*(E.2)*	*(F.2)*
Bond revenues:				
Proceeds from issuance of bonds	$ 358,593	$ 358,593	$ 740,000	$ 1,098,593
Interest revenue from bond proceeds	2,248	2,248	55,700	57,948
Interest revenue from debt service funds	8	8	36,202	36,210
Interest revenue from commercial paper	-	393	-	393
Total bond revenues	360,849	361,242	831,902	1,193,144
Financing expenditures and uses:				
Professional services, non-project related	520	2,662	-	2,662
Bond debt principal	-	-	1,092,570	1,092,570
Bond debt interest expense	3,223	3,223	1,002,058	1,005,281
Commercial paper and other interest expense	440	1,466	19,063	20,529
Total financing expenditures and uses	4,183	7,351	2,113,691	2,121,042
Net bond revenues (debt service)	$ 356,666	$ 353,891	$ (1,281,789)	$ (927,898)

See Notes to Measure M2 Status Report (Unaudited)

Measure M2
Schedule of Revenues and Expenditures
as of June 30, 2011
(Unaudited)

Schedule 3

Description	Net Tax Revenues Program to Date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through June 30, 2011	Reimbursements through June 30, 2011	Net Project Cost	Percent of Budget Expended
(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
($ in thousands)										
Freeways (43% of Net Tax Revenues)										
I-5 Santa Ana Freeway Interchange Improvements	$ 1,660	$ 576,500	$ 576,480	$ 576,480	$ 20	$ -	$ 56	$ -	$ 56	0.0%
I-5 Santa Ana/San Diego Freeway Improvements	4,187	1,453,711	1,280,317	1,280,317	173,394	-	8,866	-	8,866	0.7%
SR-22 Garden Grove Freeway Access Improvements	424	147,192	147,191	147,191	1	-	1	-	1	0.0%
SR-55 Costa Mesa Freeway Improvements	1,293	448,934	448,595	448,595	339	-	413	-	413	0.1%
SR-57 Orange Freeway Improvements	914	317,366	299,406	299,406	17,960	-	24,435	604	23,831	8.0%
SR-91 Riverside Freeway Improvements	5,234	1,817,171	1,813,750	1,813,750	3,421	-	13,496	5,192	8,304	0.5%
I-405 San Diego Freeway Improvements	2,896	1,005,422	582,015	582,015	423,407	-	12,187	-	12,187	2.1%
I-605 Freeway Access Improvements	71	24,532	24,532	24,532	-	-	-	-	-	0.0%
All Freeway Service Patrol	530	183,989	183,989	183,989	-	-	-	-	-	0.0%
Freeway Mitigation	906	314,525	270,211	270,211	44,314	-	24,228	-	24,228	9.0%
Subtotal Projects	18,115	6,289,342	5,626,486	5,626,486	662,856	-	83,682	5,796	77,886	
Net (Bond Revenue)/Debt Service	-	-	662,856	662,856	(662,856)	-	2,106	-	2,106	
Total Freeways	$ 18,115	$ 6,289,342	$ 6,289,342	$ 6,289,342	$ -	$ -	$ 85,788	$ 5,796	$ 79,992	
%				43.0%					44.4%	
Street and Roads Projects (32% of Net Tax Revenues)										
Regional Capacity Program	$ 4,213	$ 1,462,622	$ 1,326,204	$ 1,326,204	$ 136,418	$ -	$ 47,878	$ -	$ 47,878	3.6%
Regional Traffic Signal Synchronization Program	1,685	585,023	584,875	584,875	148	-	289	-	289	0.0%
Local Fair Share Program	7,584	2,632,796	2,632,796	2,632,796	-	-	2,799	-	2,799	0.1%
Subtotal Projects	13,482	4,680,441	4,543,875	4,543,875	136,566	-	50,966	-	50,966	
Net (Bond Revenue)/Debt Service	-	-	136,566	136,566	(136,566)	-	1,302	-	1,302	
Total Street and Roads Projects	$ 13,482	$ 4,680,441	$ 4,680,441	$ 4,680,441	$ -	$ -	$ 52,268	$ -	$ 52,268	
%				32.0%					29.0%	

See Notes to Measure M2 Status Report (Unaudited)

Measure M2
Schedule of Revenues and Expenditures
as of June 30, 2011
(Unaudited)

Description	Net Tax Revenues Program to Date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through June 30, 2011	Reimbursements through June 30, 2011	Net Project Cost	Percent of Budget Expended
(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
($ in thousands)										
Transit Projects (25% of Net Tax Revenues)										
High Frequency Metrolink Service	$ 3,772	$ 1,309,376	$ 1,257,618	$ 1,257,618	$ 51,758	$ -	$ 78,335	$ 32,062	$ 46,273	3.7%
Transit Extensions to Metrolink	3,719	1,291,170	1,282,788	1,282,788	8,382	-	19	-	19	0.0%
Metrolink Gateways	843	292,579	225,583	225,583	66,996	-	2	-	2	0.0%
Expand Mobility Choices for Seniors and Persons with Disabilities	1,264	438,740	438,740	438,740	-	-	469	-	469	0.1%
Community Based Transit/Circulators	842	292,450	292,450	292,450			-	-	-	0.0%
Safe Transit Stops	93	32,279	32,279	32,279	-	-	-	-	-	0.0%
Subtotal Projects	10,533	3,656,594	3,529,458	3,529,458	127,136	-	78,825	32,062	46,763	
Net (Bond Revenue)/Debt Service	-	-	127,136	127,136	(127,136)	-	1,252	-	1,252	
Total Transit Projects	$ 10,533	$ 3,656,594	$ 3,656,594	$ 3,656,594	$ -	$ -	$ 80,077	$ 32,062	$ 48,015	
%				25.0%					26.6%	
Measure M2 Program	$ 42,130	$ 14,626,377	$ 14,626,377	$ 14,626,377	$ -	$ -	$ 218,133	$ 37,858	$ 180,275	

See Notes to Measure M2 Status Report (Unaudited)

Schedule 3

Measure M2
Schedule of Revenues and Expenditures
as of June 30, 2011
(Unaudited)

Description	Revenues Program to date Actual	Total Revenues	Project Budget	Estimate at Completion	Variance Total Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through June 30, 2011	Reimbursements through June 30, 2011	Net Project Cost	Percent of Budget Expended
(G)	*(H.1)*	*(I.1)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
Environmental Cleanup (2% of Revenues)										
Clean Up Highway and Street Runoff that Pollutes Beaches	$ 1,221	$ 314,643	$ 313,303	$ 313,303	$ 1,340	$ -	$ 1,582	$ -	$ 1,582	0.5%
Subtotal Projects	1,221	314,643	313,303	313,303	1,340	-	1,582	-	1,582	
Net (Bond Revenue)/Debt Service	-	-	1,340	1,340	(1,340)	-	42	-	42	
Total Environmental Cleanup	$ 1,221	$ 314,643	$ 314,643	$ 314,643	$ -	$ -	$ 1,624	$ -	$ 1,624	
%				2.0%						

See Notes to Measure M2 Status Report (Unaudited)

Measure M2 Summary

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

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

Demonstrating accountability for the receipt and expenditure of M2 funds has been accomplished by the issuance of annual reports on M2 activities. The reports for M2 activities through June 30, 2011 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 has been 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.

<u>Year to Date June 30, 2011 (Column A)</u>

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, 2011. 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 have been obtained from the general ledger.

The net change in fund balance of $321,511 agrees with the combined change in fund balances of $311,316 in the M2 special revenue fund and $10,195 in the M2 debt service fund in the trial balance for the year ended June 30, 2011.

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

<u>Period from Inception through June 30, 2011 (Column B)</u>

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, 2011. 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 have been obtained and summarized from the general ledger.

The net fund balance of $220,406 agrees with the combined ending fund balances of $210,211 in the M2 special revenue fund and $10,195 in the M2 debt service fund, as presented in the trial balance for the year ended June 30, 2011.

Period from inception amounts include an adjustment affecting the prior year portion of other agencies' share of Measure M1 costs. During the current fiscal year, OCLTA changed its availability period from 180 days to 90 days for revenue recognition purposes in its governmental funds. The change in availability period allows OCLTA to more accurately reflect revenues in the appropriate fiscal year and minimizes the use of estimates. A prior period adjustment of $3,481 was made to reflect this change in accounting policy.

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

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

This schedule presents calculations of net tax revenues and of net bond revenues (debt service), which are allocated in Schedule 3 to transportation projects specified in the M2 modes.

Net tax revenues are calculated as tax revenues, including sales taxes and operating interest, less expenditures, including administrative expenditures and capital outlay that are not project or financing related and environmental cleanup. Non-project related professional services are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code.

Net bond revenues (debt service) are bond revenues, comprised of proceeds from issuance of bonds and interest revenue from bond proceeds, debt service funds, and commercial paper, less financing expenditures and uses, consisting of financing related professional services that are non-project related, bond debt principal, bond debt interest expense, and commercial paper interest expense. Non-project related professional services are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code.

Actual revenues, expenditures, and other financing sources (uses) in this schedule were obtained from 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 through the expiration of M2, and for the combined total of actual and forecast amounts for the period from inception through the expiration of M2.

Calculation of Net Tax Revenues

Year Ended June 30, 2011 (actual) (Column C.1)

Tax revenues, consisting of sales taxes, and administrative expenditures which are non-project and non-financing related for the year ended June 30, 2011 were obtained from Column A in Schedule 1. Non-project related professional services are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code. Environmental cleanup expenditures are based on project amounts accumulated in the project job ledger. Net tax revenues represent total tax revenues less total expenditures for the year ended June 30, 2011.

Period from Inception through June 30, 2011 (actual) (Column D.1)

Tax revenues, consisting of sales taxes, and administrative expenditures and capital outlay which are non-project and non-financing related for the period from inception through June 30, 2011 were obtained from Column B in Schedule 1. Non-project related professional services are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code. Environmental cleanup expenditures are based on project amounts accumulated in the project job ledger. Net tax revenues represent total cumulative tax revenues less total cumulative expenditures.

Period from July 1, 2011 through March 31, 2041 (forecast) (Column E.1)

Tax revenues, consisting of projected sales taxes and operating interest, and expenditures consisting of administrative expenditures and capital outlay which are non-project and non-financing related and environmental cleanup for subsequent years from July 1, 2011 through March 31, 2041 were obtained from the Orange County Transportation Authority Forecast Model which is updated annually. Net tax revenues represent total projected tax revenues less total projected expenditures.

Total (Column F.1)

Total net tax revenues are calculated as the sum of columns D.1 and E.1. The total net tax revenues are presented in Schedule 3 as “Total Net Tax Revenues.”

Calculation of Net Bond Revenues (Debt Service)

Year Ended June 30, 2011 (actual) (Column C.2)

Bond revenues, consisting of proceeds from issuance of bonds and interest revenue from bond proceeds, debt service funds, and commercial paper (financing interest revenue), and financing expenditures and uses consisting of interest expenditures and professional services non-project related expenditures for the year ended June 30, 2011 were obtained from Column A in Schedule 1. Non-project related professional services expenditures are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code. Net bond revenues (debt service) represent total bond revenues less financing expenditures and uses for the year ended June 30, 2011.

Period from Inception through June 30, 2011 (actual) (Column D.2)

Bond revenues, consisting of proceeds from issuance of bonds, interest revenue from bond proceeds, debt service funds, and commercial paper, and financing expenditures and uses consisting of interest expenditures and professional services which are non-project and non-operating related for the period from inception through June 30, 2011 were obtained from Column B in Schedule 1. Non-project related professional services are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code. Net bond revenues (debt service) represent total cumulative bond revenues less total cumulative financing expenditures and uses.

Period from July 1, 2011 through March 31, 2041 (forecast) (Column E.2)

Bond revenues, consisting of proceeds from issuance of bonds and interest revenue from bond proceeds and debt service funds, and financing expenditures and uses related to bond debt principal and interest expenditures for subsequent years from July 1, 2011 through March 31, 2041 were obtained from the Orange County Transportation Authority Forecast Model. Net bond revenues (debt service) represent total projected bond revenues less total projected financing expenditures and other uses.

Total (Column F.2)

Total net bond revenues (debt service) are calculated as the sum of columns D.2 and E.2. The percentage of project-related net bond revenues (debt service) is presented in Schedule 3 as a component of “Project Budget” and “Estimate at Completion.” Net bond revenues (debt service) have been allocated to each mode in Schedule 3 based on bond and commercial paper proceeds used and projected to be used to fund the projects.

Schedule 3—Schedule of Revenues and Expenditures

This schedule presents a summary of actual and projected revenues and expenditures, by mode and project description, as specified in the Orange County Transportation Investment Plan (Investment Plan).

Project Description (Column G)

The project descriptions by mode are in accordance with the Investment Plan.

Net Tax Revenues Program to date Actual (Column H)

The total M2 Program net tax revenues for the period from inception through June 30, 2011 agree with net tax revenues in Column D.1 in Schedule 2. Such net tax revenues have been allocated to each of the three modes based on the allocation percentages specified in M2. The net tax revenues for each mode have been 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 Tax Revenues (Column I)

The total actual and projected net tax revenues (total net tax revenues) during the 30-year life of M2 agree with total net tax revenues in Column F.1 in Schedule 2. Such total net tax revenues have been allocated to each of the three modes based on the allocations specified in M2. The net tax revenues for each mode have been 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.

Project Budget (Column J)

Total project budget is based on the total net tax revenues presented in Column I.

Estimate at Completion (Column K)

Estimate at completion is currently based on the total net tax revenues presented in Column J.

Variance Total Net Tax Revenues to Estimate at Completion (Column L)

This is a calculation of Column I minus Column K.

Variance Project Budget to Estimate at Completion (Column M)

This is a calculation of Column J minus Column K.

Expenditures through June 30, 2011 (Column N)

Total expenditures less net (bond revenue)/debt service agree with the sum of project related expenditures and transfers out from Column B in Schedule 1. Project related expenditures are comprised of professional services, administration costs, payments to local agencies, capital outlay, and other. Such expenditures are distributed to the projects based on project amounts accumulated in the project job ledger. The total net (bond revenue)/debt service expenditures through June 30, 2011 from Column N in Schedule 3 agree with the total net bond revenue/(debt service) from Column D.2 in Schedule 2. Non-project related expenditures are comprised of all financing interest revenue, non-project related professional services, and interest expense.

Reimbursements through June 30, 2011 (Column O)

Total reimbursements agree with the sum of project related revenues from Column B in Schedule 1. Project related revenues consist of other agencies' share of Measure M2 project costs and transfers in. Such revenues are distributed to the related projects based on project amounts accumulated in the project job ledger.

Net Project Cost (Column P)

This is a calculation of Column N minus Column O. For each mode, a percentage amount has been 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.

Percent of Budget Expended (Column Q)

This is a calculation of Column P divided by Column J.

Revenues Program to date Actual (Column H.1)

The total Environmental Cleanup revenues for the period from inception through June 30, 2011 represent two percent (2%) of the tax revenues in Column D.1 in Schedule 2. Tax revenues consist of all gross revenues generated from the transactions and use tax of one-half of one percent plus interest or other earnings.

Total Revenues (Column I.1)

The total Environmental Cleanup actual and projected revenues during the 30-year life of M2 represent 2% of total tax revenues found in Column F.1 in Schedule 2.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

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

For the Fiscal Year Ended June 30, 2011

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have performed the procedures enumerated below to the Appropriations Limit Worksheet of the Orange County Local Transportation Authority (OCLTA) for the fiscal year ended June 30, 2011. These procedures, which were agreed to by OCLTA, were performed solely to assist OCLTA in meeting the requirements of Section 1.5 of Article XIII-B of the California Constitution. OCLTA's management is responsible for the Appropriations Limit calculation. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed worksheets setting forth the calculations necessary to establish OCLTA's appropriations limit and compared the 2010-11 limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of OCLTA's Board of Directors. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of OCLTA's Board of Directors.

   Finding: No exceptions were noted in comparing the appropriations limit, annual adjustment factors and population and inflation factors used in the worksheets to the limit and factors adopted in the resolution of OCLTA's Board of Directors. However, as noted in Procedure #3, OCLTA utilized a population change factor of 1.03 where the factor reported by the Department of Finance was 1.01.

2. We added last year's limit to the annual adjustment amount, and compared the resulting amount to the 2010-2011 appropriations limit.

   Finding: No exceptions were noted as a result of our procedures. However, as noted in Procedure #3, OCLTA utilized a population factor of 1.03 where the amount reported by the Department of Finance was 1.01. This resulted in a calculated limit of $1,251,429,005 rather than $1,251,181,270. The resulting Board adopted limit was $247,735 greater than the calculated limit. The budgeted appropriations subject to the limit were $218,351,402, as reported in the Board Resolution. The budgeted appropriations were less than both the Board adopted limit and the re-calculated limit.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

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

   Finding: No exceptions were noted except as follows:

   OCLTA utilized a population change factor of 1.03 where the factor reported by the Department of Finance was 1.01. This resulted in a calculated limit of $1,251,429,005 rather than $1,251,181,270. The resulting Board adopted limit was $247,735 greater than the calculated limit. The budgeted appropriations subject to the limit were $218,351,402, as reported in the Board Resolution. The budgeted appropriations were less than both the Board adopted limit and the re-calculated limit.

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

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

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

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

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
October 31, 2011

ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY

MEASURE M
AGREED-UPON PROCEDURES REPORTS

Year Ended June 30, 2011

ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY

MEASURE M
AGREED-UPON PROCEDURES REPORTS

Year Ended June 30, 2011

The cities listed below were selected by the Audit Subcommittee of the Taxpayers Oversight Committee to perform agreed-upon procedures for the fiscal year ended June 30, 2011. Please refer to the individual divider tabs for our report on each Agency.

City of Tustin

City of Garden Grove

City of Brea

City of La Palma

City of Placentia

City of Laguna Hills

City of Huntington Beach

County of Orange

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES —CITY OF TUSTIN

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

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of Tustin's (City's) level of compliance with the provisions of the Measure M Local Transportation Ordinance #2 (Ordinance) as of, and for the fiscal year ended, June 30, 2011. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

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

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by OCLTA and identified the amount determined by OCLTA as the required minimum amount to be spent on MOE expenditures by the City.

   Results: The City was required to spend $1,119,535 in MOE expenditures during the fiscal year ended June 30, 2011. No exceptions were noted.

2. We documented which funds the City used to track all street and road expenditures and inquired how the City identified MOE expenditures in its general ledger.

   Results: All MOE expenditures are tracked in the general ledger by fund, object, and activity. The City records its MOE expenditures in its General Fund.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2011 to identify whether the City met the minimum MOE requirement.

   Results: The City's MOE expenditures for the fiscal year ended June 30, 2011 were $1,452,915 (see Schedule A), which exceeded the requirement. No exceptions were noted.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

4. We haphazardly selected a sample of MOE expenditures from the City's general ledger expenditure detail. For each item selected, we performed the following:

   a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation.

   b. Verified that the expenditure was properly classified as a local street and road expenditure.

   Results: MOE expenditures tested totaled $1,199,093 representing approximately 83% of total MOE expenditures for the fiscal year ended June 30, 2011. No exceptions were noted.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: Based on our review of the general ledger expenditure detail and discussion with the City's Administrative Services Manager, MOE expenditures for the fiscal year ended June 30, 2011 did not include indirect costs.

6. We obtained a listing of Turnback payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years.

   Results: The City received $2,507,896 for the three fiscal years ended June 30, 2011, including $852,239 for the fiscal year ended June 30, 2011.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent during the fiscal year ended June 30, 2011.

   Results: The City's Turnback expenditures are recorded in Fund 138, Measure M Fund (Turnback Fund). Total Turnback expenditures during the fiscal year ended June 30, 2011 were $404,553 (see Schedule A).

8. We obtained the City's Seven-Year Capital Improvement Program (CIP) and haphazardly selected a sample of Turnback expenditures from the City's general ledger expenditure detail. For each item selected we performed the following:

   a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting documentation.

   b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP.

   Results: Turnback expenditures tested totaled $281,227 representing approximately 70% of total Turnback expenditures for the fiscal year ended June 30, 2011. No exceptions were noted.

9. We identified whether or not indirect costs were charged as Turnback expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Administrative Services Manager, Turnback expenditures for the fiscal year ended June 30, 2011 did not include indirect costs. No exceptions were noted.

10. We obtained the cash balance of the City's Turnback Fund as of June 30, 2011 to determine whether funds were expended within three years of receipt.

    Results: No exceptions were noted.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

    Results: No exceptions were noted.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records, any indirect cost allocation plans and compliance with the provisions of Measure M Local Transportation Ordinance #2. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be, and should not be, used by anyone other than those specified parties.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 12, 2011

CITY OF TUSTIN, CALIFORNIA
Schedule of MOE and Turnback Expenditures
Year Ended June 30, 2011
(Unaudited)

Maintenance of Effort (MOE) Expenditures:	
Annual Major Pavement Maintenance Program	$ 1,449,097
Mitchell Avenue/Utt Drive Pedestrian Enhancements	3,818
Total MOE Expenditures	1,452,915
Turnback Expenditures:	
Engineering services	76,051
Right of way acquisition	95,803
Improvements to right of way	120,192
Go Local - Step 2	71
Mitchell/Utt - Pedestrian Enhancement	5,127
Traffic Signal at Prospect/Beneta/Amag	31,342
Major Pavement Maintenance	12,749
Tustin Ranch Road	11,393
Newport Ave/SR55 N Ramp	6,373
Redhill Ave Grade Separation	1,067
Jamboree Road Rehabilitation	3,575
Tustin Ranch Road Rehabilitation	40,810
Total Turnback Expenditures	404,553
Total MOE and Turnback Expenditures	$ 1,857,468

Note: The above amounts were taken directly from the financial records of the City of Tustin and were not audited.

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES —CITY OF GARDEN GROVE

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

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of Garden Grove's (City's) level of compliance with the provisions of the Measure M Local Transportation Ordinance #2 (Ordinance) as of, and for the fiscal year ended, June 30, 2011. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

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

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by OCLTA and identified the amount determined by OCLTA as the required minimum amount to be spent on MOE expenditures by the City.

   <u>Results:</u> The City was required to spend $2,732,000 in MOE expenditures during the fiscal year ended June 30, 2011. No exceptions were noted.

2. We documented which funds the City used to track all street and road expenditures and inquired how the City identified MOE expenditures in its general ledger.

   <u>Results:</u> All MOE expenditures are tracked in the general ledger by fund, object, and activity. The City records its MOE expenditures in its General Fund.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2011 to identify whether the City met the minimum MOE requirement.

   <u>Results:</u> The City's MOE expenditures for the fiscal year ended June 30, 2011 were $4,047,244 (see Schedule A), which exceeded the requirement. No exceptions were noted as a result of our procedures.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

4. We haphazardly selected a sample of MOE expenditures from the City's general ledger expenditure detail. For each item selected, we performed the following:

    a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting documentation.

    b. Verified that the expenditure was properly classified as a local street and road expenditure.

    Results: MOE expenditures tested totaled $2,037,202 representing approximately 50% of total MOE expenditures for the fiscal year ended June 30, 2011. No exceptions were noted.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

    Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Finance Department, MOE expenditures for the fiscal year ended June 30, 2011 did not include indirect costs.

6. We obtained a listing of Turnback payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years.

    Results: The City received $4,681,386 for the three fiscal years ended June 30, 2011, including $1,475,414 for the fiscal year ended June 30, 2011.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent during the fiscal year ended June 30, 2011.

    Results: The City's Turnback expenditures are recorded in Fund 421, Measure M Fund (Turnback Fund). Total Turnback expenditures during the fiscal year ended June 30, 2011 were $4,311,532 (see Schedule A).

8. We obtained the City's Seven-Year Capital Improvement Program (CIP) and haphazardly selected a sample of Turnback expenditures from the City's general ledger expenditure detail. For each item selected we performed the following:

    a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting documentation.

    b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP.

    Results: Turnback expenditures tested totaled $2,998,223 representing approximately 70% of total Turnback expenditures for the fiscal year ended June 30, 2011. No exceptions were noted.

9. We identified whether or not indirect costs were charged as Turnback expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Finance Department, Turnback expenditures for the fiscal year ended June 30, 2011 did not include indirect costs. No exceptions were noted.

10. We obtained the cash balance of the City's Turnback Fund as of June 30, 2011 to determine whether funds were expended within three years of receipt.

    Results: No exceptions were noted.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

    Results: No exceptions were noted.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records, any indirect cost allocation plans and compliance with the provisions of Measure M Local Transportation Ordinance #2. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be, and should not be, used by anyone other than those specified parties.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 12, 2011

CITY OF GARDEN GROVE, CALIFORNIA
Schedule of MOE and Turnback Expenditures
Year Ended June 30, 2011
(Unaudited)

Maintenance of Effort (MOE) Expenditures:	
Public Works General Administration	$ 231,876
NPDES Program	289,650
Street M/S/P	46,998
Seal Coating	164,226
Asphalt Maintenance Overlay	150,947
Concrete Maintenance	185,110
Graffiti Removal	235,046
R/W & St. Cleaning	757,971
Spill Cleanup	66,946
Tree Maintenance	734,162
Traffic Maintenance M/S/P	900
Traffic Sign Maintenance	69,040
Traffic Painting	86,398
Traffic Signal Maintenance	106,822
Traffic Engineering	108,258
Concrete Repl/Capit	146,093
Capital Improvement Planning	15,615
Special Projects	13,160
Operation Engineering	45,323
R/W Lndsc Mnt M/SP	47,634
Median Maintenance	545,069
Total MOE Expenditures	4,047,244
Turnback Expenditures:	
New Traffic Signals	(70,946)
Harbor Boulevard/Trask Avenue Left Turn Lane	539
Traffic Signal Modifications	60,969
North Bound Euclid Street/State Route 22 On Ramp Right Turn Lane	95,562
Harbor Boulevard Median Curb Upgrade	1,323
Euclid Street Median Curb Upgrade	1,253
Valley View Median Curb Upgrade	1,328
Street Rehabilitation - Various Locations	1,852,035
Harbor Boulevard Smart Street	494
Civic Center Message Sign	2,162
Traffic Operation Center	1,281,771
Intersection Improvement Euclid/Hazard	57,471
Euclid/Garden Grove Intersection Improvement	87,010
West/Wilken New Traffic Signal	3,520
Fairview/Trask Intersection Improvement	146,823
Euclid/Trask Intersection Improvement	8,724
Street Improvements - Various (Citywide)	388,354
Brookhurst/Garden Grove Intersection Improvements	208,842
Harbor/Lampson Intersection Improvements	40,000
Springdale Sidewalk Improvements	144,236
Magnolia/Trask Intersection Improvements	62
Total Turnback Expenditures	4,311,532
Total MOE and Turnback Expenditures	$ 8,358,776

Note: The above amounts were taken directly from the financial records of the City of Garden Grove and were not audited.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES —CITY OF BREA

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

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of Brea's (City's) level of compliance with the provisions of the Measure M, Local Transportation Ordinance #2 (Ordinance) as of, and for the fiscal year ended, June 30, 2011. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

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

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by OCLTA and identified the amount determined by OCLTA as the required minimum amount to be spent on MOE expenditures by the City.

   Results: The City was required to spend $703,000 in MOE expenditures during the fiscal year ended June 30, 2011. No exceptions were noted.

2. We documented which funds the City used to track all street and road expenditures and inquired how the City identified MOE expenditures in its general ledger.

   Results: All MOE expenditures are tracked in the general ledger by fund, object, and activity. The City records its MOE expenditures in its General Fund.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2011 to identify whether the City met the minimum MOE requirement.

   Results: The City's MOE expenditures for the fiscal year ended June 30, 2011 were $1,320,818 (see Schedule A), which exceeded the requirement. No exceptions were noted.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

4. We haphazardly selected a sample of MOE expenditures from the City's general ledger expenditure detail. For each item selected, we performed the following:

   a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting.

   b. Verified that the expenditure was properly classified as a local street and road expenditure.

   Results: MOE expenditures tested totaled $1,228,303 representing approximately 93% of total MOE expenditures for the fiscal year ended June 30, 2011. No exceptions were noted.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Financial Services Manager, MOE expenditures for the fiscal year ended June 30, 2011 included $337,967 of indirect costs. Based upon the supporting documentation tested, no exceptions were noted.

6. We obtained a listing of Turnback payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years.

   Results: The City received $1,689,111 for the three fiscal years ended June 30, 2011, including $503,456 for the fiscal year ended June 30, 2011.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent during the fiscal year ended June 30, 2011.

   Results: The City's Turnback expenditures are recorded in Fund 260, Measure M Transportation Tax Fund. Total Turnback expenditures during the fiscal year ended June 30, 2011 were $772,334 (see Schedule A).

8. We obtained the City's Seven-Year Capital Improvement Program (CIP) and haphazardly selected a sample of Turnback expenditures from the City's general ledger expenditure detail. For each item selected we performed the following:

   a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting documentation.

   b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP.

   Results: Turnback expenditures tested totaled $670,614 representing approximately 87% of total Turnback expenditures for the fiscal year ended June 30, 2011. No exceptions were noted.

9. We identified whether or not indirect costs were charged as Turnback expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Financial Services Manager, Turnback expenditures for the fiscal year ended June 30, 2011 included $8,434 of indirect costs for CIP Management. No exceptions were noted.

10. We obtained the cash balance of the City's Turnback Fund as of June 30, 2011 to determine whether funds were expended within three years of receipt.

    Results: No exceptions were noted.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

    Results: No exceptions were noted.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records, any indirect cost allocation plans and compliance with the provisions of Measure M Local Transportation Ordinance #2. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be, and should not be, used by anyone other than those specified parties.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 12, 2011

CITY OF BREA, CALIFORNIA
Schedule of MOE and Turnback Expenditures
Year Ended June 30, 2011
(Unaudited)

Maintenance of Effort (MOE) Expenditures:	
Street Maintenance	$ 1,346,589
Parkway Trees	140,913
Slurry Seal Program	233,316
Total Eligible Expenditures	1,720,818
Less: Transfers from Gas Tax Fund	(400,000)
Total MOE Expenditures	1,320,818
Turnback Expenditures:	
Engineering Services	8,522
Pavement Management Biennial Update	51,726
Associated Road Rehabilitation Phase 2	66,212
Elm Street Resurfacing & Waterline Replacement	184,000
Alley Improvements	62,676
Residential Streets Rehabilitation	306,000
Puente Street Rehabilitation	19,256
Country Road Townhomes Curb Ramp	27,296
State College Rehabilitation	46,646
Total Turnback Expenditures	772,334
Total MOE and Turnback Expenditures	$ 2,093,152

Note: The above amounts were taken directly from the financial records of the City of Brea and were not audited.

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES —CITY OF LA PALMA

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

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of La Palma's (City's) level of compliance with the provisions of the Measure M, Local Transportation Ordinance #2 (Ordinance) as of, and for the fiscal year ended, June 30, 2011. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

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

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by OCLTA and identified the amount determined by OCLTA as the required minimum amount to be spent on MOE expenditures by the City.

   Results: The City was required to spend $156,000 in MOE expenditures during the fiscal year ended June 30, 2011. No exceptions were noted.

2. We documented which funds the City used to track all street and road expenditures and inquired how the City identified MOE expenditures in its general ledger.

   Results: All MOE expenditures are tracked in the general ledger by fund, object, and activity. The City records its MOE expenditures in its Capital Outlay Reserve Fund.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2011 to identify whether the City met the minimum MOE requirement.

   Results: The City's MOE expenditures for the fiscal year ended June 30, 2011 were $842,258 (see Schedule A), which exceeded the requirement. No exceptions were noted.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

4. We haphazardly selected a sample of MOE expenditures from the City's general ledger expenditure detail. For each item selected, we performed the following:

   a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting

   b. Verified that the expenditure was properly classified as a local street and road expenditure.

   Results: MOE expenditures tested totaled $309,189, representing approximately 37% of total MOE expenditures for the fiscal year ended June 30, 2011. No exceptions were noted.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: Based on our review of the general ledger expenditure detail and discussion with the City's Fiscal Services Manager, MOE expenditures for the fiscal year ended June 30, 2011 included $19,800 in indirect costs. Based upon the supporting documentation tested, no exceptions were noted.

6. We obtained a listing of Turnback payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years.

   Results: The City received $584,216 for the three fiscal years ended June 30, 2011, including $175,927 for the fiscal year ended June 30, 2011.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent during the fiscal year ended June 30, 2011.

   Results: The City's Turnback expenditures are recorded in Fund 012, Measure M Fund (Turnback Fund). Total Turnback expenditures during the fiscal year ended June 30, 2011 were $207,726 (see Schedule A).

8. We obtained the City's Five-Year Capital Improvement Program (CIP) and haphazardly selected a sample of Turnback expenditures from the City's general ledger expenditure detail. For each item selected we performed the following:

   a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting documentation.

   b. Verified that the expenditures selected in (a) above were related to projects included in the City's Five-Year CIP.

   Results: Turnback expenditures tested totaled $206,115 representing approximately 99% of total Turnback expenditures for the fiscal year ended June 30, 2011. No exceptions were noted.

9. We identified whether or not indirect costs were charged as Turnback expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Finance Director, Turnback expenditures for the fiscal year ended June 30, 2011 included indirect costs of $1,700 for Monthly Liability Insurance & Claim Services and Monthly Vehicle Maintenance/Replacement. No exceptions were noted.

10. We obtained the cash balance of the City's Turnback Fund as of June 30, 2011 to determine whether funds were expended within three years of receipt.

    Results: No exceptions were noted.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

    Results: No exceptions were noted.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records, any indirect cost allocation plans and compliance with the provisions of Measure M Local Transportation Ordinance #2. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be, and should not be, used by anyone other than those specified parties.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 12, 2011

CITY OF LA PALMA, CALIFORNIA
Schedule of MOE and Turnback Expenditures
Year Ended June 30, 2011
(Unaudited)

Maintenance of Effort (MOE) Expenditures:	
Administration & Engineering	$ 239,536
Street Lighting, Median Maintenance	261,854
Install NPDES Storm Drain Devices	14,872
Residential Pavement Management Program	44,839
Arterial Pavement Management Program	169,880
Street Sign Replacement	43,500
Arterial Block Wall Rehabilitation	67,777
Total MOE Expenditures	842,258
Turnback Expenditures:	
Professional Contract Services	2,600
Maintenance & Repair Materials	8,267
Liability Insurance Claims	700
Vehicle Maintenance	1,000
Residential Slurry Seal	120,159
Broken/Settled Curb & Gutter	75,000
Total Turnback Expenditures	207,726
Total MOE and Turnback Expenditures	$ 1,049,984

Note: The above amounts were taken directly from the financial records of the City of La Palma and were not audited.

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES —CITY OF PLACENTIA

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

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of Placentia's (City's) level of compliance with the provisions of the Measure M, Local Transportation Ordinance #2 (Ordinance) as of, and for the fiscal year ended, June 30, 2011. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

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

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by OCLTA and identified the amount determined by OCLTA as the required minimum amount to be spent on MOE expenditures by the City.

   Results: The City was required to spend $546,000 in MOE expenditures during the fiscal year ended June 30, 2011. No exceptions were noted.

2. We documented which funds the City used to track all street and road expenditures and inquired how the City identified MOE expenditures in its general ledger.

   Results: All MOE expenditures are tracked in the general ledger by fund, object, and activity. The City records its MOE expenditures in Fund 101.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2011 to identify whether the City met the minimum MOE requirement.

   Results: The City's MOE expenditures for the fiscal year ended June 30, 2011 were $956,780 (see Schedule A), which exceeded the requirement. No exceptions were noted.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

4. We haphazardly selected a sample of MOE expenditures from the City's general ledger expenditure detail. For each item selected, we performed the following:

   a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting documentation.

   b. Verified that the expenditure was properly classified as a local street and road expenditure.

   Results: MOE expenditures tested totaled $261,242 representing approximately 27% of total MOE expenditures for the fiscal year ended June 30, 2011. No exceptions were noted.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: Based on our review of the general ledger expenditure detail and discussion with the City's Accounting Manager, MOE expenditures for the fiscal year ended June 30, 2011 did not include indirect costs.

6. We obtained a listing of Turnback payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years.

   Results: The City received $1,486,204 for the three fiscal years ended June 30, 2011, including $470,302 for the fiscal year ended June 30, 2011.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent during the fiscal year ended June 30, 2011.

   Results: The City's Turnback expenditures are recorded in Fund 210, Measure M Fund (Turnback Fund). Total Turnback expenditures during the fiscal year ended June 30, 2011 were $557,069 (see Schedule A).

8. We obtained the City's Seven-Year Capital Improvement Program (CIP) and haphazardly selected a sample of Turnback expenditures from the City's general ledger expenditure detail. For the item selected we performed the following:

   a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting documentation.

   b. Verified that the expenditure selected in (a) above was related to a project included in the City's Seven-Year CIP.

   Results: The Turnback expenditure tested totaled $535,000 representing approximately 96% of total Turnback expenditures for the fiscal year ended June 30, 2011. No exceptions were noted.

9. We identified whether or not indirect costs were charged as Turnback expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: Based on our review of the general ledger expenditure detail and discussion with the City's Accounting Manager, Turnback expenditures for the fiscal year ended June 30, 2011 did not include indirect costs. No exceptions were noted.

10. We obtained the cash balance of the City's Turnback Fund as of June 30, 2011 to determine whether funds were expended within three years of receipt.

    Results: No exceptions were noted.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

    Results: No exceptions were noted.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records, any indirect cost allocation plans and compliance with the provisions of Measure M Local Transportation Ordinance #2. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be, and should not be, used by anyone other than those specified parties.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 12, 2011

SCHEDULE A

CITY OF PLACENTIA, CALIFORNIA
Schedule of MOE and Turnback Expenditures
Year Ended June 30, 2011
(Unaudited)

Maintenance of Effort (MOE) Expenditures:	
Repair & Maintenance/Streets	$ 52,988
Other Professional Services	106,832
Engineering Services	90,896
Special Department Supplies	49,809
Personnel	656,255
Total MOE Expenditures	956,780
Turnback Expenditures:	
Principal/Bonds/COP's/Leases - 2001	535,000
Interest/Bonds/COP's/Leases - 2001	22,069
Total Turnback Expenditures	557,069
Total MOE and Turnback Expenditures	$ 1,513,849

Note: The above amounts were taken directly from the financial records of the City of Placentia and were not audited.

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES —CITY OF LAGUNA HILLS

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

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of Laguna Hills' (City's) level of compliance with the provisions of the Measure M, Local Transportation Ordinance #2 (Ordinance) as of, and for the fiscal year ended, June 30, 2011. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

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

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by OCLTA and identified the amount determined by OCLTA as the required minimum amount to be spent on MOE expenditures by the City.

   Results: The City was required to spend $268,106 in MOE expenditures during the fiscal year ended June 30, 2011. No exceptions were noted.

2. We documented which funds the City used to track all street and road expenditures and inquired how the City identified MOE expenditures in its general ledger.

   Results: The City records its MOE expenditures in its General Fund and its Capital Improvement Projects Fund. All MOE expenditures are tracked in the general ledger by fund, object, and activity.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2011 to identify whether the City met the minimum MOE requirement.

   Results: The City’s MOE expenditures for the fiscal year ended June 30, 2011 were $1,823,964 (see Schedule A), which exceeded the requirement. No exceptions were noted.

4. We haphazardly selected a sample of MOE expenditures from the City's general ledger expenditure detail. For each item selected, we performed the following:

   a. Agreed the dollar amount listed on the general ledger, to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation.

   b. Verified that the expenditure was properly classified as a local street and road expenditure.

   Results: MOE expenditures tested totaled $554,975 representing approximately 30% of total MOE expenditures for the fiscal year ended June 30, 2011. The City's MOE expenditures during the fiscal year ended June 30, 2011 included $1,381 for the printing of 400 parking permits. This expenditure was improperly classified as a local street and road expenditure. However, after disallowing this expenditure, the City still satisfied its MOE requirement for the fiscal year ended June 30, 2011.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed the supporting documentation for reasonableness.

   Results: Based on our review of the general ledger expenditure detail and discussion with the City's Director of Public Works, MOE expenditures for the fiscal year ended June 30, 2011 did not include indirect costs.

6. We obtained a listing of Turnback payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years.

   Results: The City received $1,141,713 for the three fiscal years ended June 30, 2011, including $361,792 for the fiscal year ended June 30, 2011.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent during the fiscal year ended June 30, 2011.

   Results: The City's Turnback expenditures are recorded in Fund 212, Proposition M Fund (Special Revenue Fund). Total Turnback expenditures during the fiscal year ended June 30, 2011 were $361,792 (see Schedule A).

8. We obtained the City's Seven-Year Capital Improvement Program (CIP) and haphazardly selected a sample of Turnback expenditures from the City's general ledger expenditure detail. For each item selected we performed the following:

   a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting documentation.

   b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP.

Results: It was noted that the City's Turnback expenditures are utilized to fund their street operations and maintenance services. These expenditures were not included in the City's Seven-Year CIP, due to the nature of the expenditures which were not considered capital related improvements. The City communicated with OCTA and was advised to submit an amended CIP plan to include these expenditures and to insert a footnote in the CIP.

9. We identified whether or not indirect costs were charged as Turnback expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: Based on our review of the general ledger expenditure detail and discussion with the City's Director of Public Works, Turnback expenditures for the fiscal year ended June 30, 2011 did not include indirect costs. No exceptions were noted.

10. We obtained the cash balance of the City's Turnback Fund as of June 30, 2011 to determine whether funds were expended within three years of receipt.

    Results: No exceptions were noted.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

    Results: No exceptions were noted.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records, any indirect cost allocation plans and compliance with the provisions of Measure M Local Transportation Ordinance #2. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be, and should not be, used by anyone other than those specified parties.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 12, 2011

CITY OF LAGUNA HILLS, CALIFORNIA
Schedule of MOE and Turnback Expenditures
Year Ended June 30, 2011
(Unaudited)

Maintenance of Effort (MOE) Expenditures:	
Street Maintenance	$ 206,557
Street Sweeping	127,236
Signal Maintenance	144,789
Utilities	392,277
Personnel	569,927
Miscellaneous Contract and Other Maintenance	265,418
Streets, Signals and Lighting	95,864
Operating Expenditures	21,896
Total MOE Expenditures	1,823,964
Turnback Expenditures:	
Street Maintenance	361,792
Total Turnback Expenditures	361,792
Total MOE and Turnback Expenditures	$ 2,185,756

Note: The above amounts were taken directly from the financial records of the City of Laguna Hills and were not audited.

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES —CITY OF HUNTINGTON BEACH

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

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of Huntington Beach's (City's) level of compliance with the provisions of the Measure M Local Transportation Ordinance #2 (Ordinance) as of, and for the fiscal year ended, September 30, 2011. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

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

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by OCLTA and identified the amount determined by OCLTA as the required minimum amount to be spent on MOE expenditures by the City.

   Results: The City was required to spend $4,510,000 in MOE expenditures during the fiscal year ended September 30, 2011. No exceptions were noted.

2. We documented which funds the City used to track all street and road expenditures and inquired how the City identified MOE expenditures in its general ledger.

   Results: All MOE expenditures are tracked in the general ledger by fund, object, and activity. The City records its MOE expenditures in its General Fund.

3. We obtained the detail of MOE expenditures for the fiscal year ended September 30, 2011 to identify whether the City met the minimum MOE requirement.

   Results: The City's MOE expenditures for the fiscal year ended September 30, 2011 were $7,037,140 (see Schedule A), which exceeded the requirement. Various costs are based upon allocations. No exceptions were noted.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

4. We haphazardly selected a sample of MOE expenditures from the City's general ledger expenditure detail. For each item selected, we performed the following:

   a. Agreed the dollar amount listed on the general ledger, to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation.

   b. Verified that the expenditure was properly classified as a local street and road expenditure.

   Results: MOE expenditures tested totaled $4,114,832 representing approximately 58% of total MOE expenditures for the fiscal year ended September 30, 2011. No exceptions were noted.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: Based on our review of the general ledger expenditure detail and discussion with the City's Senior Administrative Analyst, MOE expenditures for the fiscal year ended September 30, 2011 did not include indirect costs.

6. We obtained a listing of Turnback payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years.

   Results: The City received $5,485,038 for the three fiscal years ended September 30, 2011, including $1,648,010 for the fiscal year ended September 30, 2011.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent during the fiscal year ended September 30, 2011.

   Results: The City's Turnback expenditures are recorded in Fund 213, Measure M Fund. Total Turnback expenditures during the fiscal year ended September 30, 2011 were $1,928,282 (see Schedule A).

8. We obtained the City's Seven-Year Capital Improvement Program (CIP) and haphazardly selected a sample of Turnback expenditures from the City's general ledger expenditure detail. For each item selected we performed the following:

   a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting documentation.

   b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP.

   Results: Turnback expenditures tested totaled $1,184,795 representing approximately 61% of total Turnback expenditures for the fiscal year ended September 30, 2011. No exceptions were noted.

9. We identified whether or not indirect costs were charged as Turnback expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: Based on our review of the general ledger expenditure detail and discussion with the City's Senior Administrative Analyst, Turnback expenditures for the fiscal year ended September 30, 2011 did not include indirect costs. No exceptions were noted.

10. We obtained the cash balance of the City's Turnback Fund as of September 30, 2011 to determine whether funds were expended within three years of receipt.

    Results: No exceptions were noted.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

    Results: No exceptions were noted.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records, any indirect cost allocation plans and compliance with the provisions of Measure M Local Transportation Ordinance #2. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be, and should not be, used by anyone other than those specified parties.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 14, 2011

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedule of MOE and Turnback Expenditures
Year Ended September 30, 2011
(Unaudited)

Maintenance of Effort (MOE) Expenditures:	
Public Works	$ 239,303
Storm Drain Pollution Controls	203,655
Design/Construction	439,804
Development Processing	243,888
Traffic Engineering	448,058
Traffic Sign/Striping	403,567
Traffic Signals	578,266
Maintenance Administration	232,858
Street Maintenance	1,454,545
Hazardous Materials	175,039
Street Cleaning	837,147
Storm Drain Maintenance	76,658
General Services Administration	48,622
Landscape Maintenance	156,437
Tree Maintenance	1,020,477
Fleet Management	125,429
Equipment Maintenance	353,387
Total MOE Expenditures	7,037,140
Turnback Expenditures:	
Engineering Design/Construct	582,134
Pedestrian Improvements	981,129
Traffic Signals	11,036
Arterial Highway Rehab	225,407
Bridge Prevention Maintenance	123,458
Concrete Replacement	4,612
Arterial Rehab	506
Total Turnback Expenditures	1,928,282
Total MOE and Turnback Expenditures	$ 8,965,422

Note: The above amounts were taken directly from the financial records of the City of Huntington Beach and were not audited.

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES —COUNTY OF ORANGE

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

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the County of Orange's (County's) level of compliance with the provisions of the Measure M Local Transportation Ordinance #2 (Ordinance) as of, and for the fiscal year ended, June 30, 2011. The County's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

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

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by OCLTA and identified the amount determined by OCLTA as the required minimum amount to be spent on MOE expenditures by the County:

   Results: OCLTA has determined that the MOE is not applicable for the County.

2. We identified which funds the County used to track all street and road expenditures and inquired how the County identified MOE expenditures in its general ledger.

   Results: The County did not have MOE requirement for the fiscal year ended June 30, 2011. As a result, this procedure was not applicable.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2011 to identify whether the County met the minimum MOE requirement.

   Results: The County did not have MOE requirement for the fiscal year ended June 30, 2011. As a result, this procedure was not applicable.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

4. We haphazardly selected a sample of MOE expenditures from the County's general ledger expenditure detail. For each item selected we performed the following:

   a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting documentation.

   b. Verified that the expenditure was properly classified as a local street and road expenditure.

   Results: The County did not have MOE requirement for the fiscal year ended June 30, 2011. As a result, this procedure was not applicable.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: The County did not have MOE requirement for the fiscal year ended June 30, 2011. As a result, this procedure was not applicable.

6. We obtained a listing of Turnback payments made from OCLTA to the County and calculated the amount the County received for the past three fiscal years.

   Results: The County received $5,562,136 for the three fiscal years ended June 30, 2011, including $1,748,938 for the fiscal year ended June 30, 2011.

7. We documented which fund the County used to track expenditures relating to Turnback monies in its general ledger and the amount spent during the fiscal year ended June 30, 2011.

   Results: The County does not have a separate Turnback fund to track Turnback revenues and expenditures. The County's Turnback expenditures are recorded in the Local Transportation Fund (also referred to as the Road Fund) by Job Number. Total Turnback expenditures during the fiscal year ended June 30, 2011 were $11,732,268 (see Schedule A).

8. We obtained the County's Seven-Year Capital Improvement Program (CIP) and haphazardly selected a sample of Turnback expenditures from the County's general ledger expenditure detail. For each item selected we performed the following:

   a. Agreed the dollar amount listed on the general ledger to supporting documentation, which would have included a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting documentation.

   b. Verified that the expenditures selected in (a) above were related to projects included in the County's Seven-Year CIP.

   Results: Based on our review of the Turnback expenditures, the County accounts for its Turnback monies within its Road Fund. The Road Fund has identified the Turnback monies as the funding source for various maintenance projects referred to as "Annual Road Maintenance", within their Seven-Year Transportation Capital Improvement Program. We agreed the amounts selected for testing to supporting documentation. The Turnback expenditures tested totaled $1,862,565 representing approximately 16% of total Turnback expenditures for the fiscal year ended June 30, 2011. No exceptions were noted.

9. We identified whether or not indirect costs were charged as Turnback expenditures. If applicable, we haphazardly selected a sample of charges, reviewed the amounts charged and reviewed supporting documentation for reasonableness.

   Results: The County charged $3,380,829 in indirect costs as Turnback expenditures during the fiscal year ended June 30, 2011. These costs consisted of two cost pools, labor burden and labor overhead rate. The amounts allocated to a specific project are based on direct labor charge to specific job numbers. No exceptions were noted.

10. We obtained the County's Measure M Turnback Revenue Analysis for the three fiscal years ended June 30, 2011 to determine whether funds were expended within three years of receipt.

    Results: No exceptions were noted.

11. We reviewed the County's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

    Results: No interest was allocated based on the timing of expenditures, which were expended prior to receipt of funding. No exceptions were noted.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records, any indirect cost allocation plans and compliance with the provisions of Measure M Local Transportation Ordinance #2. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be, and should not be, used by anyone other than those specified parties.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 12, 2011

COUNTY OF ORANGE, CALIFORNIA
Schedule of Turnback Expenditures
Year Ended June 30, 2011
(Unaudited)

Turnback Expenditures	
Annual Road Maintenance	$ 11,732,268

Note: The above amount was taken directly from the financial records of the County of Orange and was not audited.

ORANGE COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT LETTER

JUNE 30, 2011

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited the financial statements of the Orange County Transportation Authority (OCTA) as of and for the year ended June 30, 2011 and have issued our report thereon dated October 31, 2011. In planning and performing our audit of the financial statements of OCTA, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

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

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

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

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
October 31, 2011

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

CURRENT YEAR OBSERVATIONS

1. ARBA TRUST ACCOUNT RECONCILIATION

OBSERVATION

As of our audit date on September 14, 2011, the ARBA Trust Account reconciliation had not been performed for the quarter ended June 30, 2011. We noted that the ARBA investment statement was received on August 12, 2011.

RECOMMENDATION

We recommend OCTA reconcile the ARBA Trust information in a timely manner.

MANAGEMENT'S RESPONSE

We concur. Staff have requested the statement be prepared monthly and submitted directly to accounting. Staff will reconcile the ARBA statement within two weeks of receipt.

2. INVESTMENT POLICY

OBSERVATION

Review of OCTA's annual Investment Policy (Policy) noted that investment agreements are listed as an allowable investment. These investments are typically allowed by investment provisions in bond issuances, but are otherwise prohibited investments by government code.

RECOMMENDATION

We recommend OCTA update the Investment Policy to reflect investment agreements only under Section IX – BOND PROCEEDS INVESTMENTS.

MANAGEMENT'S RESPONSE

Management agrees with the recommendation and will request the Board of Directors amend the Investment Policy. In the past, the Orange County Transportation Authority has used investment agreements as an investment alternative for bond proceeds. The investment has been implemented as a strategy for both debt service reserve funds and construction funds. The current OCTA Investment Policy contains investment agreement language incorrectly categorized in the non-bond proceeds section. The intent of the language was for the investment instrument to be used solely for bond proceeds rather that discretionary funds since there is no reference to the use of investment agreements in California Government Code Section 53601.

3. MANAGING THIRD PARTY SERVICES

OBSERVATION

OCTA relies on Cofiroute, USA (Cofiroute) to track and report financial activities related to the 91 Express Lanes. In June 2011, Cofiroute implemented a new information system, TollPlus, to track these financial activities.

OCTA has not required Cofiroute to obtain a *Service Organization Report (SOC 1, Type II report),* nor performed its own examination and testing of Cofiroute's internal control systems to ensure controls are adequately structured and operating effectively.

RECOMMENDATION

We recommend that OCTA require a *Service Organization Report (SOC 1, Type II report)* from Cofiroute on an annual basis or that OCTA perform periodic reviews of Cofiroute's internal controls.

MANAGEMENT'S RESPONSE

Management agrees with the recommendation and finds value in having the 91 Express Lanes operator provide OCTA with a Service Organization Report, Type II. OCTA will commence discussions with the operator to require that they provide the report.

4. INFORMATION TECHNOLOGY USER ACCESS REVIEW

OBSERVATION

OCTA does not periodically review and confirm access rights to the financial reporting systems to verify that employee access remains commensurate with job responsibilities.

RECOMMENDATION

We recommend that access reviews be performed and documented at least semi-annually.

MANAGEMENT'S RESPONSE

Information Systems will provide OCTA's Accounting department with reports containing user access data to the financial reporting systems (IFAS and Lawson) twice yearly. Accounting will then perform a logical access review to ensure that proper rights and levels were given to authorized users. Any discrepancies will be documented and corrected.

5. INFORMATION TECHNOLOGY PASSWORD MANAGEMENT

OBSERVATION

We noted that passwords are not set to expire, multiple logins can be attempted without risk of lockout, and passwords are not required to be complex.

RECOMMENDATION

We recommend management consider implementing the following best practices: Passwords that expire after 90 days; automatic lockout after a specified number of failed login attempts, and passwords that are complex (i.e., require letters, numbers and symbol combinations of at least eight characters in length).

MANAGEMENT'S RESPONSE

It has been Information Systems' full intent to implement strengthened password management. The project was deferred until the completion of an upgrade to the standard Operating System (OS) that controls password management. The OS upgrade project will be completed by the end of December 2011 and the recommended password management practices will be in place by January 2012.

6. SERVER AND DESKTOP PATCHES TO PREVENT THE EXPLOITATION OF IT VULNERABILITIES

OBSERVATION

OCTA's current practice is to apply desktop patches quarterly. Quarterly application of patches is considered to be high risk.

RECOMMENDATION

While no formal time period is recommended by VTD, or any recognized authority, the risk assessment and cost/benefit analysis of both desktop and server patch management should be reviewed to ensure risks are adequately addressed.

MANAGEMENT'S RESPONSE

Information Systems management will continue to follow its current practice of reviewing patches to determine the potential impact on OCTA's business operations and will document this assessment. Emergency or out of band patches sent by any vendor will be attended to immediately. Other patches, of a less critical nature, will be applied on a quarterly basis in order to minimize business disruption and costs.

Schedule 1

Measure M1
Schedule of Revenues, Expenditures and Changes in Fund Balance
as of June 30, 2011

($ in thousands)	Quarter Ended June 30, 2011	Year to Date June 30, 2011 *(A)*	Period from Inception through June 30, 2011 *(B)*
Revenues:			
Sales taxes	$ 1,836	$ 175,170	$ 4,003,972
Other agencies' share of Measure M1 costs:			
Project related	13,930	48,122	458,904
Non-project related	-	-	614
Interest:			
Operating:			
Project related	-	-	1,052
Non-project related	(131)	6,136	262,369
Bond proceeds	-	-	136,067
Debt service	-	425	82,054
Commercial paper	-	-	6,072
Orange County bankruptcy recovery	-	-	42,268
Capital grants	-	-	156,434
Right-of-way leases	144	437	5,583
Proceeds on sale of assets held for resale	-	-	24,575
Miscellaneous:			
Project related	-	-	26
Non-project related	-	-	775
Total revenues	15,779	230,290	5,180,765
Expenditures:			
Supplies and services:			
State Board of Equalization (SBOE) fees	557	2,600	56,883
Professional services:			
Project related	4,429	9,234	198,486
Non-project related	875	1,905	34,052
Administration costs:			
Project related	350	1,626	21,034
Non-project related	998	7,659	91,467
Orange County bankruptcy loss	-	-	78,618
Other:			
Project related	177	278	1,807
Non-project related	39	210	15,943
Payments to local agencies:			
Turnback	8,281	31,564	594,009
Other	64,615	92,991	800,903
Capital outlay	13,173	36,169	2,052,897
Debt service:			
Principal payments on long-term debt	-	82,795	1,003,955
Interest on long-term debt and commercial paper	296	4,919	561,842
Total expenditures	93,790	271,950	5,511,896
Deficiency of revenues under expenditures	(78,011)	(41,660)	(331,131)
Other financing sources (uses):			
Transfers out:			
Project related	(2,200)	(128,237)	(382,901)
Non-project related	-	-	(5,116)
Transfers in:			
Project related	-	-	1,829
Bond proceeds	-	-	1,169,999
Advance refunding escrow	-	-	(931)
Payment to refunded bond escrow agent	-	-	(152,930)
Total other financing sources (uses)	(2,200)	(128,237)	629,950
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	$ (80,211)	$ (169,897)	$ 298,819

Schedule 2

Measure M1
Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)
as of June 30, 2011

($ in thousands)	Quarter Ended June 30, 2011 (actual)	Year Ended June 30, 2011 (actual)	Period from Inception through June 30, 2011 (actual)	Period from July 1, 2011 forward (forecast)	Total
		(C.1)	*(D.1)*	*(E.1)*	*(F.1)*
Tax revenues:					
Sales taxes	$ 1,836	$ 175,170	$ 4,003,972	$ -	$ 4,003,972
Other agencies' share of Measure M1 costs	-	-	614	-	614
Operating interest	(131)	6,136	262,369	3,555	265,924
Orange County bankruptcy recovery	-	-	20,683	-	20,683
Miscellaneous, non-project related	-	-	775	-	775
Total tax revenues	1,705	181,306	4,288,413	3,555	4,291,968
Administrative expenditures:					
SBOE fees	557	2,600	56,883	-	56,883
Professional services, non-project related	875	1,905	25,191	-	25,191
Administration costs, non-project related	998	7,659	91,467	1,282	92,749
Operating transfer out, non-project related	-	-	5,116	-	5,116
Orange County bankruptcy loss	-	-	29,792	-	29,792
Other, non-project related	39	210	6,843	-	6,843
Total administrative expenditures	2,469	12,374	215,292	1,282	216,574
Net tax revenues	$ (764)	$ 168,932	$ 4,073,121	$ 2,273	$ 4,075,394

		(C.2)	*(D.2)*	*(E.2)*	*(F.2)*
Bond revenues:					
Proceeds from issuance of bonds	$ -	$ -	$ 1,169,999	$ -	$ 1,169,999
Interest revenue from bond proceeds	-	-	136,067	-	136,067
Interest revenue from debt service funds	-	425	82,054	-	82,054
Interest revenue from commercial paper	-	-	6,072	-	6,072
Orange County bankruptcy recovery	-	-	21,585	-	21,585
Total bond revenues	-	425	1,415,777	-	1,415,777
Financing expenditures and uses:					
Professional services, non-project related	-	-	8,861	-	8,861
Payment to refunded bond escrow	-	-	153,861	-	153,861
Bond debt principal	-	82,795	1,003,955	-	1,003,955
Bond debt interest expense	296	4,919	561,842	-	561,842
Orange County bankruptcy loss	-	-	48,826	-	48,826
Other, non-project related	-	-	9,100	-	9,100
Total financing expenditures and uses	296	87,714	1,786,445	-	1,786,445
Net bond revenues (debt service)	$ (296)	$ (87,289)	$ (370,668)	$ -	$ (370,668)

Schedule 3

Measure M1
Schedule of Revenues and Expenditures
as of June 30, 2011

Project Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through June 30, 2011	Reimbursements through June 30, 2011	Net Project Cost	Percent of Budget Expended
(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
($ in thousands)										
Freeways (43%)										
I-5 between I-405 (San Diego Fwy) and I-605 (San Gabriel Fwy)	$ 982,130	$ 982,676	$ 810,010	$ 789,022	$ 193,654	$ 20,988	$ 871,309	$ 85,584	$ 785,725	97.0%
I-5 between I-5/I-405 Interchange and San Clemente	68,736	68,774	57,836	59,936	8,838	(2,100)	70,294	10,358	59,936	103.6%
I-5/I-405 Interchange	87,242	87,290	72,802	73,075	14,215	(273)	98,157	25,082	73,075	100.4%
SR-55 (Costa Mesa Fwy) between I-5 and SR-91 (Riverside Fwy)	58,161	58,194	44,511	49,349	8,845	(4,838)	55,514	6,172	49,342	110.9%
SR-57 (Orange Fwy) between I-5 and Lambert Road	29,081	29,097	24,128	22,758	6,339	1,370	25,617	2,859	22,758	94.3%
SR-91 (Riverside Fwy) between Riverside Co. line & Los Angeles Co. line	125,575	125,645	116,136	105,389	20,256	10,747	123,995	18,606	105,389	90.7%
SR-22 (Garden Grove Fwy) between SR-55 and Valley View St.	400,518	400,742	313,297	310,943	89,799	2,354	629,003	318,525	310,478	99.1%
Subtotal Projects	1,751,443	1,752,418	1,438,720	1,410,472	341,946	28,248	1,873,889	467,186	1,406,703	
Net (Bond Revenue)/Debt Service			311,917	311,917	(311,917)	-	311,917		311,917	
Total Freeways	$ 1,751,443	$ 1,752,418	$ 1,750,637	$ 1,722,389	$ 30,029	$ 28,248	$ 2,185,806	$ 467,186	$ 1,718,620	
%				42.6%					45.5%	
Regional Street and Road Projects (11%)										
Smart Streets	$ 153,615	$ 153,701	$ 151,292	$ 151,292	$ 2,409	$ -	$ 155,110	$ 11,739	$ 143,371	94.8%
Regionally Significant Interchanges	89,609	89,659	89,659	89,659	-	-	65,445	146	65,299	72.8%
Intersection Improvement Program	128,012	128,084	128,084	128,084	-	-	107,321	214	107,107	83.6%
Traffic Signal Coordination	64,006	64,042	64,042	64,042	-	-	60,888	1,513	59,375	92.7%
Transportation Systems Management and Transportation Demand Management	12,801	12,808	12,808	12,808	-	-	8,562	149	8,413	65.7%
Subtotal Projects	448,043	448,294	445,885	445,885	2,409	-	397,326	13,761	383,565	
Net (Bond Revenue)/Debt Service			2,409	2,409	(2,409)	-	2,409		2,409	
Total Regional Street and Road Projects	$ 448,043	$ 448,294	$ 448,294	$ 448,294	$ -	$ -	$ 399,735	$ 13,761	$ 385,974	
%				11.1%					10.2%	

Measure M1
Schedule of Revenues and Expenditures
as of June 30, 2011

Project Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through June 30, 2011	Reimbursements through June 30, 2011	Net Project Cost	Percent of Budget Expended
(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
($ in thousands)										
Local Street and Road Projects (21%)										
Master Plan of Arterial Highway Improvements	$ 163,186	$ 163,333	$ 163,333	$ 163,333	$ -	$ -	$ 131,685	$ 99	$ 131,586	80.6%
Streets and Roads Maintenance and Road Improvements	592,169	592,500	592,500	592,500	-	-	594,025	-	594,025	100.3%
Growth Management Area Improvements	100,000	100,000	100,000	100,000	-	-	90,003	431	89,572	89.6%
Subtotal Projects	855,355	855,833	855,833	855,833	-	-	815,713	530	815,183	
Net (Bond Revenue)/Debt Service							-		-	
Total Local Street and Road Projects	$ 855,355	$ 855,833	$ 855,833	$ 855,833	$ -	$ -	$ 815,713	$ 530	$ 815,183	
%				21.1%					21.6%	
Transit Projects (25%)										
Pacific Electric Right-of-Way	$ 19,709	$ 19,720	$ 15,000	$ 14,000	$ 5,720	$ 1,000	$ 16,903	$ 2,958	$ 13,945	93.0%
Commuter Rail	367,603	367,820	352,619	361,194	6,626	(8,575)	411,438	60,805	350,633	99.4%
High-Technology Advanced Rail Transit	446,729	446,979	428,507	440,688	6,291	(12,181)	354,109	66,398	287,711	67.1%
Elderly and Handicapped Fare Stabilization	20,000	20,000	20,000	20,000	-	-	20,000	-	20,000	100.0%
Transitways	164,239	164,330	146,381	126,625	37,705	19,756	162,659	36,765	125,894	86.0%
Subtotal Projects	1,018,280	1,018,849	962,507	962,507	56,342	-	965,109	166,926	798,183	
Net (Bond Revenue)/Debt Service			56,342	56,342	(56,342)	-	56,342		56,342	
Total Transit Projects	$ 1,018,280	$ 1,018,849	$ 1,018,849	$ 1,018,849	$ -	$ -	$ 1,021,451	$ 166,926	$ 854,525	
%				25.2%					22.7%	
Total Measure M1 Program	$ 4,073,121	$ 4,075,394	$ 4,073,613	$ 4,045,365	$ 30,029	$ 28,248	$ 4,422,705	$ 648,403	$ 3,774,302	

Schedule 1

Measure M1
Schedule of Revenues, Expenditures and Changes in Fund Balance
as of September 30, 2011

($ in thousands)	Quarter Ended Sept 30, 2011	Year to Date Sept 30, 2011 *(A)*	Period from Inception through Sept 30, 2011 *(B)*
Revenues:			
Sales taxes	$ -	$ -	$ 4,003,972
Other agencies share of Measure M1 costs:			
Project related	5,033	5,033	463,937
Non-project related	2	2	616
Interest:			
Operating:			
Project related	-	-	1,052
Non-project related	1,984	1,984	264,353
Bond proceeds	-	-	136,067
Debt service	-	-	82,054
Commercial paper	-	-	6,072
Orange County bankruptcy recovery	-	-	42,268
Capital grants	-	-	156,434
Right-of-way leases	110	110	5,693
Proceeds on sale of assets held for resale	-	-	24,575
Miscellaneous:			
Project related	-	-	26
Non-project related	-	-	775
Total revenues	7,129	7,129	5,187,894
Expenditures:			
Supplies and services:			
State Board of Equalization (SBOE) fees	-	-	56,883
Professional services:			
Project related	103	103	198,589
Non-project related	602	602	34,654
Administration costs:			
Project related	307	307	21,341
Non-project related	1,606	1,606	93,073
Orange County bankruptcy loss	-	-	78,618
Other:			
Project related	26	26	1,832
Non-project related	-	-	15,943
Payments to local agencies:			
Turnback	-	-	594,009
Other	4,240	4,240	805,143
Capital outlay	2,694	2,694	2,055,591
Debt service:			
Principal payments on long-term debt	-	-	1,003,955
Interest on long-term debt and commercial paper	-	-	561,842
Total expenditures	9,578	9,578	5,521,473
Excess (deficiency) of revenues over (under) expenditures	(2,449)	(2,449)	(333,579)
Other financing sources (uses):			
Transfers out:			
Project related	(363)	(363)	(383,264)
Non-project related	-	-	(5,116)
Transfers in:			
Project related	-	-	1,829
Bond proceeds	-	-	1,169,999
Advance refunding escrow	-	-	(931)
Payment to refunded bond escrow agent	-	-	(152,930)
Total other financing sources (uses)	(363)	(363)	629,587
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	$ (2,812)	$ (2,812)	$ 296,008

Schedule 2

Measure M1
Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)
as of September 30, 2011

($ in thousands)	Quarter Ended Sept 30, 2011 (actual)	Year Ended Sept 30, 2011 (actual)	Period from Inception through Sept 30, 2011 (actual)	Period from October 1, 2011 forward (forecast)	Total
		(C.1)	*(D.1)*	*(E.1)*	*(F.1)*
Tax revenues:					
Sales taxes	$ -	$ -	$ 4,003,972	$ -	$ 4,003,972
Other agencies share of Measure M1 costs	2	2	616	-	616
Operating interest	1,984	1,984	264,353	2,980	267,333
Orange County bankruptcy recovery	-	-	20,683	-	20,683
Miscellaneous, non-project related	-	-	775	-	775
Total tax revenues	1,986	1,986	4,290,399	2,980	4,293,379
Administrative expenditures:					
SBOE fees	-	-	56,883	-	56,883
Professional services, non-project related	602	602	25,793	-	25,793
Administration costs, non-project related	1,606	1,606	93,073	1,128	94,201
Operating transfer out, non-project related	-	-	5,116	-	5,116
Orange County bankruptcy loss	-	-	29,792	-	29,792
Other, non-project related	-	-	6,843	-	6,843
Total administrative expenditures	2,208	2,208	217,500	1,128	218,628
Net tax revenues	$ (222)	$ (222)	$ 4,072,899	$ 1,852	$ 4,074,751

		(C.2)	*(D.2)*	*(E.2)*	*(F.2)*
Bond revenues:					
Proceeds from issuance of bonds	$ -	$ -	$ 1,169,999	$ -	$ 1,169,999
Interest revenue from bond proceeds	-	-	136,067	-	136,067
Interest revenue from debt service funds	-	-	82,054	-	82,054
Interest revenue from commercial paper	-	-	6,072	-	6,072
Orange County bankruptcy recovery	-	-	21,585	-	21,585
Total bond revenues	-	-	1,415,777	-	1,415,777
Financing expenditures and uses:					
Professional services, non-project related	-	-	8,861	-	8,861
Payment to refunded bond escrow	-	-	153,861	-	153,861
Bond debt principal	-	-	1,003,955	-	1,003,955
Bond debt interest expense	-	-	561,842	-	561,842
Orange County bankruptcy loss	-	-	48,826	-	48,826
Other, non-project related	-	-	9,100	-	9,100
Total financing expenditures and uses	-	-	1,786,445	-	1,786,445
Net bond revenues (debt service)	$ -	$ -	$ (370,668)	$ -	$ (370,668)

Schedule 3

Measure M1
Schedule of Revenues and Expenditures Summary
as of September 30, 2011

Project Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through Sept 30, 2011	Reimbursements through Sept 30, 2011	Net Project Cost	Percent of Budget Expended
(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
($ in thousands)										
Freeways (43%)										
I-5 between I-405 (San Diego Fwy) and I-605 (San Gabriel Fwy)	$ 982,074	$ 982,522	$ 810,010	$ 789,022	$ 193,500	$ 20,988	$ 871,139	$ 85,604	$ 785,535	97.0%
I-5 between I-5/I-405 Interchange and San Clemente	68,732	68,763	57,836	59,936	8,827	(2,100)	70,294	10,358	59,936	103.6%
I-5/I-405 Interchange	87,237	87,277	72,802	73,075	14,202	(273)	98,157	25,082	73,075	100.4%
SR-55 (Costa Mesa Fwy) between I-5 and SR-91 (Riverside Fwy)	58,158	58,184	44,511	49,349	8,835	(4,838)	55,514	6,172	49,342	110.9%
SR-57 (Orange Fwy) between I-5 and Lambert Road	29,079	29,092	24,128	22,758	6,334	1,370	25,617	2,859	22,758	94.3%
SR-91 (Riverside Fwy) between Riverside Co. line & Los Angeles Co. line	125,568	125,625	116,136	105,389	20,236	10,747	123,995	18,606	105,389	90.7%
SR-22 (Garden Grove Fwy) between SR-55 and Valley View St.	400,497	400,679	313,297	310,943	89,736	2,354	630,376	321,907	308,469	98.5%
Subtotal Projects	1,751,345	1,752,142	1,438,720	1,410,472	341,670	28,248	1,875,092	470,588	1,404,504	
Net (Bond Revenue)/Debt Service			311,917	311,917	(311,917)	-	311,917		311,917	
Total Freeways	$ 1,751,345	$ 1,752,142	$ 1,750,637	$ 1,722,389	$ 29,753	$ 28,248	$ 2,187,009	$ 470,588	$ 1,716,421	
%				42.6%					45.4%	
Regional Street and Road Projects (11%)										
Smart Streets	$ 153,606	$ 153,676	$ 151,267	$ 151,267	$ 2,409	$ -	$ 155,112	$ 11,739	$ 143,373	94.8%
Regionally Significant Interchanges	89,604	89,645	89,645	89,645	-	-	65,258	146	65,112	72.6%
Intersection Improvement Program	128,005	128,064	128,064	128,064	-	-	107,321	1,506	105,815	82.6%
Traffic Signal Coordination	64,003	64,032	64,032	64,032	-	-	61,160	1,513	59,647	93.2%
Transportation Systems Management and Transportation Demand Management	12,801	12,806	12,806	12,806	-	-	8,801	149	8,652	67.6%
Subtotal Projects	448,019	448,223	445,814	445,814	2,409	-	397,652	15,053	382,599	
Net (Bond Revenue)/Debt Service			2,409	2,409	(2,409)	-	2,409		2,409	
Total Regional Street and Road Projects	$ 448,019	$ 448,223	$ 448,223	$ 448,223	$ -	$ -	$ 400,061	$ 15,053	$ 385,008	
%				11.1%					10.2%	

Measure M1
Schedule of Revenues and Expenditures Summary
as of September 30, 2011

Project Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through Sept 30, 2011	Reimbursements through Sept 30, 2011	Net Project Cost	Percent of Budget Expended
(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
($ in thousands)										
Local Street and Road Projects (21%)										
Master Plan of Arterial Highway Improvements	$ 160,666	$ 160,784	$ 160,784	$ 160,784	$ -	$ -	$ 132,934	$ 99	$ 132,835	82.6%
Streets and Roads Maintenance and Road Improvements	594,643	594,914	594,914	594,914	-	-	594,025	-	594,025	99.9%
Growth Management Area Improvements	100,000	100,000	100,000	100,000	-	-	92,953	431	92,522	92.5%
Subtotal Projects	855,309	855,698	855,698	855,698	-	-	819,912	530	819,382	
Net (Bond Revenue)/Debt Service							-		-	
Total Local Street and Road Projects	$ 855,309	$ 855,698	$ 855,698	$ 855,698	$ -	$ -	$ 819,912	$ 530	$ 819,382	
%				21.1%					21.7%	
Transit Projects (25%)										
Pacific Electric Right-of-Way	$ 19,708	$ 19,717	$ 15,000	$ 14,000	$ 5,717	$ 1,000	$ 16,923	$ 3,043	$ 13,880	92.5%
Commuter Rail	367,583	367,759	352,545	361,033	6,726	(8,488)	411,438	60,805	350,633	99.5%
High-Technology Advanced Rail Transit	446,705	446,908	428,420	440,688	6,220	(12,268)	356,092	66,762	289,330	67.5%
Elderly and Handicapped Fare Stabilization	20,000	20,000	20,000	20,000	-	-	20,000	-	20,000	100.0%
Transitways	164,230	164,304	146,381	126,625	37,679	19,756	162,660	36,765	125,895	86.0%
Subtotal Projects	1,018,226	1,018,688	962,346	962,346	56,342	-	967,113	167,375	799,738	
Net (Bond Revenue)/Debt Service			56,342	56,342	(56,342)	-	56,342		56,342	
Total Transit Projects	$ 1,018,226	$ 1,018,688	$ 1,018,688	$ 1,018,688	$ -	$ -	$ 1,023,455	$ 167,375	$ 856,080	
%				25.2%					22.7%	
Total Measure M1 Program	$ 4,072,899	$ 4,074,751	$ 4,073,246	$ 4,044,998	$ 29,753	$ 28,248	$ 4,430,437	$ 653,546	$ 3,776,891	

Schedule 1

Measure M2
Schedule of Revenues, Expenditures and Changes in Fund Balance
as of June 30, 2011
(Unaudited)

($ in thousands)	Quarter Ended June 30, 2011	Year to Date June 30, 2011 *(A)*	Period from Inception through June 30, 2011 *(B)*
Revenues:			
Sales taxes	$ 61,121	$ 61,121	$ 61,121
Other agencies' share of Measure M2 costs:			
Project related	6,629	11,932	14,159
Interest:			
Bond proceeds	720	2,248	2,248
Debt service	4	8	8
Commercial paper	-	-	393
Total revenues	68,474	75,309	77,929
Expenditures:			
Supplies and services:			
State Board of Equalization (SBOE) fees	636	636	636
Professional services:			
Project related	13,242	33,212	90,624
Non-project related	688	1,658	4,478
Administration costs:			
Project related	910	3,563	8,214
Non-project related	3,477	5,173	11,605
Other:			
Project related	18	23	155
Non-project related	366	2,305	3,326
Payments to local agencies:			
Project related	26,973	35,261	66,274
Capital outlay:			
Project related	30,685	46,096	49,411
Non-project related	-	-	26
Debt service:			
Interest on long-term debt and commercial paper	85	3,663	4,689
Total expenditures	77,080	131,590	239,438
Deficiency of revenues under expenditures	(8,606)	(56,281)	(161,509)
Other financing sources (uses):			
Transfers out:			
Project related	(193)	(193)	(377)
Transfers in:			
Project related	13,490	19,392	23,699
Bond proceeds	-	358,593	358,593
Total other financing sources (uses)	13,297	377,792	381,915
Excess of revenues over expenditures and other sources (uses)	$ 4,691	$ 321,511	$ 220,406

Schedule 2

Measure M2
Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)
as of June 30, 2011
(Unaudited)

($ in thousands)	Quarter Ended June 30, 2011 (actual)	Year Ended June 30, 2011 (actual)	Period from Inception through June 30, 2011 (actual)	Period from July 1, 2011 through March 31, 2041 (forecast)	Total
		(C.1)	*(D.1)*	*(E.1)*	*(F.1)*
Tax revenues:					
Sales taxes	$ 61,121	$ 61,121	$ 61,121	$ 15,303,595	$ 15,364,716
Operating interest	-	-	-	367,504	367,504
Total tax revenues	61,121	61,121	61,121	15,671,099	15,732,220
Administrative expenditures:					
SBOE fees	636	636	636	229,644	230,280
Professional services, non-project related	623	1,138	1,816	102,517	104,333
Administration costs, non-project related	3,477	5,173	11,605	390,776	402,381
Operating transfer out, non-project related	-	-	-	21,421	21,421
Other, non-project related	366	2,305	3,326	29,072	32,398
Capital outlay, non-project related	-	-	26	-	26
Environmental cleanup	337	1,086	1,582	313,422	315,004
Total expenditures	5,439	10,338	18,991	1,086,852	1,105,843
Net tax revenues	$ 55,682	$ 50,783	$ 42,130	$ 14,584,247	$ 14,626,377

		(C.2)	*(D.2)*	*(E.2)*	*(F.2)*
Bond revenues:					
Proceeds from issuance of bonds	$ -	$ 358,593	$ 358,593	$ 740,000	$ 1,098,593
Interest revenue from bond proceeds	720	2,248	2,248	55,700	57,948
Interest revenue from debt service funds	4	8	8	36,202	36,210
Interest revenue from commercial paper	-	-	393	-	393
Total bond revenues	724	360,849	361,242	831,902	1,193,144
Financing expenditures and uses:					
Professional services, non-project related	65	520	2,662	-	2,662
Bond debt principal	-	-	-	1,092,570	1,092,570
Bond debt interest expense	-	3,223	3,223	1,002,058	1,005,281
Commercial paper and other interest expense	85	440	1,466	19,063	20,529
Total financing expenditures and uses	150	4,183	7,351	2,113,691	2,121,042
Net bond revenues (debt service)	$ 574	$ 356,666	$ 353,891	$ (1,281,789)	$ (927,898)

Schedule 3

Measure M2
Schedule of Revenues and Expenditures
as of June 30, 2011
(Unaudited)

Project	Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through June 30, 2011	Reimbursements through June 30, 2011	Net Project Cost	Percent of Budget Expended
	(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
	($ in thousands)										
	Freeways (43% of Net Tax Revenues)										
A	I-5 Santa Ana Freeway Interchange Improvements	$ 1,660	$ 576,500	$ 576,480	$ 576,480	$ 20	$ -	$ 56	$ -	$ 56	0.0%
B,C,D	I-5 Santa Ana/San Diego Freeway Improvements	4,187	1,453,711	1,280,317	1,280,317	173,394	-	8,866	-	8,866	0.7%
E	SR-22 Garden Grove Freeway Access Improvements	424	147,192	147,191	147,191	1	-	1	-	1	0.0%
F	SR-55 Costa Mesa Freeway Improvements	1,293	448,934	448,595	448,595	339	-	413	-	413	0.1%
G	SR-57 Orange Freeway Improvements	914	317,366	299,406	299,406	17,960	-	24,435	604	23,831	8.0%
H,I,J	SR-91 Riverside Freeway Improvements	5,234	1,817,171	1,813,750	1,813,750	3,421	-	13,496	5,192	8,304	0.5%
K,L	I-405 San Diego Freeway Improvements	2,896	1,005,422	582,015	582,015	423,407	-	12,187	-	12,187	2.1%
M	I-605 Freeway Access Improvements	71	24,532	24,532	24,532	-	-	-	-	-	0.0%
N	All Freeway Service Patrol	530	183,989	183,989	183,989	-	-	-	-	-	0.0%
	Freeway Mitigation	906	314,525	270,211	270,211	44,314	-	24,228	-	24,228	9.0%
	Subtotal Projects	18,115	6,289,342	5,626,486	5,626,486	662,856	-	83,682	5,796	77,886	
	Net (Bond Revenue)/Debt Service	-	-	662,856	662,856	(662,856)	-	2,106	-	2,106	
	Total Freeways	$ 18,115	$ 6,289,342	$ 6,289,342	$ 6,289,342	$ -	$ -	$ 85,788	$ 5,796	$ 79,992	
	%				43.0%					44.4%	
	Street and Roads Projects (32% of Net Tax Revenues)										
O	Regional Capacity Program	$ 4,213	$ 1,462,622	$ 1,326,204	$ 1,326,204	$ 136,418	$ -	$ 47,878	$ -	$ 47,878	3.6%
P	Regional Traffic Signal Synchronization Program	1,685	585,023	584,875	584,875	148	-	289	-	289	0.0%
Q	Local Fair Share Program	7,584	2,632,796	2,632,796	2,632,796	-	-	2,799	-	2,799	0.1%
	Subtotal Projects	13,482	4,680,441	4,543,875	4,543,875	136,566	-	50,966	-	50,966	
	Net (Bond Revenue)/Debt Service	-	-	136,566	136,566	(136,566)	-	1,302	-	1,302	
	Total Street and Roads Projects	$ 13,482	$ 4,680,441	$ 4,680,441	$ 4,680,441	$ -	$ -	$ 52,268	$ -	$ 52,268	
	%				32.0%					29.0%	

Schedule 3

Measure M2
Schedule of Revenues and Expenditures
as of June 30, 2011
(Unaudited)

Project	Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through June 30, 2011	Reimbursements through June 30, 2011	Net Project Cost	Percent of Budget Expended
	(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
	($ in thousands)										
	Transit Projects (25% of Net Tax Revenues)										
R	High Frequency Metrolink Service	$ 3,772	$ 1,309,376	$ 1,257,618	$ 1,257,618	$ 51,758	$ -	$ 78,335	$ 32,062	$ 46,273	3.7%
S	Transit Extensions to Metrolink	3,719	1,291,170	1,282,788	1,282,788	8,382	-	19	-	19	0.0%
T	Metrolink Gateways	843	292,579	225,583	225,583	66,996	-	2	-	2	0.0%
U	Expand Mobility Choices for Seniors and Persons with Disabilities	1,264	438,740	438,740	438,740	-	-	469	-	469	0.1%
V	Community Based Transit/Circulators	842	292,450	292,450	292,450			-	-	-	0.0%
W	Safe Transit Stops	93	32,279	32,279	32,279	-	-	-	-	-	0.0%
	Subtotal Projects	10,533	3,656,594	3,529,458	3,529,458	127,136	-	78,825	32,062	46,763	
	Net (Bond Revenue)/Debt Service	-	-	127,136	127,136	(127,136)	-	1,252	-	1,252	
	Total Transit Projects	$ 10,533	$ 3,656,594	$ 3,656,594	$ 3,656,594	$ -	$ -	$ 80,077	$ 32,062	$ 48,015	
	%				25.0%					26.6%	
	Measure M2 Program	$ 42,130	$ 14,626,377	$ 14,626,377	$ 14,626,377	$ -	$ -	$ 218,133	$ 37,858	$ 180,275	

Schedule 3

Measure M2
Schedule of Revenues and Expenditures
as of June 30, 2011
(Unaudited)

Project	Description	Revenues Program to date Actual	Total Revenues	Project Budget	Estimate at Completion	Variance Total Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through June 30, 2011	Reimbursements through June 30, 2011	Net Project Cost	Percent of Budget Expended
	(G)	*(H.1)*	*(I.1)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
	Environmental Cleanup (2% of Revenues)										
X	Clean Up Highway and Street Runoff that Pollutes Beaches	$ 1,221	$ 314,643	$ 313,303	$ 313,303	$ 1,340	$ -	$ 1,582	$ -	$ 1,582	0.5%
	Subtotal Projects	1,221	314,643	313,303	313,303	1,340	-	1,582	-	1,582	
	Net (Bond Revenue)/Debt Service	-	-	1,340	1,340	(1,340)	-	42	-	42	
	Total Environmental Cleanup	$ 1,221	$ 314,643	$ 314,643	$ 314,643	$ -	$ -	$ 1,624	$ -	$ 1,624	
	%				2.0%						

Schedule 1

Measure M2
Schedule of Revenues, Expenditures and Changes in Fund Balance
as of September 30, 2011
(Unaudited)

($ in thousands)	Quarter Ended Sept 30, 2011	Year to Date Sept 30, 2011 *(A)*	Period from Inception to Sept 30, 2011 *(B)*
Revenues:			
Sales taxes	$ 56,198	$ 56,198	$ 117,319
Other agencies share of Measure M2 costs:			
Project related	704	704	14,863
Interest:			
Bond proceeds	4,162	4,162	6,410
Debt service	1	1	9
Commercial paper	-	-	393
Right-of-way leases	29	29	29
Miscellaneous	5	5	5
Total revenues	61,099	61,099	139,028
Expenditures:			
Supplies and services:			
State Board of Equalization (SBOE) fees	636	636	1,272
Professional services:			
Project related	192	192	90,816
Non-project related	115	115	4,593
Administration costs:			
Project related	958	958	9,172
Non-project related	1,240	1,240	12,845
Other:			
Project related	5	5	160
Non-project related	45	45	3,371
Payments to local agencies:			
Project related	6,113	6,113	72,386
Capital outlay:			
Project related	9,659	9,659	59,070
Non-project related	-	-	26
Debt service:			
Interest on long-term debt and commercial paper	11,263	11,263	15,952
Total expenditures	30,226	30,226	269,663
Excess (deficiency) of revenues over (under) expenditures	30,873	30,873	(130,635)
Transfers out:			
Project related	(395)	(395)	(773)
Transfers in:			
Project related	(10,041)	(10,041)	13,658
Bond proceeds	-	-	358,593
Total other financing sources (uses)	(10,436)	(10,436)	371,478
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	$ 20,437	$ 20,437	$ 240,843

Measure M2
Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)
as of September 30, 2011
(Unaudited)

($ in thousands)	Quarter Ended Sept 30, 2011 (actual)	Year Ended Sept 30, 2011 (actual)	Period from Inception through Sept 30, 2011 (actual)	Period from October 1, 2011 through March 31, 2041 (forecast)	Total
		(C.1)	*(D.1)*	*(E.1)*	*(F.1)*
Tax revenues:					
Sales taxes	$ 56,198	$ 56,198	$ 117,319	$ 15,335,704	$ 15,453,023
Operating interest	-	-	-	366,218	366,218
Total tax revenues	56,203	56,203	117,324	15,701,922	15,819,246
Administrative expenditures:					
SBOE fees	636	636	1,272	230,128	231,400
Professional services, non-project related	100	100	1,916	104,266	106,182
Administration costs, non-project related	1,240	1,240	12,845	146,455	159,300
Operating transfer out, non-project related	-	-	-	21,467	21,467
Other, non-project related	45	45	3,371	27,600	30,971
Capital outlay, non-project related	-	-	26	-	26
Environmental cleanup	131	131	1,713	314,039	315,752
	2,152	2,152	21,143	843,954	865,097
Net tax revenues	$ 54,051	$ 54,051	$ 96,181	$ 14,857,967	$ 14,954,148

		(C.2)	*(D.2)*	*(E.2)*	*(F.2)*
Bond revenues:					
Proceeds from issuance of bonds	$ -	$ -	$ 358,593	$ 740,000	$ 1,098,593
Interest revenue from bond proceeds	4,162	4,162	6,410	55,200	61,610
Interest revenue from debt service funds	1	1	9	36,191	36,200
Interest revenue from commercial paper	-	-	393	-	393
Total bond revenues	4,163	4,163	365,405	831,391	1,196,796
Financing expenditures and uses:					
Professional services, non-project related	15	15	2,677	-	2,677
Bond debt principal	-	-	-	1,092,570	1,092,570
Bond debt and other interest expense	11,263	11,263	15,952	1,009,858	1,025,810
Total financing expenditures and uses	11,278	11,278	18,629	2,102,428	2,121,057
Net bond revenues (debt service)	$ (7,115)	$ (7,115)	$ 346,776	$ (1,271,037)	$ (924,261)

Measure M2
Schedule of Revenues and Expenditures Summary
as of September 30, 2011
(Unaudited)

Project	Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through Sept 30, 2011	Reimbursements through Sept 30, 2011	Net Project Cost	Percent of Budget Expended
	(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
	($ in thousands)										
	Freeways (43% of Net Tax Revenues)										
A	I-5 Santa Ana Freeway Interchange Improvements	$ 3,792	$ 589,416	$ 589,396	$ 589,396	$ 20	$ -	$ 71	$ -	$ 71	0.0%
B,C,D	I-5 Santa Ana/San Diego Freeway Improvements	9,559	1,486,288	1,313,574	1,313,574	172,714	-	9,297	36	9,261	0.7%
E	SR-22 Garden Grove Freeway Access Improvements	968	150,490	150,489	150,489	1	-	2	-	2	0.0%
F	SR-55 Costa Mesa Freeway Improvements	2,952	458,995	458,658	458,658	337	-	433	-	433	0.1%
G	SR-57 Orange Freeway Improvements	2,087	324,478	306,588	306,588	17,890	-	24,774	1,718	23,056	7.5%
H,I,J	SR-91 Riverside Freeway Improvements	11,949	1,857,893	1,854,485	1,854,485	3,408	-	13,664	5,297	8,367	0.5%
K,L	I-405 San Diego Freeway Improvements	6,612	1,027,953	606,206	606,206	421,747	-	12,159	627	11,532	1.9%
M	I-605 Freeway Access Improvements	161	25,082	25,082	25,082	-	-	-	-	-	0.0%
N	All Freeway Service Patrol	1,210	188,113	188,113	188,113	-	-	-	-	-	0.0%
	Freeway Mitigation	2,068	321,574	277,433	277,433	44,141	-	24,332	-	24,332	8.8%
	Subtotal Projects	41,358	6,430,282	5,770,024	5,770,024	660,258	-	84,732	7,678	77,054	
	Net (Bond Revenue)/Debt Service	-	-	660,258	660,258	(660,258)	-	4,706	-	4,706	
	Total Freeways	$ 41,358	$ 6,430,282	$ 6,430,282	$ 6,430,282	$ -	$ -	$ 89,438	$ 7,678	$ 81,760	
	%				43.0%					38.2%	
	Street and Roads Projects (32% of Net Tax Revenues)										
O	Regional Capacity Program	$ 9,618	$ 1,495,434	$ 1,359,550	$ 1,359,550	$ 135,884	$ -	$ 56,858	$ 69	$ 56,789	4.2%
P	Regional Traffic Signal Synchronization Program	3,847	598,147	598,000	598,000	147	-	357	-	357	0.1%
Q	Local Fair Share Program	17,313	2,691,747	2,691,747	2,691,747	-	-	8,880	-	8,880	0.3%
	Subtotal Projects	30,778	4,785,328	4,649,297	4,649,297	136,031	-	66,095	69	66,026	
	Net (Bond Revenue)/Debt Service	-	-	136,031	136,031	(136,031)	-	3,491	-	3,491	
	Total Street and Roads Projects	$ 30,778	$ 4,785,328	$ 4,785,328	$ 4,785,328	$ -	$ -	$ 69,586	$ 69	$ 69,517	
	%				32.0%					32.5%	

Schedule 3

Measure M2
Schedule of Revenues and Expenditures Summary
as of September 30, 2011
(Unaudited)

Project	Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through Sept 30, 2011	Reimbursements through Sept 30, 2011	Net Project Cost	Percent of Budget Expended
	(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
	($ in thousands)										
	Transit Projects (25% of Net Tax Revenues)										
R	High Frequency Metrolink Service	$ 8,610	$ 1,338,718	$ 1,287,164	$ 1,287,164	$ 51,554	$ -	$ 78,322	$ 20,803	$ 57,519	4.5%
S	Transit Extensions to Metrolink	8,491	1,320,105	1,311,756	1,311,756	8,349	-	25	-	25	0.0%
T	Metrolink Gateways	1,924	299,136	232,402	232,402	66,734	-	2	-	2	0.0%
U	Expand Mobility Choices for Seniors and Persons with Disabilities	2,885	448,572	448,572	448,572	-	-	1,488	-	1,488	0.3%
V	Community Based Transit/Circulators	1,923	299,004	299,004	299,004			-	-	-	0.0%
W	Safe Transit Stops	212	33,003	33,003	33,003	-	-	-	-	-	0.0%
	Subtotal Projects	24,045	3,738,538	3,611,901	3,611,901	126,637	-	79,837	20,803	59,034	
	Net (Bond Revenue)/Debt Service	-	-	126,637	126,637	(126,637)	-	3,515	-	3,515	
	Total Transit Projects	$ 24,045	$ 3,738,538	$ 3,738,538	$ 3,738,538	$ -	$ -	$ 83,352	$ 20,803	$ 62,549	
	%				25.0%					29.3%	
	Measure M2 Program	$ 96,181	$ 14,954,148	$ 14,954,148	$ 14,954,148	$ -	$ -	$ 242,376	$ 28,550	$ 213,826	

Schedule 3

Measure M2
Schedule of Revenues and Expenditures Summary
as of September 30, 2011
(Unaudited)

Project	Description	Revenues Program to date Actual	Total Revenues	Project Budget	Estimate at Completion	Variance Total Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through Sept 30, 2011	Reimbursements through Sept 30, 2011	Net Project Cost	Percent of Budget Expended
	(G)	*(H.1)*	*(I.1)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
	($ in thousands)										
	Environmental Cleanup (2% of Revenues)										
X	Clean Up Highway and Street Runoff that Pollutes Beaches	$ 2,346	$ 316,385	$ 315,050	$ 315,050	$ 1,335	$ -	$ 1,713	$ -	$ 1,713	0.5%
	Net (Bond Revenue)/Debt Service	-	-	1,335	1,335	(1,335)	-	105	-	105	
	Total Environmental Cleanup	$ 2,346	$ 316,385	$ 316,385	$ 316,385	$ -	$ -	$ 1,818	$ -	$ 1,818	
	%				2.0%					1.5%	
	Taxpayer Safeguards and Audits										
	Collect Sales Taxes (1.5% of Sales Taxes)	$ 1,760	$ 231,795	$ 231,795	$ 231,795	$ -	$ -	$ 1,272	$ -	$ 1,272	0.5%
	%				1.5%					1.1%	
	Oversight and Annual Audits (1% of Revenues)	$ 1,173	$ 158,192	$ 158,192	$ 158,192	$ -	$ -	$ 5,053	$ 4,333	$ 720	0.5%
	%				1.0%					0.6%	

December 2, 2011

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer

Subject: Measure M2 Fare Stabilization Update

Overview

Measure M2 allocates one percent of net revenues to stabilize fares for seniors and persons with disabilities under Project U. Due to the significant decrease in projected revenue available for Project U, it is anticipated that the one percent allocation may be insufficient to meet projected expenditures over the life of the Measure M2 program. Staff has been directed to provide an update addressing the potential shortfall in funding.

Recommendation

Direct staff to return in the fall of 2012 with an update on the status of the Project U Fare Stabilization Program.

Background

Since inception in 1991, the Measure M1 (M1) Program transit mode has included funding for the stabilization of senior and disabled passenger fares. The M1 Program allocated $20 million ($1 million per year) to fund the stabilization of senior and disabled passenger fares. Age eligibility for a senior during M1 was consistent with the Federal Transit Administration definition of a senior, which was age 65 or greater. Measure M2 (M2), Project U, continues funding for the stabilization of senior and disabled passenger fares, but applies a more lenient eligibility age, defining a senior as age 60 or greater. On February 14, 2011, the Board of Directors (Board) approved Project U Guidelines and directed staff to provide an update on the Fare Stabilization Program.

Discussion

Project U provides one percent of net M2 revenues to provide fare discounts for bus services, specialized ACCESS services, and future rail services for

Orange County Transportation Authority
550 South Main Street / P.O. Box 14184 / Orange / California 92863-1584 / (714) 560-OCTA (6282)

seniors and persons with disabilities. This project, like all of the M2 projects, has
seen a dramatic reduction in revenue as a result of the recession. In fiscal year (FY) 2005-06, it was anticipated that fare stabilization revenue would reach $232 million over the 30-year period of M2. Current estimates now indicate revenue may only reach $148 million over that same period. Despite the large reduction in forecasted revenue, the M2 Ordinance requires the fare stabilization program to fund the same percentage of partial funding as of the effective date of the M2 Ordinance, which was November 8, 2006. This requirement limits OCTA's flexibility to reduce fare stabilization expenditures commensurate with the reduction in revenue.

On June 12, 2011, OCTA implemented several Board approved revisions to OCTA's existing fare policies. In order to be consistent with the M2 Ordinance, one of those revisions was the change of age eligibility for a senior to be age 60 or greater. The change in age eligibility increased the population of eligible senior riders in the county by 42 percent. The first quarter of FY 2011-12 represents the first full quarter in which the new guideline has been in effect. Ridership data from the quarter showed only a nine percent increase in ridership for senior and disabled passengers over the same period last year despite the 42 percent increase in eligible participants.

The guidelines for Project U were approved by the Board on February 14, 2011. At that time, staff indicated there could be a shortfall in fare stabilization funding as soon as FY 2011-12, under the worst-case scenario. However, due to improving sales tax receipts, the deferral of the January 2011 fare increase, and a moderate nine percent growth in ridership, staff now anticipates the shortfall in revenue would begin in FY 2034-35.

Summary

Projected Project U funding for fare stabilization is anticipated to be sufficient until FY 2034-35. Staff is recommending that an update be provided to the Finance and Administration Committee next fall at which time staff will have 12-months' ridership data based on the new age eligibility guideline and revised revenue and expenditure forecasts.

Attachment

None.

Prepared by:

Sean Murdock
Department Manager,
Financial Planning & Analysis
714-560-5685

Approved by:

Kenneth Phipps
Executive Director,
Finance and Administration
714-560-5637

December 2, 2011

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer

Subject: Repayment of the Orange County Unified Transportation Trust Fund for Measure M2 Early Action Plan Costs

Overview

The Orange County Transportation Authority Board of Directors had previously directed staff to borrow funds from the Orange County Unified Transportation Trust fund to pay for administrative costs to support the Measure M2 Early Action Plan. The Board of Directors also had directed staff to repay the Orange County Unified Transportation Trust fund with Measure M2 funds shortly after the commencement of the collection of Measure M2 sales tax revenues. Legal counsel has recently opined that immediate repayment of Measure M2 funds to the Orange County Unified Transportation Trust fund would violate a provision in the Local Transportation Authority Ordinance No. 3 (M2 Ordinance) which limits staff administrative salaries and benefits to one percent of net Measure M2 tax revenues collected in any given year.

Recommendation

Direct staff to repay $3,951,362, and any accrued interest, over time to the Orange County Unified Transportation Trust fund with Measure M2 funds when staff administrative salaries and benefits are less than the one percent annual cap as defined in Local Transportation Authority Ordinance No. 3.

Background

On February 26, 2007, the Board of Directors (Board) authorized staff to borrow funds from the Orange County Unified Transportation Trust (OCUTT) fund to pay for Measure M2 (M2) administrative costs incurred prior to the collection of M2 sales taxes in April 2011. At that time, the Board also directed staff to repay OCUTT with interest soon after the collection of revenues commenced in April 2011. On October 20, 2011, Orange County Transportation Authority's (OCTA) legal counsel opined that the portion of the M2 administrative costs related to non-project staff salaries and benefits is subject to an annual one percent cap as compared to the net M2 tax revenues earned in any given year. Since there were no sales tax revenues earned before April 2011, OCTA is not able to utilize M2 funds to immediately repay OCUTT as was initially intended.

Discussion

Between November 2006 when M2 was passed and April 2011 when M2 collections began, OCTA incurred $3,951,362 in salaries and benefits costs to administer the M2 Early Action Plan. These costs have been paid by OCUTT per Board direction.

It was anticipated by staff that immediate payment of M2 funds back to OCUTT would occur shortly after the commencement of M2 sales tax revenues. This was based on the assumption that the one percent cap on OCTA salaries and benefits, as a percentage of net tax revenues, could be averaged over the life of the M2 program as has been done for the Measure M1 (M1) program. However, the language pertaining to the one percent cap of salaries and benefits is slightly different in M2 than M1. This subtle difference means that the one percent cap on OCTA salaries and benefits is applicable each year and cannot be averaged over time.

Although immediate repayment is not allowable per OCTA's legal counsel, payback of M2 funds to OCUTT can occur over time. OCTA's legal counsel has opined that in any year when the amount of administrative salaries and benefits is less than one percent of the net M2 tax revenues, M2 revenues may be used to repay administrative expenses incurred in a prior year, subject to the one percent cap for that year (Attachment A). As such, in order to comply with the one percent cap on administrative salaries and benefits and reimburse OCUTT for costs already incurred, actual costs related to M2 administrative salaries and benefits will have to be less than one percent for several years.

Summary

Due to specific language in the M2 Ordinance, OCTA is unable to immediately repay OCUTT with M2 funds for administrative costs incurred prior to collection of M2 revenues as originally planned. Staff is seeking direction to repay OCUTT with M2 funds over time as allowed by the M2 Ordinance.

Attachment

A. Memorandum regarding Measure M2 Annual limit on salaries and benefits of Authority administrative staff

Prepared by:

Andy Oftelie
Director,
Finance and Administration
714-560-5649

Approved by:

Kenneth Phipps
Executive Director,
Finance and Administration
714-560-5637

ATTACHMENT A

WOODRUFF, SPRADLIN & SMART
A Professional Corporation

555 Anton Boulevard, Suite 1200
Costa Mesa, CA 92626-7670
(714) 558-7000

MEMORANDUM

TO: Ken Phipps, Executive Director
Finance & Administration

FROM: Ken Smart

DATE: October 20, 2011

RE: Measure M2; Annual limit on salaries and benefits of Authority administrative staff

---

Section 7 of Orange County Local Transportation Authority ("Authority") Ordinance No. 3 ("Measure M2") includes the following:

"Revenues may be expended by the Authority for salaries, wages, benefits, and overhead and for those services, including contractual services, necessary to carry out its responsibilities pursuant to Division 19; however, in no case shall the Revenues expended for salaries and benefits of Authority administrative staff exceed more than one percent (1%) of the Revenues in any year."

Revenues include a one-half cent transactions and use tax imposed pursuant to Measure M2 commencing April 1, 2011, plus interest and earnings on the taxes collected.

You have asked whether the one percent cap for the salaries and benefits of Authority administrative staff ("Administrative Expenses") is applicable each year or may be calculated as the annual average over the thirty year term of Measure M2.

I believe the one percent cap on Administrative Expenses is applicable each year and may not be calculated as an annual average over the thirty year term of Measure M2. The language of Section 7 of Measure M2 clearly states that the Administrative Expenses may not exceed one percent of the Revenues in any year. (Emphasis added).

For example, assume the Administrative Expenses in each year as a percentage of the Revenues for that year are as follows: (1) 0.75%, (2) 1.50% and (3) 0.60%, for a three year total of 2.85%. The second year is subject to the 1% cap and the remaining Administrative Expenses that are 0.50 percent of the Revenues for that year may not be paid for with Revenues for that year.

However, in the example above, I believe that Administrative Expenses exceeding the one percent cap in one year may be paid for with Revenues for a different year in which the Administrative Expenses were less than the one percent cap, in an amount that would make the

Administrative Expenses paid for with Revenues for that year total no more than one percent of that year's Revenues. This means that in the referenced example, Administrative Expenses incurred in the second year (1.50%) that could not be paid for with Revenues for that year because of the one percent cap, could be paid for with first year Revenues or third year Revenues in an amount that in the aggregate for each year does not exceed one percent of the Revenues for that year.

This is because Measure M2 does not specify when the Administrative Expenses are incurred. Revenues for each year are calculated and are the basis for the calculation. Administrative Expenses paid for with the Revenues for each year may have been incurred in that year or any other year. There is no requirement as to the year the Administrative Expenses are incurred.

In effect, the language provides that the Administrative Expenses, whenever incurred, may be paid for with M2 Revenues so long as they do not exceed one percent of the Revenues for that year.

cc: Will Kempton

OCTA

October 26, 2011

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer

Subject: Fiscal Year 2011-12 Internal Audit Plan, First Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2011-12 Internal Audit Plan on August 22, 2011. This update is for the first quarter of the fiscal year.

Recommendation

Receive and file the first quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2011-12 Internal Audit Plan.

Background

The Internal Audit Department (Internal Audit) is an independent appraisal function, the purpose of which is to examine and evaluate the Orange County Transportation Authority's (OCTA) operations and activities to assist management in the discharge of its duties and responsibilities.

Internal Audit performs a wide range of auditing services that include overseeing the annual financial and compliance audits, conducting operational and contract compliance reviews, internal control assessments, investigations, pre-award price reviews, and Buy America reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

Discussion

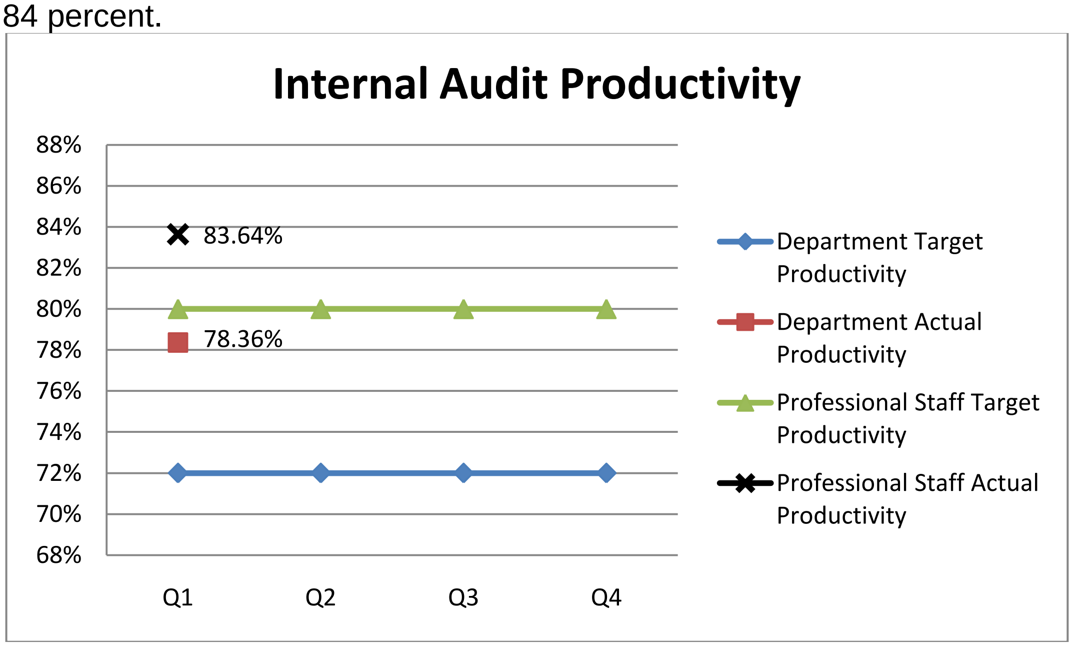
The OCTA Fiscal Year (FY) 2011-12 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project. As indicated, numerous projects were completed or are underway. During the first quarter of the fiscal year, Internal Audit completed a review of Payment Card Industry Standards Compliance and found that OCTA has not fully complied with requirements. Reviews of agreements with MV Transportation, Inc. and Veolia Transportation Services were also completed and found that management oversight of these contracts is generally adequate and invoices are properly supported. Internal Audit also issued a review of State Transportation Improvement Program Planning, Programming, and Monitoring Program Compliance which concluded that, for the fiscal year 2008-09, all expenditures claimed by OCTA were eligible and adequately supported. Finally, Internal Audit issued the semi-annual review of cash and investments and found that investment holdings as of December 31, 2010 were not in compliance with the limit placed on investments in money market/mutual fund holdings. Management has indicated that corrective actions are underway.

The primary focus of Internal Audit as of September 30, 2011, and in the ensuing months, will be to provide coordination of the annual financial statement and related audits.

Internal Audit Department Productivity

Internal Audit measures the productivity of the department by calculating a productivity ratio. The ratio, used broadly throughout the audit industry, measures the amount of time auditors spend on audit projects versus time spent on administrative duties. Productivity goals are established for both the professional staff and for the department as a whole. Because the Executive Director regularly participates in non-audit, management activities such as planning and committee meetings, the department-wide target is set at 72 percent. The target for internal audit professional staff, not including the Executive Director, is 80 percent.

For the first quarter ended September 30, 2011, Internal Audit achieved productivity of 78 percent, and the professional staff achieved productivity of 84 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management (CAMM) Department, and consistent with OCTA procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that the OCTA solicitation process is adequate to stimulate competition. Internal Audit also reviews prices proposed by architectural and engineering firms and sole source contractors to ensure that the prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. When the value of recommended adjustments can be estimated, Internal Audit tracks and reports these savings, as noted below. During the quarter ended September 30, 2011, Internal Audit initiated two price reviews. At the direction of CAMM, one was cancelled prior to completion. For the second price review, Internal Audit issued recommendations for rate adjustment; however, savings could not be estimated because the underlying agreement is for on-call services.

Quarter	Price Reviews: Recommended Adjustments
1Q	$ 0
2Q	
3Q	
4Q	
Total	$ 0

Fraud Hotline

During the quarter ended September 30, 2011, Internal Audit did not receive any complaints through OCTA's Fraud Hotline, www.ethicspoint.com.

In order to ensure that employees remain informed of the hotline, Internal Audit provided related information in the weekly online employee news and on digital signage at the bus base locations during September 2011.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the fiscal year ended 2011, Internal Audit received a total of 23 reports and responded to all within eight business days and, on average, responded within two business days.

Findings and Recommendations Tracking

At the request of the Finance and Administration Committee, unresolved audit recommendations are included with the quarterly updates to the Plan as Attachment B. Internal Audit includes the findings and recommendations generated internally, as well as those provided by regulatory auditors and OCTA's independent financial statement auditors.

Summary

The Orange County Transportation Authority's Internal Audit Department will continue to implement the Orange County Transportation Authority Fiscal Year 2011-12 Internal Audit Plan, monitor performance metrics, and report the status on a quarterly basis.

Attachments

A. Orange County Transportation Authority Internal Audit Department FY 2011-12 Internal Audit Plan First Quarter Update
B. Unresolved Audit Findings and Recommendations (Audit Reports Issued Through September 30, 2011)

Approved by:

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

Orange County Transportation Authority
Internal Audit Department
FY 2011-12 Internal Audit Plan
First Quarter Update

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date to F&A)	External Auditor
Mandatory External Independent Audits								
Annual Financial Audit	FY12-000	Annual financial and compliance audits for fiscal year 2011-12.	Financial	520	52	468	In Process	Vavrinek, Trine, Day & Co. (VTD)
Annual Transportation Development Act Audits	FY12-001	Coordination of required annual audits of the recipients of Transportation Development Act Funds for fiscal year 2011-12.	Compliance	160	10	150	In Process	
Orange County Council of Governments (OCCOG) Financial Statement Audit	FY12-005	Management of external audit of OCCOG financial statements and ad-hoc audit assistance.	Financial	20		20		
Internal Audit Projects								
Risk Assessment and Annual Audit Plan	FY11-100	Annual preparation of the audit plan, quarterly updates to the audit plan, periodic assessment of risk throughout the year.	Risk Assessment	180	76	104	Ongoing	
Quality Assurance and Self-Assessment	FY11-101	Update of Internal Audit Policies & Procedures. Annual self assessment of Internal Audit's compliance with Government Auditing Standards.	Quality Assurance	120	2	118	Ongoing	
Fraud Hotline	FY11-102	Investigations of reports of fraud, waste or abuse. In February, develop and issue Request for Proposals for these services which expire in August 2011.	Fraud Hotline	100		100	Ongoing	
Audit Leverage Software System	FY12-103	Deploy updates/upgrades to Audit Leverage software.	Audit Software Updates	40	10	30	Ongoing	
General Auditing - On-Call Services	FY12-104	Issue Request for Proposals, evaluate, and select firms for on-call auditing services.	On-Call Auditing	60		60		
Internal Audits								
Human Resources and Organizational Development								
Worker's Compensation	FY12-501	Review of policies, procedures, and related contracts to ensure adequate controls, effectiveness and efficiency of the worker's compensation program.	Operational	260		260		
Employment	FY12-502	Review of controls and efficiency of candidate recruitment, selection, and hiring.	Operational	240		240		
Department of Motor Vehicles Pull Notice Program	FY12-503	Review of the Pull Notice Program and testing of controls in place to ensure compliance.	Internal Control	180		180	In Process	

ATTACHMENT A

Orange County Transportation Authority
Internal Audit Department
FY 2011-12 Internal Audit Plan
First Quarter Update

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date to F&A)	External Auditor
Capital Projects								
Orangethorpe Corridor Grade Separation Projects	FY11-501	Review of selected contracts for project management, design, and preliminary engineering for the Orangethorpe Corridor Railroad Grade Separations.	Compliance	450		450		
Contract Retention	FY11-502	Review of policies, procedures, and practices for contract retention and release.	Compliance	175		175		
State Route 57 Improvements	FY11-503	Review of selected contracts for design and preliminary engineering for State Route 57 improvements.	Compliance	250	211	40	In process	
Combined Transportation Funding Program (CTFP) Project Audits	FY12-	Preliminary risk assessment, selection of projects, and coordination with outside firm for review of selected CTFP projects for compliance with Measure M requirements.	Compliance	170		170		
Metrolink Cost Sharing	FY11-504	Financial analysis of Metrolink contractual operating cost allocation.	Financial	250	18	232		
Metrolink Service Expansion Program	FY11-505	Review of cooperative agreement with Metrolink for infrastructure improvements related to the implementation of 30 minute service.	Compliance	260		260		
Transit Operations								
Security - Rolling Stock	FY12-506	Review contracts, systems, and controls in place to ensure the safety and security of the rolling stock.	Internal Control	175		175	In Process	
Contracted and Paratransit Operations	FY10-503	Review to ensure contract compliance and verify propriety of payments. Two reviews will be conducted: MV Transportation, Inc. (fixed-route service) and Veolia Transportation (ACCESS service).	Compliance	100	216	(116)	2 Complete (9-14-11)	
Government Relations and Intergovernmental Activities								
Grant Close-outs	FY11-402 FY12-400	As needed financial and compliance audits of grants at close-out to ensure propriety of expenditures.	Compliance	80		80	1 Complete (08-24-11)	
Finance and Accounting								
Treasury	FY11-508 FY12-500	Bi-annual financial and compliance reviews of the treasury function, including investment and bond compliance.	Compliance	300	102	198	In Process	
Toll Road Operations - Revenue and Accounting Management System (RAMS)	FY12-502	Prepare scope and coordinate review of Cofiroute's Revenue and RAMS.	Internal Control	120	17	103	In Process	
Corporate Credit Cards	FY12-507	Review and testing of internal controls in place over corporate credit cards.	Internal Control	160		160		

Orange County Transportation Authority
Internal Audit Department
FY 2011-12 Internal Audit Plan
First Quarter Update

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date to F&A)	External Auditor
Contracts & Materials								
Price Reviews	PR12-000	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	1,000	79	921	1 Complete 1 Cancelled 2 In Process	
Maintenance Inventory Management	FY09-022	Review of inventory management policies, procedures, controls, operational efficiency, and analytic tools.	Operational	175	243	(68)	In process	
Fuel Controls	FY09-024	Review of controls over dispensing of petroleum products.	Internal Control	100	261	(161)	In process	
Information Systems								
Payment Card Industry (PCI) Data Securities Standards (DSS) Compliance	FY11-507	Review of OCTA's compliance with PCI DSS, including review and evaluation of annual self-assessment to ensure protection of credit card data.	Compliance	20	11	9	Complete (7-13-11)	
Telecommunications Equipment	FY09-020	Review of telecommunications equipment usage and internal controls.	Internal Control	80	1	79	In process	
Unscheduled Reviews and Special Requests								
Unscheduled Reviews and Special Requests	FY12-800	Time allowed for unplanned audits and requests from the Board of Directors and management.	Varies	150	33	117		
Monitoring Activities								
Measure M Taxpayers Oversight Committee	FY12-601	Coordination of audit activities with the Audit Subcommittee of the Measure M Taxpayers Oversight Committee.	Monitoring	120	34	86		
Radio Upgrade	FY12-602	Ongoing monitoring of Intelligent Transportation Management System upgrade by ACS and EigerTech.	Monitoring	25		25		
Bus Base Inspections and Inventory Testing	FY12-603	Participation on base inspection teams.	Monitoring	40		40		
Follow-up Reviews								
Follow-up Reviews and Reporting	FY12-700	Follow-up on audit findings and recommendations.		250	108	142		
			Total Audit Project Planned Hours (A)	**6,330**	**1,483**	4,847		

Orange County Transportation Authority
Internal Audit Department
FY 2011-12 Internal Audit Plan
First Quarter Update

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date to F&A)	External Auditor
Internal Audit Administration								
Board of Directors and Board Committee Meetings				380	47	334		
Executive Steering Committee and Agenda Meetings				160	27	134		
Internal Audit Department Staff Meeting				240	15	225		
Other Administration				1,500	330	1,170		
			Total Hours (B)	**8,610**	**1,901**	6,709		
			Target Efficiency (A/B)	74%				
			Actual Efficiency (A/B)		**78%**			

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2011)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should develop and implement password administration controls to address weaknesses.	Apr-12	OCTA's Information Systems (IS) Department is in the process of upgrading the Windows server environment. Once this is complete, staff will solicit consulting support to bind complex passwords to the Lightweight Directory Access Protocol (LDAP). This should be completed by the end of FY2010-11. <u>Update January 2011:</u> The Windows Active Directory project is still underway and is scheduled to be completed by April 2011. <u>Update September 2011:</u> The completion of the Windows 2008 Active Directory project has been delayed. The Windows 2008 project is now scheduled for completion in November, 2011. IS will then implement binding of the Lawson LDAP to the Microsoft Active Directory. For the password binding to be enabled, OCTA staff must also implement an upgrade to the Lawson application. This is scheduled for January, 2012 and is projected to take three months to complete.	Bonelli	Initiate next update in April 2012.
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should prioritize the development of a comprehensive business continuity plan.	Apr-12	The Board of Directors has approved the selection of a vendor to provide real time "warm" site backup to our mission critical applications. The project is in its implementation stage and should be complete by the end of FY 2010-11. <u>Update September 2011:</u> The Disaster Recovery project is in the final stages of system testing and is expected to be completed in mid-October.	Bonelli	Initiate next update in April 2012.
2/5/2010	08-010	Metrolink	Review of Metrolink Activities	OCTA Internal Audit provided seven recommendations for improvements in Metrolink's internal audit function. Metrolink's Board of Directors will consider the report in March 2010.	Nov-11	Metrolink management concurred with all recommendations and proposed implementing action. Once the matter is reviewed by the Metrolink Board of Directors, OCTA Internal Audit will report outcomes to OCTA's Finance and Administration Committee, as directed. <u>Update April 2011:</u> There is significant, ongoing work effort by Metrolink management to address all outstanding audit findings and implement corrective actions recommended by the audits where necessary. Metrolink staff plans to bring detailed recommendations to the Executive Management and Audit Committee by June 2011.	Bonelli	Next follow-up will be conducted in November 2011.

ATTACHMENT B

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2011)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
5/26/2010	09-021	Transit	State Triennial Performance Audit	Booz Allen Hamilton (BAH) recommended that OCTA establish an ongoing performance monitoring process to compare service performance before and after the March 2010 service change to assist OCTA in identifying customer impacts and highlight opportunities to adjust resources	Sep-11	OCTA will conduct a systemwide transit study to evaluate the remaining network. The study will include analysis of performance metrics as well as public outreach. The study is expected to be completed in the third quarter of 2011. Update September 2011: The Transit System study is now expected to be completed in the fourth quarter.	Sutter	Next follow-up scheduled for March 2012.
5/26/2010	09-021	Transit	State Triennial Performance Audit	BAH recommended that OCTA study the cost drivers associated with the fixed-route service and consider options to control costs.	Sep-11	OCTA will conduct a systemwide transit study to evaluate the remaining network. The study will include this sort of analysis and is expected to be completed in the third quarter of 2011. OCTA will also address system costs during labor negotiations, continue to evalute contracting opportunities, and continue legislative advocacy for improved funding. Update September 2011: The Transit System Study is now expected to be completed in the fourth quarter.	Sutter	Next follow-up scheduled for March 2012.
9/30/2010	08-016	Finance and Administration	Review of 91 Express Lanes Toll Road Collections	Cofiroute management should ensure the new 91 Express Lanes software has sufficient controls in place to prevent Notice of Toll Evasion Violations (NTEV) from being sent to toll road violators past the deadline established in the code.	Nov-11	Management concurs. Cofiroute will continue to run daily exception reports and investigate any exceptions to ensure NTEVs will not be sent to violators past the deadline as established in the code. Update: Cofiroute continues to work on the development of the new 91 Express Lanes software. The new software will have controls in place to prevent NTEVs from being sent to toll road violators past the deadline established in the code. In addition, Cofiroute continues to run exception reports on a daily basis and to investigate any exceptions.	Bonelli	Next follow-up will be conducted in November 2011.
9/30/2010	08-016	Finance and Administration	Review of 91 Express Lanes Toll Road Collections	Internal Audit recommends that 91 Express Lanes management consider expanded income statement classifications and/or notes to the financial statements to better detail the nature and amount of income and expenses in the 91 Express Lanes stand-alone financial statements. Internal Audit also recommends that management consider comparative financial statements for this enterprise fund as a means of highlighting significant fluctuations in revenue, expenses, and financial position.	Nov-11	Management agrees with the recommendations and will make changes for the fiscal year ending June 30, 2011, to the income statement classifications to better detail the nature and amount of income and expenses for the 91 Express Lanes stand-alone financial statements.	Bonelli	Next follow-up will be conducted in November 2011.

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2011)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
1/19/2010	N/A	Finance and Administration	Management Letter & Single Audit Report	Mayer Hoffman McCann, PC (MHM) recommended that Finance and Administration staff provide additional training to ensure staff is aware of OCTA's availability period and procedures for deferring revenue.	Dec-11	The availability period for revenue recognition will be changed from 180 to 90 days. This change will allow revenues to be verified as current or deferred prior to completion of the audit. Additionally, the availabilty period has been reveiwed with the accounts receivable section so that they understand the proper classification of revenues at year end.	Sutter	
1/19/2011	N/A	Transporation Development Act Claimant: City of Seal Beach	Transportation Development Act Article 4.5 Funds (City of Seal Beach)	MHM found that the City of Seal Beach (City) had continued to operate transportation services on an expired contract and recommended that the City establish procedures to ensure that agreements do not expire before being renewed or rebid.	Dec-11	The City has measures in place to ensure that contracts do not expire. This particular case is not repesentative of how the City manages contracts. In this particular case, there was turnover of personnel within the Public Works Department. Additional measures have been implemented to ensure that if turnover occurs in the future, new staff will be informed of the status of existing contracts.	Sutter	
1/19/2011	N/A	Transporation Development Act Claimant: Jewish Family Services of Orange County	Transportation Development Act Article 4.5 Funds (Jewish Family Services of Orange County)	MHM found that Jewish Family Services of Orange County (JFS) does not have a system in place to track deferred revenue from unused taxi vouchers. There is no mechanism in place to identify when a valid taxi voucher has been used, thus JFS is unable to determine the number of taxi vouchers outstanding and, accordingly, the amount of revenue which as not yet been earned. MHM recommended that JFS establish procedures to identify which taxi vouchers have not yet been used. MHM also recommended the implementation of a better system for the tracking of taxi voucher sales and uses.	Dec-11	During the fiscal year 2010-11, JFS met with the contracted cab company, Yellow Cab, and Yellow Cab agreed to provide receipts of all the vouchers collected by the cab drivers to support the use of taxi vouchers for billed cab rides. During the fiscal year 2010-11, JFS will be implementing a new system to improve the ability of tracking and monitoring taxi vouchers.	Sutter	
1/19/2011	N/A	Transportation Development Act Claimant: Vietnamese Community of Orange County, Inc.	Transportation Development Act Article 4.5 Funds (Vietnamese Community of Orange County, Inc.)	MHM found that the Vietnamese Community of Orange County, Inc. (VNCOC) included interest expense as part of its in-kind contributions related to its program. VNCOC acquired a vehicle and financed it at 0 percent interest, but included in-kind expenses of $1,733 for interest at a rate of six percent. MHM disallowed the interest expense and recommended that VNCOC exclude this expense in the future.	Dec-11	VNCOC indicated it will not be recording interest expense on the audit loan on a going forward basis.	Sutter	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2011)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
2/23/2011	09-015	Capital Projects	Real Estate and Right-of-Way Administration	Management should develop procedures for fair market adjustments to lease rates.	Aug-11	Right-of-way (ROW) staff will develop policies and procedures to enforce the fair market adjustment terms and conditions for revenue-generating leases.	Ng	
2/23/2011	09-015	Capital Projects	Real Estate and Right-of-Way Administration	Lease rate adjustments and Consumer Price Index increases should be consistently implemented.	Aug-11	ROW staff will review leases with terms greater than one year on a monthly basis to determine if a fair market adjustment is warranted. Also, staff will coordinate its efforts with Accounting staff for billing adjustments.	Ng	
4/13/2011	11-005	Measure M City Audits: City of Tustin	Tustin	Auditors recommended that the City of Tustin (Tustin) reimburse the turnback fund $50,000 in unsupported, indirect charges, and that an additional entry of $148,366 be made to reflect charges to the fund for allowable direct labor expenditures. Auditors also noted expenditures for one project that were included in an amended Seven-Year Capital Improvement Plan (CIP) that was not submitted to the Orange County Local Transportation Authority (OCLTA) as required.	Dec-11	Tustin agreed and indicated a net entry of $98,366 would be made for the FY2010. Also, Tustin agreed to submit the amended CIP to OCLTA.	Sutter	
4/13/2011	11-005	Measure M City Audits: City of San Juan Capistrano	San Juan Capistrano	Auditors recommended that the City of San Juan Capistrano (SJC) submit a request for extension to OCLTA for funds not spent within three years, and that SJC ensure interest is allocated to unspent turnback monies.	Mar-12	SJC responded that a request for extension would be submitted to OCLTA and that turnback funds will be segregated to ensure accurate interest allocation to the fund in the future. Update September 2011: SJC did not submit a request for extension; however the excess funds were spent during the FY2010-11. In addition, as of the follow up review date, SJC had not yet segregated Measure M funds to ensure proper interest allocation.	Bonelli	Next update March 2012.

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2011)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
6/8/2011	11-007	Transit: Service Authority for Abandoned Vehicles (SAAV)	Financial and Compliance Audits of the SAAV and related Member Agencies	Auditors noted several exceptions and, as a result, the Board approved the following recommendations: (1) Direct staff to offset a future payment to the City of Westminster in the amount of $13,450.64. (2) Direct staff to monitor implementation of recommendations related to refunds from the cities of Anaheim and Costa Mesa in the amounts of $1,436.84 and $706.00, respectively. (3) Direct staff to monitor implementation of recommendation related to restoration of funds by the cities of La Habra, Los Alamitos, and Orange. (4) Direct staff to enhance the User Guide for Member Agencies to include additional guidance on supporting documentation for expenditures and allocation of interest.	Jan-12	Management concurred and agreed to implement the recommendations.	Sutter	
7/6/2011	11-507	Finance and Administration	Review of Payment Card Industry Data Security Standards Compliance	Management should implement procedures to ensure an annual Self Assessment Questionnaire (SAQ) for all OCTA transactions is prepared and related action plans are developed, attested to, and submitted as required. Further, management should ensure documentation is on file to evidence action plans have been developed and implemented as required.	Jan-12	Management concurs with the recommendations to implement procedures for ensuring SAQ's and related action plans are completed, attested to, and submitted as required.A review of the most recent SAQ's will be conducted to identify and document items that require further action or remediation. Action plans will be developed and retained in an up to date log/repository to be maintained and managed by OCTA's Senior Information Systems Security Analyst.	Dunning	
	11-507	Finance and Administration	Review of Payment Card Industry Data Security Standards Compliance	Management should implement procedures to ensure vulnerability scans are performed on a quarterly basis and documentation of results and any remediation efforts is retained.	Jan-12	Management will modify procedures to ensure results of scans and any required remediation efforts are documented and maintained.	Dunning	
	11-507	Finance and Administration	Review of Payment Card Industry Data Security Standards Compliance	Internal Audit recommends that responsibility and authority for compliance with Payment Card Industry Data Security Standards be centralized in order to coordinate compliance and reporting.	Jan-12	OCTA's Chief Information Officer (CIO) will be the designated party to oversee compliance reporting for both OCTA and the 91 Express Lanes. Individual SAQ's will be compiled, attested to, and submitted by the CIO.	Dunning	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2011)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
8/22/2011	11-508	Finance and Administration	Investments: Compliance, Controls and Accounting Jul 1 through Dec 31, 2010	Internal Audit noted that OCTA's investment holdings as of December 31, 2010, did not adhere to investment diversification requirements outlined in the Investment Policy. Internal Audit recommends management review and revise the policy as applicable and ensure any instances of non-compliance are properly disclosed to the Board of Directors.	Feb-12	Limiting investment of bond proceeds to the maturity and diversification guidelines of the OCTA Investment Policy creates an issue during the startup of a bond proceeds portfolio. Staff will draft suitable language that addresses this issue.	Ng	
8/22/2011	11-508	Finance and Administration	Investments: Compliance, Controls and Accounting Jul 1 through Dec 31, 2010	A review of two invoices under Agreement No. C-8-0883 for financial advisory services (Agreement) noted $8,200 in fees billed for personnel not listed in the Agreement. Internal Audit recommends that management amend the Agreement, as necessary, to include all authorized personnel.	Feb-12	Management concurs with Internal Audit's recommendation and will amend the Agreement to include the additional analyst personnel.	Ng	
9/26/2011	10-503	Transit	Review of MV Transportation, Inc. Agreement	MV is not in compliance with Agreement terms related to maintaining the unclassified revenue percentage within OCTA standards. Internal Audit recommends that Community Transportation Services (CTS) develop a process to monitor compliance with this contract provision.	Mar-12	CTS has implemented a monitoring protocol which includes the review of fare activity reports identifying individual operators who require additional instruction on the proper fare box procedures. CTS staff will meet with MV management weekly to review reporting information and ensure compliance with standard.	Dunning	
9/26/2011	10-503	Transit	Review of MV Transportation, Inc. Agreement	Internal Audit recommends that Agreement language be reviewed and amended as appropriate to properly outline required versus desired training and qualifications.	Mar-12	Concurrent with a future amendment to the Agreement, contract language will be amended to outline the training and qualification requirements.		

TRIENNIAL PERFORMANCE ASSESSMENT
SCOPE OF WORK
January 10, 2012

BACKGROUND

On November 7, 2006, Orange County voters approved the Renewed Measure M Transportation Investment Plan (M2), a measure authorizing collection of a one-half cent sales tax over 30 years to fund transportation improvements.

Collection of sales tax revenues under M2 began on April 1, 2011. M2 was preceded by a similar measure known as M1 that went into effect in April 1991 and expired on March 31, 2011.

Ordinance No. 3, which defines and regulates how the M2 sales tax proceeds can be spent, was approved by the OCTA Board of Directors on July 24, 2006. Ordinance 3 includes the M2 Plan, which describes four categories of project and program improvements to be funded: Freeways, Streets and Roads, Transit, and Environmental Cleanup. OCTA administers the provisions of the Ordinance and M2 plan ranging from receiving the revenues to allocation of funds and implementation of the projects and programs.

Although collection of sales tax under M2 did not start until April 2011, the Orange County Transportation Authority (OCTA) started work on M2 in 2007 by adopting an Early Action Plan, using debt financing secured by the anticipated sales tax revenue stream. The projects undertaken include all four categories of improvements outlined above (Freeways, Streets and Roads, etc.).

The M2 Ordinance includes a section on “Taxpayer Safeguards and Audits.” The safeguards and audits include a requirement for a triennial performance assessment among other things. A copy of Ordinance No. 3 is included as an attachment to this Scope of Work.

The first triennial performance assessment, covering the period November 8, 2006 through June 30, 2009, was completed in October 2010. The review resulted in several findings that were acted upon. This performance assessment covers the period between July 1, 2009 and June 30, 2012.

The Authority has established a Program Management Office (PMO) to oversee the implementation of M2. The PMO, a part of the Authority’s Planning Division, is focusing on overall program management, compliance with the Ordinance, fiscal responsibility, transparency, and safeguards. The PMO’s role is primarily oversight rather than direct management. It monitors progress on projects and programs and ensures compliance with ordinance requirements and other aspects of M2. The PMO facilitates coordination among OCTA divisions, provides technical expertise to support transparency and reporting requirements, and coordinates other aspects of M2. Reporting includes, quarterly status reports to the Board of Directors, annual reports on revenues spent and progress in implementing M2, triennial performance assessments, and ten-year comprehensive reviews.

Management of individual M2 projects and programs (facilities and services) is carried out by operating units. The PMO monitors and reports on the projects and programs. The PMO has also developed a document management process for tracking M2-related decisions and activities. The PMO Manager will be the project manager for this Triennial Performance Assessment.

Purpose of the Assessment

Ordinance No. 3 includes the following provision: "A performance assessment shall be conducted at least once every three years to evaluate the efficiency, effectiveness, economy and program results of the Authority in satisfying the provisions and requirements of the Investment Summary of the Plan, the Plan and the Ordinance".

The purpose of the triennial performance assessment is to evaluate OCTA's performance on a range of activities covering planning, management, and delivery of M2 program. The assessment is intended to be both retrospective and prospective. It will assist OCTA in improving upon the current process and practices in place and ensure the necessary tools are in place to successfully implement the plan over the life of the program. The assessment should focus on the most relevant matters related to OCTA's efficiency, effectiveness, economy, and program results in delivering M2. Compliance with individual aspects of Ordinance No. 3 is an element of the assessment, but the Authority expects the Contractor to also provide a sound, overall assessment to strengthen OCTA efforts as it continues forward with the implementation of M2.

This scope of work is for a performance assessment, as opposed to a fiscal audit. Audits of the Orange County Local Transportation Authority (agency within OCTA that is legislatively designated to administer M2) financial statements and reviews of M2 financial status reports are conducted as part of OCTA's annual financial and compliance audits. In addition, the Authority's Internal Audit Department carries out, either directly or through independent contractors, various M2 audits. These audits cover reviews of individual projects and/or programs and local agencies' compliance with expenditure requirements set forth in the Ordinance.

Contractor Qualifications

Ideally the contractor hired would have a strong background and understanding in transportation planning and program/construction management. The consultant should provide qualified staff with experience in the following areas:

- Project development activities, assessing transportation programs, and evaluating best practices
- Collecting data, conducting interviews, assessing operations and an understanding of organizational structures
- Objectively analyzing information and producing recommendations to improve key areas of performance

Assessment Objectives

The performance assessment objectives listed below are an important component of the assessment:

- Evaluate the status of the findings from the first triennial performance assessment and effectiveness of changes implemented
- Assess the performance of the agency on the efficient delivery of Measure M2 projects and programs
- Identify and evaluate any potential barriers to success and opportunities for proposed changes

A. SCOPE

The scope of work for this project includes a Measure M2 performance assessment of the Authority for the period of July 1, 2009 through June 30, 2012. Summarized in tasks one through five are areas OCTA has identified as highly important to its performance and to which it directs the Contractor's attention. As an independent assessor, the Contractor may choose other areas, but the Authority expects the Contractor to review the following:

Task 1: Project Delivery

Evaluate OCTA's effectiveness and efficiency in developing and implementing the projects and programs described in M2. Questions might include:

a) Is overall progress to date in implementing M2 reasonable? Is sufficient progress being made to support full completion of the Plan within the 30-year M2 period?

b) Are selection and phasing of projects outlined in the most recent Capital Action Plan – CAP [(1)] reasonable?

---

1) The Capital Action Plan document includes a description of how priority M2 projects will be implemented in the early years of the M2 program.

c) Was there a set of reasonable principles in place for determining what projects to include in the CAP?

d) Did OCTA follow the set of principles and has early delivery objectives been accomplished?

e) Are their appropriate systems in place to monitor, assess, control and report on CAP progress?

Task 2: Program Management / Responsiveness

Evaluate the Authority's approach to program management. Questions might include:

a) Assess the Authority's response to the findings in the 2006-2009 Triennial Performance Assessment. Were the findings adequately addressed? Are there any remaining follow-ups or carryover items?

b) Are there effective mechanisms in place to ensure interdivisional coordination in planning and implementing projects/programs?

c) Is the Authority's approach to implementing the M2 requirement to limit administrative costs to one percent of total tax revenues and assess related issues and challenges appropriate?

Task 3: Compliance

Evaluate the extent of compliance with the Ordinance including Attachments A, B, and C to the Ordinance. Questions might include:

a) Are the methods and procedures used to report on compliance with the Ordinance adequate?

b) OCTA has developed a matrix itemizing all requirements set forth in the Ordinance and Plan to monitor compliance. Is the tool sufficient or are there improvements that should be made to track compliance?

c) Is the Authority's approach to determine local agency eligibility sufficient?

Task 4: Fiscal Responsibility

Evaluate the extent to which the Authority is economical in structuring the approach to project and program delivery. Questions might include:

a) Is the Authority's technical project selection process for awarding M2 grants to streets and roads and environmental projects appropriate?

b) Is the Authority's payment process for grant funding disbursement under the M2 Streets and Roads programs efficient and appropriate?

c) Is the local agency expenditure reporting process and format appropriate?

d) Is the Authority's use of M2 funds, specifically in the development and use of other available funding sources to supplement sales tax revenues, efficient?

e) Evaluate the Authority's policies and practices in investing M2 funds. Do fund investment policies and practices reflect a sound balance of security, return, and cash flow needs?

f) Evaluate the Authority's use of financing to fund M2 projects. Is it appropriate?

g) Evaluate the Authority's long term financial planning process through the Comprehensive Business Plan development. Is the process an effective way of determine and plan for the M2 cash flow needs?

Task 5: Transparency and Accountability

Evaluate how fully, intelligibly, and otherwise appropriately the Authority reports on M2 matters to the Board of Directors, the TOC, the general public, and other stakeholders. Questions might include

a) Evaluate the Authority's public outreach approach. Does OCTA effectively inform the public about M2 programs and projects?

b) Does the Authority involve as appropriate user groups and communities affected by M2 programs and projects in planning and decision-making?

c) Does the Authority make good use of its website, e-mail, social media, and traditional methods (e.g., press releases and direct mail) to inform and involve the public?

B. MATERIALS AND DOCUMENTATION

To assist in the assessment the contractor should review existing materials and documentation including but not limited to, the following:

a) Orange County Local Transportation Authority Ordinance No. 3
b) Early Action/Capital Action Plan
c) Measure M Website/Dashboards
d) Agenda's for OCTA Board of Director meetings, Taxpayer Oversight Committee and environmental committees
e) Program guidelines and schedule documents
f) Financial planning documents
g) M2 Annual and Quarterly Reports
h) M2 Triennial Performance Assessment - 2006 through 2009

C. DELIVERABLES AND SCHEDULE

Conduct Tasks 1 through 5 and submit the following deliverables within the number of days after contract execution or at the intervals specified below:

1. Overall, complete the project within 150 calendar days from notice to proceed, not counting any attendance at the meetings outlined in Task 9 below.
2. Commence work within 5 days of notice to proceed by conducting a kick-off meeting with OCTA's project manager. The meeting will include a review and refinement if necessary of assessment objectives and best approach for achieving goals.
3. Thereafter, conduct progress meetings (every two weeks) with the project manager to:
    a. Discuss status of activities outlined in the scope of work described above and any significant issues that have come to Contractor's attention
    b. Identify any Contractor needs for documentation and information
    c. Describe progress against work plan and schedule

   d. Summarize budget status, i.e., approximate budget expended to date, amount billed to date plus additional amounts expended since the last bill was submitted.

4. Conduct up to 20 (as necessary) one-on-one meetings with Division representatives to seek information and documentation to assist in accomplishing the tasks outlined in the Scope of Work.

5. Submit bi-weekly status reports covering the items described above in outline form at least 24 hours prior to the scheduled progress meeting.

6. Submit an initial set of findings in outline format within 100 days. This should include findings to date on all matters described in the scope of work above and any additional matters the Contractor anticipates at this point might be included in the final report. The Contractor should also include an explanation to why they came to their conclusions. Contractor and PM will meet to discuss these initial findings at a regularly scheduled progress meeting or a specially scheduled one.

7. Submit a full draft final report within 130 days including 10 copies and one electronic copy. Meet to discuss the draft report with the PM.

8. Submit the final report within 150 days including 40 final copies and an electronic copy created in Microsoft Word.

9. If requested after submission of the final report, attend six formal Committee/Board meetings. This may require summarizing the information in a PowerPoint presentation. Contractor may be asked to make a formal presentation of the final report to the Committees/Board and respond to questions.