

CITY OF LAGUNA WOODS, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS
Financial Statements and Supplemental Data
Year Ended June 30, 2014

CITY OF LAGUNA WOODS, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS

Financial Statements and Supplemental Data

Year Ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Transportation Authority
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act (TDA) Article 3 Funds (Funds) of the City of Laguna Woods, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TDA Funds of the City, as of June 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Funds of the City and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2014, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the TDA Funds' basic financial statements. The accompanying schedule of revenues, expenditures, and changes in fund balance – budget and actual and schedule of allocations (supplementary information) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Management has omitted management's discussion and analysis for the TDA Funds that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014, on our consideration of the City's internal control over financial reporting for the TDA Funds and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting for the TDA Funds and compliance.



Laguna Hills, California
December 29, 2014

**CITY OF LAGUNA WOODS, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS**

**BALANCE SHEET
JUNE 30, 2014**

	<u>Article 3</u> <u>2014</u>
ASSETS	
Total Assets	\$ -
LIABILITIES AND FUND BALANCE	
Total Liabilities and Fund Balance	\$ -

See accompanying notes to financial statements.

**CITY OF LAGUNA WOODS, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2014**

	<u>Article 3</u> <u>2014</u>
REVENUES	
TDA Allocation	<u>\$ 227,899</u>
EXPENDITURES	
Total Expenditures	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	227,899
Fund Balance (Deficit) at Beginning of Year, as restated	<u>(227,899)</u>
Fund Balance at End of Year	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

**CITY OF LAGUNA WOODS, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – GENERAL INFORMATION

The financial statements are intended to reflect the financial position and results of operations of the City of Laguna Woods (City) Transportation Development Act (TDA) Article 3 Funds (Funds) only. Accordingly, the financial statements do not purport to, and do not, present fairly the financial position of the City and changes in financial position thereof for the year then ended in accordance with generally accepted accounting principles in the United States of America.

Article 3 Bicycle and Pedestrian Facilities

The City has entered into a Cooperative Agreement (TDA 3 Agreement) with OCTA to enhance bicycle and pedestrian facilities in accordance with Section 99234 of the California Public Utilities Code (Code). According to the Code, Article 3 monies may only be used for facilities provided for the exclusive use of pedestrians and bicycles, including the construction and related engineering expenditures of those facilities, the maintenance of bicycle trails (that are closed to motorized traffic) and bicycle safety education programs. TDA 3 Funds may also be used for transportation-related projects that enhance quality of life through the design of pedestrian walkways and bicycle facilities. TDA 3 projects may be stand-alone projects, such as projects that serve the needs of commuting bicyclists, including, but not limited to, new trails serving major transportation corridors, secure bicycle parking at employment centers, park and ride lots and transit terminals where other funds are available. TDA 3 projects may also be add-ons to normal transportation projects, such as additional sidewalk and bike lanes on a bridge, enhanced pedestrian lighting, and median refuge islands for pedestrians

When an approved project is ready for construction, as evidenced by a contract award or commitment of the participating agency's resources, the participating agency submits a claim to OCTA for disbursement of TDA Funds. The participating agency may submit the claim either prior or subsequent to incurring project expenditures. After review and approval of the claim, OCTA issues the allocation disbursement instructions to the County Auditor-Controller. Following instruction from OCTA, funds are disbursed from the County Local Transportation Fund to the participating agency.

The City entered into certain cooperative agreements with OCTA for the El Toro Road/Aliso Creek Road Bicycle and Pedestrian Enhancement project. Pursuant to the terms of the agreements, the City was approved to receive \$500,000 in TDA 3 funds. In January 2012, pursuant to a new cooperative agreement for phase II of the project, the City was required to provide matching funds equal to \$241,361, or a minimum of 11.47% for construction project costs. Total construction costs as estimated in the funding plan of the agreements were \$1,092,556. Cumulative phase II construction costs incurred by the City through June 30, 2013 were \$1,537,776; of which \$500,394 were reported within TDA funds (see Note 3). As of June 30, 2014, the City asserts it has satisfied its required match on a cumulative basis through expenditures incurred within other City funds in prior periods for the El Toro Road/Aliso Creek Road project.

**CITY OF LAGUNA WOODS, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the TDA Funds of the City conform to accounting principles generally accepted in the United States of America. The following is a summary of significant accounting policies.

Fund Accounting

The Article 3 TDA Funds are accounted for as a sub-fund within the City’s Grants Fund, which is a Non-Major Special Revenue Fund.

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related benefits, and equity, segregated for the purpose of carrying out specific activities.

Special Revenue Funds of the City are used to account for the proceeds of revenue sources that are restricted or committed for specified purposes.

Measurement Focus and Basis of Accounting

The Special Revenue Funds of the City are accounted for 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred.

Estimates

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

**CITY OF LAGUNA WOODS, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 – PRIOR PERIOD ADJUSTMENTS

During fiscal year 2013-14, the City determined that expenditures attributed to the TDA 3 funding source had been understated in fiscal year 2012-13. In 2012-13, the City had previously reported revenues of \$228,978 funded by the City. Subsequently, the City determined that the amount should have been funded by TDA funds. In addition, expenditures in the amount of \$148,120 were not reported within the TDA 3 Fund. Accordingly, the prior period adjustments and proforma of the 2013 financial position and changes in financial position are summarized below:

	Article 3		
	2013 as previously presented	Restatement	2013 as restated
ASSETS			
Intergovernmental Receivables	\$ 123,296	\$ -	\$ 123,296
Total Assets	<u>\$ 123,296</u>	<u>\$ -</u>	<u>\$ 123,296</u>
LIABILITIES AND FUND BALANCE			
Due to the City of Laguna Woods	\$ 123,296	\$ 213,516	\$ 336,812
Retentions Payable	-	14,383	14,383
Total Liabilities	<u>123,296</u>	<u>227,899</u>	<u>351,195</u>
Fund Balance	<u>-</u>	<u>(227,899)</u>	<u>(227,899)</u>
Total Liabilities and Fund Balance	<u>\$ 123,296</u>	<u>\$ -</u>	<u>\$ 123,296</u>
REVENUES			
TDA Allocation	\$ 123,296	\$ -	\$ 123,296
Interest Earnings	-	270	270
City Match	<u>228,978</u>	<u>(228,978)</u>	<u>-</u>
Total Revenues	<u>352,274</u>	<u>(228,708)</u>	<u>123,566</u>
EXPENDITURES			
Current:			
TDA Expenditures	<u>352,274</u>	<u>148,120</u>	<u>500,394</u>
Total Expenditures	<u>352,274</u>	<u>148,120</u>	<u>500,394</u>
Excess (deficiency) of revenues over (under) expenditures	-	(376,828)	(376,828)
Fund Balance at Beginning of Year	<u>-</u>	<u>148,929</u>	<u>148,929</u>
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ (227,899)</u>	<u>\$ (227,899)</u>

SUPPLEMENTARY INFORMATION

**CITY OF LAGUNA WOODS, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS**

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2014**

Article 3 Fund

	Budget		Actual	Variance From
	Original	Final		Final Budget Positive (Negative)
REVENUES				
TDA Allocation	\$ -	\$ -	\$ 227,899	\$ 227,899
EXPENDITURES				
Total Expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	227,899	227,899
Fund Balance (Deficit) at Beginning of Year, as restated	(227,899)	(227,899)	(227,899)	-
Fund Balance at End of Year	\$ (227,899)	\$ (227,899)	\$ -	\$ 227,899

**CITY OF LAGUNA WOODS, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS**

**NOTE TO SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014**

NOTE 1 – BUDGETARY DATA

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America. No amounts were budgeted for FY 2013-14 for the TDA 3 Fund.

**CITY OF LAGUNA WOODS, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS**

**SCHEDULE OF ALLOCATIONS RECEIVED AND EXPENDED, BY PROJECT YEAR
YEAR ENDED JUNE 30, 2014**

Article 3 Fund

<u>Project Description</u>	<u>Project Type</u>	<u>Year Allocated</u>	<u>Allocation Amount</u>	<u>Unspent Allocations at 06/30/2013</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Unspent Allocations at 06/30/2014</u>	<u>Project Status</u>
Bicycle and Pedestrian Facilities Program	Local	2013-14	\$ 227,899	\$ (227,899)	\$ 227,899	\$ -	\$ -	Completed
Totals			<u>\$ 227,899</u>	<u>\$ (227,899)</u>	<u>\$ 227,899</u>	<u>\$ -</u>	<u>\$ -</u>	



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

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transportation Development Act (TDA) Article 3 Funds (Funds) of the City of Laguna Woods, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 29, 2014. Our report included an emphasis of matter paragraph stating that the financial statements of the TDA Funds do not purport to, and do not, present fairly the financial position of the City as of June 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of finding and response, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of finding and response as item 2014-001 to be a material weakness.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements of the TDA Funds are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Section 6666 of Part 21 of the California Code of Regulations and the allocation instructions of the Orange County Transportation Authority, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including the requirements of Section 6666 of part 21 of the California Code of Regulations and the allocation instructions of the Orange County Transportation Authority.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of finding and response. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Laguna Hills, California
December 29, 2014

**CITY OF LAGUNA WOODS, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS**

**SCHEDULE OF FINDING AND RESPONSE
YEAR ENDED JUNE 30, 2014**

Finding 2014-001

FINANCIAL REPORTING

Criteria:

The City's internal controls should allow for the accurate preparation of the TDA Fund financial statements.

Condition:

It was noted that certain expenditures were not properly reported within the TDA 3 Fund in prior years.

Context:

The condition was noted during testing of the current year TDA 3 Fund revenues and expenditures.

Effect:

The beginning fund balance was restated by \$(227,899) to correct for expenditures that were not properly reported within the TDA 3 Fund in prior years.

Cause:

The City's procedures did not ensure that expenditures were properly reported within the TDA 3 Fund.

Recommendation:

We recommend the City implement procedures to ensure that expenditures are properly reported within the TDA 3 Fund.

Views of Responsible Officials and Planned Corrective Action:

The City recognizes the concern over the need for proper procedures to ensure both expenditures and revenues are properly allocated and reported within the TDA 3 Fund. There were several staffing changes during FY 14, including the retirement of the city manager and appointment of a new city manager in August 2013 and the departure of the finance manager in May 2014. The financial consulting firm of Irwin B. Bornstein, CPA was hired in January 2014 to assist in the development of the FY 15 budget, and to work with City staff in the evaluation of the City's finance division, including data collection, reporting procedures and internal controls. Mr. Bornstein and Douglas Reilly, assistant city manager and acting finance director, have completed this evaluation and are preparing for the FY 14 Citywide audit, which will be conducted in January 2015, a bit earlier than in all prior years. We believe that the error in the FY 13 TDA 3 Fund audit, as reflected in the FY 14 TDA 3 Fund audit, is not reflective of long-established City procedures and we are committed to ensuring that such errors are never repeated.