

**LOS ANGELES-SAN DIEGO-SAN LUIS OBISPO
RAIL CORRIDOR AGENCY**

Basic Financial Statements

Year Ended June 30, 2015

(with Independent Auditors' Report Thereon)

LOS ANGELES-SAN DIEGO-SAN LUIS OBISPO
RAIL CORRIDOR AGENCY

Basic Financial Statements

Year Ended June 30, 2015

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Los Angeles-San Diego-San Luis Obispo (LOSSAN) Rail Corridor Agency, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the LOSSAN Rail Corridor Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the LOSSAN Rail Corridor Agency, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule on page 11 and related note on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015, on our consideration of the LOSSAN Rail Corridor Agency’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the LOSSAN Rail Corridor Agency’s internal control over financial reporting and compliance.



Laguna Hills, California
December 15, 2015

LOS ANGELES-SAN DIEGO-SAN LUIS OBISPO
RAIL CORRIDOR AGENCY

Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>
Assets:	
Cash (note 2)	<u>\$ 225,533</u>
Total Assets	<u>225,533</u>
Liabilities:	
Accounts payable	<u>25,398</u>
Total Liabilities	<u>25,398</u>
Net position:	
Unrestricted	<u>200,135</u>
Total Net Position	<u><u>\$ 200,135</u></u>

See accompanying notes to the financial statements.

LOS ANGELES-SAN DIEGO-SAN LUIS OBISPO
RAIL CORRIDOR AGENCY

Statement of Activities
Year Ended June 30, 2015

	<u>Governmental Activities</u>
Program revenues - operating grants and contributions:	
Member fees	\$ 629,987
Expenses:	
General government	<u>(585,774)</u>
Change in net position	44,213
Net position, beginning of year	<u>155,922</u>
Net position, end of year	<u><u>\$ 200,135</u></u>

See accompanying notes to the financial statements.

LOS ANGELES-SAN DIEGO-SAN LUIS OBISPO
RAIL CORRIDOR AGENCY

Balance Sheet
June 30, 2015

	<u>General Fund</u>
Assets:	
Cash	<u>\$ 225,533</u>
Total Assets	<u><u>\$ 225,533</u></u>
Liabilities and Fund Balance:	
Liabilities:	
Accounts payable	<u>25,398</u>
Total Liabilities	<u>25,398</u>
Fund Balance:	
Unassigned	<u>200,135</u>
Total Fund Balance	<u>200,135</u>
Total Liabilities and Fund Balance	<u><u>\$ 225,533</u></u>

See accompanying notes to the financial statements.

**LOS ANGELES-SAN DIEGO-SAN LUIS OBISPO
RAIL CORRIDOR AGENCY**

**Statement of Revenues, Expenditures and Change in Fund Balance
Year Ended June 30, 2015**

	<u>General Fund</u>
Revenues:	
Member fees	\$ 629,987
Total Revenues	<u>629,987</u>
Expenditures:	
General government:	
Administrative fees	484,696
Legal fees	43,839
Consulting services	6,500
Travel and Conferences	18,191
Insurance	28,143
Banking services	1,127
Miscellaneous expenditures	3,278
Total Expenditures	<u>585,774</u>
Net change in fund balance	44,213
Fund Balance, beginning of year	<u>155,922</u>
Fund Balance, end of year	<u>\$ 200,135</u>

See accompanying notes to the financial statements.

Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency

Notes to the Financial Statements Year Ended June 30, 2015

(1) Summary of Significant Accounting Policies

(a) Organization

In 1989, a Joint Powers Agreement (JPA) between San Diego Association of Governments, Los Angeles County Transportation Commission, Orange County Transportation Commission, North San Diego County Transit Development Board, San Diego Metropolitan Transit Development Board, California Department of Transportation and Southern California Association of Governments created the Los Angeles - San Diego Corridor Rail Agency. The purpose of the JPA was to plan, program and fund improvements for intercity rail passenger services and facility in the Los Angeles - San Diego rail corridor. The agreement was amended in 2002 to add San Luis Obispo Council of Governments, Ventura County Transportation Commission, Santa Barbara Association of Governments and San Diego Association of Governments and to change the name to Los Angeles - San Diego - San Luis Obispo (LOSSAN) Rail Corridor Agency. In 2013, the purpose of the JPA was changed to be the administration of state-funded intercity passenger rail service in the LOSSAN corridor.

In 2012, California State Senate Bill 1225 authorized the LOSSAN Rail Corridor Agency to enter into an Interagency Transfer Agreement (ITA) with the State of California that would transfer responsibility for administering the state-funded intercity rail passenger service in the LOSSAN corridor from the State to the LOSSAN Rail Corridor Agency for an initial term of three years. On November 21, 2013 the LOSSAN Rail Corridor Agency entered into an agreement with Orange County Transportation Authority to provide all necessary support to prepare and negotiate the ITA with the State of California and to perform the LOSSAN Corridor Rail Agency's duties and responsibilities during the initial three year term of the ITA.

The books and records for the LOSSAN Rail Corridor Agency for the year ended June 30, 2015 are maintained by the LOSSAN at 550 South Main Street, P.O. Box 14184, Orange, California 92863-1484.

Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency

**Notes to the Financial Statements
Year Ended June 30, 2015**

(b) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basis financial statements of LOSSAN are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements are presented 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 the related cash flows.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

LOSSAN reports the following major governmental fund:

General Fund - The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

(c) Use of Estimates

The financial statements have been prepared in accordance with generally accepted accounting principles and may include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency

Notes to the Financial Statements Year Ended June 30, 2015

(2) Cash

Cash consists of bank demand deposit accounts. The California Government Code requires California banks and savings and loan associations to secure a government's deposits by pledging government securities with a value of 110% of a government's deposits. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes at 150% of the value of the government's total deposits. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. These securities are physically held in an undivided pool of all California public agency depositors. As of June 30, 2015, LOSSAN held \$311,543 in bank deposits, \$61,543 of which was in excess of Federal Deposit Insurance Corporation limits and was collateralized per State law.

(3) Effect of New Pronouncements

GASB Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement does not apply to LOSSAN.

GASB Statement No. 69

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. During fiscal year 2014-15, LOSSAN did not have any government combinations and disposals of government operations.

Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency

Notes to the Financial Statements Year Ended June 30, 2015

GASB Statement No. 71

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. This statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognizes a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. This statement does not apply to LOSSAN.

GASB Statement No. 72

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

(4) Subsequent Event

In July 2015, administrative responsibility for the state-funded Pacific Surfliner intercity rail service was formally transferred from Caltrans to LOSSAN through an Interagency Transfer Agreement (ITA) between the two agencies. The ITA covers an initial three-year term, but may be extended by mutual agreement.

**LOS ANGELES-SAN DIEGO-SAN LUIS OBISPO
RAIL CORRIDOR AGENCY**

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Member fees	\$ 629,987	\$ 629,987	\$ 629,987	\$ -
Total Revenues	629,987	629,987	629,987	-
Expenditures:				
Current:				
General government:				
Administrative fees	479,987	479,987	484,696	(4,709)
Legal fees	120,000	120,000	43,839	76,161
Travel and Conferences	20,000	20,000	18,191	1,809
Consulting services	10,000	10,000	6,500	3,500
Insurance	-	-	28,143	(28,143)
Banking services	-	-	1,127	(1,127)
Miscellaneous expenditures	-	-	3,278	(3,278)
Total Expenditures	629,987	629,987	585,774	44,213
Net Change in Fund Balance	\$ -	\$ -	\$ 44,213	\$ 44,213

See accompanying note to the required supplementary information.

LOS ANGELES-SAN DIEGO-SAN LUIS OBISPO
RAIL CORRIDOR AGENCY

Note to Required Supplementary Information
Year Ended June 30, 2015

1. **Budgetary Data**

LOSSAN establishes accounting control through formal adoption of an annual operating budget for its government fund. The adopted budget can be amended by the Board to increase both appropriations and estimated revenues as unforeseen circumstances come to management's attention. LOSSAN complies with the budget policies of the managing agency, currently OCTA. Under those policies, the legal level of budgetary control is at the major object level. All of the expenditures listed fall under the single major object level, Supplies and Services. Neither insurance premiums nor miscellaneous expenditures were considered in the adoption of the budget and consequently appear as overages at the line item level.

There were no excess of expenditures over appropriations for fiscal year 2014-15 for the General Fund.



**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
Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of the Los Angeles-San Diego-San Luis Obispo (LOSSAN) Rail Corridor Agency, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the LOSSAN Rail Corridor Agency's basic financial statements, and have issued our report thereon dated December 15, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LOSSAN Rail Corridor Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Laguna Hills, California
December 15, 2015