

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT FUNDS**

**FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA
YEAR ENDED JUNE 30, 2012**

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT FUNDS**

**FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA
YEAR ENDED JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Orange County Transportation Authority
Orange, California

We have audited the accompanying financial statements of the Transportation Development Act (TDA) Article 4 Funds of the Operating and Capital Program (Funds) of the Laguna Beach Municipal Transit Lines (LBMTL), an enterprise fund of the City of Laguna Beach, California (City), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the management of the City. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the TDA Funds financial statements for the year ended June 30, 2011, and in our report dated December 14, 2011, we expressed an unqualified opinion.

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 the City'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 opinion.

As discussed in Note 1, the financial statements present the TDA Program of LBMTL only and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2012, and the changes in its financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the TDA Program of LBMTL, an enterprise fund of the City, as of June 30, 2012, and the changes in financial position and cash flows of the TDA Funds for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2012, on our consideration of the City's internal control over financial reporting for the TDA Funds, and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That 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.

Management has omitted the *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 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the TDA Funds of the TDA Program of LBMTL's basic financial statements. The accompanying schedule of allocations 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of allocations is fairly stated in all material respects in relation to the basic financial statements as a whole.



Laguna Hills, California
December 18, 2012

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**STATEMENT OF NET ASSETS
JUNE 30, 2012
(with Comparative Totals for June 30, 2011)**

	<u>Article 4</u>	
	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets:		
Cash and Investments	\$ 88,109	\$ 822,776
Receivables:		
Allocations	-	153,638
Grants	-	146,174
Accrued Revenues	351,240	2,505
Prepaid Expenses	33,364	50,996
Total Current Assets	<u>472,713</u>	<u>1,176,089</u>
Capital Assets, Net (Note 3)	<u>2,834,552</u>	<u>3,033,503</u>
Total Assets	<u>3,307,265</u>	<u>4,209,592</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	81,286	105,212
Compensated Absences	18,975	23,216
Unearned Revenue	-	675,226
Total Current Liabilities	<u>100,261</u>	<u>803,654</u>
NET ASSETS		
Invested in Capital Assets	2,834,552	3,033,503
Restricted	372,452	372,435
Total Net Assets	<u>\$ 3,207,004</u>	<u>\$ 3,405,938</u>

See accompanying notes to financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012
(with Comparative Totals for June 30, 2011)**

	Article 4	
	2012	2011
Operating Revenues:		
Passenger Revenues	\$ 318,205	\$ 323,428
Total Revenues	<u>318,205</u>	<u>323,428</u>
Operating Expenses:		
Transit Administration	328,957	302,249
Transit Maintenance	421,835	465,397
Transit Operations	1,283,753	1,363,820
Depreciation	198,951	318,802
Total Operating Expenses	<u>2,233,496</u>	<u>2,450,268</u>
Operating income (loss)	<u>(1,915,291)</u>	<u>(2,126,840)</u>
Non-Operating Revenues:		
TDA Allocation	975,051	830,278
TDA Capital Grants	-	194,272
Investment Income	3,936	2,496
Intergovernmental Revenues (Note 4)	346,070	728,453
Total Non-Operating Revenues	<u>1,325,057</u>	<u>1,755,499</u>
Income (loss) before interfund transfers	(590,234)	(371,341)
Transfers from the City of Laguna Beach, Net (Note 5)	<u>391,300</u>	<u>823,900</u>
Change in Net Assets	(198,934)	452,559
Net assets at beginning of year	<u>3,405,938</u>	<u>2,953,379</u>
Net assets at end of year	<u>\$ 3,207,004</u>	<u>\$ 3,405,938</u>

See accompanying notes to financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
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**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012
(with Comparative Totals for June 30, 2011)**

	Article 4	
	2012	2011
Cash flows from operating activities:		
Cash received from customers	\$ 269,282	\$ 323,428
Cash payment to suppliers for goods and services	(432,370)	(549,247)
Cash payment to employees for services	(1,612,710)	(1,666,069)
Net cash provided by (used for) operating activities	<u>(1,775,798)</u>	<u>(1,891,888)</u>
Cash flows from noncapital financing activities:		
Operating grant proceeds received	1,321,121	1,037,203
Return of unused capital grant (TDA allocation) (Note 2)	(675,226)	
Cash received from the City of Laguna Beach	391,300	823,900
Net cash provided by noncapital financing activities	<u>1,037,195</u>	<u>1,861,103</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	-	(731,680)
Capital grant proceeds received	-	647,241
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>(84,439)</u>
Cash flows from investing activities:		
Interest received	3,936	2,496
Net cash provided by investing activities	<u>3,936</u>	<u>2,496</u>
Net increase (decrease) in cash and cash equivalents	(734,667)	(112,728)
Cash and cash equivalents at beginning of year	<u>822,776</u>	<u>935,504</u>
Cash and cash equivalents at end of year	<u>\$ 88,109</u>	<u>\$ 822,776</u>

There were no noncash capital, financing and investing activities during the fiscal year ended June 30, 2012.

See accompanying notes to financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**STATEMENT OF CASH FLOWS, CONTINUED
YEAR ENDED JUNE 30, 2012
(with Comparative Totals for June 30, 2011)**

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (1,915,291)	\$ (2,126,840)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	198,951	318,802
(Increase) decrease in receivables	(48,923)	-
(Increase) decrease in prepaids	17,632	(50,996)
Increase (decrease) in accounts payable and accrued liabilities	(23,926)	(38,596)
Increase (decrease) in compensated absences	<u>(4,241)</u>	<u>5,742</u>
Net cash provided by (used for) operating activities	<u>\$ (1,775,798)</u>	<u>\$ (1,891,888)</u>

There were no noncash capital, financing and investing activities during the fiscal year ended June 30, 2012.

See accompanying notes to financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – GENERAL INFORMATION

The financial statements are intended to reflect the financial position and results of operations for the Laguna Beach Municipal Transit Lines' (LBMTL's) Transportation Development Act (TDA) Article 4 Funds of the Operating and Capital Program (Funds) only.

Pursuant to Section 99260 of the California Public Utilities Code, Article 4 monies may be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects.

The City of Laguna Beach, California (City), acting on behalf of LBMTL, submits a claim to the Orange County Transportation Authority (OCTA) for disbursement of Article 4 funds. The City may submit the claim either prior or subsequent to incurring allowable expenses. After review and approval of the claim, OCTA issues the allocation disbursement instructions to the County of Orange Auditor-Controller. Following instructions from OCTA, funds are disbursed from the County of Orange, Local Transportation Fund to the City.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, net assets segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The City accounts for the activity of LBMTL and the TDA Funds in its Municipal Transit Fund, which is an Enterprise Fund.

Enterprise Funds are used to account for operations that are financed primarily through user charges, or where the governing body has decided that determination of net income is appropriate.

The LBMTL applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for its operations, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations; Accounting Principles Board Opinions; and Accounting Research Bulletins of the Committee on Accounting Procedure. The LBMTL has opted not to apply subsequent private sector guidance.

Measurement Focus and Basis of Accounting

Enterprise funds of the City are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Cash and Investments

Cash and investments are pooled to facilitate cash management and maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds including the TDA Funds based upon the average cash balance. The investment policies and the risks related to Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures*, applicable to the TDA Funds, are those of the City and are disclosed in the City’s basic financial statements. The City’s basic financial statements can be obtained at City Hall. For the purpose of the cash flow statement, amounts maintained in the City Pool are considered cash and cash equivalents.

Capital Assets

Capital assets are recorded at costs where historical records are available and at estimated historical costs where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$1,000 are capitalized if they have an expected useful life of three years or more.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method. Depreciation is charged as an expense against operations and accumulated depreciation is reported in the respective statement of net assets. The range of lives used for depreciation purposes for each fixed asset class is as follows:

<u>Capital Asset Class</u>	<u>Useful Life (in Years)</u>
Buildings and improvements	30
Office equipment and machinery	5
Furniture and fixtures	3 to 8
Equipment, machinery and tools	3 to 8
Automotive equipment	2 to 30

Unearned Revenue

Unearned revenue represents TDA Program revenue and other LBMTL revenues received in advance of the recognition of the related expense. During fiscal year 2011-12 LBMTL returned \$675,226 of unused capital grants to OCTA.

Prior Year Data

Selected information from the prior fiscal year has been included in the accompanying financial statements in order to provide an understanding of changes in the TDA Program’s financial position and operations. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City’s TDA Program financial statements for the year ended June 30, 2011, from which this selected financial data was derived.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

New Accounting Pronouncements - Effective in Future Fiscal Years

GASB Statement No. 62 – In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objection of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedures that were issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Statement is effective for periods beginning after December 15, 2011. The Management has not determined its effect on the financial statements.

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 amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for periods beginning after December 15, 2011. The Management has not determined its effect on the financial statements.

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65 *Items Previously Reported as Assets and Liabilities*. This Statement provides guidance on proper classification of certain items previously reported as assets and liabilities as deferred outflows or inflows of resources. This Statement also provides guidance on recognition of certain items that were previously reported as assets and liabilities as outflows or inflows of resources. This statement is effective as of July 1, 2013. The Management has not determined the effect on the financial statements.

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement is effective for periods beginning after December 15, 2012. The Management has not determined if there will be an effect on the financial statements

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2012</u>
Capital assets not being depreciated:				
Land	\$ 196,106	\$ -	\$ -	\$ 196,106
Total capital assets not being depreciated	<u>196,106</u>	<u>-</u>	<u>-</u>	<u>196,106</u>
Capital assets being depreciated:				
Buildings and improvements	1,950,672	-	-	1,950,672
Office equipment and machinery	111,461	-	(60,315)	51,146
Furniture and fixtures	1,500	-	-	1,500
Equipment, machinery and tools	29,369	-	(1,406)	27,963
Automotive equipment	3,464,199	-	-	3,464,199
Total capital assets being depreciated	5,557,201	-	(61,721)	5,495,480
Accumulated depreciation	<u>(2,719,804)</u>	<u>(198,951)</u>	<u>61,721</u>	<u>(2,857,034)</u>
Total capital assets being Depreciated, net	<u>2,837,397</u>	<u>(198,951)</u>	<u>-</u>	<u>2,638,446</u>
Capital assets, net	<u>\$ 3,033,503</u>	<u>\$ (198,951)</u>	<u>\$ -</u>	<u>\$ 2,834,552</u>

NOTE 4 – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues represent grants earned during fiscal year 2011-12 from other governments as follows:

	<u>Year Ended June 30, 2012</u>
OCTA Operating Assistance	\$ 295,803
OCTA Prop 1B Funding	50,267
Total	<u>\$ 346,070</u>

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – TRANSFERS FROM THE CITY OF LAGUNA BEACH

Interfund transfers represent the amount of operating funds transferred (to) or from the Municipal Transit Fund as follows:

	<u>Year Ended June 30, 2012</u>
Transfers from the City of Laguna Beach Parking Fund	<u>\$ 391,300</u>

LBMTL is eligible to receive TDA Article 4 funding up to 50% of its operating expenses. The City transfers from its Parking Fund the additional funds necessary to cover operational expenditures above the 50% TDA limit.

SUPPLEMENTARY INFORMATION

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
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OPERATING AND CAPITAL PROGRAM**

**SCHEDULE OF ALLOCATIONS RECEIVED AND EXPENDED, BY PROJECT YEAR
YEAR ENDED JUNE 30, 2012**

<u>Project Description</u>	<u>Project Type</u>	<u>Year Allocated</u>	<u>Allocation Amount</u>	<u>Unspent Allocations at 06/30/2011</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Returned Allocations</u>	<u>Unspent Allocations at 06/30/2012</u>	<u>Project Status</u>
Transit Program	Local	2008-09	\$ 1,986,095	\$ 675,226	\$ -	\$ -	\$ 675,226	\$ -	Completed
Transit Program	Local	2011-12	975,051	-	975,051	975,051	-	-	Completed
Totals			<u>\$ 2,961,146</u>	<u>\$ 675,226</u>	<u>\$ 975,051</u>	<u>\$ 975,051</u>	<u>\$ 675,226</u>	<u>\$ -</u>	



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

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited the financial statements of the Transportation Development Act (TDA) Article 4 Funds (Funds) of the City of Laguna Beach, California (City), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 18, 2012. Our report included an explanatory 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, 2012. Our report also included an explanatory paragraph regarding the TDA Funds' omission of management's discussion and analysis which, although is not part of the basic financial statements, is required by Governmental Accounting Standard Board. 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 the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting of the TDA Funds 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 the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's TDA Funds 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 of the TDA Funds of the City that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the TDA Funds of the City are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Section 6667 of Part 21 of the California Code of Regulations and the allocation instructions of the Orange County Transportation Authority (OCTA), 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 6667 of Part 21 of the California Code of Regulations and the allocation instructions of OCTA.

This report is intended solely for the information of management of the City of Laguna Beach and OCTA and is not intended to be and should not be used by anyone other than these specified parties.



Laguna Hills, California
December 18, 2012