

January 21, 2015

To: Members of the Board of Directors

From: Laurena Weinert, Clerk of the Board

Subject: Los Angeles – San Diego – San Luis Obispo Rail Corridor
Annual Financial Audit

Executive Committee Meeting of January 14, 2015

Present: Chairman Strong and Director Carbajal
Absent: Vice Chairman Golanski

Committee Vote

This item was passed by the Members present.

Committee Recommendation

Receive and file the fiscal year 2013-14 Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency audited annual financial statements and the accompanying independent auditors' report.



LOSSAN RAIL CORRIDOR AGENCY


**Los Angeles – San Diego – San Luis Obispo Rail Corridor
Annual Financial Audit**

Staff Report



January 14, 2015

To: Executive Committee

From: Jennifer L. Bergener, Managing Director 

Subject: Los Angeles – San Diego – San Luis Obispo Rail Corridor Annual Financial Audit

Overview

The Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency is required to complete a financial audit pursuant to Government Code Section 6505.6, and as specified in the joint powers agreement, bylaws, and the administrative support agreement. Vavrinek, Trine, Day & Company, LLP, an independent accounting firm, has completed the annual audit of the Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency financial statements for fiscal year 2013-14 and has issued its independent auditor's opinion. A copy of the audited financial statements and management letter are attached for review.

Recommendation

Receive and file the fiscal year 2013-14 Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency audited annual financial statements and the accompanying independent auditors' report.

Background

The Los Angeles – San Diego – San Luis Obispo (LOSSAN) Rail Corridor Agency (Agency) is required to hire an independent public accounting firm to perform an annual audit of the accounts of the LOSSAN Agency pursuant to Government Code Section 6505.6, and as specified in the LOSSAN joint powers agreement, bylaws and the administrative support agreement (ASA). The ASA calls for this audit to be completed within six months of the close of the fiscal year (FY), which ended June 30, 2014.

On July 21, 2014, the LOSSAN Board of Directors authorized the LOSSAN managing director to utilize Vavrinek, Trine, Day & Company, LLP (VTD) to perform the LOSSAN annual financial audit for FY 2013-14. VTD has provided annual financial audit services to the Orange County Transportation Authority (OCTA) since 2011, and is currently under contract with OCTA for these

services. However, to ensure full transparency and clear delineation of scope and services, the LOSSAN Agency entered into a separate agreement with VTD.

Discussion

Per the managing agency agreement, the LOSSAN Agency utilizes OCTA finance staff to prepare its annual financial statements, which present the results of operations during the preceding FY and the financial position at year end. After the close of the FY on June 30, 2014, LOSSAN Agency staff worked with VTD to provide the requested documentation and background information to perform the annual financial audit.

The audit conducted by VTD, an independent accounting firm, is required to obtain reasonable assurance as to whether the LOSSAN Agency's financial statements are free of material misstatement. On December 29, 2014, VTD completed its annual audit and issued its opinion of the LOSSAN Agency financial statements for FY 2013-14. The audits were conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

The auditors issued an unmodified opinion, indicating that the LOSSAN Agency financial statements for FY 2013-14 "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, 2014, 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."

A copy of the audited financial statements is included as Attachment A.

Summary

VTD, an independent accounting firm, has audited the LOSSAN Agency's financial statements for FY 2013-14, and has issued an unmodified opinion as to the fairness of the financial statements' presentation.

Attachments

- A. Letter to the Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency Board of Directors Regarding Vavrinek, Trine, Day & Co., LLP Audit Findings
- B. Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency, Basic Financial Statements, Year Ended June 30, 2014

Prepared by:



Michael Litschi
Deputy Managing Director
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LOSSAN RAIL CORRIDOR AGENCY

**Los Angeles – San Diego – San Luis Obispo Rail Corridor
Annual Financial Audit**

Attachment A



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

We have audited the financial statements of the governmental activities and the general fund of the Los Angeles-San Diego-San Luis Obispo (LOSSAN) Rail Corridor Agency for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Our responsibilities are communicated in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by LOSSAN Rail Corridor Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during year. We noted no transactions entered into by LOSSAN during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 18, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to LOSSAN Rail Corridor Agency’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as LOSSAN Rail Corridor Agency’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the budgetary comparison schedule, on page 9, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of LOSSAN Rail Corridor Agency and is not intended to be, and should not be, used by anyone other than these specified parties.



Laguna Hills, California

December 18, 2014



LOSSAN RAIL CORRIDOR AGENCY

**Los Angeles – San Diego – San Luis Obispo Rail Corridor
Annual Financial Audit**

Attachment B

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

Basic Financial Statements

Year Ended June 30, 2014

(with Independent Auditors' Report Thereon)

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

Basic Financial Statements

Year Ended June 30, 2014

TABLE OF CONTENTS

Independent Auditors' Report.....	1
Basic Financial Statements:	
Statement of Net Position	3
Statement of Activities.....	4
Balance Sheet.....	5
Statement of Revenues, Expenditures and Change in Fund Balance.....	6
Notes to the Financial Statements	7
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund.....	9
Note to Required Supplementary Information.....	10
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 <i>Government Auditing Standards</i>	11



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, 2014, 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.

Auditors' 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, 2014, 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 9 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 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 18, 2014, 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 18, 2014

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

**Statement of Net Position
June 30, 2014**

	<u>Governmental Activities</u>
Assets:	
Cash (note 2)	\$ 70,370
Accounts receivable	101,227
Total Assets	<u>171,597</u>
Liabilities:	
Accounts payable	15,675
Total Liabilities	<u>15,675</u>
Net position:	
Unrestricted	155,922
Total Net Position	<u><u>\$ 155,922</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, 2014**

	<u>Governmental Activities</u>
Program revenues, operating grants and contributions:	
Member fees	\$ 400,900
Expenses:	
General government	<u>(244,978)</u>
Change in net position	155,922
Net position, beginning of year	<u>-</u>
Net position, end of year	<u><u>\$ 155,922</u></u>

See accompanying notes to the financial statements.

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

**Balance Sheet
June 30, 2014**

	<u>General Fund</u>
Assets:	
Cash	\$ 70,370
Accounts receivable	101,227
Total Assets	<u>\$ 171,597</u>
Liabilities:	
Accounts payable	\$ 15,675
Total Liabilities	<u>15,675</u>
Fund Balance:	
Unassigned	<u>155,922</u>
Total Fund Balance	<u>155,922</u>
Total Liabilities and Fund Balance	<u>\$ 171,597</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, 2014**

	<u>General Fund</u>
Revenues:	
Member fees	\$ 400,900
Total revenues	<u>400,900</u>
Expenditures:	
General government:	
Administrative fees	181,905
Legal fees	21,787
Travel and Conferences	4,353
Insurance	36,467
Miscellaneous expenditures	466
Total Expenditures	<u>244,978</u>
Net change in fund balance	155,922
Fund balance, beginning of year	<u>-</u>
Fund balance, end of year	<u>\$ 155,922</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, 2014**

(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 facilities 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, 2014 are maintained by the LOSSAN at 550 South Main Street, P.O. Box 14184, Orange, California 92863-1484.

(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

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

**Notes to the Financial Statements
Year Ended June 30, 2014**

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.

(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, 2014, LOSSAN held \$95,023 in bank deposits and did not have any amounts in excess of Federal Deposit Insurance Corporation limits.

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

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Member fees	\$ 400,900	\$ 400,900	\$ 400,900	\$ -
Total revenues	400,900	400,900	400,900	-
Expenditures:				
Current:				
General government:				
Administrative fees	310,900	310,900	181,905	128,995
Legal fees	68,000	68,000	21,787	46,213
Travel and Conferences	12,000	12,000	4,353	7,647
Consulting services	10,000	10,000	-	10,000
Insurance	-	-	36,467	(36,467)
Miscellaneous expenditures	-	-	466	(466)
Total expenditures	400,900	400,900	244,978	155,922
Excess of revenues over expenditures	-	-	155,922	155,922
Net change in fund balance	\$ -	\$ -	\$ 155,922	\$ 155,922

See accompanying note to the required supplementary information.

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

**Note to the Required Supplementary Information
Year Ended June 30, 2014**

(1) Budgetary Data

LOSSAN Rail Corridor Agency 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 Rail Corridor Agency 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 2013-14 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 general fund of the Los Angeles-San Diego-San Luis Obispo (LOSSAN) Rail Corridor Agency, as of and for the year ended June 30, 2014, 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 18, 2014.

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 18, 2014