

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Basic Financial Statements

Year Ended June 30, 2016

(with Independent Auditors' Report Thereon)

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Basic Financial Statements

Year Ended June 30, 2016

TABLE OF CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet - Governmental Fund	9
Statement of Revenues, Expenditures and Change in Fund Balance - Governmental Fund and Reconciliation of Revenues, Expenditures and Change in Fund Balance to the Government-Wide Statement of Activities	10
Notes to the Basic Financial Statements	11
Required Supplementary Information	
Budgetary Comparison Schedule - Governmental Fund	14
Note to the Required Supplementary Information	15
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>	16



INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Council of Governments
Irvine, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Orange County Council of Governments (OCCOG) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise OCCOG'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 OCCOG as of June 30, 2016, 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 management’s discussion and analysis and budgetary comparison information on pages 3-6 and 14-15 respectively, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2016, on our consideration of OCCOG’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 OCCOG’s internal control over financial reporting and compliance.



Laguna Hills, California
November 7, 2016

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Management's Discussion and Analysis

As Management of the Orange County Council of Governments (OCCOG), we offer readers of OCCOG's financial statements this narrative overview and analysis of OCCOG's financial activities for the fiscal year ended June 30, 2016.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to OCCOG's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of OCCOG's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of OCCOG's assets and liabilities, with the difference between assets and liabilities reported as net position. Over time, increases or decreases in net position may serve as a useful indication on whether the financial position of OCCOG is improving or deteriorating.

The statement of activities presents information showing how OCCOG's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The government-wide financial statements may be found on pages 7-8.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. OCCOG, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. OCCOG consists of a single governmental fund. The fund financial statements may be found on pages 9-10.

Government-wide Financial Analysis

The total net position of OCCOG was \$362,989 at June 30, 2016 (as noted in Table 1). In comparison, the total net position of OCCOG at June 30, 2015 was \$299,878. OCCOG’s net position at June 30, 2016 was unrestricted, meaning there are no external restrictions placed on the future use of the organization’s net position.

Table 1.
ORANGE COUNTY COUNCIL OF GOVERNMENTS
Net Position at June 30:

	Governmental Activities		Percent Change
	2016	2015	
Current and other assets	\$ 381,145	\$ 369,429	
Total assets	<u>381,145</u>	<u>369,429</u>	3.2%
Current liabilities	<u>18,156</u>	<u>69,551</u>	
Total liabilities	<u>18,156</u>	<u>69,551</u>	-73.9%
Net position			
Unrestricted	<u>362,989</u>	<u>299,878</u>	
Total net position	<u>\$ 362,989</u>	<u>\$ 299,878</u>	21.0%

The total net position of OCCOG increased by \$63,111, or 21.0%, during FY 2015-16 (see Table 2). This means that revenues exceeded expenses, on a full accrual basis, by \$63,111 for the year. This compares to the increase in net position during FY 2014-15 of \$106,626. Revenues were 69.4% greater than in FY 2014-15, and expenses were 99.5% greater. The increase in both revenues and expenses was primarily the result of 11 months of activity related to the Federal grant-funded Complete Streets Initiative project in FY 2015-16, compared to just three months of activity in FY 2014-15. General government expenses increased 32.5% in FY 2015-16 over the prior year, as a result of higher costs for administrative and legal services.

Table 2.
 ORANGE COUNTY COUNCIL OF GOVERNMENTS
 Changes in Net Position
 For the Year Ended:

	<u>Governmental Activities</u>		<u>Percent Change</u>
	<u>2016</u>	<u>2015</u>	
Revenues:			
Program revenues:			
Member dues and fees	\$ 338,490	\$ 338,110	0.1%
Federal grants	503,888	159,161	216.6%
Total revenues	<u>842,378</u>	<u>497,271</u>	69.4%
Expenses:			
General government	(275,379)	(207,810)	32.5%
Community development	(503,888)	(182,835)	175.6%
Total expenses	<u>(779,267)</u>	<u>(390,645)</u>	99.5%
Change in net position	63,111	106,626	-40.8%
Net position, beginning of year	<u>299,878</u>	<u>193,252</u>	55.2%
Net position, end of year	<u>\$ 362,989</u>	<u>\$ 299,878</u>	21.0%

Financial Analysis of the General Fund

As noted above, OCCOG maintains a single governmental fund, called the General Fund. As of June 30, 2016, total assets, liabilities and expenditures of the General Fund are the same as total assets, liabilities and expenses as shown on the government-wide financial statements. Total revenues of the General Fund are greater than total revenues as shown on the government-wide financial statements, due to grant revenues that were recognized on the government-wide financial statements in FY 2014-15 that were not available to pay for liabilities of the 2014-15 fiscal year.

OCCOG's revenues for FY 2015-16 and FY 2014-15 came from membership dues and fees, as well as Federal grants. Members pay annual membership dues that fund expenditures related to the administration of OCCOG. Members also reimburse OCCOG for the cost of demographic research performed by California State University, Fullerton. There were no change in the dues structure from FY 2014-15 to FY 2015-16.

Federal grant revenue for the year is more than the community development expenditures due to revenues not recognized as revenue in the governmental fund in the prior year because they were not collected within the period of availability.

General Fund Budgetary Highlights

The OCCOG Board of Directors adopted a formal budget for the fiscal year ended June 30, 2016, on June 25, 2015. Several amendments to the budget were approved by the Board in April 2016, related to membership dues and federal grant revenues, as well as administrative, transportation planning and miscellaneous expenditures, that reduced the budgeted fund balance by a net of \$453.

Actual revenues for the year of \$858,294 were \$613 less than the final budget amount, as a result of actual reimbursable grant expenditures being slightly less than estimated.

Total actual expenditures of \$779,267 were \$10,483 less than anticipated in the final FY 2015-16 budget. The actual administrative, miscellaneous and transportation planning expenditures were less than the final budget amounts. This was mostly the result of insurance, Clerk of the Board services and website consulting costs being significantly less than expected. Professional services expenditures exceeded the budget this year, due to greater than expected legal costs.

Contacting OCCOG Management

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the OCCOG Executive Director at Irvine City Hall, 1 Civic Center Plaza, Irvine, California 92623-9575, or to the OCCOG Treasurer at 28241 Crown Valley Parkway, Suite F-484, Laguna Niguel, California 92677.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash (note 2)	\$ 197,289
Due from other governments (note 4)	<u>183,856</u>
Total Assets	<u>381,145</u>
<u>Liabilities</u>	
Accounts payable	<u>18,156</u>
<u>Net Position</u>	
Net position: Unrestricted	<u>\$ 362,989</u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Statement of Activities
Year Ended June 30, 2016

	<u>Governmental Activities</u>
Program revenues, operating grants and contributions:	
Membership dues and fees	\$ 338,490
Federal grants	<u>503,888</u>
Total Program Revenues, Operating Grants and Contributions	<u>842,378</u>
Expenses:	
General government	(275,379)
Community development	<u>(503,888)</u>
Total Expenses	<u>(779,267)</u>
Change in net position	63,111
Net position, beginning of year	<u>299,878</u>
Net position, end of year	<u>\$ 362,989</u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Governmental Fund
Balance Sheet
June 30, 2016

	<u>General Fund</u>
<u>Assets</u>	
Cash	\$ 197,289
Due from other governments	183,856
Total Assets	<u>\$ 381,145</u>
 <u>Liabilities and Fund Balance</u>	
Liabilities:	
Accounts payable	<u>\$ 18,156</u>
Fund Balance:	
Unassigned	<u>362,989</u>
Total Liabilities and Fund Balance	<u>\$ 381,145</u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Governmental Fund
Statement of Revenues, Expenditures and Change in Fund Balance
Year Ended June 30, 2016**

	<u>General Fund</u>
Revenues:	
Membership dues and fees	\$ 338,490
Federal grants	519,804
Total Revenues	858,294
Expenditures:	
Current:	
General government:	
Demographic research	79,481
Administrative	150,711
Professional services	24,093
Miscellaneous	21,094
Community development	
Transportation planning	503,888
Total Expenditures	779,267
Net change in fund balance	79,027
Fund balance, beginning of year	283,962
Fund balance, end of year	\$ 362,989

**Reconciliation of Governmental Fund Statement of Revenues,
Expenditures and Change in Fund Balance to the
Government-Wide Statement of Activities**

Net change in fund balance - governmental fund	\$ 79,027
Revenues were not recognized as revenue in the governmental fund in the prior year because they were not collected within the prescribed time period after year-end, but these revenues were included in the Government-Wide Statements	(15,916)
Change in net position of governmental activities	\$ 63,111

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Notes to the Financial Statements Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies

(a) Organization

A Joint Exercise of Powers Agreement (Agreement) between public agencies located in Orange County, California (Members) created the Orange County Council of Governments (OCCOG) in August 1996. Member agencies include all 34 Orange County cities, the County of Orange, the Orange County Transportation Authority, the Transportation Corridor Agencies, Orange County Sanitation Districts, Independent Special Districts of Orange County and the South Coast Air Quality Management District. The Agreement may not be terminated except by an affirmative vote of a majority of total voting membership of the Board of Directors.

The general purpose of OCCOG is: 1) to serve as the Subregional Organization that represents Orange County on mandated and non-mandated Southern California Association of Governments (SCAG) regional planning activities; 2) to develop and adopt an Orange County Projection that serves as Orange County's official growth forecast for local, area-wide and regional planning activities; 3) to provide a vehicle for its members to engage cooperatively and voluntarily on additional regional and cooperative planning efforts with federal, state and regional agencies and to provide Orange County a voice on recommendations and solutions on such additional planning issues to federal, state and regional agencies; and 4) to conduct studies and projects designed to improve and coordinate the common governmental responsibilities and services on an area-wide and regional basis through the establishment of a council of governments. The goal and intent of OCCOG is one of voluntary cooperation among its member agencies for the collective benefit of member agencies in Orange County.

The books and financial records for OCCOG for the year ended June 30, 2016 are maintained by the Orange County Council of Governments at 28241 Crown Valley Parkway, Suite F-484, Laguna Niguel, California 92677.

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

The basis financial statements of OCCOG 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.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Notes to the Financial Statements Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

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 60 days of the end of the current fiscal period.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

OCCOG 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, 2016, OCCOG held \$197,289 in bank deposits, all of which were insured by the Federal Deposit Insurance Corporation.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Notes to the Financial Statements Year Ended June 30, 2016

(3) Grants

OCCOG is a sub-recipient of Federal Transit Administration grant revenue awarded by the U.S. Department of Transportation to the Orange County Transportation Authority (OCTA) for transportation planning projects. A pass-through agreement between OCCOG and OCTA was executed on April 28, 2011 to delineate the responsibilities of OCCOG and OCTA for these grant funds. The pass-through agreement expired in April 2016. On May 23, 2013, a non-fee facility use agreement between OCCOG and OCTA was executed, in response to a change in the administrative structure of OCCOG beginning in FY 2013-14. From July 2009 to June 2013, OCTA had provided all administrative services for OCCOG. The 2013 agreement included a provision that OCTA was to continue to administer, on OCCOG's behalf, all Federal grant awards and related contracts, including overseeing, documenting and addressing all legal obligations, issuing requests for proposals and overseeing the contracts for expenditure of the grant funds.

Through June 2014, OCTA handled all aspects of grant administration on behalf of OCCOG. At that time, OCTA advised OCCOG that it was no longer in a position to utilize OCTA local funds to provide advance funding on OCCOG's behalf for all future FTA grant-funded projects. As a result, OCTA and OCCOG agreed in October 2014 to a modified administrative process. Under the new procedure, OCTA assisted OCCOG with procurement utilizing OCTA's procurement process, OCCOG was responsible for project management, vendor payments were made by OCCOG with prompt reimbursement by OCTA from grant funds, and OCTA was responsible for the documentation supporting the grant's in-kind match requirement. The Complete Streets Initiative project, the project funded by these FTA grant funds, was completed in May 2016.

For the fiscal year ended June 30, 2016, OCCOG incurred \$541,366 in FTA-grant related expenditures for its Complete Streets Initiative project, \$503,888 of which were reimbursable from grant proceeds and \$37,478 of which were part of the local match requirement.

(4) Due From Other Governments

Due From Other Governments at June 30, 2016 consists of a receivable from the Orange County Transportation Authority of FTA grant pass-through funds for the final reimbursement of Complete Streets Initiative project expenditures.

(5) Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 76 – In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This statement is effective for periods beginning after June 15, 2015. OCCOG has determined that this statement does not have a material impact on the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Required Supplementary Information
General Fund
Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive/ (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Membership dues and fees	\$ 335,169	\$ 338,490	\$ 338,490	\$ -
Federal grants	456,000	520,417	519,804	(613)
Total Revenues	<u>791,169</u>	<u>858,907</u>	<u>858,294</u>	<u>(613)</u>
Expenditures:				
Current:				
General government:				
Demographic research	79,481	79,481	79,481	-
Administrative	132,883	153,124	150,711	2,413
Professional services	20,000	20,000	24,093	(4,093)
Miscellaneous	33,195	32,645	21,094	11,551
Community development				
Transportation planning	456,000	504,500	503,888	612
Total Expenditures	<u>721,559</u>	<u>789,750</u>	<u>779,267</u>	<u>10,483</u>
Net Change in Fund Balance	<u>\$ 69,610</u>	<u>\$ 69,157</u>	<u>\$ 79,027</u>	<u>\$ 9,870</u>

See accompanying note to the required supplementary information.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Note to Required Supplementary Information
Year Ended June 30, 2016**

Budgetary Data

OCCOG establishes accounting control through formal adoption of an annual operating budget. The budget is prepared in conformity with accounting principles generally accepted in the United States of America. The adopted budget can be amended by the Board as unforeseen circumstances come to management's attention. The legal level of budgetary control is the account level within the General Fund. Professional services expenditures exceeded the budget this year, due to greater than expected legal costs.



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 Council of Governments
Irvine, 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 Orange County Council of Governments (OCCOG), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise OCCOG's basic financial statements, and have issued our report thereon dated November 7, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCCOG'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 OCCOG's internal control. Accordingly, we do not express an opinion on the effectiveness of OCCOG'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 OCCOG'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
November 7, 2016