

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Basic Financial Statements

Year Ended June 30, 2014

(with Independent Auditors' Report Thereon)

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Basic Financial Statements

Year Ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Council of Governments
Orange, 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, 2014, 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, 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 management's discussion and analysis and budgetary comparison schedules on pages 3-6 and 13-14, 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 December 9, 2014, 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
December 9, 2014

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, 2014.

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 \$193,252 at June 30, 2014 (as noted in Table 1). In comparison, the total net position of OCCOG at June 30, 2013 was \$78,386. OCCOG’s net position at June 30, 2014 was unrestricted, meaning there are no external restrictions placed on the future use of the organization’s assets.

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

	Governmental Activities		Percent Change
	2014	2013	
Current and other assets	\$ 196,634	\$ 90,547	
Total assets	<u>196,634</u>	<u>90,547</u>	117.20%
Current liabilities	3,382	12,161	
Total liabilities	<u>3,382</u>	<u>12,161</u>	-72.20%
Net position			
Unrestricted	193,252	78,386	
Total net position	<u>\$ 193,252</u>	<u>\$ 78,386</u>	146.50%

The total net position of OCCOG increased by \$114,866, or 146.5%, during FY 2013-14 (see Table 2). This means that revenues exceeded expenses, on a full accrual basis, by \$114,866 for the year. Revenues were 6.2% higher than in FY 2012-13, and expenses were 22.5% lower. The increase in revenues was primarily the result of the City of Santa Ana reinstating its membership in OCCOG in FY 2013-14. The decrease in expenses was due to the change in the administrative structure of OCCOG effective July 1, 2013, and significant budget savings, as further discussed below.

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

	Governmental Activities		Percent Change
	2014	2013	
Revenues:			
Program revenues:			
Member dues and fees	\$ 338,105	\$ 318,328	
Total revenues	338,105	318,328	6.20%
Expenses:			
General governments	(223,239)	(287,907)	
Total expenses	(223,239)	(287,907)	-22.50%
Change in net position	114,866	30,421	277.6
Net position, beginning of year	78,386	47,965	63.40%
Net position, end of year	\$ 193,252	\$ 78,386	146.5

Financial Analysis of the General Fund

As noted above, OCCOG maintains a single governmental fund, called the General Fund. Total assets and liabilities of the General Fund are the same amounts as shown on the government-wide financial statements. In addition, total revenues are identical, and total expenses on the government-wide financial statement are the same as the expenditures on the fund financial statement.

All of OCCOG's revenues come from its member agencies. 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. The change in the FY 2013-14 dues schedule compared to FY 2012-13 was the addition of membership dues for the City of Santa Ana in the amount of \$18,236.

In years prior to FY 2013-14, OCCOG contracted with the Orange County Transportation Authority (OCTA) to provide administrative support services to OCCOG for \$141,000 per year. Beginning in FY 2013-14, administrative and financial services were provided by independent contractors, at a combined cost of \$117,000. OCCOG has contracted with the City of Garden Grove to serve as the Clerk for OCCOG, at no cost to OCCOG. In addition, a new agreement was executed with OCTA for FY 2013-14 to provide office space and certain administrative support services and to continue to administer all Federal grants awarded to OCCOG, at no cost to OCCOG.

General Fund Budgetary Highlights

The OCCOG Board of Directors adopted a formal budget for the fiscal year ended June 30, 2014, on June 27, 2013. No changes were made to the budget during the year.

As in FY 2012-13, the City of Villa Park did not maintain its membership in OCCOG in FY 2013-14 (although Villa Park did pay its prorata share of demographic research fees), resulting in a shortfall of membership dues of \$2,264 compared to the annual budget.

Total actual expenditures were \$38,561 less than anticipated in the FY 2013-14 budget. OCTA paid for the cost of OCCOG's financial audit for FY 2012-13 that occurred during FY 2013-14. In addition, costs for insurance, legal, administrative and accounting services were all less than expected.

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 550 South Main Street, P.O. Box 14184, Orange, California 92863-1584, 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, 2014**

		<u>Governmental Activities</u>
	<u>Assets</u>	
Cash (note 2)		<u>\$ 196,634</u>
Total assets		<u>196,634</u>
	<u>Liabilities</u>	
Accounts payable		<u>3,382</u>
Total liabilities		<u>3,382</u>
	<u>Net Position:</u>	
Net position: Unrestricted		193,252
Total net position		<u><u>\$ 193,252</u></u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Statement of Activities
Year Ended June 30, 2014**

	<u>Governmental Activities</u>
Program revenues, operating grants and contributions:	
Membership dues	\$ 338,105
Expenses:	
General government	<u>(223,239)</u>
Change in net position	114,866
Net position, beginning of year	<u>78,386</u>
Net position, end of year	<u><u>\$ 193,252</u></u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Governmental Fund
Balance Sheet
June 30, 2014**

	<u>General Fund</u>
<u>Assets</u>	
Cash	<u>\$ 196,634</u>
Total assets	<u><u>196,634</u></u>
<u>Liabilities and Fund Balance</u>	
Liabilities:	
Accounts payable	<u>3,382</u>
Total liabilities	<u>3,382</u>
Fund Balance:	
Unassigned	<u>193,252</u>
Total fund balance	<u>193,252</u>
Total liabilities and fund balance	<u><u>\$ 196,634</u></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, 2014**

	<u>General Fund</u>
Revenues:	
Membership dues	\$ 338,105
Total revenues	<u>338,105</u>
Expenditures:	
Current:	
General government:	
Demographic research	79,917
Administrative	111,850
Professional services	16,659
Miscellaneous expenses	<u>14,813</u>
Total Expenditures	<u>223,239</u>
Net change in fund balance	114,866
Fund balance, beginning of year	<u>78,386</u>
Fund balance, end of year	<u><u>\$ 193,252</u></u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Notes to the Financial Statements Year Ended June 30, 2014

(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. The Agreement may not be terminated except by an affirmative vote of a majority of total voting membership of the Board of Directors.

OCCOG was formed to enable Members to engage in regional and cooperative planning and coordination of government services. The goal and intent of OCCOG is one of voluntary cooperation among cities for the collective benefit of cities in Orange County.

The books and financial records for OCCOG for the year ended June 30, 2014 are maintained by the Orange County Council of Governments at 550 South Main Street, P.O. Box 14184, Orange, CA 92863-1584 and at 28241 Crown Valley Parkway, Suite F-484, Laguna Niguel, California 92677.

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

The basic 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.

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.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Notes to the Financial Statements Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies (Continued)

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

Fund Financial Statements (Continued)

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 consisted 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, OCCOG held \$199,856 in bank deposits and did not have any amounts in excess of Federal Deposit Insurance Corporation limits.

(3) Cooperative Agreement with Orange County Transportation Authority

As a result of the change in administrative structure of OCCOG beginning in FY 2013-14, OCCOG entered into a new Cooperative Agreement with the Orange County Transportation Authority (OCTA) on May 23, 2013 that calls for certain administrative support services to be provided by OCTA to OCCOG and allows OCCOG the use of specified OCTA facilities to administer the functions and activities of OCCOG. Pursuant to the agreement, OCTA provides certain office space, parking, information systems support, basic printing resources, billing services and meeting rooms for OCCOG administrative activities, at no cost to OCCOG. In addition, the agreement requires OCTA to administer, on OCCOG's behalf, all federal grants awarded to OCCOG and related contracts, including overseeing, documenting and addressing all legal obligations and processing of federal grants awarded directly to OCCOG, and issuing requests for proposals and overseeing the contracts for expenditure of the grant funds. OCTA may charge administrative fees for grant administration services, provided such fees do not exceed the maximum administrative cost allowable under the applicable grant.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**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:				
Membership dues and fees	\$ 340,369	\$ 340,369	\$ 338,105	\$ (2,264)
Total revenues	340,369	340,369	338,105	(2,264)
Expenditures:				
Current:				
General government:				
Demographic research	79,917	79,917	79,917	-
Administrative	117,133	117,133	111,850	5,283
Professional services	20,000	20,000	16,659	3,341
Miscellaneous expenses	44,750	44,750	14,813	29,937
Total expenditures	261,800	261,800	223,239	38,561
Net change in fund balance	\$ 78,569	\$ 78,569	\$ 114,866	\$ 36,297

See accompanying notes to the required supplementary information.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

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

Budgetary Data

OCCOG establishes accounting control through formal adoption of an annual operating budget. The adopted budget can be amended by the Board as unforeseen circumstances come to management's attention. The budget is prepared in conformity with accounting principles generally accepted in the United States of America.



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
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 Orange County Council of Governments (OCCOG), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise OCCOG's basic financial statements, and have issued our report thereon dated December 9, 2014.

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
December 9, 2014