

**NORTH COUNTY CORRIDOR
TRANSPORTATION EXPRESSWAY AUTHORITY**

ITEM: 3b.

SUBJECT:

Financial Audit Acceptance

STAFF RECOMMENDATIONS:

Accept the North County Corridor Fiscal Year 2012-2013 Financial Audit

FISCAL IMPACT:

The cost of the audit was \$4,800 and was included in the North County Corridor's Fiscal Year 2012-2013 budget.

DISCUSSION:

Section 17 of the Joint Exercise of Powers Agreement for the Route Adoption of the North County Corridor Transportation Expressway requires an independent audit of the accounts and records of the Authority. The firm of Brown Armstrong, Certified Public Accountants, conducted the 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.

The audit is performed to provide reasonable assurance about whether the financial statements are free of material misstatement. The audit examines, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In the opinion of Brown Armstrong, the financial statements present fairly, in all material respects, the respective financial position of the North County Corridor Transportation Expressway Authority as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**NORTH COUNTY CORRIDOR
TRANSPORTATION EXPRESSWAY AUTHORITY**

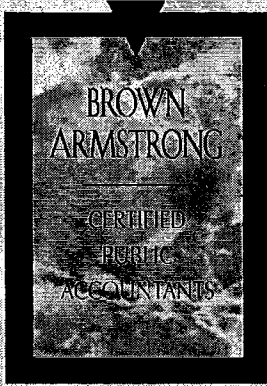
FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
JUNE 30, 2013 AND 2012**

**NORTH COUNTY CORRIDOR
TRANSPORTATION EXPRESSWAY AUTHORITY
JUNE 30, 2013 AND 2012**

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members
of the Governing Board
North County Corridor
Transportation Expressway Authority
Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the North County Corridor Transportation Expressway Authority (the Authority), as of and for the year ended June 30, 2013 and 2012, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Accounting Oversight Board and
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Certified Public Accountants

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2013 and 2012, and the respective changes in financial position, and the respective budgetary comparison of the Authority thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted management discussion and analysis (MD&A) 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.

As described in Note 1 to the financial statements, in 2013, the Authority adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2013, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
September 20, 2013

BASIC FINANCIAL STATEMENTS

**NORTH COUNTY CORRIDOR
TRANSPORTATION EXPRESSWAY AUTHORITY
STATEMENTS OF NET FINANCIAL POSITION
GOVERNMENTAL ACTIVITIES
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash, Cash Equivalents, and Investments	\$ 3,681,510	\$ 4,758,485
Accounts Receivable	11,356	16,960
TOTAL ASSETS	<u>\$ 3,692,866</u>	<u>\$ 4,775,445</u>
LIABILITIES		
Accounts Payable	\$ 105,392	\$ 298,141
Total Liabilities	<u>105,392</u>	<u>298,141</u>
NET FINANCIAL POSITION		
Restricted for North County Corridor Project	<u>3,587,474</u>	<u>4,477,304</u>
Total Net Financial Position	<u>3,587,474</u>	<u>4,477,304</u>
TOTAL LIABILITIES AND NET FINANCIAL POSITION	<u>\$ 3,692,866</u>	<u>\$ 4,775,445</u>

The accompanying notes are an integral part of these financial statements.

**NORTH COUNTY CORRIDOR
TRANSPORTATION EXPRESSWAY AUTHORITY
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN NET FINANCIAL POSITION (BY OBJECT)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
REVENUES		
State Revenues	\$ -	\$ 1,122,543
Other Local Revenues	13,190	55,812
	<u>13,190</u>	<u>1,178,355</u>
Total Revenues	<u>13,190</u>	<u>1,178,355</u>
EXPENDITURES		
Services Expenditures	<u>903,020</u>	<u>1,594,546</u>
Total Expenditures	<u>903,020</u>	<u>1,594,546</u>
Deficiency of Revenues Under Expenditures	<u>(889,830)</u>	<u>(416,191)</u>
Net Financial Position at Beginning of Year	<u>4,477,304</u>	<u>4,893,495</u>
Net Financial Position at End of Year	<u>\$ 3,587,474</u>	<u>\$ 4,477,304</u>

The accompanying notes are an integral part of these financial statements.

**NORTH COUNTY CORRIDOR
TRANSPORTATION EXPRESSWAY AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN NET FINANCIAL POSITION – BUDGET AND ACTUAL (BY OBJECT)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
State Revenues	\$ 244,059	\$ 244,059	\$ -	\$ (244,059)
Other Local Revenues	-	-	13,190	13,190
Total Revenues	<u>244,059</u>	<u>244,059</u>	<u>13,190</u>	<u>(230,869)</u>
EXPENDITURES				
Services Expenditures	6,136,174	6,136,174	903,020	5,233,154
Total Expenditures	<u>6,136,174</u>	<u>6,136,174</u>	<u>903,020</u>	<u>5,233,154</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,892,115)</u>	<u>(5,892,115)</u>	<u>(889,830)</u>	<u>5,002,285</u>
Net Financial Position at Beginning of Year	<u>4,477,304</u>	<u>4,477,304</u>	<u>4,477,304</u>	<u>-</u>
Net Financial Position at End of Year	<u>\$ (1,414,811)</u>	<u>\$ (1,414,811)</u>	<u>\$ 3,587,474</u>	<u>\$ 5,002,285</u>

The accompanying notes are an integral part of these financial statements.

**NORTH COUNTY CORRIDOR
TRANSPORTATION EXPRESSWAY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The North County Corridor Transportation Expressway Authority (the Authority) was established May 14, 2008. The role of the Authority is to complete the Project Approval and Environmental Documentation (PA&ED) phase of the State Route 108 project which will provide a high capacity and high speed expressway to accommodate anticipated traffic growth in Northern Stanislaus County. The Authority consists of the Stanislaus Council of Governments; the cities of Modesto, Oakdale, and Riverbank; and the County of Stanislaus.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

Capital Project Funds are used to account for the acquisition and/or construction of all major governmental capital assets. The Authority is considered to be a Capital Project Fund.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheets. The Statements of Revenues, Expenditures, and Changes in Net Financial Position for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

D. New Accounting Pronouncements

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements.

Statement No. 60	<i>Accounting and Financial Reporting for Service Concession Arrangements</i>	Improves financial reporting by addressing issues related to service concession arrangements.
Statement No. 61	<i>The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34</i>	Clarifies the reporting of equity interest in legally separate organizations and requires primary government to report its equity interest in a component unit as an asset.
Statement No. 62	<i>Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements</i>	Improves financial reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. New Accounting Pronouncements (Continued)

Statement No. 63	<i>Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position</i>	Provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.
Statement No. 64	<i>Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53</i>	Clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider.

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Authority's cash is invested in the County of Stanislaus cash and investment pool. The County of Stanislaus cash and investment pool is invested in accordance with California State Government Code Section 53600 et. seq. In addition, the cash and investment pool is further restricted to those investments deemed acceptable per the investment policy guidelines prepared by the Stanislaus County Treasurer and approved by the Board of Supervisors of the County of Stanislaus.

Cash, cash equivalents, and investments held as of June 30, 2013 and 2012, were invested in certificate of deposits, commercial paper, bankers' acceptances, money market funds, federal notes, treasury notes and bills, corporate notes, and an external investment pool.

Interest earned on the cash and investment pool is apportioned on a quarterly basis. Per GASB Statement No. 31, investment losses and gains are recorded at market value on the Statements of Net Financial Position and as income for the period. The changes resulting from investment losses and gains are shared by the various participants of the investment pool. For further information regarding the cash and investment pool, the audit report of the County of Stanislaus may be obtained by writing the County of Stanislaus, 1010 10th Street, Suite 5100, Modesto, California 95354.

Cash, cash equivalents, and investment balance as of June 30, 2013 and 2012, was \$3,681,510 and \$4,758,485, respectively.

NOTE 3 – FUND EQUITY

As prescribed by GASB Statement No. 54, governmental funds report net financial position in classifications based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2013 and 2012, net financial position for government funds are made up of the following:

- *Nonspendable Net Financial Position* – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories, prepaid amounts and long-term notes receivable.
- *Restricted Net Financial Position* – includes amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Net Financial Position* – includes amounts that can only be used for specific purposes determined by a formal action of the Authority's highest level of decision-making authority, the Authority's Governing Board. Commitments may be changed or lifted only by the Authority taking the same formal action that imposed the constraint originally.

NOTE 3 – FUND EQUITY (Continued)

- *Assigned Net Financial Position* – comprises amounts intended to be used by the Authority for specific purposes that are neither restricted nor committed. *Intent* is expressed by (a) the Authority's Governing Board or (b) a body (for example, a budget or finance committee) or official to which the Authority's Board Directors has delegated the authority to assign amounts to be used for specific purposes.
- *Unassigned Net Financial Position* – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

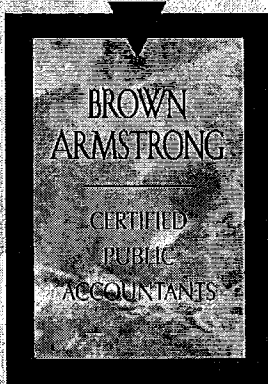
In circumstances when an expenditure is made for a purpose for which amounts are available in multiple net financial position classification, net financial position is generally depleted in the order of restricted, committed, assigned, and unassigned.

The entire net financial position in the amount of \$3,587,474 and \$4,477,304 as of June 30, 2013 and 2012, respectively, were classified as restricted for North County Corridor State Route 108 project.

The Governing Board establishes, modifies or rescinds net financial position commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

NOTE 4 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 20, 2013, which is the date the financial statements were available to be issued. No events have occurred that would require disclosure.



BROWN ARMSTRONG

Certified Public Accountants

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

Independent Auditor's Report

To the Honorable Members
of the Governing Board
North County Corridor
Transportation Expressway Authority
Modesto, 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 North County Corridor Transportation Expressway Authority (the Authority), as of and for the year ended June 30, 2013 and 2012, and have issued our report thereon dated September 20, 2013.

Internal Control Over Financial Reporting

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
September 20, 2013