

**NORTH COUNTY CORRIDOR
TRANSPORTATION EXPRESSWAY AUTHORITY**

ITEM: 4b

SUBJECT:

Financial Audit Acceptance

STAFF RECOMMENDATIONS:

Accept the North County Corridor Fiscal Year 2014-2015 Financial Audit

FISCAL IMPACT:

The cost of the audit was \$4,000 and was included in the North County Corridor's Fiscal Year 2014-2015 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, 2014, 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, 2014 AND 2013**

**NORTH COUNTY CORRIDOR
TRANSPORTATION EXPRESSWAY AUTHORITY
JUNE 30, 2014 AND 2013**

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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 Capital Project Fund of the North County Corridor Transportation Expressway Authority (the Authority) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority'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.

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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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Capital Project Fund of the Authority, as of June 30, 2014 and 2013, and the respective changes in financial position, and the respective budgetary comparison for the Capital Project Fund for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2014, 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
October 3, 2014

BASIC FINANCIAL STATEMENTS

**NORTH COUNTY CORRIDOR
TRANSPORTATION EXPRESSWAY AUTHORITY
STATEMENTS OF NET FINANCIAL POSITION
GOVERNMENTAL ACTIVITIES
JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS		
Cash, Cash Equivalents, and Investments	\$ 2,207,242	\$ 3,681,510
Accounts Receivable	5,123	11,356
TOTAL ASSETS	\$ 2,212,365	\$ 3,692,866
LIABILITIES		
Accounts Payable	\$ 504,087	\$ 105,392
Total Liabilities	504,087	105,392
NET FINANCIAL POSITION		
Restricted for North County Corridor Project	1,708,278	3,587,474
Total Net Financial Position	1,708,278	3,587,474
TOTAL LIABILITIES AND NET FINANCIAL POSITION	\$ 2,212,365	\$ 3,692,866

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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
REVENUES		
State Revenues	\$ -	\$ -
Other Local Revenues	17,047	13,190
	<u>17,047</u>	<u>13,190</u>
Total Revenues	<u>17,047</u>	<u>13,190</u>
EXPENDITURES		
Services Expenditures	1,896,244	903,020
	<u>1,896,244</u>	<u>903,020</u>
Total Expenditures	<u>1,896,244</u>	<u>903,020</u>
Deficiency of Revenues Under Expenditures	<u>(1,879,197)</u>	<u>(889,830)</u>
Net Financial Position at Beginning of Year	<u>3,587,475</u>	<u>4,477,304</u>
Net Financial Position at End of Year	<u>\$ 1,708,278</u>	<u>\$ 3,587,474</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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State Revenues	\$ -	\$ -	\$ -	\$ -
Other Local Revenues	-	-	17,047	17,047
Total Revenues	<u>-</u>	<u>-</u>	<u>17,047</u>	<u>17,047</u>
EXPENDITURES				
Services Expenditures	2,616,983	2,616,983	1,896,244	720,739
Total Expenditures	<u>2,616,983</u>	<u>2,616,983</u>	<u>1,896,244</u>	<u>720,739</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,616,983)</u>	<u>(2,616,983)</u>	<u>(1,879,197)</u>	<u>737,786</u>
Net Financial Position at Beginning of Year	<u>3,587,475</u>	<u>3,587,475</u>	<u>3,587,475</u>	<u>-</u>
Net Financial Position at End of Year	<u>\$ 970,492</u>	<u>\$ 970,492</u>	<u>\$ 1,708,278</u>	<u>\$ 737,786</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	244,059	244,059	13,190	(230,869)
EXPENDITURES				
Services Expenditures	6,136,174	6,136,174	903,020	5,233,154
Total Expenditures	6,136,174	6,136,174	903,020	5,233,154
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,892,115)	(5,892,115)	(889,830)	5,002,285
Net Financial Position at Beginning of Year	4,477,304	4,477,304	4,477,304	-
Net Financial Position at End of Year	\$ (1,414,811)	\$ (1,414,811)	\$ 3,587,474	\$ 5,002,285

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, 2014 AND 2013**

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.

Revenues from tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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. Implementation of New Accounting Pronouncements

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. The provisions of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012. There was no effect on the Authority's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 66 – *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The provisions of GASB Statement No. 66 are effective for financial statements beginning after December 15, 2012. There was no effect on the Authority's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 67 – *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. There was no effect on the Authority's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The provisions of GASB Statement No. 70 are effective for financial statements beginning after June 15, 2013. There was no effect on the Authority's accounting or financial reporting as a result of implementing this standard.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Future Governmental Accounting Standards Board Statements

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27.* The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. The Authority has not fully judged the effect of the implementation of GASB Statement No. 68 as of the date of the basic financial statements.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations.* The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. The Authority has not fully judged the effect of the implementation of GASB Statement No. 69 as of the date of the basic financial statements.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date- an amendment of GASB No. 68.* The provisions of this statement will be applied simultaneously with the provisions of Statement 68.

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, 2014 and 2013, 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, 2014 and 2013, was \$2,207,242 and \$3,681,510, 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, 2014 and 2013, 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 maybe changed or lifted only by the Authority taking the same formal action that imposed the constraint originally.
- *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 \$1,708,278 and \$3,587,474 as of June 30, 2014 and 2013, 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 October 3, 2014, 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

INDEPENDENT AUDITOR'S 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

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 Capital Project Fund of the North County Corridor Transportation Expressway Authority (the Authority), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 3, 2014.

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 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 3, 2014