

**SUNOL SMART CARPOOL LANE
JOINT POWERS AUTHORITY**

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Sunol Smart Carpool Lane Joint Powers Authority
Oakland, California

We have audited the accompanying financial statements of Sunol Smart Carpool Lane Joint Powers Authority (the Authority) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position and cash flow, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America requires that the management's discussion and analysis 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 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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 10, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

Management has prepared the following discussion and analysis of the Sunol Smart Carpool Lane Joint Powers Authority financial performance, which provides an overview of its financial activities for the fiscal year ended June 30, 2012. Management encourages readers to consider the information presented here in conjunction with the accompanying financial statements and related notes.

Financial Highlights

- Total net assets increased by \$844 thousand or 24.3% from \$3.5 million to \$4.3 million as of June 30, 2012 compared to June 30, 2011. Capital assets comprised \$2.6 million or 60.4% of the total net assets at June 30, 2012.
- As of June 30, 2012, cash and cash equivalents increased by \$1.1 million or 207.2% over June 30, 2011.
- Toll revenue was \$1.1 million during fiscal year 2012, an increase of \$453 thousand or 72.1% over the period of September 20, 2010 through June 30, 2011.
- The Authority's total operating expenses were \$349 thousand during fiscal year 2012, an increase of \$110 thousand or 46.0% over the period of September 20, 2010 through June 30, 2011. Operating expenses for fiscal year 2012 were primarily comprised of \$239 thousand of depreciation expense on capital assets.

Overview of the Basic Financial Statements

The basic financial statements of the Authority are presented as an enterprise fund, which reports all activities using the accrual basis of accounting and the economic resources measurement focus. With this basis of accounting, revenues are recorded when earned and expenses are recorded when the related liabilities are incurred. The enterprise fund is used to account for the collection of toll revenues and payment of the Authority's expenses. The financial statements provide both long-and short-term financial information and information about cash flows. The Authority's financial statements are presented as follows:

- Statement of net assets;
- Statement of revenues, expenses and changes in net assets;
- Statement of cash flows; and
- Notes to the financial statements.

Financial Analysis

The following table presents the Authority's net assets as of June 30, 2012 and June 30, 2011 (in thousands of dollars):

	June 30, 2012	June 30, 2011
Current assets	\$ 1,711	\$ 629
Capital assets, net	2,607	2,846
Total assets	4,318	3,475
Net assets	\$ 4,318	\$ 3,475

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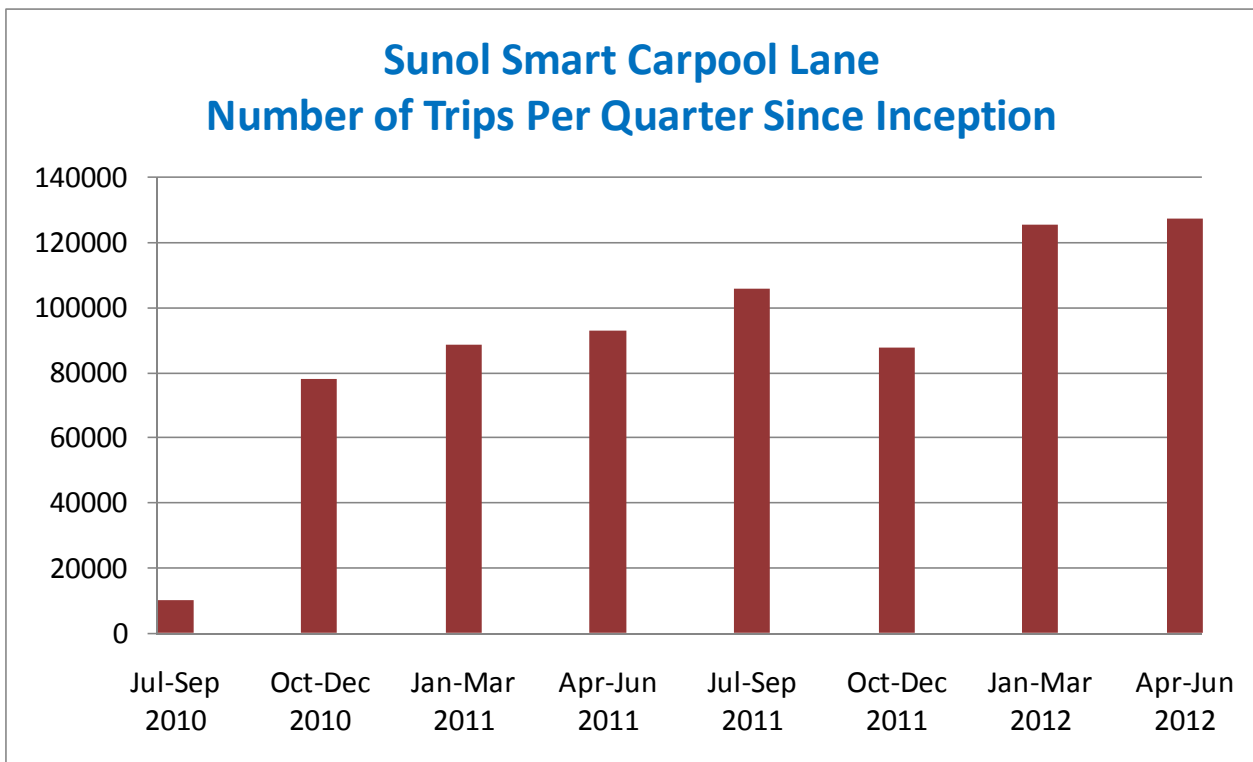
MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2012

The following table presents the Authority’s change in net assets for the fiscal year ended June 30, 2012 and the period ended June 30, 2011 (in thousands of dollars):

	June 30, 2012	June 30, 2011
Operating revenue	\$ 1,192	\$ 629
Operating expenses	349	239
Operating income	843	390
Capital contribution	-	3,085
Increase in net assets	843	3,475
Net assets, beginning of period	3,475	-
Net assets, June 30, 2012	<u>\$ 4,318</u>	<u>\$ 3,475</u>

The Authority began operating a toll lane on the Sunol Grade segment of southbound Interstate 680 in Alameda and Santa Clara counties on September 20, 2010. Monthly toll lane usage increased from 23,999 trips in October 2010 to 34,447 trips in June 2011 and to 43,100 by June 2012.

The following chart demonstrates the trips that have been taken in the toll lane by quarter since inception in September 2010.



SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Cash increased by \$1.1 million or 207.2%. Revenues for the period, including tolls and other revenue in the amount of \$1.2 million, were offset by the change in receivables in the amount of \$1,035 and \$110 thousand for program management expenses. All other Authority expenses were paid directly by the ACCMA on behalf of the Authority with grant funds through its capital project and are not shown on these financial statements.

Receivables increased by \$1,035 or 1.0% mostly related to a reimbursement due from the ACCMA exchange fund for program management costs.

Capital Assets

The following table presents the Authority's capital asset activity from June 30, 2011 to June 30, 2012:

	Balance June 30, 2011	Additions	Balance June 30, 2012
Toll revenue equipment	\$ 3,085	\$ -	\$ 3,085
Accumulated depreciation	239	239	478
Net book value	<u>\$ 2,846</u>	<u>\$ 239</u>	<u>\$ 2,607</u>

Comparison of Budget to Actual

Prior to each fiscal year, the Authority adopts a budget for the coming year. The originally adopted operating revenue budget for fiscal year 2011-12 was \$853 thousand. The Authority increased this operating revenue budget by \$200 thousand to \$1,053 thousand to include a funding agreement executed with the ACCMA exchange to fund program management costs. Actual operating revenues were \$1,193 thousand, which was \$140 thousand or 13.3% higher than budget.

The originally adopted operating expense budget was \$150 thousand. The Authority increased this operating expense budget by \$250 thousand to \$400 thousand to include corresponding program management costs and an additional \$50 thousand to allow for possible maintenance on the lanes. Actual operating expenses were \$349 thousand of which \$239 thousand was for depreciation (a non-cash related transaction not accounted for in budget). Therefore, actual operating expenses were \$290 thousand or 72.0% less than budget.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning information provided in this report or requests for additional financial information should be addressed to Arthur Dao, Executive Director, or Patricia Reavey, Director of Finance, of the Alameda County Transportation Commission at 1333 Broadway, Suite 220, Oakland, California 94612.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

STATEMENT OF NET ASSETS JUNE 30, 2012

ASSETS

Cash	\$ 1,603,235
Accounts receivable	107,743
Capital assets, net of accumulated depreciation	<u>2,607,505</u>
Total assets	<u>4,318,483</u>

NET ASSETS

Invested in capital assets	2,607,505
Unrestricted	<u>1,710,978</u>
Total net assets	<u>\$ 4,318,483</u>

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

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2012

OPERATING REVENUE

Toll charges	\$ 1,082,411
Other revenues	110,255
Total operating revenue	<u>1,192,666</u>

OPERATING EXPENSES

Depreciation expense	238,604
Program management	110,255
Total operating expenses	<u>348,859</u>
Change in Net Assets	843,807
Net Assets - Beginning	<u>3,474,676</u>
Net Assets - Ending	<u><u>\$ 4,318,483</u></u>

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

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Cash receipts from operating activities	\$ 1,191,631
Payments to the program management team	(110,255)
Cash flow provided by operating activities	<u>1,081,376</u>
Cash and Cash Equivalents - Beginning	521,859
Cash and Cash Equivalents - Ending	<u>\$ 1,603,235</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 843,807
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	238,604
Changes in assets and liabilities:	
Receivables	(1,035)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,081,376</u>

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

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 – REPORTING ENTITY

The Sunol Smart Carpool Lane Joint Powers Authority (the Authority) is a joint powers authority, organized in February 2006 pursuant to a Joint Powers Agreement among the Alameda County Congestion Management Agency (ACCMA), Alameda County Transportation Improvement Authority (ACTIA), and the Santa Clara Valley Transportation Authority. ACCMA and ACTIA have been succeeded by the Alameda County Transportation Commission which has all of the powers and responsibilities of the former agencies. The Agreement was entered into pursuant to the Government Code of the State of California, commencing with Section 6500. The Authority was formed to plan, design, construct, and administer the operation of a value pricing high-occupancy vehicle program on the Sunol Grade segment of Southbound Interstate 680 in Alameda and Santa Clara Counties. The Authority began operations of the Project on September 20, 2010. Members of the Authority's Board of Directors are elected officials representing Alameda and Santa Clara counties.

NOTE 2 – MANAGING AGENCY

The Alameda County Transportation Commission (Alameda CTC) is the managing agency for the Project. Its role is to manage the daily operations of the Project on behalf of the Authority. The Alameda CTC provided the Authority, at no cost, with all administrative support since its inception in 2006, including office space, staff time, accounting, and insurance. During the year ended June 30, 2012, the Alameda CTC incurred administrative and operating expense on behalf of the Authority as follows:

Bay Area Toll Authority transaction fees	\$	184,277
California Highway Patrol enforcement		80,632
Insurance		50,318
Alameda CTC staff time		38,996
Legal fees		30,323
Utilities		8,923
Financial Audit		8,915
Other		13,568
	\$	<u>415,952</u>

These costs are not paid by the Authority and are not shown in the accompanying financial statements.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

All activities of the Authority are reported using the accrual basis of accounting, the economic resources measurement focus, and accounting principles generally accepted in the United States of America as applicable to governmental agencies. With this measurement focus, all assets and liabilities associated with the operations are included on the statement of net assets. With this basis of accounting, revenues are reported when earned and expenses are reported when the related liabilities are incurred.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenue of the Authority is the collection of toll revenue.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private sector guidance.

Revenue Recognition

The Authority recognizes toll revenue at the time the toll lane is used, net of revenue from invalid or stolen tags, equipment malfunctions, and violations dismissed in court.

Net Assets

Net assets are reported in the following categories:

- Invested in capital assets – This category includes all capital assets reduced by accumulated depreciation. The Authority has no capital-related debt.
- Unrestricted net assets – This category represents net assets of the Authority that are not restricted for any project or other purpose.

State law requires all toll revenues to be used only for programs and projects that benefit the owners of the vehicles paying the tolls. The Board has designated \$300,000 of net assets for replacement of toll equipment (including hardware and software) and \$200,000 for roadway rehabilitation.

Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and related disclosures. Accordingly, actual results may differ from those estimates.

NOTE 4 – CASH

The Authority had \$1,603,235 cash in the bank at June 30, 2012. The Authority has not adopted an investment policy. It follows the investment policy of its managing agency.

Cash held in banks is entirely collateralized by the bank holding the deposit. California laws requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for all municipal deposits. This collateral remains with the institution, but is considered to be held in the Authority's name and places the Authority ahead of general creditors of the institution.

Custodial credit risk is the risk that in the event a financial institution or counterparty fails, the Authority would not be able to recover the value of its deposits and investments. At June 30, 2012, the Federal Depository Insurance Corporation insured the Authority's cash deposits up to \$250,000 and the financial institution's trust department, in the Authority's name, collateralized the remainder.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 5 – CAPITAL ASSETS

Equipment costing \$5,000 or more and having a useful life of more than one year is recorded in the statement of net assets at historical cost. Capital assets are depreciated using the straight-line method over estimated useful lives of five to twenty years.

Capital asset balances at June 30, 2012, and activity for the year then ended, are as follows:

	July 1, 2011	Additions	June 30, 2012
Toll revenue equipment	\$ 3,084,714	\$ -	\$ 3,084,714
Accumulated depreciation	(238,605)	(238,604)	(477,209)
Net book value	<u>\$ 2,846,109</u>	<u>\$ (238,604)</u>	<u>\$ 2,607,505</u>

NOTE 6 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The following is a list of insurance covering operations:

Type of coverage	Deductible	Limits
General liability	\$ 10,000	\$ 2,000,000 General aggregate
Excess liability	-	1,000,000
Employment practices	35,000	1,000,000
Directors' and Officers'	25,000	1,000,000
Property and Equipment Floater	5,000	3,347,000