

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013



**SUNOL SMART CARPOOL LANE
JOINT POWERS AUTHORITY**

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TABLE OF CONTENTS JUNE 30, 2013

| | |
|--|---|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 2 |
| Basic Financial Statements | |
| Statement of Net Position | 6 |
| Statement of Revenues, Expenses, and Changes in Net Position | 7 |
| Statement of Cash Flows | 8 |
| Notes to Financial Statements | 9 |



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Sunol Smart Carpool Lane Joint Powers Authority (the Authority), as of and for the year ended June 30, 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 an opinion 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 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 opinion.

Opinion

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 the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 15, 2013

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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, 2013. Management encourages readers to consider the information presented here in conjunction with the accompanying financial statements and related notes.

Financial Highlights

- Total net position decreased by \$304 thousand or 7.1% from \$4.3 million to \$4.0 million as of June 30, 2013 compared to June 30, 2012. This decrease is mostly related to capital asset depreciation. Capital assets comprised \$2.4 million or 59.0% of the total net position at June 30, 2013.
- As of June 30, 2013, cash and cash equivalents increased by \$0.5 million or 32.1% from \$1.6 million to \$2.1 million. This change can be attributed to \$0.5 million of expenses which were accrued, but not yet paid, as of June 30, 2013.
- Toll revenue was \$1.3 million during fiscal year 2013, an increase of \$228 thousand or 21.0% over the period of July 01, 2011 through June 30, 2012.
- The Authority's total operating expenses were \$1.6 million during fiscal year 2013, an increase of \$1.3 million or 363.4% over the period of July 01, 2011 through June 30, 2012. While the Alameda County Transportation Commission (Alameda CTC) continues as the managing agency, it no longer funds administrative support costs on behalf of the Authority. Accordingly, these costs were included in the Statement of Revenues, Expenses, and Changes in Net Position beginning July 1, 2012 (see Note 3 to the financial statements for a more detailed explanation). Operating expenses for fiscal year 2013 are primarily comprised of \$1.4 million of program management operations cost.

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-term and short-term financial information and information about cash flows. The Authority's financial statements are presented as follows:

- Statement of Net Position;
- Statement of Revenues, Expenses and Changes in Net Position;
- Statement of Cash Flows; and
- Notes to the financial statements.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Financial Analysis

The following table presents the Authority's net position as of June 30, 2013 and June 30, 2012 (in thousands of dollars):

| | <u>June 30, 2013</u> | <u>June 30, 2012</u> |
|---------------------|------------------------|------------------------|
| Current assets | \$ 2,189 | \$ 1,711 |
| Capital assets, net | <u>2,369</u> | <u>2,607</u> |
| Total assets | 4,558 | 4,318 |
| Total liabilities | (544) | - |
| Net position | <u><u>\$ 4,014</u></u> | <u><u>\$ 4,318</u></u> |

The following table presents the Authority's change in net position for the fiscal year ended June 30, 2013 and the period ended June 30, 2012 (in thousands of dollars):

| | <u>June 30, 2013</u> | <u>June 30, 2012</u> |
|-------------------------------------|------------------------|------------------------|
| Operating revenue | \$ 1,312 | \$ 1,192 |
| Operating expenses | <u>1,616</u> | <u>349</u> |
| Increase (decrease) in net position | (304) | 843 |
| Net position, beginning of period | 4,318 | 3,475 |
| Net position, end of period | <u><u>\$ 4,014</u></u> | <u><u>\$ 4,318</u></u> |

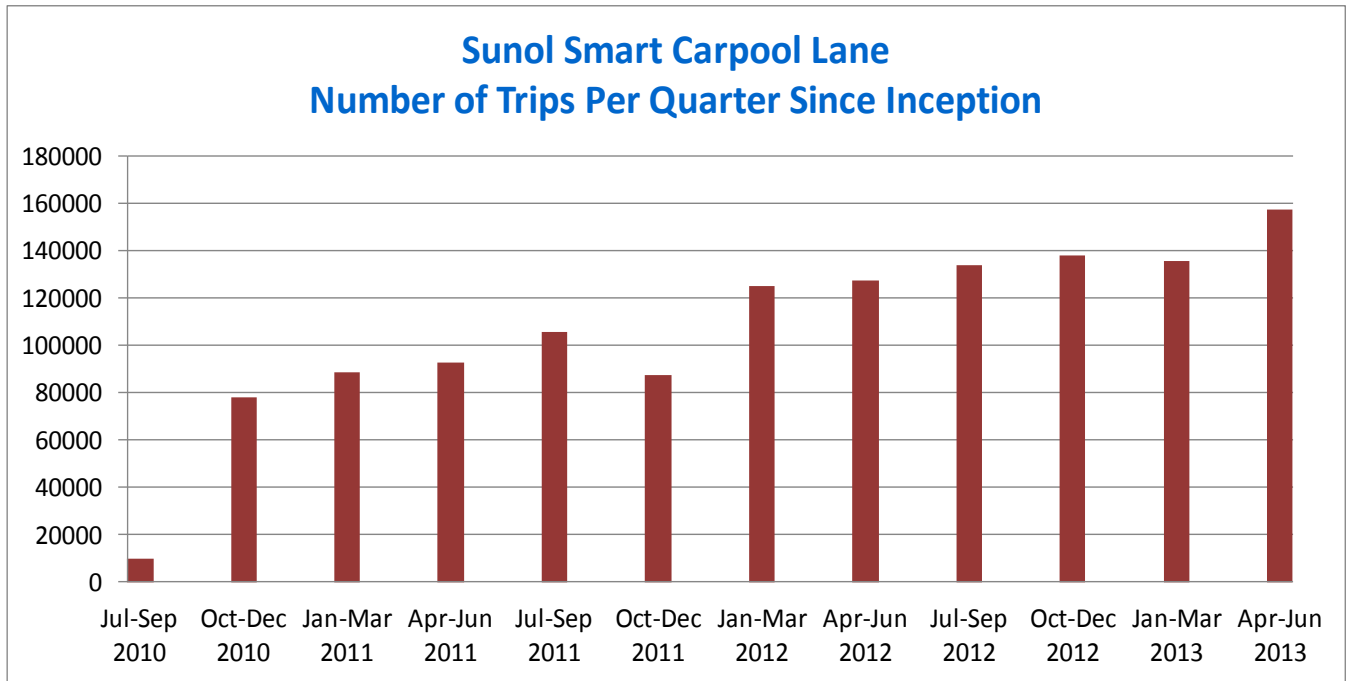
While the Alameda CTC continues as the managing agency, it no longer funds administrative support costs on behalf of the Authority. Accordingly, these costs were included in the Statement of Revenues, Expenses, and Changes in Net Position beginning July 1, 2012 (see Note 3 to the financial statements for a more detailed explanation).

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 24,862 trips in October 2010 to 50,634 trips in June 2013.

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, 2013**



Cash increased by \$514 thousand or 32.1%. Revenues for the period, including tolls and other revenue in the amount of \$1,312 thousand plus the change in receivables of \$79 thousand and the change in liabilities of \$544 thousand, were offset by \$1,378 thousand of program management expenses plus the change in prepaid expenses of \$43 thousand.

Receivables decreased by \$79 thousand or 73.0%.

Capital Assets

The following table presents the Authority's capital asset activity from June 30, 2012 to June 30, 2013 (in thousands of dollars):

| | June 30, 2012 | Additions | June 30, 2013 |
|--------------------------|-----------------|-----------------|-----------------|
| Toll revenue equipment | \$ 3,085 | \$ - | \$ 3,085 |
| Accumulated depreciation | (478) | (238) | (716) |
| Net book value | <u>\$ 2,607</u> | <u>\$ (238)</u> | <u>\$ 2,369</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 2013 was \$1,050 thousand which was not changed throughout the fiscal year. Actual operating revenues were \$1,312 thousand, which was \$262 thousand or 25.0% higher than budget.

The originally adopted operating expense budget was \$1,581 thousand which was not changed throughout the fiscal year. Actual operating expenses were \$1,616 thousand of which \$238 thousand was for depreciation (a non-cash related transaction not accounted for in budget). Therefore, actual operating expenses were \$203 thousand or 12.8% less than budget.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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 1111 Broadway, Suite 800, Oakland, California 94607.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

STATEMENT OF NET POSITION JUNE 30, 2013

ASSETS

| | |
|---|------------------|
| Cash | \$ 2,117,374 |
| Accounts receivable | 29,070 |
| Prepaid expenses | 42,988 |
| Capital assets, net of accumulated depreciation | <u>2,368,900</u> |
| Total Assets | <u>4,558,332</u> |

LIABILITIES

| | |
|---------------------|----------------|
| Accounts payable | 128,637 |
| Accrued liabilities | <u>415,696</u> |
| Total Liabilities | <u>544,333</u> |

NET POSITION

| | |
|----------------------------------|---------------------|
| Net investment in capital assets | 2,368,900 |
| Unrestricted | <u>1,645,099</u> |
| Total Net Position | <u>\$ 4,013,999</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 POSITION FOR THE YEAR ENDED JUNE 30, 2013

OPERATING REVENUE

| | |
|-------------------------|------------------|
| Toll charges | \$ 1,309,919 |
| Other revenues | 2,250 |
| Total Operating Revenue | <u>1,312,169</u> |

OPERATING EXPENSES

| | |
|--------------------------|---------------------|
| Depreciation expense | 238,605 |
| Program management | 1,378,048 |
| Total Operating Expenses | <u>1,616,653</u> |
| Change in Net Position | (304,484) |
| Net Position - Beginning | <u>4,318,483</u> |
| Net Position - Ending | <u>\$ 4,013,999</u> |

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

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|----------------------------|
| Cash receipts from operating activities | \$ 1,391,190 |
| Payments for operating activities | (877,051) |
| Cash flow provided by operating activities | <u>514,139</u> |
| Cash and Cash Equivalents - Beginning | <u>1,603,235</u> |
| Cash and Cash Equivalents - Ending | <u><u>\$ 2,117,374</u></u> |

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

| | |
|---|--------------------------|
| Operating income | \$ (304,484) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 238,605 |
| Changes in assets and liabilities: | |
| Decrease in receivables | 78,673 |
| Increase in prepaid expenses | (42,988) |
| Increase in liabilities | 544,333 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u><u>\$ 514,139</u></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, 2013

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. From its inception in 2006, the Alameda CTC has provided all administrative support including office space, staff time, accounting, and insurance. While the Alameda CTC continues as the managing agency, it no longer funds these administrative support costs on behalf of the Authority. Accordingly, these costs are included in the Statement of Revenues, Expenses, and Changes in Net Position beginning July 1, 2012. Throughout fiscal year 2013, Alameda CTC continued to subsidize operations and maintenance of the Sunol Smart Carpool Lane with local grant funding through its I-680 Southbound HOT Lane Project. During the fiscal year ended June 30, 2013, the Alameda CTC incurred operations and maintenance expense on behalf of the Authority as follows:

| | | |
|-----------------------------------|----|----------------|
| System Manager/Operations Support | \$ | 138,821 |
| Other Consultant Costs | | 199,966 |
| Project Management/Controls | | 157,076 |
| Alameda CTC staff time | | 65,628 |
| IT Support | | 64,368 |
| Other | | 1,234 |
| Total | \$ | <u>627,093</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 Position. 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.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Operating expenses of the Authority are made up of administrative costs, depreciation and operations and maintenance costs. Since inception of the Authority, the Alameda CTC as the managing agency has covered most administrative and operations and maintenance costs of the Sunol Smart Carpool Lane through its I-680 Southbound HOT Lane Project. However, as of July 1, 2012, the managing agency no longer subsidizes Authority administrative costs. Accordingly, these costs are included in the Statement of Revenues, Expenses, and Changes in Net Position beginning July 1, 2012. The Alameda CTC will continue to cover some costs related to operations and maintenance while utilization of the Sunol Smart Carpool Lane grows to a sustainable level and the Authority is considered solvent.

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 Position

Net position is reported in the following categories:

- Net investment in capital assets – This category includes all capital assets reduced by accumulated depreciation. The Authority has no capital related debt.
- Unrestricted net position – This category represents net position of the Authority that is 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 within the corridor. The Board has designated \$300,000 of net position 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 \$2,118,374 cash in the bank at June 30, 2013. 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

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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, 2013, the Federal Depository Insurance Corporation insured the Authority's cash deposits up to \$250,000 and the financial institution's trust department collateralized the remainder in the Authority's name.

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 position 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, 2013, and activity for the year then ended, are as follows:

| | June 30, 2012 | Additions | June 30, 2013 |
|--------------------------|-----------------|-----------------|-----------------|
| Toll revenue equipment | \$ 3,085 | \$ - | \$ 3,085 |
| Accumulated depreciation | (478) | (238) | (716) |
| Net book value | <u>\$ 2,607</u> | <u>\$ (238)</u> | <u>\$ 2,369</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 |
| Excess Liability | - | 5,000,000 |
| Employment Practices | 35,000 | 1,000,000 |
| Directors' and Officers' | 25,000 | 1,000,000 |
| Property and Equipment Floater | 1,000 | 3,347,000 |