



SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2014, 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. 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 Authority, as of June 30, 2014, and the respective changes in financial position, and cash flows 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 management's discussion and analysis on pages four through seven 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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California

November 17, 2014

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

MAP OF I-680 SUNOL SMART CARPOOL LANE



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MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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, 2014. 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 \$0.1 million or 3.6% from \$4.0 million to \$3.9 million as of June 30, 2014 compared to June 30, 2013. This decrease is mostly related to capital asset depreciation. Capital assets comprised \$2.1 million or 55.6% of the total net position at June 30, 2014.
- As of June 30, 2014, cash and cash equivalents increased by \$0.5 million or 24.2% from \$2.1 million to \$2.6 million. This increase is mostly attributed to an increase in operating revenue over fiscal year 2013.
- Operating revenue was \$2.0 million during fiscal year 2014, an increase of \$0.7 million or 51.3% over fiscal year 2013.
- The Authority's total operating expenses were \$2.1 million during fiscal year 2014, an increase of \$0.5 million or 24.3% over fiscal year 2013. This increase is mostly due to a change in methodology used to report operations and maintenance costs, which were subsidized with grant funding from the Alameda County Transportation Commission's (Alameda CTC) I-680 Southbound HOT Lane Project. See note 1 to the financial statements for more information. Operating expenses for fiscal year 2014 were primarily comprised of \$1.9 million of program operations and maintenance costs.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

Financial Analysis

The following table presents the Authority's net position as of June 30, 2014 and June 30, 2013:

	June 30, 2014	June 30, 2013
Current assets	\$ 3,066,054	\$ 2,189,432
Capital assets, net	2,149,830	2,368,900
Total assets	5,215,884	4,558,332
Total liabilities	(1,345,888)	(544,333)
Net position	\$ 3,869,996	\$ 4,013,999

The following table presents the Authority's change in net position for the fiscal year ended June 30, 2014 and the period ended June 30, 2013:

	June 30, 2014	June 30, 2013
Operating and capital revenue	\$ 1,985,016	\$ 1,312,168
Operating expenses	2,134,627	1,616,652
Operating income	(149,611)	(304,484)
Capital contribution	5,608	-
Increase (decrease) in net position	(144,003)	(304,484)
Net position, beginning of period	4,013,999	4,318,483
Net position, end of period	\$ 3,869,996	\$ 4,013,999

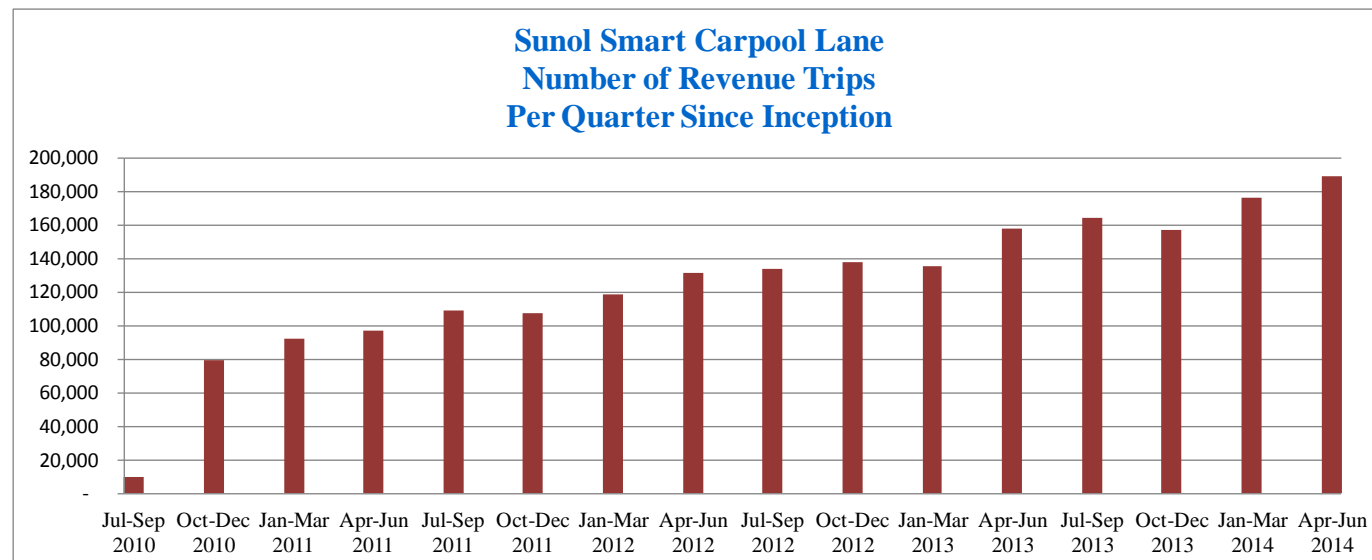
While the Alameda CTC continues as the managing agency, it no longer funds administrative support costs on behalf of the Authority. Accordingly, these costs were included in the Statement of Revenues, Expenses, and Changes in Net Position beginning July 1, 2012 (see Note 3 to the financial statements 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 61,476 trips in June 2014.

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MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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



Cash increased by \$511.8 thousand or 24.2%. Revenues for the period, including tolls and other revenue in the amount of \$1,985.0 thousand plus the change in liabilities of \$801.5 thousand, were offset by \$1,909.9 thousand of program management expenses plus the change in receivables of \$360.3 thousand and prepaid expenses of \$4.5 thousand.

Receivables increased by \$360.3 thousand or 1239.6%.

Capital Assets

The following table presents the Authority's capital asset activity from June 30, 2013 to June 30, 2014:

	June 30, 2013	Additions	June 30, 2014
Toll revenue equipment	\$ 3,084,714	\$ 5,608	\$ 3,090,322
Accumulated depreciation	(715,814)	(224,678)	(940,492)
Net book value	\$ 2,368,900	\$ (219,070)	\$ 2,149,830

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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 2014 was \$1,350.0 thousand which was increased to \$1,835.0 thousand by the Board in order to account for grant revenues contributed by the Alameda CTC. Actual operating revenues were \$1,985.0 thousand, which was \$150.0 thousand or 8.2% higher than budget.

The originally adopted operating expense budget was \$1,535.0 thousand, which was increased to \$2,120.0 thousand by the Board mostly to account for expenses previously identified to be paid by Alameda CTC's I-680 Southbound HOT Lane Project. Actual operating expenses were \$2,134.6 thousand of which \$224.7 thousand was for depreciation (a non-cash related transaction not accounted for in budget). Therefore, actual operating expenses were \$210.1 thousand or 9.9% 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 1111 Broadway, Suite 800, Oakland, California 94607.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

STATEMENT OF NET POSITION JUNE 30, 2014

ASSETS

Cash	\$ 2,629,165
Accounts receivable	389,411
Prepaid expenses	47,478
Capital assets, net of accumulated depreciation	2,149,830
Total Assets	<u>5,215,884</u>

LIABILITIES

Accounts payable	249,217
Accrued liabilities	1,096,671
Total Liabilities	<u>1,345,888</u>

NET POSITION

Net investment in capital assets	2,149,830
Unrestricted	1,720,166
Total Net Position	<u>\$ 3,869,996</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, 2014

OPERATING REVENUES

Toll charges	\$ 1,620,655
Other revenues	364,361
Total operating revenue	<u>1,985,016</u>

OPERATING EXPENSES

Depreciation expense	224,678
Operations and maintenance	1,909,949
Total operating expenses	<u>2,134,627</u>
Operating loss	(149,611)
Capital contributions	5,608
Change in net position	(144,003)
Net Position - Beginning	<u>4,013,999</u>
Net Position - Ending	<u>\$ 3,869,996</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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Cash receipts from operating activities	\$ 1,624,688
Payments for operating activities	(1,112,897)
Cash flow provided by operating activities	511,791
Cash and Cash Equivalents - Beginning	2,117,374
Cash and Cash Equivalents - Ending	<u>\$ 2,629,165</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (149,611)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	224,678
Changes in assets and liabilities:	
Increase in receivables	(360,341)
Increase in prepaid expenses	(4,490)
Increase in liabilities	801,555
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 511,791</u>

SCHEDULE OF NONCASH CAPITAL ACTIVITIES

Contribution of capital assets	<u>\$ 5,608</u>
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The accompanying notes are an integral part of these financial statements.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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 (Alameda CTC) 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 operations 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

Alameda CTC is the managing agency. From its inception in 2006, the Alameda CTC provided all administrative support including office space, staff time, accounting, and insurance. While the Alameda CTC continues as the managing agency, it ceased funding these administrative support costs on behalf of the Authority as of July 1, 2012. Accordingly, these costs are included in the Statement of Revenues, Expenses, and Changes in Net Position. Throughout fiscal year 2014, 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, 2014, the Alameda CTC incurred operations and maintenance expense on behalf of the Authority as follows:

Express Lane Maintenance	\$	125,000
Project Management/Controls		85,000
IT Support		70,800
Insurance		61,753
System Manager/Operations Support		18,789
Other Consultant Costs		3,019
Total	\$	<u>364,361</u>

These costs are paid by the Authority and the funding of grant revenue and the expenses are shown as operating revenue and operating expenses, respectively, in the accompanying financial statements.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

All activities of the Authority are reported using the economic resources measurement focus and the accrual basis of accounting, in accordance with 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 operations are included on the Statement of Net Position, and revenues are reported when earned and expenses are reported when the related liabilities are incurred.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

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 provided administrative support and subsidized operations and maintenance costs of the Sunol Smart Carpool Lane through its I-680 Southbound HOT Lane Project. 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. However, as of July 1, 2012, the managing agency no longer funds the Authority's administrative support costs. Accordingly, these costs as well as all other operations and maintenance costs incurred by the Authority are included in the Statement of Revenues, Expenses, and Changes in Net Position beginning July 1, 2012.

The Authority adheres to accounting principles issued by the Governmental Accounting Standards Board (GASB).

Revenue Recognition

The Authority recognizes toll revenue at the time the toll lane is used, net of funds for 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 – 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.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 4 – CASH

The Authority had \$2,629,165 cash in the bank as of June 30, 2014. 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, 2014, 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 reported 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, 2014, and activity for the year then ended, are as follows:

	June 30, 2013	Additions	June 30, 2014
Toll revenue equipment	\$ 3,084,714	\$ 5,608	\$ 3,090,322
Accumulated depreciation	(715,814)	(224,678)	(940,492)
Net book value	<u>\$ 2,368,900</u>	<u>\$ (219,070)</u>	<u>\$ 2,149,830</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	-	5,000,000
Employment Practices	35,000	1,000,000
Directors' and Officers'	25,000	1,000,000
Property and Equipment Floater	1,000	3,498,817