

**SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND**

Independent Auditors' Report,
Financial Statements, Supplementary Information and
Other Reports
For the Year Ended June 30, 2016

**SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
JUNE 30, 2016**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
San Joaquin Regional Rail Commission
Stockton, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure B Program Enterprise Fund (the Fund) of the San Joaquin Regional Rail Commission, as of and for the year ended June 30, 2016, and the related notes to the 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.

Auditors' 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program of the Commission as of June 30, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Individual Fund Financial Statements

As discussed in Note 1, the financial statements present only the Measure B Program Enterprise Fund and do not purport to, and do not, present fairly the financial position of the San Joaquin Regional Rail Commission, as of June 30, 2016, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's financial statements. The Supplemental Schedule of Revenues and Expenses and Supplemental Schedule of Fund Balance Reserves Use for Capital Projects and Capital Access Fees are presented for purposes of additional analysis and is not a required part of the financial statements. The Supplemental Schedule of Revenues and Expenses and Supplemental Schedule of Fund Balance Reserves Use for Capital Projects and Capital Access Fees are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2016, on our consideration of the Fund'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 Fund's internal control over financial reporting and compliance.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California

December 23, 2016

**SAN JOAQUIN REGIONAL RAIL COMMISSION
 MEASURE B ENTERPRISE FUND
 STATEMENT OF NET POSITION
 JUNE 30, 2016**

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 1,731,694
Receivables:	
Interest	2,319
Intergovernmental - ACTC	426,130
Prepaid expenses	540,419
Total current assets	2,700,562
Noncurrent Assets:	
Construction in progress	448,513
Total noncurrent assets	448,513
Total assets	3,149,075

LIABILITIES

Current Liabilities:	
Accounts payable	371,125
Total liabilities	371,125

NET POSITION

Restricted for Altamont Corridor Express - Operations	2,777,950
Total net position	\$ 2,777,950

The notes to the financial statements are an integral part of this statement.

**SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

OPERATING REVENUES

Operating revenues	\$ -
Total Operating Revenues	-

Mass transit program costs

OPERATING EXPENSES

Capital access costs	540,420
Mass transit program costs	405,141
Mass transit program costs - ACTC Measure B Exchange Funds	1,150,935
Maintenance - Alameda Co. ACE Stations	20,000
Administrative charges ACTC	4,935
Total Operating Expenses	2,121,431

Operating income (loss)	(2,121,431)
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NON OPERATING REVENUES (EXPENSES)

Intergovernmental - Measure B Sales tax	2,710,084
Investment earnings	12,281
Fair value adjustment	713
Total Nonoperating Revenues (Expenses)	2,723,078

Change in Net Position	601,647
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Net position - Beginning	2,176,303
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Net position - Ending	\$ 2,777,950
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The notes to the financial statements are an integral part of this statement.

**SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash paid for mass transit, station maintenance & administration	\$ (2,556,145)
Net Cash Used by Operating Activities	<u>(2,556,145)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating grants - Measure B sales tax	2,059,108
Net Cash Provided by Noncapital Financing Activities	<u>2,059,108</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment earnings	11,711
Net Cash Provided by Investing Activities	<u>11,711</u>

Net Increase (Decrease) in Cash and Cash Equivalents (485,326)

Cash and cash equivalents - beginning of year 2,217,020

Cash and cash equivalents - end of year \$ 1,731,694

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	\$ (2,121,431)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Changes in assets and liabilities	
Increase (decrease) in	
Due to other funds	(214,483)
Accounts payable	<u>(220,231)</u>
Net cash used by operating activities	<u><u>\$ (2,556,145)</u></u>

The notes to the financial statements are an integral part of this statement.

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The San Joaquin Regional Rail Commission (Commission) is a joint powers authority established by the County of San Joaquin (County), and the cities of Lodi, Stockton, Escalon, Ripon, Manteca, Lathrop, and Tracy. The primary mission of the Commission is to implement and expand passenger rail service, which will provide regional economic and environmental benefits, as well as manage the Altamont Corridor Express (ACE) Service. The Commission was established on April 1, 1995. On November 2, 2012, the Board of Commissioners of the San Joaquin Regional Rail Commission approved a resolution adopting a new ACE acronym – Altamont Corridor Express and new ACE logo. The ACE Service had previously been called the Altamont Commuter Express.

Effective July 1, 2003, the Commission became the designated owner, operator and policymaking body for the ACE Service in accordance with the Cooperative Services Agreement. This agreement supersedes and rescinds the prior Joint Exercise of Powers Agreement of May 15, 1997, which created the Altamont Commuter Express Authority. The designated owner of the ACE Service, the Commission took title to all of the assets and assumption of the liabilities that were previously under ownership of the Altamont Commuter Express Joint Powers Authority, which had been dissolved. The ACE Service is reported as an enterprise fund in the Commission's financial statements.

Measure B, approved by voters of Alameda County in the year 2000, authorized the imposition of an additional one-half cent sales tax to be used for transportation-related expenses. Measure B specifies that revenues generated by the additional sales tax will not displace expenses previously paid by property taxes, but rather will be used for additional transportation projects and programs. The Alameda County Transportation Commission (ACTC) is a joint powers authority that plans, funds and delivers transportation programs and projects that expand access and improve mobility to foster a vibrant and livable Alameda County. It was formed in 2010 from the merger of two organizations – the Alameda County Transportation Improvement Authority (ACTIA) and Alameda County Congestion Management Agency (ACCMA). ACTC administers the additional sales tax. During the year ended June 30, 2016, ACTC used a portion of these sales tax proceeds to satisfy Alameda County's share of the operating expenses of the Altamont Corridor Express (ACE).

Effective July 1, 2008, ACTC (formerly ACCMA and ACTIA) and the San Joaquin Regional Rail Commission (the Commission) entered into an agreement whereby ACTC will pay Alameda County's share of ACE operating expenses to the Commission beginning effective July 1, 2008.

B. Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting and Financial Statement Presentation (Continued)

The Measure B Program is included as a component of the ACE Enterprise Fund, a proprietary fund, in the financial statements of the Commission. The accompanying financial statements of the Measure B Program present the activities of the Commission's agreement with ACTC. These financial statements are not intended to present the financial position and results of operations of the Commission, ACE or ACTC.

Proprietary funds distinguish between operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with its principal ongoing operations. The principal operating revenue of the ACE Service is passenger fares. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, Liabilities and Net Position

Intergovernmental

These amounts represent receivables and payables which are due to/from other local governments.

Net Position

In the financial statements, the enterprise fund reports restricted net position for amounts that are not available for appropriation or are legally restricted for a specific purpose.

As of June 30, 2016, restrictions of net position are described below:

- *Restricted for Altamont Corridor Express - Operations* - to reflect portion of net position related to the sales tax set aside to assist with the ACE operations and is not available for appropriation.

D. Cash and Cash Equivalents

For purposes of the accompanying Statement of Cash flows, the enterprise fund considers all highly liquid investments with a maturity of three months or less when purchased, and their equity in the San Joaquin County Treasurer's investment pool, to be cash equivalents. The Commission participates in the common investment pool of San Joaquin County.

E. Revenues

Amounts received from ACTC to fund the operations of the ACE Service.

F. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounting Pronouncements Implemented

Governmental Accounting Standards Board No. 72

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The Commission implemented the standard effective July 1, 2015.

Governmental Accounting Standards Board No. 73

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, and Statement No. 68 for pension plans and pensions that are within their respective scopes. The requirements of this statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions, which are effective for reporting periods beginning after June 15, 2016. For the applicable provisions effective this year, the Commission has determined that this statement did not have a material effect on the financial statements.

Governmental Accounting Standards Board No. 76

In June 2015 GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The ‘GAAP hierarchy’ consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The Commission has determined that this statement did not have a material effect on the Commission’s financial statements.

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounting Pronouncements Implemented

Governmental Accounting Standards Board No. 79

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40, which are effective for reporting periods beginning after December 15, 2015. The Commission implemented the standard as of July 1, 2015. The Commission has determined that this statement did not have a material effect on the Commission's financial statements.

H. Future Accounting Pronouncements

Future new accounting standards which may impact the Commission include the following:

Governmental Accounting Standards Board No. 73

In March 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Certain provisions of this statement are effective for periods beginning after June 15, 2016. The Commission has not determined the effect, if any, on the financial statements.

Governmental Accounting Standards Board No. 74

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement is effective for periods beginning after June 15, 2016. The Commission has not determined the effect, if any, on the financial statements.

Governmental Accounting Standards Board No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement is effective for periods beginning after June 15, 2017. The Commission has not determined the effect, if any, on the financial statements.

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Future Accounting Pronouncements (Continued)

Governmental Accounting Standards Board No. 77

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The Commission has not determined the effect, if any, on the financial statements.

Governmental Accounting Standards Board No. 78

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The object of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multi-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The Commission has not determined the effect, if any, on the financial statements.

Governmental Accounting Standards Board No. 80

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The Commission has not determined the effect, if any, on the financial statements.

Governmental Accounting Standards Board No. 81

In March 2016, GASB issued Statement No. 81, *Irrevocable Split Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of an agreement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016 and should be applied retroactively. The Commission has not determined the effect, if any, on the financial statements.

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Future Accounting Pronouncements (Continued)

Governmental Accounting Standards Board No. 82

In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The Commission follows the practice of pooling cash and investments of all funds except for those required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on the pooled cash and investments is allocated monthly to the various funds based on monthly cash balances.

Cash and cash equivalents are reported in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 1,731,694
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Cash and investments as of June 30, 2016 consist of the following:

Cash and investments held in county pool	\$ 1,731,694
Total Cash and Investments	\$ 1,731,694

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the Commission by the California Government Code.

Investment Types Authorized by State Law	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	N/A	None	None
Reverse Repurchase Agreements	N/A	None	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value will be to changes in market interest rates. One of the ways the Commission manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Commission's investment policy, which conforms to the San Joaquin County investment policy, states that investment decisions are made with the intention of retaining the investment until maturity, thereby negating the ill effects of market interest rate fluctuations.

Information about the sensitivity of the fair values of the Commission's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Commission's investments by maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>Remaining maturity (in months)</u>		
		<u>12 months or less</u>	<u>13-24 months</u>	<u>25-60 months</u>
Held by fiscal agent:				
San Joaquin County Investment Pool	\$ 1,731,694	\$ 1,731,694	\$ -	\$ -
Total	\$ 1,731,694	\$ 1,731,694	\$ -	\$ -

Disclosure Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the Commission's investment policy, or debt agreements, and the actual rating as of June 30, 2016, for each investment type:

<u>Investment Type</u>	<u>Standard & Poor's Rating</u>			<u>Total</u>
	<u>AA+</u>	<u>AAAm</u>	<u>Not Rated</u>	
Held by fiscal agent:				
San Joaquin County Investment Pool	\$ -	\$ -	\$ 1,731,694	\$ 1,731,694
Grand Total	\$ -	\$ -	\$ 1,731,694	\$ 1,731,694

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investment in San Joaquin County Pool

The Commission maintains cash balances in the San Joaquin County Treasury Investment Pool. The pool is non-SEC registered and is invested in accordance with California State Government Code and the San Joaquin County Treasurer's Investment Policy. California State Government Code requires the formation of an Investment Oversight Committee, which is charged with overseeing activity in the pool for compliance to policy and code requirements. To this end, the Oversight Committee reviews the monthly investment report prior to presentation to the County Board of Supervisors and causes an audit of investments to occur annually. The fair value of the Commission's shares in the San Joaquin County Pool is the same as the value of the pool shares. The Commission had a total of \$1,731,694 invested in the San Joaquin County Investment Pool at June 30, 2016 for Measure B funds.

Fair Value Measurements

The Commission categorizes the fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Commission has the ability to access.

Level 2 — Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Commission's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Commission's own data.

Deposits and withdrawals in governmental investment pools are made on the basis of \$1 and not fair value. Accordingly, the Commission's proportionate share in these types of investments is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

**SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
Notes to Financial Statements
For the Year Ended June 30, 2016**

NOTE 3 – MEASURE B CAPITAL ASSETS

In accordance with the ACTC 2015-16 Baseline Service Plan (BSP), SJRRC may apply carryover fund balance from prior years to pay for a portion of Capital Access Fees and Capital Projects. As of July 1, 2015, carryover fund balance from prior years consisted of \$2,159,606 of cumulative unspent Measure B revenues as limited by annual (BSP) limits. Of this amount, \$1,080,839 was spent for Capital Access Fees and \$448,513 for Capital Assets. The remaining balance of prior year carryover funds in the amount of \$630,255, plus any excess Measure B revenues over the 15-16 BSP limits will be applied to future projects, pending approval under the 2016-17 and subsequent ACTC Baseline Service Plans.

Capital asset activity for the Measure B Enterprise Program Fund for the year ended June 30, 2016 were as follows:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
Capital assets not being depreciated				
Construction in progress				
Positive Train Control	\$ -	\$ 441,490	\$ -	\$ 441,490
Horn Signal Improvements	-	7,023	-	7,023
Total, capital assets not being depreciated	<u>\$ -</u>	<u>\$ 448,513</u>	<u>\$ -</u>	<u>\$ 448,513</u>

NOTE 4 – MEASURE B DIRECT LOCAL DISTRIBUTION PROGRAM RECEIVABLES

The Measure B Direct Local Distribution Program Receivables represent the Measure B sales tax revenues for the fiscal year received from the Alameda County Transportation Commission after June 30, 2016.

NOTE 5 – FUND EXCHANGE AGREEMENT

On July 8, 2015, the San Joaquin Regional Rail Commission (SJRRC) entered into a Fund Exchange Agreement (“Agreement”) with the Alameda County Transportation Commission (ACTC). Under this agreement, ACTC programmed \$1,150,935 of Federal Surface Transportation Program (STP) funds, subsequently re-programmed as FTA 5307 funds, to be used by SJRRC for transit operations. In exchange, SJRRC reimbursed ACTC with an equal amount of Measure B funds. The entire exchange transaction took place within the 2015-16 fiscal year and was completed by June 30, 2016.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

The Commission receives significant financial assistance from the Federal, State and Local Governments in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expense of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by

**SAN JOAQUIN REGIONAL RAIL COMMISSION
 MEASURE B ENTERPRISE FUND
 Notes to Financial Statements
 For the Year Ended June 30, 2016**

NOTE 6 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

federal, state and local agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

NOTE 7 – RECONCILIATION TO BASELINE SERVICE PLAN OPERATIONS LIMITS

For the 2015-16 fiscal year the adopted Baseline Service Plan limit for annual expenses of Alameda County Measure B and BB funds totaled \$2,911,000. An analysis of the Commissions expenses of Measure B and BB funds is provided below. Only expenses for Measure B are presented in this financial statement.

BASELINE SERVICE PLAN OPERATIONS

2015-16 Baseline Service Plan Operations Spending Limit	\$	2,911,000
Less: Maintenance Allowance Expense		(20,000)
Net Available for Operations & Maintenance Expenses		2,891,000
Measure B Operations Expenses		(405,141)
Measure B/ACTC Exchange Agreement Expense		(1,150,935)
Measure BB Operations Expenses		(1,334,924)
	\$	(2,891,000)
Net Amount Over/(Under) Operations Limit		-

SUPPLEMENTAL INFORMATION

**SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
SUPPLEMENTAL SCHEDULE OF REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2016**

MEASURE B REVENUES FROM ACTC

<u>DATE PAID</u>	<u>PERIOD</u>	<u>AMOUNT</u>
September 30, 2015	July, 2015	\$ 250,942
October 27, 2015	August, 2015	184,968
November 24, 2015	September, 2015	246,626
December 31, 2015	October, 2015	260,415
January 26, 2016	November, 2015	194,520
February 23, 2016	December, 2015	259,360
April 1, 2016	January, 2016	232,641
April 26, 2016	February, 2016	165,497
May 18, 2016	March, 2016	220,662
June 29, 2016	April, 2016	268,322
June 30, 2016	May, 2016	182,627
August 23, 2016	June, 2016	243,504
	Total Measure B Revenues	<u>\$ 2,710,084</u>

OPERATING EXPENSES - ALTAMONT CORRIDOR EXPRESS

<u>DATE PAID</u>	<u>PERIOD</u>	<u>AMOUNT</u>
July 31, 2015	July, 2015	\$ 77,589
August 31, 2015	August, 2015	69,653
September 30, 2015	September, 2015	70,145
October 31, 2015	October, 2015	80,686
February 29, 2016	February, 2016	107,068
Total Non-Exchange Operating Expenses		<u>405,141</u>

OPERATING EXPENSES - CAPITAL ACCESS FEES

(Paid from carryover fund balance reserves)

<u>DATE PAID</u>		<u>AMOUNT</u>
January 1, 2016	January 1, 2016 - June 30, 2016	\$ 540,420

EXCHANGE RELATED EXPENSES *

<u>DATE PAID</u>		<u>AMOUNT</u>
December 24, 2015	Fiscal Year 2015-16	\$ 1,150,935

ALAMEDA COUNTY STATION MAINTENANCE EXPENSES - ACE

<u>DATE PAID</u>		<u>AMOUNT</u>
June 30, 2016	July 1, 2015 - June 30, 2016	\$ 20,000

ADMINISTRATIVE CHARGES - ACTC

<u>DATE PAID</u>		<u>AMOUNT</u>
July 31, 2016	July 1, 2015 - June 30, 2016	\$ 4,935.00

Total Operating Expenses - Measure B and Exchange Funds: \$ 2,121,431

* Exchange related operating expenses are related to an exchange agreement between ACTC and SJRRC, where unusable Federal funds were transferred to SJRRC from ACTC in exchange for an equal amount of SJRRC's Measure B operating funds. These Federal funds were used by SJRRC in FY 2015-16 for operating expenses.

**SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B ENTERPRISE FUND
SUPPLEMENTAL SCHEDULE OF FUND BALANCE RESERVES USED FOR
CAPITAL PROJECTS AND CAPITAL ACCESS FEES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

CAPITAL RESERVES AVAILABLE FOR APPROVED PROJECTS	AMOUNT \$ 2,159,606
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MEASURE B RESERVES APPLIED:

DATE PAID	PROJECT	
September 30, 2015	Positive Train Control	219,140
December 31, 2015	Positive Train Control	110,022
January 1, 2016	Capital Access Fees	1,080,839
January 15, 2016	Wayside Horn	4,196
March 31, 2016	Positive Train Control	95,676
April 30, 2016	Positive Train Control	16,652
May 16, 2016	Wayside Horn	1,570
June 15, 2016	Wayside Horn	1,257
	Total Project Expenses	1,529,352

NET FUND BALANCE RESERVES REMAINING AT JUNE 30, 2016	AMOUNT \$ 630,254
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**RECONCILIATION OF CASH PAID FROM CARRYOVER FUND BALANCE RESERVES
APPLIED TO CAPITAL ACCESS FEES AND CAPITAL PROJECTS:**

CATEGORY	PROJECT	AMOUNT
Construction in Progress	Positive Train Control	\$ 441,490
Construction in Progress	Wayside Horn	7,023
Prepaid Union Pacific Trackage Rights *	Capital Access Fees	540,419
Union Pacific Trackage Rights	Capital Access Fees	540,420
	Total Project Expenses	\$ 1,529,352

* Union Pacific Capital Access Fee annual contract payments are due January 1 of each year, resulting in one half (1/2) expensed in the current fiscal year and one half (1/2) prepaid for the first half of the following fiscal year.



**INDEPENDENT AUDITORS' 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 Board of Directors
San Joaquin Regional Rail Commission
Stockton, 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 Measure B Program Enterprise Fund (the Fund) of the San Joaquin Regional Rail Commission (the Commission) as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2016. Our report included an emphasis of a matter paragraph regarding that the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the Commission.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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.

Vavrinick, Trine, Day & Co. LLP

Sacramento, California
December 23, 2016



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH MEASURE B REQUIREMENTS**

To the Board of Directors
San Joaquin Regional Rail Commission
Stockton, California

Report on Compliance

We have audited the Measure B Enterprise Fund of the San Joaquin Regional Rail Commission's (the Commission) compliance with the requirements described in the Measure B Sales Tax for Mass Transit Funds agreement between the Commission and the Alameda County Transportation Commission (ACTC) that could have a direct and material effect to its Measure B Funds for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Measure B Funds.

Auditors' Responsibility

Our responsibility is to express an opinion on the Commission's compliance based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Agreement. Those standards and the Agreement require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Measure B Funds occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination on the Commission's compliance with those requirements.

Opinion

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to its Measure B Funds for the year ended June 30, 2016.

The purpose of this report on compliance is solely to describe the scope of our testing over compliance and the results of that testing based on the Measure B Sales Tax for Mass Transit Funds agreement between the Commission and the Alameda County Transportation Commission (ACTC). Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 23, 2016