



Sunol Smart Carpool Lane Joint Powers Authority

Annual Financial Report for the Year Ended
June 30, 2017



**SUNOL SMART CARPOOL LANE
JOINT POWERS AUTHORITY**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Sunol Smart Carpool Lane Joint Powers Authority (Authority), as of and for the year ended June 30, 2017, 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 financial position of the Authority, as of June 30, 2017, and the 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

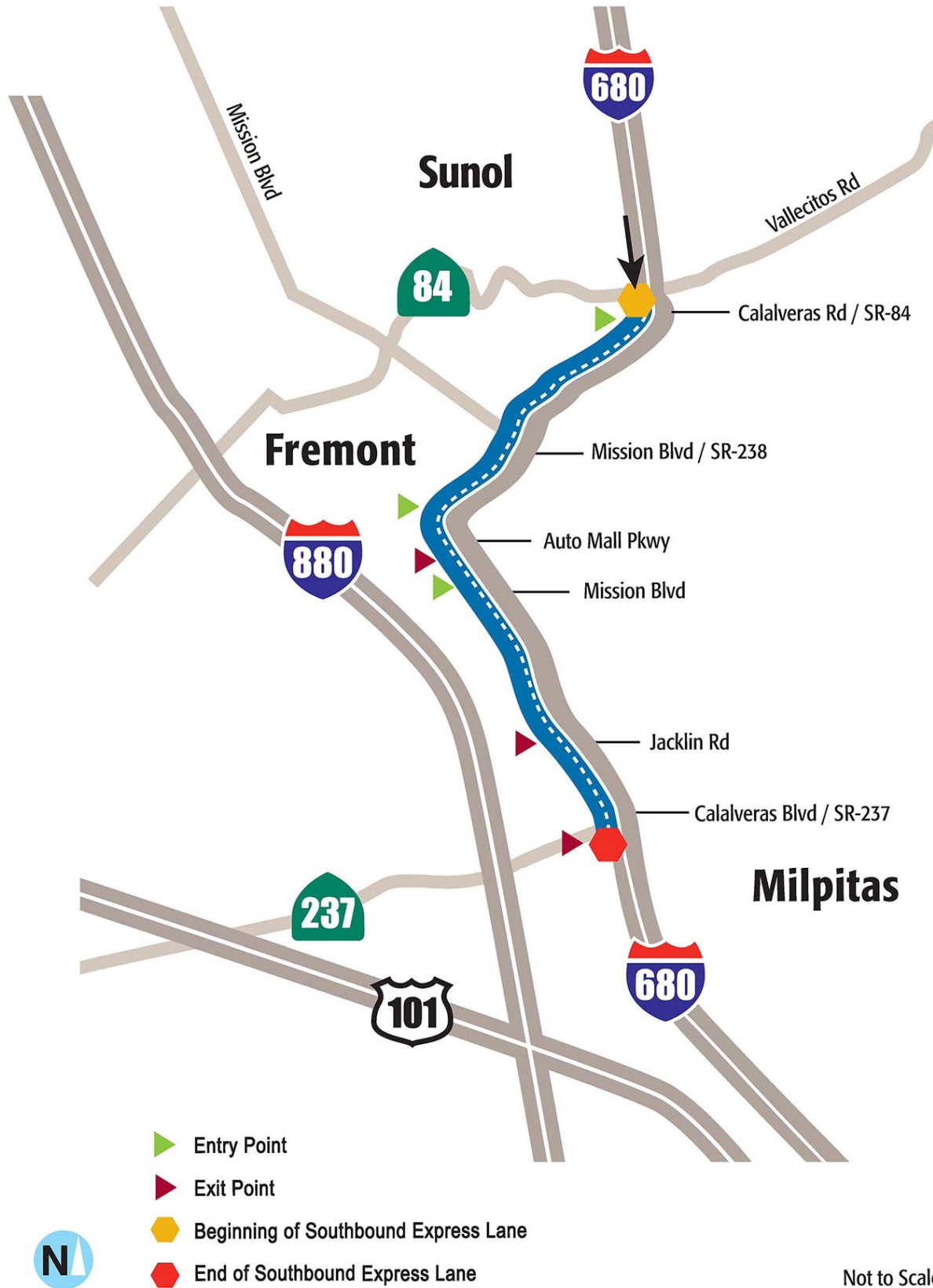
Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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
December 15, 2017

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

MAP OF I-680 SUNOL SMART CARPOOL LANE JUNE 30, 2017



SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

Management has prepared the following discussion and analysis of the Sunol Smart Carpool Lane Joint Powers Authority (the Authority) financial performance, which provides an overview of its financial activities for the fiscal year ended June 30, 2017. Management encourages readers to consider the information presented here in conjunction with the accompanying financial statements and related notes.

Financial Highlights

- Total net position increased by \$0.15 million or 3.4 percent from \$4.54 million to \$4.70 million as of June 30, 2017, compared to June 30, 2016. This increase is mostly due to a decrease in liabilities related to an accrual for project management services. Capital assets, net of accumulated depreciation, comprised \$1.59 million or 33.7 percent of the total net position at June 30, 2017.
- For the year ended June 30, 2017, cash and cash equivalents increased by \$0.03 million or 1.0 percent from \$3.40 million to \$3.43 million. This increase is mostly related to toll revenue collections which were slightly more than operating expenses paid during the fiscal year.
- Operating revenue was \$2.08 million during fiscal year 2017, a negligible decrease of \$0.08 million or 3.7 percent from fiscal year 2016.
- The Authority's total operating expenses including depreciation were \$1.94 million during fiscal year 2017, an increase of \$0.07 million or 3.5 percent from fiscal year 2016. This is a nominal increase in operating expenses over the prior fiscal year. Operating expenses of \$1.72 million for fiscal year 2017 were primarily comprised of program operations and maintenance costs.

Overview of the Basic Financial Statements

The basic financial statements of the Authority are presented as single 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, 2017

Financial Analysis

The following table presents the Authority's net position as of June 30, 2017, and June 30, 2016:

	June 30, 2017	June 30, 2016
Current assets	\$ 3,503,499	\$ 3,501,505
Capital assets, net	1,585,134	1,809,451
Total assets	<u>5,088,633</u>	<u>5,310,956</u>
Total liabilities	<u>(391,152)</u>	<u>(767,529)</u>
Net position	<u>\$ 4,697,481</u>	<u>\$ 4,543,427</u>

The following table presents the Authority's change in net position for the fiscal year ended June 30, 2017, and the period ended June 30, 2016:

	June 30, 2017	June 30, 2016
Operating revenue	\$ 2,083,153	\$ 2,162,406
Operating expenses	1,939,514	1,873,863
Operating income	143,639	288,543
Nonoperating revenue (expense)	10,415	(13,105)
Increase (decrease) in net position	154,054	275,438
Net position, beginning of period	4,543,427	4,267,989
Net position, end of period	<u>\$ 4,697,481</u>	<u>\$ 4,543,427</u>

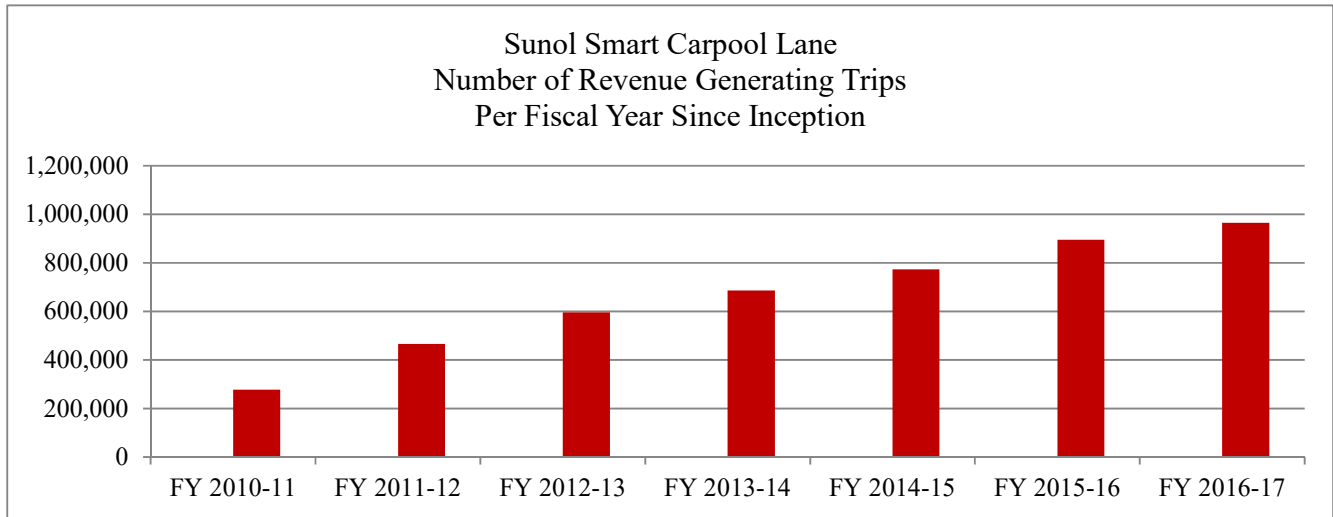
While Alameda County Transportation Commission (Alameda CTC) continues as the managing agency of the Sunol Smart Carpool Lane, it no longer subsidizes administrative support costs on behalf of the Authority. Accordingly, these costs were included in the Statement of Revenues, Expenses, and Changes in Net Position (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. Since operations began, monthly toll lane usage has more than tripled, going from 25,792 trips in October 2010 to 89,193 trips in June 2017.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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



During the fiscal year ended June 30, 2017, cash increased by \$32.9 thousand or 1.0 percent. Revenues for the period, including investment and other income, in the amount of \$2,093.6 thousand plus the change in receivables of \$30.9 thousand were offset by the change in liabilities of \$376.4 thousand and \$1,715.2 thousand of operations and maintenance expenses which resulted in the change in the cash balance.

Capital Assets

The following table presents the Authority's capital asset activity from June 30, 2016 to June 30, 2017:

	June 30, 2016	Additions	Deletions	June 30, 2017
Toll revenue equipment	\$ 3,119,602	\$ -	\$ (8,162)	\$ 3,111,440
Accumulated depreciation	(1,310,151)	(220,936)	4,781	(1,526,306)
Net book value	<u>\$ 1,809,451</u>	<u>\$ (220,936)</u>	<u>\$ (3,381)</u>	<u>\$ 1,585,134</u>

Additional information regarding the Authority’s capital assets can be found in Note 5 on page 13 of this report.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

Comparison of Budget to Actual

Prior to each fiscal year, the Authority adopts a budget for the coming year. The adopted operating revenue budget for fiscal year 2017 was \$2,100.0 thousand. Actual operating revenues were \$2,083.2 thousand, which was \$16.8 thousand or 0.8 percent less than budget.

The adopted operating expense budget was \$2,319.7 thousand. Actual operating expenses were \$1,939.5 thousand, which was \$380.2 thousand or 16.4 percent less than budget.

There was no adopted budget for investment income for the fiscal year. However, actual investment income was \$10.4 thousand. An investment program was established, as needs were identified during the fiscal year, which was not part of the budget when it was developed.

There was no adopted budget for capital projects and no capital expenses were incurred in the fiscal year. However, there is a related capital project administered by Alameda CTC which encompasses an automated toll violation enforcement system and construction for continuous access in the southbound express lane in addition to construction for a full express lane in the northbound direction (see Other Significant Matters section).

Other Significant Matters

Alameda CTC, in cooperation with the California Department of Transportation and the Federal Highway Administration, will construct a High Occupancy Vehicle (HOV)/Express Lane on northbound I-680 from the State Route (SR) 237 interchange in Santa Clara County to north of the SR 84 interchange in Alameda County. The complete project will widen about 15 miles of the freeway to accommodate the HOV/Express Lane along with several auxiliary lanes connecting on-ramps and off-ramps. Bridge crossings will be modified, and retaining walls will be constructed to accommodate the widening. The project will also include upgrading the southbound express lane configuration from a controlled access to a near continuous access configuration. The project approval and environmental phase of the project was completed in the summer of 2015. To provide operational benefits and expedite congestion relief in the corridor, the design efforts for an initial nine mile segment from Auto Mall Parkway to State Route (SR) 84 began in August 2015. This first phase of the project was advertised in September 2017, and construction is anticipated to commence in February 2018.

The Authority was originally formed to plan, design, construct, and administer the operations of a value pricing high-occupancy vehicle program on the Sunol Grade segment of Interstate 680 between the interchange of Alcosta Boulevard in the City of Dublin in Alameda County and SR 237 (Calaveras Boulevard) in the City of Milpitas in Santa Clara County. In addition to managing the operations of the existing toll lane, the Authority provides oversight for the planning, design and construction of the northbound project and will be responsible for the operations and maintenance of the express lane once it is put into service, which is currently projected for 2020.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those interested in the finances of the Sunol Smart Carpool Lane JPA. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department at 1111 Broadway, Suite 800, Oakland, CA 94607.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

STATEMENT OF NET POSITION JUNE 30, 2017

ASSETS

Current Assets	
Cash	\$ 3,434,421
Accounts receivable	66,302
Interest receivable	2,776
Capital assets	
Capital assets, net of accumulated depreciation	1,585,134
Total Assets	<u>5,088,633</u>

LIABILITIES

Current Liabilities	
Accounts payable	86,764
Accrued liabilities	304,388
Total Liabilities	<u>391,152</u>

NET POSITION

Investment in capital assets	1,585,134
Unrestricted	3,112,347
Total Net Position	<u>\$ 4,697,481</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, 2017

OPERATING REVENUES

Toll revenue	\$ 2,083,153
Total operating revenue	<u>2,083,153</u>

OPERATING EXPENSES

Operations and maintenance	1,715,197
Depreciation expense	<u>224,317</u>
Total operating expenses	<u>1,939,514</u>
Operating income	<u>143,639</u>

NONOPERATING REVENUES (EXPENSES)

Interest income	<u>10,415</u>
Change in net position	154,054
Net Position - Beginning	<u>4,543,427</u>
Net Position - Ending	<u><u>\$ 4,697,481</u></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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Cash receipts from customers	\$ 2,116,820
Payments to suppliers for goods and services	(2,091,575)
Cash flow from operating activities	<u>25,245</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash receipts from interest income	<u>7,640</u>
Net change in cash and cash equivalents	32,885
Cash and Cash Equivalents - Beginning	<u>3,401,536</u>
Cash and Cash Equivalents - Ending	<u><u>3,434,421</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	143,639
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	224,317
Decrease in receivables	33,666
Decrease in liabilities	(376,377)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 25,245</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, 2017

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 (Agreement) among the Alameda County Congestion Management Agency (ACCMA), the Alameda County Transportation Improvement Authority (ACTIA), and the Santa Clara Valley Transportation Authority. As of July 1, 2010, ACCMA and ACTIA have been succeeded by 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 Interstate 680 in Alameda and Santa Clara Counties. Members of the Authority's Board of Directors are elected officials representing Alameda and Santa Clara Counties. The Interstate 680 (I-680) Express Lane is located along a 14-mile stretch of I-680 in the southbound direction from State Route 84 south of Pleasanton to State Route 237 in Milpitas, CA and has been in operation since September 20, 2010.

NOTE 2 – MANAGING AGENCY

Alameda CTC is the managing agency. From the Authority's inception in 2006, Alameda CTC provided all administrative support including office space, staff time, accounting, and insurance. While 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, all of the Authority's operating costs are included in the Statement of Revenues, Expenses, and Changes in Net Position.

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. 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.

Operating expenses of the Authority are made up of operations and maintenance costs and depreciation. Since inception of the Authority, 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. As of July 1, 2012, the managing agency no longer funded the Authority's administrative support costs. Accordingly, these costs as well as all other operations and maintenance costs incurred by the Authority have been included in the Statement of Revenues, Expenses, and Changes in Net Position since July 1, 2012.

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

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 offset 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 net toll revenues to be used only for construction of high-occupancy vehicle facilities and the improvement of transit services within the corridor from which the revenue was generated. The Board has designated \$1,000,000 of net position for ongoing maintenance cost such as the replacement of toll equipment (including hardware and software) and 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 AND INVESTMENTS

The Authority had \$2,229,182 cash in the bank and \$1,205,239 invested with the Local Agency Investment Fund (LAIF) for total cash and investments of \$3,434,421 as of June 30, 2017. The Authority's investment policy follows the investment policy of its managing agency, Alameda CTC.

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 percent of the deposit or first trust deed mortgage notes with a value of 150 percent 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.

LAIF is regulated by California Government Code §16429 under the oversight of the Treasurer of the State of California. The pool is not registered with the Securities and Exchange Commission. The fair value of the Authority's investments in the pool is reported in the accompanying financial statement at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by LAIF, which is recorded on the amortized cost basis. LAIF transactions (combination of deposits and withdrawals) are restricted to 15 transactions per month with a minimum transaction amount of \$5,000 and increments of a thousand dollars thereafter.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, 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.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Authority would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are not exposed to custodial credit risk.

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, 2017, and activity for the year then ended, are as follows:

	June 30, 2016	Additions	Deletions	June 30, 2017
Toll revenue equipment	\$ 3,119,602	\$ -	\$ (8,162)	\$ 3,111,440
Accumulated depreciation	(1,310,151)	(220,936)	4,781	(1,526,306)
Net book value	<u>\$ 1,809,451</u>	<u>\$ (220,936)</u>	<u>\$ (3,381)</u>	<u>\$ 1,585,134</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	\$ 5,000	\$ 10,000,000 per occurrence
Employee and Public Officials Errors & Omissions	5,000	10,000,000 per occurrence
Public Officials Personal Liability	500	500,000 per occurrence
Employment Practices Liability	5,000	10,000,000 per occurrence
Employee Benefits Liability	5,000	10,000,000 per occurrence
Employee and Public Officials Dishonesty	-	1,000,000 per occurrence
Auto Liability	5,000	10,000,000 per occurrence
Uninsured/Underinsured Motorists	1,000	1,000,000 per accident
Property	5,000	1,000,000,000 per occurrence
Boiler and Machinery	5,000	100,000,000 per occurrence/ per occurrence/
Excess Liability	-	5,000,000 other aggregate

No claims exceeded coverage limits over the past three years.