



Sunol Smart Carpool Lane Joint Powers Authority

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
JUNE 30, 2018



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**SUNOL SMART CARPOOL LANE
JOINT POWERS AUTHORITY**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

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SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

TABLE OF CONTENTS JUNE 30, 2018

Independent Auditor's Report	1
Map of I-680 Sunol Smart Carpool Lane	3
Management's Discussion and Analysis	4
Basic Financial Statements	
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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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, 2018, 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, 2018, 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.

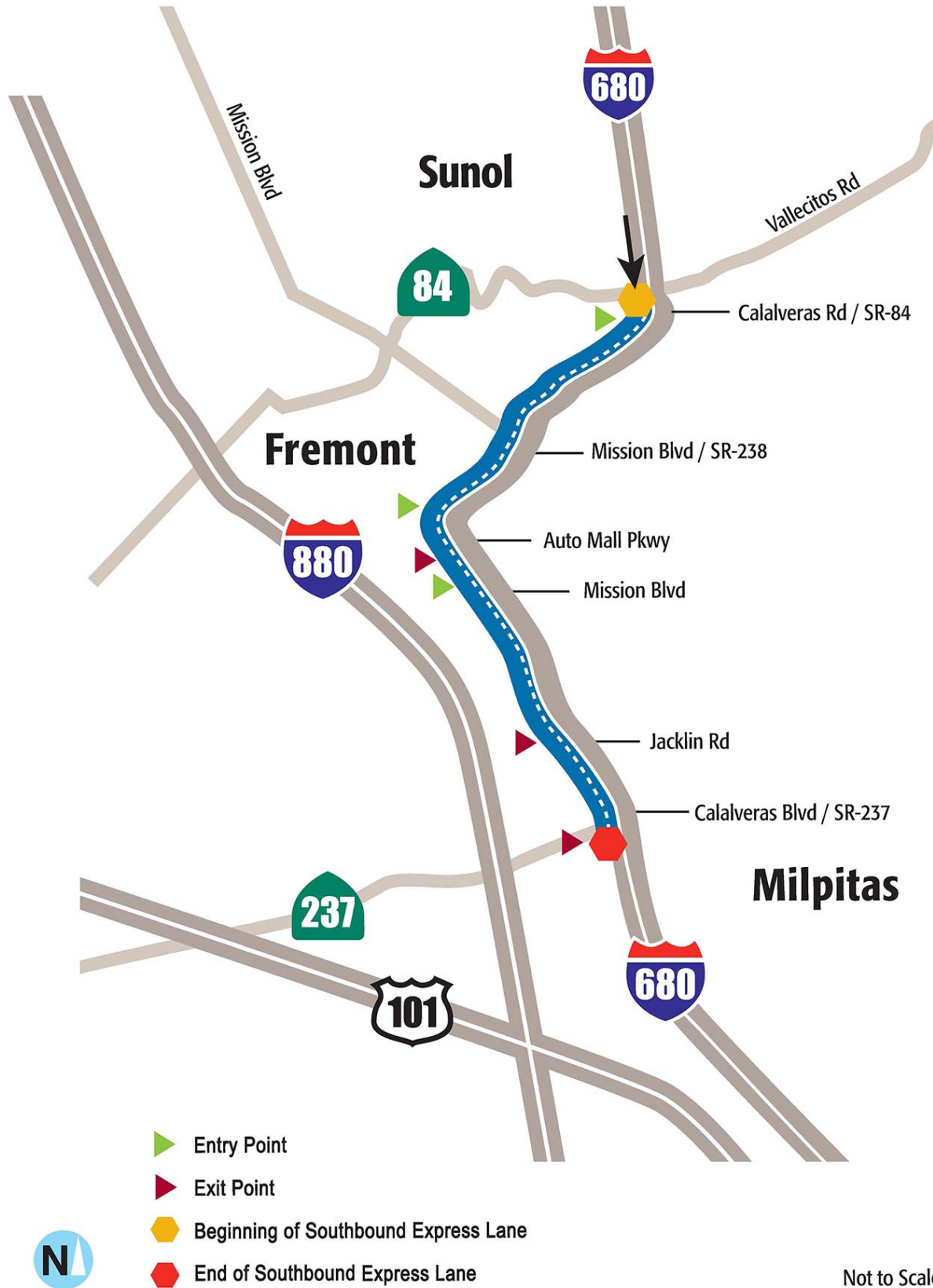
Vavrinek, Trine, Day & Co. LLP

Palo Alto, California

October 12, 2018

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

MAP OF I-680 SUNOL SMART CARPOOL LANE JUNE 30, 2018



SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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, 2018. 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 \$1.24 million or 26.3 percent from \$4.70 million to \$5.93 million as of June 30, 2018, compared to June 30, 2017. This increase is mostly due to an increase in cash and investments stemming from an increase in toll revenues and a decrease in expenses as a result of operating efficiencies realized during the fiscal year. Capital assets, net of accumulated depreciation, comprised \$1.47 million or 24.7 percent of the total net position at June 30, 2018.
- For the year ended June 30, 2018, cash and cash equivalents increased by \$1.28 million or 37.4 percent from \$3.43 million to \$4.72 million compared to fiscal year 2017. This increase is mostly related to toll revenue collections which were significantly more than operating expenses paid during the fiscal year.
- Operating revenue was \$2.87 million during fiscal year 2018, an increase of \$0.79 million or 37.9 percent over fiscal year 2017.
- The Authority's total operating expenses including depreciation were \$1.66 million during fiscal year 2018, a decrease of \$0.28 million or 14.3 percent from fiscal year 2017. This decrease is attributed to the realization of operating efficiencies implemented throughout the fiscal year. Operating expenses of \$1.66 million for fiscal year 2018 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 Financial Statements.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Financial Analysis

The following table presents the Authority's net position as of June 30, 2018, and June 30, 2017:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Current assets	\$ 4,862,005	\$ 3,503,499
Capital assets, net	1,466,840	1,585,134
Total assets	<u>6,328,845</u>	<u>5,088,633</u>
Total liabilities	<u>(394,538)</u>	<u>(391,152)</u>
Net position	<u>\$ 5,934,307</u>	<u>\$ 4,697,481</u>

The following table presents the Authority's change in net position for the fiscal year ended June 30, 2018, and the period ended June 30, 2017:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Operating revenues	\$ 2,872,259	\$ 2,083,153
Operating expenses	<u>1,661,591</u>	<u>1,939,514</u>
Operating income	1,210,668	143,639
Nonoperating revenue (expense)	<u>26,158</u>	<u>10,415</u>
Increase (decrease) in net position	1,236,826	154,054
Net position, beginning of period	<u>4,697,481</u>	<u>4,543,427</u>
Net position, end of period	<u>\$ 5,934,307</u>	<u>\$ 4,697,481</u>

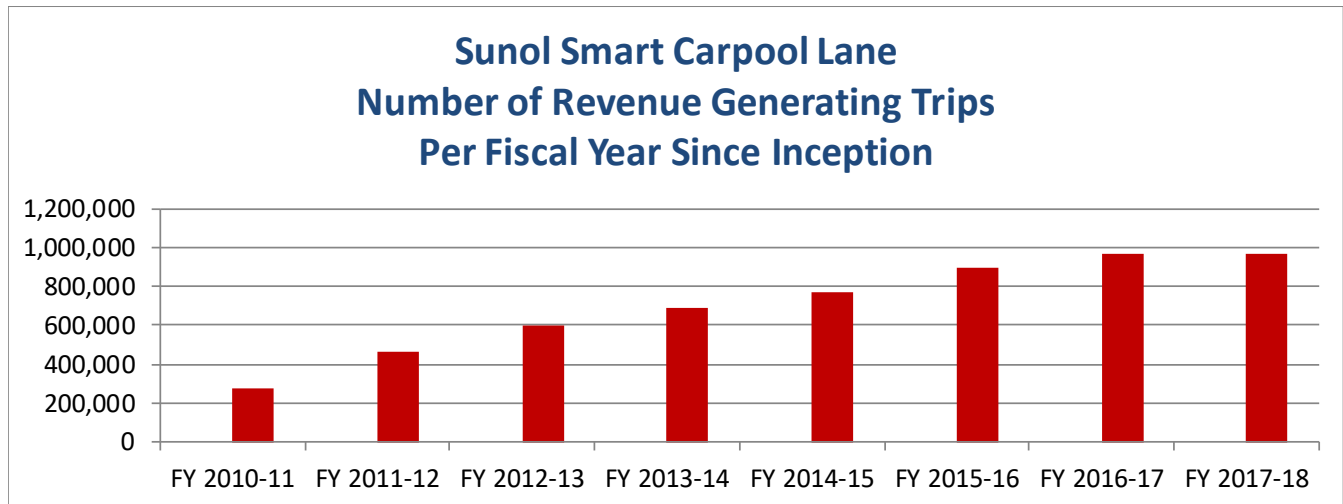
While Alameda County Transportation Commission (Alameda CTC) continues as the managing agency of the Sunol Smart Carpool Lane, it does not subsidize administrative support costs on behalf of the Authority. Accordingly, these costs have been included in the Statement of Revenues, Expenses, and Changes 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. Annual toll lane usage has more than doubled, going from 465,688 trips during fiscal year 2012, the lane's first full fiscal year of operations, to 968,500 trips during fiscal year 2018.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2018

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, 2018, cash increased by \$1,283.9 thousand or 37.4 percent. Revenues for the period, including investment and other income, in the amount of \$2,898.4 thousand plus the change in liabilities of \$3.4 thousand were offset by the change in receivables of \$36.2 thousand and prepaid items of \$38.4 thousand; net capital asset costs of \$81.5 thousand; and \$1,461.8 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, 2017 to June 30, 2018:

	June 30, 2017	Additions	Deletions	June 30, 2018
Toll revenue equipment	\$ 3,111,440	\$ 84,487	\$ (487,259)	\$ 2,708,668
Accumulated depreciation	(1,526,306)	(168,021)	452,499	(1,241,828)
Net book value	<u>\$ 1,585,134</u>	<u>\$ (83,534)</u>	<u>\$ (34,760)</u>	<u>\$ 1,466,840</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, 2018

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 2018 was \$2.20 million, however, this was updated at mid-year to \$2.50 million. Actual operating revenues were \$2.87 million, which was \$0.37 million or 14.9 percent more than budget.

The adopted operating expense budget was \$2.36 million, however, this was updated at mid-year to \$2.44 million. Actual operating expenses were \$1.66 million, which was \$0.78 million or 31.8 percent less than budget.

There was no budget adopted for investment income for the fiscal year. However, actual investment income was \$.03 million. An investment program was established during the prior fiscal year, however with market rates extremely low at the time the investment income predicted would have been immaterial to the budget when it was developed.

There was no budget adopted 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 began in March 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 FOR THE YEAR ENDED JUNE 30, 2018

ASSETS

Current Assets

Cash and investments	\$ 4,718,345
Accounts receivable	94,192
Interest receivable	11,105
Prepaid items	38,363
Capital assets, net of accumulated depreciation	1,466,840
Total Assets	<u>6,328,845</u>

LIABILITIES

Current Liabilities

Accounts payable	192,388
Accrued liabilities	202,150
Total Liabilities	<u>394,538</u>

NET POSITION

Investment in capital assets	1,466,840
Unrestricted	4,467,467
Total Net Position	<u>\$ 5,934,307</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, 2018

OPERATING REVENUES

Toll revenue	\$ 2,872,259
Total operating revenue	<u>2,872,259</u>

OPERATING EXPENSES

Operations and maintenance	1,461,810
Depreciation expense	199,781
Total operating expenses	<u>1,661,591</u>
Operating Income	<u>1,210,668</u>

NONOPERATING REVENUES (EXPENSES)

Investment income	26,158
Total nonoperating revenues	<u>26,158</u>
Change in net position	1,236,826
Net Position - Beginning	<u>4,697,481</u>
Net Position - Ending	<u><u>\$ 5,934,307</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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash receipts from customers	\$ 2,844,370
Payments to suppliers for goods and services	(1,496,788)
Cash flows from operating activities	<u>1,347,582</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash receipts from interest income	17,829
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CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(81,487)
Net change in cash and cash equivalents	<u>1,283,924</u>
Cash and Cash Equivalents - Beginning	3,434,421
Cash and Cash Equivalents - Ending	<u><u>\$ 4,718,345</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 1,210,668
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	199,781
Changes in assets and liabilities:	
Increase in receivables	(27,889)
Increase in prepaid items	(38,363)
Increase in liabilities	3,385
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,347,582</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, 2018

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, 2018

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 \$1,500,000 of net position for ongoing maintenance cost such as the replacement of toll equipment (including hardware and software) and roadway rehabilitation. In addition, the Board has designated another \$1,500,000 of net position as an operational risk reserve designed to ensure the financial stability of the agency. The Board has set a target of \$20 million to be accumulated in this operational risk reserve, depending on available net operating surplus, which would be eligible to be spent on a catastrophic type failure, such as an overall failure of toll system equipment.

Cash Equivalent

The Authority considers all highly liquid investments to be cash equivalents. As such, the Authority's investment in LAIF is considered to be cash equivalents because withdrawals from the LAIF pool is available on the amortized cost basis which is substantially the same as the fair value reported in the financial statements.

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 \$2,497,917 cash in the bank and \$2,220,428 invested with the Local Agency Investment Fund (LAIF) for total cash and investments of \$4,718,345 as of June 30, 2018. 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 (pool). This collateral remains with the institution, but is considered to be held in the pool's name and places the Authority, which is a participant in the pool, ahead of general creditors of the institution.

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

LAIF is a State of California external investment pool which 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. LAIF is not rated.

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, 2018, 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.

Fair Value Measurements – The Authority categorizes its 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. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments in the LAIF are uncategorized because deposits to and from the pools are made on the basis of \$1 and not at fair value.

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, 2018, and activity for the year then ended, are as follows:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>
Toll revenue equipment	\$ 3,111,440	\$ 84,487	\$ (487,259)	\$ 2,708,668
Accumulated depreciation	(1,526,306)	(168,021)	452,499	(1,241,828)
Net book value	<u>\$ 1,585,134</u>	<u>\$ (83,534)</u>	<u>\$ (34,760)</u>	<u>\$ 1,466,840</u>

SUNOL SMART CARPOOL LANE JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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
Employment 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	-	1,000,000 per occurrence
Property	5,000	1,000,000,000 per occurrence
Boiler and Machinery	5,000	100,000,000 per occurrence
Excess Liability	-	5,000,000 per occurrence/other aggregate

No claims exceeded coverage limits over the past three years.