



Report of Independent Auditors
and Single Audit Reports for

**Alameda Corridor
Transportation Authority**

June 30, 2015

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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* Incorporated by reference only

**REPORT OF INDEPENDENT AUDITORS 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***

The Governing Board
Alameda Corridor Transportation Authority
Long Beach, California

We have audited, 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, the basic financial statements of Alameda Corridor Transportation Authority (ACTA or the Authority), which comprise the statement of net position as of June 30, 2015, the related statements of revenues, expenses, and change in net position, and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated November 2, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a material weakness.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACTA'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*.

Alameda Corridor Transportation Authority's Response to the Finding

Alameda Corridor Transportation Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Alameda Corridor Transportation Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.



Irvine, California
November 2, 2015

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

The Governing Board
Alameda Corridor Transportation Authority
Long Beach, California

Report on Compliance for the Major Federal Program

We have audited Alameda Corridor Transportation Authority's (ACTA or the Authority) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on ACTA's major federal program for the year ended June 30, 2015. ACTA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for ACTA's major federal program based on our audit of the types of compliance requirements referred to above. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ACTA'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 for the major federal program. However, our audit does not provide a legal determination of ACTA's compliance.

Opinion on the Major Federal Program

In our opinion, ACTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of ACTA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ACTA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ACTA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of ACTA as of and for the year ended June 30, 2015, and have issued our report thereon dated November 2, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Irvine, California
November 2, 2015

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER			
Department of Transportation			
Direct			
Highway Planning and Construction	20.205	N/A	\$ 34,159
Pass through the California Department of Transportation			
Highway Planning and Construction	20.205	07-4914 & 07-4872	<u>3,445,684</u>
Total Highway Planning and Construction Cluster			<u>3,479,843</u>
Total Expenditures of Federal Awards			<u>\$ 3,479,843</u>

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the expenditures of federal awards of the Alameda Corridor Transportation Authority (ACTA) for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of ACTA, it is not intended to and does not present the net position, changes in net position, or cash flows of ACTA.

ACTA's reporting entity is defined in Note 1 of ACTA's financial statements. All federal awards from federal agencies are included in the Schedule.

Note 2 - Summary of Significant Accounting Policies

The accompanying Schedule is presented using the accrual basis of accounting, whereby eligible grant expenditures are recorded when incurred (i.e., when goods are received or services provided). Such expenditures are recognized following the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, and Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") wherein certain types of expenditures are not allowable or limited as to reimbursement. Expenditures reported include any property or equipment acquisitions incurred under federal programs. Pass-through identifying numbers are presented where available.

Note 3 - Subrecipients

During the fiscal year ended June 30, 2015, ACTA disbursed no federal funds to subrecipients.

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over federal major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of Federal Major Programs

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued</i>
20.205	Highway Planning and Construction Cluster	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

FINDING 2015-001 - Financial Reporting of Capitalized Assets (Material Weakness in Internal Control)

Criteria - Governmental Accounting Standards Board (GASB) Statement Number 34, paragraph 19, defines capital assets as "land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period."

ALAMEDA CORRDIOR TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

FINDING 2015-001 - Financial Reporting of Capitalized Assets (Material Weakness in Internal Control) (continued)

Chapter 7, paragraph 11.1 of the GASB 2013-2014 *Comprehensive Implementation Guide* states, "Construction in progress should be included with capital assets in the statement of net position. It should be reported with other assets not being depreciated..."

Condition and Context - In our review of the Authority's financial statements, certain adjustments were required to properly present the financial statements in accordance with generally accepted accounting principles.

The Authority had previously capitalized and depreciated expenditures related to completion of a feasibility study and environmental document, design of the bridge, right-of-way acquisition and utility relocations, and other costs of construction of the State Route 47 (SR-47) project. The Authority had been assisting the California Department of Transportation (Caltrans) with all phases of the project, through several cooperative agreements, since 2002. The original project consisted of two segments, replacement of Caltrans' seismically deficient Schuyler Heim Bridge and construction of a new expressway connector, although only the first segment is being completed at this time. In prior years, expenditures related to this project were capitalized and included in capital assets. During 2015, it was determined to be more appropriately expensed as Expenses for Public Benefit. In addition, the Authority has traditionally transferred all construction in progress projects to capital assets in service at the end of each fiscal year, and initiated depreciation on the asset, regardless of whether the construction was complete. As a result, correcting adjustments were made to the prior-year financial statements.

Cause - The Authority does not have existing policies or established procedures to determine when construction projects are placed in service and subject to depreciation or to re-evaluate whether ongoing construction projects continue to be or are intended to be used in operations.

Effect - Beginning net position was restated and reduced by \$39,905,999 for expenditures that were previously capitalized that should have been expensed in prior periods. In the current year, \$4,195,570 of costs were initially capitalized and subsequently recorded as public benefit expenses as a result of the adjustment.

Recommendation - We recommend that management continue to evaluate the nature of all capitalized projects to ensure that they meet the capitalization requirements established under GAAP, and that continuing projects be reviewed at least annually to ensure that they meet the definition of a capital asset. Additionally, no depreciation costs should be recorded for assets under construction until they are placed in service and available for operations.

Views of responsible officials and planned corrective actions - The Authority has been collaborating with Caltrans on the SR-47 project for almost 15 years. The Authority began capitalizing the costs in the early 2000s and continued with the same systematic treatment of the SR-47 project-related expenditures since that time. The Authority's financial statement auditors never took exception to ACTA's treatment of the expenditures. The Authority recognizes that it is now appropriate to expense these costs, based upon available information.

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**

FINDING 2015-001 - Financial Reporting of Capitalized Assets (Material Weakness in Internal Control) (continued)

The Authority is reviewing all project costs to confirm conformity with the capitalization and depreciation requirements established under GAAP. Subsequent annual reviews will be conducted as part of the year-end financial closing process.

Section III - Federal Award Findings and Questioned Costs

None reported.

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

The following was reported as a finding in the audit of the Alameda Corridor Transportation Authority for the year ended June 30, 2014.

Finding FS-2014-001 - Financial Statement Presentation

Federal Program(s) - n/a

Federal Agency - n/a

Condition and Context - In review of the Authority's financial statements, the auditors noted adjustments that were required to properly present the financial statements in accordance with generally accepted accounting principles.

Specifically, a reclassification entry was proposed between accrued interest payable and revenue bonds payable for \$153.4 million. During the year ended June 30, 2013, \$153.4 million of accrued interest related to an outstanding bond converted from accrued interest to principal, in accordance with bond agreement. Although the interest converted in fiscal year 2013, it was not identified by management until fiscal year 2014. In conjunction with the above reclassification, reclassifications between net investment in capital assets and unrestricted net position categories totaling \$153.4 million were identified. The reclassifications did not impact total assets, liabilities, net position, revenue, or expenses.

Recommendation - Program personnel need to implement a process to ensure timely report submissions.

Status of Finding - Corrected