SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B PROGRAM FUND

Independent Auditors' Report,
Financial Statements, Supplementary Information and
Other Reports
For the Year Ended June 30, 2013

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B PROGRAM FUND
JUNE 30, 2013

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

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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, 2013, and the related notes to the financial statements, which collectively comprise the Fund'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.

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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure B Program Enterprise Fund, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Implementation of New Accounting Standards

As discussed in Note 1 to the financial statements, the Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* effective July 1, 2012. Our opinion is not modified with respect to this 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, 2013, 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 the Management's Discussion and Analysis section that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The Supplemental Schedule of Revenues and Transfers is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Schedule of Revenues and Transfers is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedule of Revenues and Transfers is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, 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.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 20, 2013

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B PROGRAM ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS	
Cash and cash equivalents	$ 1,882,923
Receivables:	
Interest	1,198
Intergovernmental - ACTC	622,382
Total Assets	2,506,503
LIABILITIES	
Intergovernmental payable	17,567
Due to other funds	10,000
Total Liabilities	27,567
NET POSITION	
Restricted for Altamont Corridor Express - Operations	2,478,936
Total Net Position	$ 2,478,936

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

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B PROGRAM ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

OPERATING REVENUES	
Operating revenues	$ -
Total Operating Revenues	-
OPERATING EXPENSES	
Mass transit program costs	2,585,480
Maintenance - Alameda Co. ACE Stations	10,000
Administrative charges ACTC	17,567
Total Operating Expenses	2,613,047
Operating income (loss)	(2,613,047)
NON OPERATING REVENUES (EXPENSES)	
Intergovernmental - Measure B Sales tax	2,439,225
Investment earnings	5,669
Fair value adjustment	(2,441)
Total Nonoperating Revenues (Expenses)	2,442,453
Change in Net Position	(170,594)
Net position - Beginning	2,649,530
Net position - Ending	$ 2,478,936

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

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B PROGRAM ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid for mass transit, station maintenance & administration	$	(2,616,140)
Net Cash Used by Operating Activities		(2,616,140)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants - Measure B sales tax		2,188,713
Net Cash Provided by Noncapital Financing Activities		2,188,713
CASH FLOWS FROM INVESTING ACTIVITES		
Investment earnings		3,362
Net Cash Provided by Investing Activities		3,362
Net Increase (Decrease) in Cash and Cash Equivalents		(424,065)
Cash and cash equivalents - beginning of year		2,306,988
Cash and cash equivalents - end of year	$	1,882,923
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$	(2,613,047)
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		(10,000)
Intergovernmental payable		6,907
Net cash used by operating activities	$	(2,616,140)

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

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 the 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 basic 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 expenditures. Measure B specifies that revenues generated by the additional sales tax will not displace expenditures 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, 2013, 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.*

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting and Financial Statement Presentation

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.

The Measure B Program is included as a component of the ACE Enterprise Fund, a proprietary fund, in the basic 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, 2013, 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

G. *Accounting Pronouncements Implemented*

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the Commission's financial reporting process. The following pronouncements were implemented for the year ended June 30, 2013:

Governmental Accounting Standards Board No. 60

In December 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, for financial statements for periods beginning after December 15, 2011. The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for service concession arrangements (SCAs) for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The Commission has determined that this Statement is not applicable.

Governmental Accounting Standards Board No. 61

In December 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, effective for financial statements for periods beginning after June 15, 2012. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The Commission has determined that this Statement is not applicable.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Accounting Standards Board No. 62

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. This Statement is effective for period beginning after December 15, 2011. The Commission has implemented those components of the Statement deemed to be applicable.

Governmental Accounting Standards Board No. 63

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions.* This Statement provides financial reporting guidance for deferred outflows of resources. This Statement is effective for periods beginning after December 15, 2011. The Commission has implemented those components of the Statement deemed to be applicable.

H. *Future Accounting Pronouncements*

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

Governmental Accounting Standards Board No. 65

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). This Statement is effective for periods beginning after December 2012. The Commission has not determined the effect of this Statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. *Future Accounting Pronouncements (Continued)*

Governmental Accounting Standards Board No. 66

In April 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and 62*. The objective of this Statement is to improve accounting and financial reporting by State and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements – Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statements No. 54 and No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

The provisions of this Statement are effective for financial statements for periods beginning after December 2012. The Commission has not determined the effect of this Statement.

Governmental Accounting Standards Board No. 67

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by State and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to define contribution plans that provide postemployment benefits other than pensions. This Statement is not effective until June 30, 2014. The Commission has not determined the effect of this Statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. *Future Accounting Pronouncements (Continued)*

Governmental Accounting Standards Board No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.* The objective of this Statement is to improve accounting and financial reporting by State and local governments for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement is not effective until June 30, 2015. The Commission has not determined the effect of this Statement.

Governmental Accounting Standards Board No. 69

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* The objective of this Statement is to improve accounting and financial reporting by State and local governments for government combinations and disposals of government operations. The Statement provides authoritative guidance on a variety of *government combinations* including mergers, acquisitions, and transfers of operations. This Statement is not effective until June 30, 2015. The Commission has not determined the effect of this Statement.

Governmental Accounting Standards Board No. 70

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. The Commission has not determined the effect of this statement.

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

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

Cash and cash equivalents	$ 1,882,923

Cash and investments as of June 30, 2013 consist of the following:

Cash and investments held in county Pool	$ 1,882,923
Total Cash and Investments	$ 1,882,923

Investment in San Joaquin County Pool

The Fund's cash and investment are pooled with the Commission's cash and investment that are maintained with 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 San Joaquin County Board of Supervisors and causes an audit of investments to occur annually.

The fair value of the San Joaquin Regional Rail Commission shares in the San Joaquin County Pool is the same as the value of the pool shares.

Investments for the Commission are reported at fair value as determined by quoted market prices. Changes in the fair value of investments are included with all other investment income. Cash on deposit with the County Treasurer is invested as authorized by statutes.

NOTE 3 – DUE TO OTHER FUNDS

The $10,000 Due to Other Funds balance represents funds due from the Measure B Enterprise Fund to the Commission's ACE Enterprise Fund to reimburse the Commission for maintenance costs on the Alameda County stations.

SUPPLEMENTAL INFORMATION

SAN JOAQUIN REGIONAL RAIL COMMISSION
MEASURE B PROGRAM ENTERPRISE FUND
SUPPLEMENTAL SCHEDULE OF REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2013

REVENUES FROM ACTC

DATE RECEIVED	FOR MONTH	AMOUNT	
October 2, 2012	July 2012	$	232,275
October 16, 2012	August 2012		173,634
November 29, 2012	September 2012		216,540
January 2, 2013	October 2012		218,188
January 15, 2013	November 2012		166,476
February 26, 2013	December 2012		224,193
March 28, 2013	January 2013		215,444
April 16, 2013	February 2013		166,791
May 29, 2013	March 2013		203,301
July 2, 2013	April 2013		211,923
July 16, 2013	May 2013		183,406
August 27, 2013	June 2013		227,054
	Total Revenues	$	2,439,225

OPERATING EXPENSES - ALTAMONT CORRIDOR EXPRESS

DATE PAID	FOR MONTH	AMOUNT	
July 2, 2012	July 2012	$	216,290
August 13, 2012	August 2012		216,290
September 5, 2012	September 2012		216,290
October 1, 2012	October 2012		215,179
November 1, 2012	November 2012		215,179
December 5, 2012	December 2012		215,179
January 2, 2013	January 2013		215,179
January 31, 2013	February 2013		215,179
March 1, 2013	March 2013		215,179
April 4, 2013	April 2013		215,179
May 1, 2013	May 2013		215,179
May 31, 2013	June 2013		215,179
Total Operating Expenses		$	2,585,480

ALAMEDA COUNTY STATION MAINTENANCE EXPENSES - ACE

DATE PAID	FOR PERIOD	AMOUNT	
October 30, 2013	July 1, 2012 - June 30, 2013	$	10,000

ADMINISTRATIVE CHARGES - ACTC

DATE PAID	FOR PERIOD	AMOUNT	
August 16, 2013	July 1, 2012 - June 30, 2013	$	17,567

OTHER REPORTS

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) for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated December 20, 2013. Our report included an emphasis of a matter paragraph regarding the Fund's adoption of Governmental Accounting Standards Board (GASB) Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012 and 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.

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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.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 20, 2013

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

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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, 2013.

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 Guide. Those standards and the Guide 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, 2013.

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 20, 2013

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