

**CAPITOL CORRIDOR JOINT
POWERS AUTHORITY**

FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

CAPITOL CORRIDOR JOINT POWERS AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Capitol Corridor Joint Powers Authority
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Capitol Corridor Joint Powers Authority ("Authority") as of and for the year ended June 30, 2021, 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 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2021, and the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2022 on our consideration of the Authority'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 the effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.



Crowe LLP

San Francisco, California
January 27, 2022

Introduction

The following discussion and analysis of the financial performance and activity of the Capitol Corridor Joint Powers Authority ("Authority") provides an introduction and understanding of the basic financial statements of the Authority for the year ended June 30, 2021, with selected comparative information for the year ended June 30, 2020. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Basic Financial Statements

The basic financial statements provide information about the Authority, which is reported as an Enterprise Fund. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements are comprised of two components: 1) the financial statements and 2) the notes to the basic financial statements.

The statement of net position presents information on all assets, liabilities, and net position of the Authority. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information on how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statements for some items that will result in cash flows in future fiscal periods (e.g., accounts payable).

The statement of cash flows presents information using the direct method and include a reconciliation of operating loss to net cash used in operating activities.

The basic financial statements can be found on pages 8 – 10 of this report.

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the basic financial statements can be found on pages 12 – 25 of this report.

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Years Ended June 30, 2021 and 2020

Financial Highlights

Condensed Statements of Net Position

A comparison of the Authority's statements of net position as of June 30, 2021 and 2020 is as follows:

	2021	2020	Change	
			Amount	Percent
Current assets	\$ 32,599,766	\$ 40,068,796	\$ (7,469,030)	-19%
Noncurrent assets - capital assets, net	1,531,603	2,351,987	(820,384)	-35%
Total assets	<u>34,131,369</u>	<u>42,420,783</u>	<u>(8,289,414)</u>	<u>-20%</u>
Current liabilities	<u>31,789,043</u>	<u>39,274,082</u>	<u>(7,485,039)</u>	<u>-19%</u>
Net position				
Net investment in capital assets	1,498,711	2,351,987	(853,276)	-36%
Unrestricted net position	843,615	794,714	48,901	6%
Total net position	<u>\$ 2,342,326</u>	<u>\$ 3,146,701</u>	<u>\$ (804,375)</u>	<u>-26%</u>

Current Assets

In fiscal year 2021, current assets decreased by \$7,469,030 primarily due to the following: (1) net decrease of \$9,153,885 in cash and cash equivalents which resulted from: (a) decrease in Senate Bill 1 (SB1) funds by \$999,925, a total of \$569,078 of SB1 funds was received in fiscal year 2021 offset by \$1,569,003 expensed during the fiscal year; (b) decrease of \$5,749,091 from utilization of cash advances received in prior years from the State for AMTRAK operations; (c) decrease in payable to AMTRAK by \$1,960,922 as settlement of operating charges were done to fully maximize the use of surplus funds from prior years; (d) decrease in Capitol Corridor Reinvestment Program (CCRP) and Revenue Above Budget (RAB) funds by \$326,809 and 334,614 respectively, to support operating needs and capital expenses. There were no funds added to CCRP and RAB starting October 2020 due to the effects of the pandemic and all excess funds were accounted for as surplus State funds; offset by (2) increase in facility improvement grants receivable of \$852,910 resulting from higher overall project related expenses in fiscal year 2021 and timing of account settlements; (3) increase in receivables from the State related to administrative and marketing expenses of \$836,936 as there were six full months of billing outstanding in fiscal year 2021 compared to four months' worth of administrative and marketing expenses outstanding in fiscal year 2020.

(Continued)

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Years Ended June 30, 2021 and 2020

Noncurrent Assets

In fiscal year 2021, net capital assets decreased by \$820,384 due to depreciation in the amount of \$853,276, offset by capitalization of \$32,892 specifically for a vehicle.

Current Liabilities

In fiscal year 2021, current liabilities decreased by \$7,485,039 mostly due to the following: (1) decrease in accounts payable by \$291,266 for amounts owed to AMTRAK and other vendors resulting from timing of settlement of accounts; (2) decrease in total unearned revenue by \$7,395,522 primarily accounted for by: (a) decrease of \$334,614 in RAB funds used for capital projects and to cover operating expenses; (b) utilization of State Rail Assistance fund (SRA), specifically SB1 - Road Repair and Accountability Act of 2017 by \$999,698; (c) decrease in advances from State by \$5,749,091 as fiscal year 2020 surplus funds were applied to operating expenses owed to AMTRAK; (d) reduction in advances for CCRP by \$326,809; offset by (3) increase in amount due to BART by \$201,749 as there were four months of administrative charges settled after fiscal year-end 2021 compared to three months of administrative charges settled after fiscal year-end 2020.

Condensed Statements of Revenues, Expenses and Changes in Net Position

A comparison of the Authority's statements of revenues, expenses and changes in net position for the years ended June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percent</u>
Operating revenues	\$ 57,529	\$ 4,163	\$ 53,366	1282%
Operating expenses	(19,764,767)	(31,560,780)	11,796,013	-37%
Operating loss	(19,707,238)	(31,556,617)	11,849,379	-38%
Nonoperating revenues (expenses)				
Grants from California Department of Transportation	18,899,132	30,581,025	(11,681,893)	-38%
Facility improvement grant revenues	15,719,534	10,317,462	5,402,072	52%
Facility improvement grant expenses	(15,719,534)	(10,317,462)	(5,402,072)	52%
Interest income	3,731	62,662	(58,931)	-94%
Nonoperating revenues, net	18,902,863	30,643,687	(11,740,824)	-38%
Change in net position before capital contributions	(804,375)	(912,930)	108,555	-12%
Capital contributions	-	34,955	(34,955)	-100%
Change in net position	(804,375)	(877,975)	73,600	-8%
Net position, beginning of year	3,146,701	4,024,676	(877,975)	-22%
Net position, end of year	\$ 2,342,326	\$ 3,146,701	\$ (804,375)	-26%

(Continued)

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Years Ended June 30, 2021 and 2020

Operating Expenses

The Authority's operating expenses consist of charges for train operations and bus feeder services, marketing and administrative expenses, WiFi services and other operating expenses. A significant portion of these expenses is primarily financed from funding received from the State of California. This State funding is reported as grants from the State of California, Department of Transportation. In fiscal year 2021, net operating expenses decreased by \$11,796,013 mostly due to the following: (1) AMTRAK operating expenses net of passenger fares is higher by \$7,269,690 due to decreased in ridership caused by the global pandemic; offset by (2) increase in Federal Railroad Administration (FRA) emergency relief grants received by AMTRAK from Coronavirus Aid, Relief, and Economic Security (CARES) Act in the amount of \$4,387,869 and Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) in the amount of \$13,124,982 which were factored in the calculation of net operating cost due to AMTRAK. Please refer to Note 12 for additional information related to COVID Relief fundings.

Nonoperating Revenues (Expenses)

Facility improvement grant expenses refer to capital improvement expenses that are not capitalized nor recorded as capital assets by the Authority. Grants received associated with these types of expenses are recorded by the Authority as "Facility Improvement Grant Revenues", the related expenses are recorded as "Facility Improvement Grant Expenses".

In fiscal year 2021, the expenditures for facility improvement and consequently the grants revenues were higher by \$5,402,072 compared to fiscal year 2020 mainly due to increase expenses related to the OKJ-SJC Service Expansion II Project and California Integrated Travel Project (ITP) Staffing Support Services. Please refer to Note 5 for project details and expenses.

Capital Contributions

Capital contributions consist of grants received by the Authority from the State, from either the Department of Transportation or the California Office of Emergency Services (CalOES), relating to capital improvements owned by the Authority. These grants are recorded by the Authority as "Grants Restricted for Capital Expenses."

In fiscal year 2021, the Authority did not have any grant fund expenditures that were capitalizable.

Capital Assets

In fiscal year 2021, net capital assets decreased by \$820,384 due to depreciation in the amount of \$853,276, offset by capitalization of \$32,892 specifically for a vehicle.

Information on the Authority's capital assets can be found in Note 4 – Capital Assets in the accompanying notes to the basic financial statements.

The Authority has construction and other significant commitments amounting to \$2,760,000 and \$5,235,000 as of June 30, 2021 and 2020, respectively.

Contacting the Authority's Financial Management

The Authority's financial report is designed to provide the Authority's Board of Directors, management, creditors, legislative and oversight agencies, citizens and customers with an overview of the Authority's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact Christopher Gan, Interim Controller-Treasurer of BART, 2150 Webster Street, 10th Floor P.O. Box 12688, Oakland, California 94604.

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CAPITOL CORRIDOR JOINT POWERS AUTHORITY
STATEMENT OF NET POSITION
June 30, 2021

ASSETS

Current assets

Unrestricted assets

Cash and cash equivalents	\$ 14,393,278
Grants receivable	2,659,479
Facility improvement grants receivable	6,065,722
Incentive, assessment and other receivables - National Railroad Passenger Corporation	47,850
Prepaid assets	<u>49,894</u>
Total unrestricted current assets	<u>23,216,223</u>

Restricted assets

Cash and cash equivalents	<u>9,383,543</u>
Total current assets	<u>32,599,766</u>

Noncurrent assets

Depreciable capital assets, net	<u>1,531,603</u>
Total assets	<u>34,131,369</u>

LIABILITIES

Current liabilities

Accounts payable	3,212,647
Due to National Railroad Passenger Corporation	8,083
Due to San Francisco Bay Area Rapid Transit District	1,629,709
Unearned revenues	<u>26,938,604</u>
Total current liabilities	<u>31,789,043</u>

NET POSITION

Net investment in capital assets	1,498,711
Unrestricted net position	<u>843,615</u>
Total net position	<u>\$ 2,342,326</u>

The accompanying notes are an integral part of these basic financial statements.

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
For the Year Ended June 30, 2021

Operating revenues	
Assessment revenues	\$ 55,250
Other operating revenues	<u>2,279</u>
Total operating revenues	<u>57,529</u>
Operating expenses	
Train operations and bus feeder services	10,852,952
Marketing and administrative services and NTRC charges	5,512,778
WiFi services	2,500,509
Depreciation expense	853,276
Other operating expenses	<u>45,252</u>
Total operating expenses	<u>19,764,767</u>
Operating loss	<u>(19,707,238)</u>
Nonoperating revenues (expenses)	
Grants from California Department of Transportation	18,899,132
Facility improvement grant revenues	15,719,534
Facility improvement grant expenses	(15,719,534)
Interest income	<u>3,731</u>
Nonoperating revenues, net	<u>18,902,863</u>
Change in net position	(804,375)
Net position, beginning of year	<u>3,146,701</u>
Net position, end of year	<u><u>\$ 2,342,326</u></u>

The accompanying notes are an integral part of these basic financial statements.

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021

Cash flows from operating activities	
Assessment fees and other operating revenues	\$ 9,679
Payments for train operations, bus feeder and WiFi services	(15,303,842)
Payments for marketing and administrative services	(5,148,878)
Payments for other operating expenses	<u>(25,664)</u>
Net cash used in operating activities	<u>(20,468,705)</u>
Cash flows from noncapital financing activities	
Grants received for train operations, bus feeder and WiFi services	6,942,947
Grants received for marketing and administrative services	4,675,843
Grants received for facility improvements	13,866,594
Grants disbursed for facility improvements	<u>(14,174,295)</u>
Net cash provided by noncapital financing activities	<u>11,311,089</u>
Cash flows from investing activities	
Interest received on investments	<u>3,731</u>
Net cash provided by investing activities	<u>3,731</u>
Net change in cash and cash equivalents	(9,153,885)
Cash and cash equivalents, beginning of year	<u>32,930,706</u>
Cash and cash equivalents, end of year	<u>\$ 23,776,821</u>
Reconciliation of cash and cash equivalents to Statement of Net Position	
Unrestricted	\$ 14,393,278
Restricted	<u>9,383,543</u>
Cash and cash equivalents, end of year	<u>\$ 23,776,821</u>
Reconciliation of operating loss to net cash from operating activities	
Operating loss	\$ (19,707,238)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation expense	853,276
Changes in operating assets and liabilities:	
Incentive, assessment and other receivables - National Railroad Passenger Corporation	54,011
Prepaid assets	(49,020)
Accounts payable	163,139
Due to National Railroad Passenger Corporation	(1,960,922)
Due to San Francisco Bay Area Rapid Transit District	<u>178,049</u>
Net cash from operating activities	<u>\$ (20,468,705)</u>
Supplemental disclosures of cash flow information	
Noncash transaction	
Capital assets acquired with a liability at year-end	\$ 32,892

The accompanying notes are an integral part of these basic financial statements.

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NOTE 1 – DESCRIPTION OF REPORTING ENTITY

In July 1996, Senate Bill 457 was passed, which provided for the creation of the Capitol Corridor Joint Powers Board (“Board”). On December 31, 1996, the Board entered into a Joint Exercise of Powers Agreement with six public transportation agencies (“Agencies”) to establish the Capitol Corridor Joint Powers Authority (“Authority”), a public instrumentality of the State of California. The 6 member agencies are the San Francisco Bay Area Rapid Transit District (“Managing Agency” or “BART”), Placer County Transportation Planning Agency, Sacramento Regional Transit District, Santa Clara Valley Transportation Authority, Solano Transportation Authority, and Yolo County Transportation District. The governing board of the Authority consists of 16 elected officers including six members from the Managing Agency and two members from each of the five other Agencies. The Authority is responsible for the administration and managing the operation of the existing rail service in the Auburn-Sacramento-Suisun City-Oakland-San Jose Corridor (“Capitol Corridor Rail Service”). The Capitol Corridor connects outlying communities to the train service via an extensive, dedicated motor coach network that assists passengers traveling along the Capitol Corridor route, a 170-mile corridor, with 18 stations, between San Jose and Auburn.

On July 1, 1998, the Authority entered into an Interagency Transfer Agreement (“ITA”) with the State of California, Department of Transportation (“State”). The ITA provided for the transfer of the responsibility for administration, management and control of the operation of the Capitol Corridor Rail Service from the State to the Authority for an initial three-year term terminating June 30, 2001, and was renewed for a second three-year term which expired on June 30, 2004. Effective November 10, 2003, the ITA was amended such that the term shall continue on and after July 1, 2004 until terminated by either party, by giving advance written notice to the other as stipulated in the ITA.

The Authority receives funding from the State to operate and improve the Capitol Corridor Rail Service in order to provide a travel alternative to the congested parallel I-80/I-680/I-880 highway corridors. The train equipment used in the Capitol Corridor Rail Service is owned by the State and the service is operated by AMTRAK under contract with the Authority on railroad track owned by the Union Pacific Railroad Company (“UPRR”).

The enabling legislation called for BART to provide dedicated staff and administrative management to the Authority for a three-year term starting in February 1998. The administrative support service agreement between BART and the Authority has been renewed several times with the current agreement ending in February 2025. BART’s management responsibilities on behalf of the Authority include but are not limited to the overseeing of day-to-day rail and motor coach scheduling and operations; reinvesting operating efficiencies into service enhancements; overseeing deployment and maintenance of rolling stock and coordinating with appropriate agencies and local communities to develop and implement a capital improvement program. The Authority utilizes financial systems and follows policies and procedures of BART, the managing agency.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation: The basic financial statements provide information about the Authority, which is reported as an enterprise fund. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Accounting and Financial Reporting: The enterprise fund distinguishes operating revenues and expenses from nonoperating items. The Authority's operating revenues are generated directly from its transit operations and consist principally of assessment revenues. Operating expenses for the transit operations include all costs related to providing transit services. These costs include charges for train operations and bus feeder services, charges for marketing and administrative services, and other operating expenses. All other revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Restricted Assets: Certain assets of the Authority are classified as restricted on the statement of net position because their use is subject to externally imposed stipulations, either by agreement or by laws or regulations. This includes funding pertaining to SB1 as well as funding from the California Office of Emergency Services (CalOES) for capital project activities.

Cash Equivalents: The Authority considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents.

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 fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The custodian banks rely on the pricing by nationally known vendors. In the event that a particular category is not priced by the primary pricing vendor, the custodian banks engage a secondary vendor or other sources.

Capital Assets: Capital assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which range from 5 to 20 years. The Authority follows BART's policy which is to capitalize acquisitions of capital assets with a cost of \$5,000 or more and a useful life of more than one year, and all costs related to capital projects, regardless of amount.

Major improvements to existing equipment are capitalized. The costs for maintenance and repairs, which do not extend the useful life of the applicable assets, are charged to expense as incurred. Upon disposition, costs and accumulated depreciation are removed from the accounts and resulting gains or losses are included in operations.

Unearned Revenues: The Authority receives advance grant funding from the State for the operations of the Capitol Corridor track structure. The Authority recognizes the revenues in the period in which the related expenses are incurred (Note 7).

Net Position: Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The net position section on the statement of net position was combined to report total net position and presents it in three components: net investment in capital assets, restricted and unrestricted. Net investment in capital assets includes capital assets net of accumulated depreciation and capital-related liabilities. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation and include amounts restricted for debt service and other liabilities. Generally, the Authority's policy is to spend restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. As of June 30, 2021, the Authority does not have restricted net position. All other net position of the Authority is unrestricted.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses: Operating revenues generally result from providing services in connection with the Authority's principal ongoing operations. The Authority's operating revenues include assessment revenues and other revenues such as special promotional train service, recovered incentives reinvested in service, transfer fees, freight tariff fees, and other miscellaneous revenues. Assessment revenues are recognized upon assessment of fees for nonperformance with regards to standards set in the AMTRAK operating agreement.

Operating expenses consist of costs associated with train operations and bus feeder services, marketing and administrative expenses, and other operating expenses. Under the operating agreement between the Authority and AMTRAK, the Authority pays AMTRAK a predetermined fixed amount to operate the Capitol Corridor Rail Service on a year to year basis. The contractual amount is based on AMTRAK's anticipated costs of operating the Capitol Corridor service during the fiscal year, net of a projected amount of base passenger fares that will be collected.

Nonoperating Revenues and Expenses: Nonoperating revenues and expenses include grants received from the State of California, facility improvement grant revenues, and facility improvement grant expenses. Revenues are recognized when the associated expenses are incurred in accordance with the terms of the grant agreement. Grants from the State of California for expenditures incurred by UPRR and disbursements to other vendors for the design and construction of renovations and improvements to the facilities and track structure of the Capitol Corridor are recognized at the time when the eligible projects costs are incurred.

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. Actual results could differ from those estimates.

New Accounting Pronouncements Adopted: GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Adoption of this statement did not have a significant impact to the Authority's financial statements.

GASB Statement No. 90, *Majority Equity Interests*, is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Adoption of this statement did not have a significant impact to the Authority's financial statements.

(Continued)

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*, is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The requirements of this Statement, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. Management is currently evaluating the effect of paragraphs 11b, 13, and 14 on the District’s financial statements. Adoption of the remaining paragraphs of this statement did not have a significant impact to the Authority’s financial statements.

NOTE 3 – CASH AND CASH EQUIVALENTS

The Authority maintains the Public Funds Interest Checking account, which yielded an average of 0% interest annually for fiscal year 2021.

On June 19, 2019, the Authority’s Board adopted an Investment policy patterned after BART’s current investment policy. The California Public Utilities Code, Section 29100, and the California Government Code (“CGC”), Section 53601, provide the basis for the Authority’s investment policy. To meet the objectives of the investment policy – (1) preservation of capital, (2) liquidity, and (3) yield – the investment policy, approved by the Board of Directors, specifically identifies the types of permitted investments, as well as any maturity limits and other restrictions. The following table presents the authorized investment, requirements, and restrictions per the CGC and the Authority’s investment policy:

Investment Type	Maximum Maturity (1)		Maximum % of Portfolio		Maximum %with One Issuer		Minimum Rating (2)	
	CGC	Authority	CGC	Authority	CGC	Authority	CGC	Authority
U.S. Treasury Obligations (bills, bonds, or notes)	5 years	5 years	None	None	None	None	None	None
U.S. Agencies	5 years	5 years	None	None	None	None	None	None
Bankers’ Acceptances	180 days	180 days	40%	40%	30%	30%	None	None
Commercial Paper (3)	270 days	270 days	25%	25%	10%	10%	P1	P1
Negotiable Certificates	5 years	5 years	30%	30%	None	None	None	None
Repurchase Agreements	1 year	1 year	None	None	None	None	None	None
Reverse Repurchase Agreements	92 days	90 days	20%	20%	None	None	None	None
Local Agency Investment Fund	N/A	N/A	None	20%	None	None	None	None
Non-Negotiables Time Deposits	5 years	5 years	30%	30%	None	None	None	None
Medium Term Notes/Bonds (3)	5 years	5 years	30%	30%	None	None	A	A
Municipal Securities of California Local Agencies	5 years	5 years	None	None	None	None	None	None
Mutual Funds (3)	N/A	N/A	20%	20%	10%	10%	AAA	AAA
Notes, Bonds, or Other Obligations	5 years	5 years	None	None	None	None	None	None
Mortgage Pass-Through Securities	5 years	5 years	20%	20%	None	None	AAA	AAA
Financial Futures (3)	N/A	N/A	None	None	None	None	None	None

Footnotes

- (1) In the absence of a specified maximum, the maximum is 5 years.
- (2) Minimum credit rating categories include modifications (+/-).
- (3) Authority will not invest in these investment types unless specifically authorized by the Board.

(Continued)

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

Restricted Cash: Restricted cash represents unspent advances for capital related projects. The breakdown of restricted cash components as of June 30, 2021, is reflected as follows:

Source of funding:

California Office of Emergency Services	\$ 556
Senate Bill 1	<u>9,382,987</u>
	<u>\$ 9,383,543</u>

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The California Government Code Section 53652 requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the agency's deposits. California law also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of the agency's total deposits. Such collateral is considered to be held in the Authority's name.

The amounts deposited with the bank were covered by federal depository insurance or were collateralized by the pledging financial institution as required by Section 53652 of the California Government Code. Such collateral is held by the pledging financial institutions' trust department or agent in the Authority's name.

The BART Controller-Treasurer has the authority to waive the required collateralization and substitute Federal Deposit Insurance Corporation (FDIC) for the first \$250,000 of the investment and will continue to seek minority depository institutions, as defined by the Federal Government, for the placement of a portion of the Authority's funds.

The carrying amount of the Authority's deposits with banks was \$23,776,821 as of June 30, 2021. The bank balance was \$24,345,887 at June 30, 2021. The bank balance at June 30, 2021 was more than the carrying amount due to outstanding checks totaling \$569,066.

Interest Rate Risk: Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. One of the Authority's primary objectives is to provide sufficient liquidity to meet its cash outflow needs, however, the Authority does not have any policies specifically addressing interest rate risk, except as outlined in the CGC. The Authority does not have any investments as of June 30, 2021.

Credit Risk: The Authority's credit rating risk is governed by Section 53601 of the CGC which, among others, limits investments in money market mutual funds to those funds with the highest evaluations granted by the rating agencies, which is AAAM. The Authority does not have any investments as of June 30, 2021.

(Continued)

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 4 – CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2021 are summarized as follows:

	Lives (Years)	July 1, 2020	Additions and Transfers	Retirements and Transfers	June 30, 2021
Depreciable capital assets:					
Communication equipment	10	\$ 6,062,911	\$ -	\$ -	\$ 6,062,911
Yard equipment	20	65,272	32,892	-	98,164
Ticket vending equipment	10	304,830	-	-	304,830
Food catering Equipment	10	24,164	-	-	24,164
Security equipment	10	2,213,216	-	-	2,213,216
Office equipment and furniture	5	6,212	-	(6,212)	-
Station equipment	5	233,141	-	-	233,141
Intangible system software development	15	1,639,067	-	-	1,639,067
Total depreciable capital assets		10,548,813	32,892	(6,212)	10,575,493
Less accumulated depreciation:					
Communication equipment		(5,404,180)	(482,833)	-	(5,887,013)
Yard equipment		(60,829)	(7,372)	-	(68,201)
Ticket vending equipment		(304,830)	-	-	(304,830)
Food catering Equipment		(24,164)	-	-	(24,164)
Security equipment		(1,211,068)	(217,857)	-	(1,428,925)
Office equipment and furniture		(6,212)	-	6,212	-
Station equipment		(138,784)	(35,530)	-	(174,314)
Intangible system software development		(1,046,759)	(109,684)	-	(1,156,443)
Total accumulated depreciation		(8,196,826)	(853,276)	6,212	(9,043,890)
Total depreciable capital assets, net		\$ 2,351,987	\$ (820,384)	\$ -	\$ 1,531,603

NOTE 5 – FACILITY IMPROVEMENT GRANT EXPENSES

In December 2000, the Authority and UPRR entered into a Track Access, Engineering and Design Agreement to contract for the design of renovations and improvements on the Capitol Corridor track (“project design”) to be provided by UPRR at the Authority’s expense. Project design refers to project pre-construction activities, which include plans, specifications and cost estimates, environmental assessment and capacity analyses. The Authority had secured funding through grants from the State of California amounting to \$5,888,000 and grants from various local agencies totaling \$94,000 to cover the costs of the project design.

In April 2002, the Authority signed a construction and maintenance agreement (the “Construction Agreement”) with UPRR. The Construction Agreement and subsequent amendments stipulate that the Authority shall provide the construction funding to UPRR for construction projects on the Capitol Corridor track (the “Improvements”) in an amount up to \$120,783,785 of which Improvements with budgeted costs totaling \$118,023,785 had been completed through fiscal year 2021. The Construction Agreement also states that UPRR shall be the sole owner of all the Improvements upon commencement of the construction and at all times thereafter.

As part of the Construction Agreement, UPRR granted the Authority or its permitted assignee, the right to operate in perpetuity the total number of the Capitol Corridor trains agreed to in writing by the parties, over the Capitol Corridor track. Therefore, in the event UPRR sells or transfers to any third party all or any portion of the track structure upon which the Improvements have been constructed, UPRR shall reserve sufficient rights and easements to enable UPRR to continue to perform its obligations to the Authority under the Construction Agreement.

(Continued)

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 5 – FACILITY IMPROVEMENT GRANT EXPENSES (Continued)

The Construction Agreement also provides that the Authority shall seek funding for its proportionate share of the maintenance costs of such improvements after their completion.

The right granted by UPRR to the Authority to operate in perpetuity the trains on the Capitol Corridor track represents an intangible asset for the Authority. No amount has been attributed to the intangible asset.

The facility improvement grant expenses, which is not limited to the UPRR Construction and Maintenance Agreement, consisted of expenditures for the following projects in fiscal year 2021:

California Integrated Travel Project Staffing *	\$ 6,316,577
Capitalized Maintenance 2015	269,758
Capitalized Maintenance 2021	378,596
Contribution to 2nd Transbay Tube Planning	331,963
Davis Crossover and Signal Replacement	391,582
Final Design Oakland Maintenance Facility	44,128
FY 17 Minor Capital Improvement Project	394,557
FY 20 Minor Capital Improvement Project	1,738
Link21 *	1,066,121
Install Safety and Information	23,203
OBIS Decommissioning	13,088
OKJ-SJC Service Expansion II	3,355,853
Passenger Information Display Systems (PIDS) Development	748,915
Right-of-Way Clean up and Fencing	616,089
Santa Clara Siding	222,126
Sacramento - Roseville Engineering Design	963,452
Sacramento - Roseville Track	4,048
Sacramento - Roseville Right-of-Way Acquisition	895
Service Optimization - Operations	199,180
Stege Signal Replacement	12,434
Station Information Signage	4,659
Turnout Component Upgrade	276,660
Waste Retention Tanks	<u>83,912</u>
 Total	 <u><u>\$ 15,719,534</u></u>

* Projects funded by California Intercity Passenger Rail (IPR) supplemental allocations from California State Transportation Agency (CalSTA) and supports Capitol Corridor, Pacific Surfliner and San Joaquin Intercity Passenger Rails.

(Continued)

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 6 – RELATED PARTY TRANSACTIONS

Capital project expenses, facility improvement grant expenses, marketing and administrative services and other operating expenses incurred by the Managing Agency on behalf of the Authority including overhead, amounted to \$5,639,719 for the year ended June 30, 2021.

Capital project expenses, facility improvement grant expenses, marketing and administrative services and other operating expenses that had been paid by the Managing Agency on behalf of the Authority, which have not yet been repaid by the Authority to the Managing Agency at the end of the year, are included in the financial statements as Due to San Francisco Bay Area Rapid Transit District. The amounts owed to the Managing Agency are non-interest bearing. The Managing Agency is reimbursed as soon as the Authority receives reimbursements from the State.

A summary of amounts owed to the Managing Agency at June 30, 2021 is as follows:

Construction costs	\$ 245,881
Marketing and administrative services and other expenses	1,383,828
Link21 project related expenses	<u>1,000,000</u>
	<u>\$ 2,629,709</u>

NOTE 7 – UNEARNED REVENUES

Unearned revenues consist of amounts received in advance of incurring the expenditures related to:

Train operations and bus feeder services	\$ 2,863,902
Unused portion reinvestment program and revenue above budget	14,612,705
Advance for facilities improvement projects	9,372,337
Others	<u>89,660</u>
	<u>\$ 26,938,604</u>

The State of California provides funding for train operations to the Authority based on a contractual amount to operate the Capitol Corridor Rail Service on a year to year basis. The contractual amount is based on AMTRAK's anticipated costs of operating the Capitol Corridor service during the fiscal year, net of a projected amount of base passenger fares that will be collected.

The operating agreement between AMTRAK and the Authority establishes the monthly passenger and other allocated revenue, actual monthly route costs and additives, and actual third-party costs for operation of the Capitol Corridor on behalf of the Authority. A monthly reconciliation of results of operation and funding from the State is done and funds received from the State in excess of actual operating cost are retained by the Authority for future service enhancement and project use. The unspent funding may be used to cover operating expenses or tracked into subaccounts, Revenue Above Budget ("RAB") and Capitol Corridor Reinvestment Program ("CCRP") for future support of capital or operating projects. RAB is the excess of actual revenue over budgeted revenue for use by the Authority for service enhancements pursuant to the Authority's enabling legislation. Any remaining balance after RAB has been taken into account is tracked as CCRP, and may be used to fund projects and other operating costs. As of June 30, 2021, the excess amount retained by the Authority is \$2,863,902.

(Continued)

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2021

NOTE 7 – UNEARNED REVENUES (Continued)

As of June 30, 2021, the funds retained by the Authority for RAB and CCRP, included as part of the total unearned revenue, amounted to \$14,612,705. In fiscal year 2021, \$171,643 CCRP fund and \$195,040 RAB fund were used to supplement State grant funding sources for capital projects that will enhance the Capitol Corridor service.

	CCRP	RAB	Total
Balance, July 1, 2020	\$ 2,097,972	\$ 13,176,156	\$ 15,274,128
Credits received	-	-	-
Credits used for operating expenses	(155,166)	(139,574)	(294,740)
Credits used for capital expenses	(171,643)	(195,040)	(366,683)
Balance, June 30, 2021	<u>\$ 1,771,163</u>	<u>\$ 12,841,542</u>	<u>\$ 14,612,705</u>

The Authority was approved to receive allocations of State Rail Assistance ('SRA') program with funds coming from SB1, the Road Repair and Accountability Act of 2017. In fiscal year 2021, the advance fundings were used in eligible expenditure categories including customer access, system safety, operational infrastructure enhancements, planning/project support and operations. Balance of unspent SB1 allocation at June 30, 2021 is as follows:

	Senate Bill 1
Balance, July 1, 2020	\$ 10,372,035
Advances received	569,078
Expenses incurred during fiscal year	(1,568,776)
Balance, June 30, 2021	<u>\$ 9,372,337</u>

NOTE 8 – ASSESSMENT REVENUE

According to the AMTRAK operating agreement, the Authority assesses the nonperformance of AMTRAK with regards to standards set in the operating agreement, including but not limited to "On Time Performance and Maintenance of Stations," and charges fees for nonperformance. For the year ended June 30, 2021, the mechanical assessment revenue amounted to \$55,250.

(Continued)

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 9 – CHARGES FOR TRAIN OPERATIONS, BUS FEEDER SERVICES AND WIFI SERVICES

Expenses for train operations, bus feeder services and WiFi services, and corresponding funding sources are summarized as follows:

Funding Source	
Operating	\$ 10,591,104
CCRP	155,166
Revenue Above Budget (RAB)	<u>106,682</u>
Total train operations and bus feeder services	10,852,952
WiFi Services	<u>2,500,509</u>
 Total	 <u><u>\$ 13,353,461</u></u>

In accordance with the operating agreement, AMTRAK provides rail passenger services over the Capitol Corridor route and related bus feeder services. The reimbursement to AMTRAK by the Authority is based on a fixed amount as mutually agreed to by both parties and adjusted to actual at the end of the fiscal year, which amounted to \$10,591,104 for fiscal year 2021. This reimbursement also includes call center costs, which was stipulated starting in the 2014 contract with AMTRAK. The unreimbursed amount due to AMTRAK for train operations was \$8,083 and is recorded as Due to AMTRAK at June 30, 2021.

As discussed in Note 7, the Authority can spend CCRP funds for both operating and capital projects. In fiscal year 2021, operating expenses funded by CCRP amounted to \$155,166.

In fiscal year 2021, the Authority spent \$139,574 of RAB funds, of which \$106,682 was used to cover operating expenses and \$32,892 was used for the acquisition of a service vehicle.

Included in the Authority's operating agreement with AMTRAK is an annual allocation from the State for minor capital improvement projects ("MCIP") to improve facilities used on the Capitol Corridor route. The Authority did not receive an allocation for MCIP in fiscal year 2021. Under the terms of the operating agreement, the Authority must encumber the allocated amount and authorize funding for Authority approved projects by the end of the second year after the year of allocation. Projects must be completed with final invoices sent by the Authority to the State for reimbursement. For fiscal year 2021, there were no net operating expenses funded by MCIP.

Operating expenses for WiFi services are funded by the California Intercity Passenger Rail (IPR) Support Supplemental allocation and support the provision of onboard WiFi and its associated management expenses for the Capitol Corridor and San Joaquin intercity passenger rail services, which was transferred from Amtrak to the Authority in fiscal year 2019. For the year ended June 30, 2021, the Authority recorded \$2,500,509 in Wi-Fi expenses.

(Continued)

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 10 – CHARGES FOR MARKETING AND ADMINISTRATIVE SERVICES

Effective July 1, 1998, the Authority and the Managing Agency entered into an Agreement for Administrative Support (“Agreement”), which provided marketing and administrative support to the Authority Board for the benefit of the Authority. The Managing Agency is reimbursed by the Authority for actual expenses incurred or paid on behalf of the Authority for marketing and administrative services. The Agreement has been extended to February 19, 2025. The Board may then select the current Managing Agency or another rail transit agency to provide marketing and administrative support to the Authority Board. The charges for marketing and administrative services are summarized as follows:

Salaries and benefits	\$ 4,796,852
Advertising	170,115
Other consulting fees	232,724
Travel and entertainment	909
Legal and accounting	82,847
Dues and subscriptions	26,294
Insurance	111,242
Telephone	39,894
Office supplies	14,699
Training and seminars	960
Repairs and maintenance	160
Printing and graphic design	6,897
Sponsorship & Outreach	7,785
Information Technology	13,588
Miscellaneous expenses	<u>7,812</u>
	<u>\$ 5,512,778</u>

NOTE 11 – GRANTS FROM STATE OF CALIFORNIA

Effective July 1, 1998, the Authority and the State entered into a Fund Transfer Agreement (“FTA”). The FTA provides for State funding, appropriated by the State Budget Act and allocated to the Authority in accordance with provisions of the FTA and ITA, for the Capitol Corridor Rail Service. In accordance with the ITA and FTA provisions, any required funding is contributed towards actual marketing and administrative costs and operational losses of the Capitol Corridor Rail Service. Effective November 10, 2003, the ITA was amended so that the term shall continue after July 1, 2004 until terminated by either party, by giving advance written notice to the other as stipulated in the ITA. The FTA shall remain in effect for as long as the ITA remains in effect. At June 30, 2021, the receivable due from the State amounted to \$2,659,479.

The Authority also receives grants from the State and other funding agencies for facility improvements and capital projects. As of June 30, 2021, the total facility improvement grants receivable was \$6,065,722.

(Continued)

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Simultaneous to entering into the ITA with the State (Note 1), on July 1, 1998, the Authority entered into an equipment lease with the State. The State leases State-owned coaches and locomotives (“Equipment”) to the Authority that were rented for the sum of \$1. The State retains title to the Equipment while the Authority is responsible for all expenses accruing for possession, operation, maintenance and use of the Equipment. Funding for such expenses is provided by the State. As the Authority only operates the Equipment for the Capitol Corridor Rail Service on behalf of the State, the Authority has not recorded the Equipment as a capital lease on its financial statements.

Amounts received by the Authority from the State in accordance with various agreements, entitle the State to audit the Authority’s use of such funds. Accordingly, amounts received by the Authority are subject to adjustment for any State disallowed expenditures made with these funds.

The Authority has construction and other significant commitments amounting to \$2,760,000 as of June 30, 2021.

Contingencies Due to COVID-19: In May 2020, the California State Transportation Agency (CalSTA) provided guidance to the California Intercity Passenger Rail (IPR) Joint Powers Authorities (JPAs) regarding actions to ensure that the resources of the Authority are effectively managed amid tremendous uncertainty due to the COVID-19 global pandemic. CalSTA’s initial guidance limited operations to no more than 50-60% of pre-pandemic service levels. The Authority operated a temporarily reduced service of 55% of pre-pandemic levels until June 2021, when the train service was restored to 11 weekday roundtrips and nine weekend roundtrip as approved by CalSTA and the Authority’s Board of Directors.

With a goal of restoring to full pre-pandemic levels of train service, the Authority will continue to work with CalSTA and the California Department of Transportation (Caltrans) Division of Rail and Mass Transit (DRMT) to monitor and analyze equipment availability, ridership, and financial performance to support full-service restoration, including cost-saving strategies and potential additional federal relief support.

COVID Relief Funding:

FY 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act

In response to the financial impacts of the COVID-19 global pandemic, the Federal Railroad Administration (FRA) has awarded \$1.02 billion CARES Act funding to AMTRAK, \$239 million of which was allocated to mitigate the cost of operating AMTRAK’s 28 State-supported routes which were facing severe declines in revenue and ridership due to the public health crisis. The legislation limits Amtrak’s FY2020 charges to State-supported IPRs at 80% of the FY2019 invoiced amount, which for the Authority was \$19.5 million. The CARES Act funding has reduced the Authority’s payment to AMTRAK by a total of \$4,409,456 in FY 2020 and \$8,797,325 in FY 2021.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

FY 2021 COVID-19 Emergency Relief- Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) 2021 (December of 2020)

The FRA has provided \$175 million to AMTRAK under the CRRSAA 2021 (December of 2020) to benefit the State-supported intercity rail services. The benefit is calculated through a prescribed formula based on FY 2019 operating costs and revenue which has reduced the Authority's payments to AMTRAK by \$13,124,982 in FY 2021 and the remaining funds of \$283,274 will be used in FY 2022.

FY 2021 COVID-19 Emergency Relief - American Rescue Plan Act (ARPA) of 2021 (March of 2021)

Under ARPA of 2021 (March of 2021), the FRA has allocated to AMTRAK \$175 million to offset revenue loss for the State-supported services due to the global pandemic, which will provide a total of \$13,408,256 in federal COVID-19 relief funding, the same amount received from CRRSAA, to benefit the Authority in FY 2022.

NOTE 13 – RISK MANAGEMENT

The Authority has an indemnification agreement with AMTRAK, the contract operator, as part of the annual operating agreement, whereby the Authority, its employees and agents shall be held harmless for any and all claims, damages, liability and court awards associated with the train and bus feeder services operations, subject to certain exclusions. The Authority also carries a commercial general liability insurance policy, including personal and advertising coverage, with general aggregate limit of \$12,000,000. There have been no claims payments related to these programs that exceeded insurance limits in the last four years.

NOTE 14 – CONCENTRATION OF FUNDING

The Authority receives substantially all of its funds for operating and capital purposes from the State. The Authority's net revenues provided by the State were 99.8% in fiscal year 2021. At June 30, 2021, receivables from the State represented 25.6% of total assets.

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INDEPENDENT AUDITOR'S 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

Board of Directors
Capitol Corridor Joint Powers Authority
Oakland, 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 financial statements of the Capitol Corridor Joint Powers Authority ("Authority") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively the Authority's basic financial statements, and have issued our report thereon dated January, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 financial statements. 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*.

(Continued)

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.

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and fluid.

Crowe LLP

San Francisco, California
January 27, 2022