CAPITOL CORRIDOR JOINT POWERS AUTHORITY

Independent Auditor's Report, Management's Discussion and Analysis, and Basic Financial Statements

For the Years Ended June 30, 2017 and 2016

MGO Certified Public Accountants

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
For the Years Ended June 30, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors
Capitol Corridor Joint Powers Authority
Oakland, California

We have audited the accompanying financial statements of the Capitol Corridor Joint Powers Authority ("Authority") as of and for the years ended June 30, 2017 and 2016 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis identified in the accompanying 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 the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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.

Macias Gini & O'Connell LLP

Walnut Creek, California
February 5, 2018

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, 2017, with selected comparative information for the years ended June 30, 2016 and 2015. 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 Authority was created by the State of California ("State") Legislature in 1996. It is a partnership among six local transportation agencies and was formed for the purpose of administering and managing the operation of the Capitol Corridor Rail Service as part of the California intercity passenger rail system. The Authority receives funding from the State to operate and improve the Capitol Corridor Rail Service in order to provide a frequent, safe, reliable and affordable travel alternative to the I-80/I-680 highway corridor between Auburn and Oakland and I-880 between Oakland and San Jose. The Capitol Corridor connects outlying communities to the train service via an extensive, dedicated motor coach network that assists passengers traveling beyond the train stations. It is overseen by a Board of Directors, comprised of 16 elected officials from the six member agencies along the Capitol Corridor route, a 170-mile corridor, with 16 stations, between San Jose and Auburn.

The six transportation agencies comprising the Authority are the San Francisco Bay Area Rapid Transit District ("BART"), the Managing Agency, Placer County Transportation Planning Agency, Sacramento Regional Transit District, Santa Clara Valley Transportation Authority, Solano Transportation Authority and the Yolo County Transportation District.

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 2020. 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 Basic Financial Statements

The basic financial statements provide information about the Authority's 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 is 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 *statements of net position* present information on all assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 *statements of revenues, expenses and changes in net position* present 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 *statements of cash flows* present information using the direct method and include a reconciliation of operating loss to net cash used in operating activities.

The financial statements can be found on pages 9 – 11 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 financial statements can be found on pages 12 – 23 of this report.

Financial Highlights

Statements of Net Position

A comparison of the Authority's statements of net position as of June 30, 2017, 2016 and 2015 is as follows:

	2017	2016	2015
Current assets	$ 19,394,373	$ 17,303,812	$ 10,244,970
Noncurrent assets - capital assets, net	4,022,699	4,810,334	5,873,502
Total assets	23,417,072	22,114,146	16,118,472
Current liabilities	18,509,390	16,216,391	8,963,611
Net position			
Net investment in capital assets	4,022,699	4,810,334	5,873,502
Unrestricted net position	884,983	1,087,421	1,281,359
Total net position	$ 4,907,682	$ 5,897,755	$ 7,154,861

In fiscal year 2017, current assets increased by $2,090,561 primarily due to the following: (1) increase in unrestricted cash and cash equivalents by $4,058,804 primarily due to operating funds received from CalTrans that were not remitted to AMTRAK because of the favorable results of operation. The Authority, per the Interagency Transfer Agreement (ITA) with the State pays the aggregated amount of actual billings for such services in the fiscal year; (2) increase in grants receivable from the state by $226,886 as there were three months of administrative and marketing expenses not reimbursed by the State as of fiscal year 2017 compared to only two months in fiscal year 2016; (3) increase in facility improvement grants receivable by $2,131,616 and other receivables by $150,831 due to the timing in receipt of payment for capital related invoices; offset by decrease in receivable fom AMTRAK by $ 4,477,025 as the fiscal year 2016 credits due from AMTRAK were settled by offsetting the receivable with train operating expenses due to AMTRAK in fiscal year 2017.

In fiscal year 2017, noncurrent assets, which consist primarily of depreciable assets, decreased by $787,635 due to the $832,823 depreciation of capital assets offset by additions to depreciable assets of $45,188.

In fiscal year 2016, current assets increased by $7,058,842 primarily due to the following: (1) increase in cash and cash equivalents by $5,944,287 principally from receipt of $4,372,206 advance funding from the State that were not used for operations in fiscal year 2015 based on an annual reconciliation of results of operations and from operating funds from the State amounting to $3,114,131 that were not remitted to AMTRAK until fiscal year 2017, offset by $1,362,697 Capitol Corridor Reinvestment Program ("CCRP") funds expended during fiscal year 2016; (2) increase in receivable from AMTRAK by $1,035,283 resulting from the annual reconciliation of results of operation for the period October 2015 to June 2016; and (3) increase in capital grants receivable by $296,514 offset by decrease in grants receivable from the California Department of Transportation by $131,622 as there were minimal billings related to Minor Capital Improvement Program (MCIP) charges in 2016.

In fiscal year 2016, noncurrent assets decreased by $1,063,168 due to depreciation of capital assets.

In fiscal year 2017, current liabilities increased by $2,292,999 due to the effects of the following: (1) increase by $2,556,119 in unearned revenue and other liabilities primarily due to credits received as a result of fiscal year 2017 reconciliation of results of train operations with AMTRAK; (2) increase in interagency payable by $469,971 as there were four months of unpaid payroll and non-payroll expenses due to BART in fiscal year 2017 compared to only three months of unreimbursed labor and non-labor expenses in fiscal year 2016; (3) increase in accounts payable to vendors by $266,776 primarily due to project related expenses incurred near the end of fiscal year 2017 which were settled after year end close and (4) offset by decrease in payable to AMTRAK by $ 999,867 due to the favorable results of operations primarily resulting from increase in train revenue and an overall lower net operating cost.

In fiscal year 2016, current liabilities increased by $7,252,780 primarily due to the effects of the following: (1) increase by $3,114,131 of amounts due to AMTRAK as payments for June 2016 train operations were disbursed in fiscal year 2017; (2) increase by $3,595,629 in unearned revenue primarily due to credits expected to be received as a result of fiscal year 2016 reconciliation of results of train operations with AMTRAK; and (3) increase in accounts payable to vendors by $531,887 due to the timing of settlement of project related expenses incurred near the end of fiscal year 2016.

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, 2017, 2016 and 2015 is as follows:

	2017	2016	2015
Operating revenues	$ 34,208	$ 22,097	$ 134,887
Operating expenses	(31,045,990)	(33,427,160)	(34,735,782)
Operating loss	(31,011,782)	(33,405,063)	(34,600,895)
Nonoperating revenues (expenses)			
Grants from State of California,			
Department of Transportation	29,958,635	32,139,857	33,783,275
Grants for facility improvement revenues	14,759,009	4,622,565	3,158,052
Facility improvement grant expenses	(14,759,009)	(4,622,565)	(3,158,052)
Interest income	17,886	8,100	12,384
Nonoperating revenues, net	29,976,521	32,147,957	33,795,659
Change in net position before capital contributions	(1,035,261)	(1,257,106)	(805,236)
Capital contributions	45,188	-	14,410
Change in net position	(990,073)	(1,257,106)	(790,826)
Net position, beginning of year	5,897,755	7,154,861	7,945,687
Net position, end of year	$ 4,907,682	$ 5,897,755	$ 7,154,861

The Authority's operating expenses consist of charges for train operations and bus feeder services, marketing and administrative expenses 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 2017, operating expenses decreased by $2,381,170 primarily due to the overall increase in passenger revenue, which is factored in the calculation of net operating cost due to AMTRAK. Operating expenses in fiscal year 2016 decreased by $1,308,622 compared to fiscsal year 2015 primarily due to the increase in passenger revenue.

Facility improvement grant expenses refer to capital improvement expenses that are not capitalized nor recorded as capital assets by the Authority since the improvements in the Capital Corridor track are owned by Union Pacific Railroad Company ("UPRR") per a Construction Agreement (see Note 5). These types of expenses are primarily those covered by the Construction Agreement entered into between the Authority and UPRR. 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 2017, the grants for facility improvement revenues and expenses were higher by $10,136,444 compared to fiscal year 2016 mainly due to the following new projects in fiscal year 2017 which accounts for $10,264,003 of the total $14,759,009 total facility improvement grant expenses:

- Turnout Component Upgrade
- Electronic Bicycle Locker
- Install 4 eLocker Quads
- Folding Bicycle Rental Equipment
- Sacramento-Roseville Track
- Sacramento-Roseville Engineering-Design
- Auburn Security Camera & Power
- Richmond Passenger Information & Parking Project
- Diesel Exhaust Fluid Storage
- Install Safety and Informational Signage
- Right-of-Way Fencing
- Service Optimization - Ticket
- LED Platform Lights
- Travel Time Saving Project

In fiscal year 2016, the grants for facility improvement revenues and expenses were higher by $1,464,513 compared to fiscal year 2015 as there were increased expenditures for the following projects: On-Board Information System, Track, Bridge and Signal Upgrade, Capitalized Maintenance, Oakland to San Jose Double Track Phase 2 and the completion of the Oleum Tunnel project in fiscal year 2016.

The following projects comprise the facility improvement charges for fiscal year 2016:

- Roseville 3rd Track
- Track, Bridge and Signal Upgrade
- Capitalized Maintenance 2015
- California High Speed Rail Project
- On-Board Information System
- TAMC Rail Extension
- Oakland to San Jose Double Track Phase 2
- E-Lockers at Stations
- FY13/14 Safety Improvements
- FY14/15 Safety Improvements
- Oleum Tunnel

Please refer to Note 5 for project details and expenses.

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 Expenditures." In fiscal year 2017, $45,188 was accounted for as grants restricted for capital expenditures specifically for the emergency call box replacement project. There were no capitalized construction activities during fiscal year 2016.

Capital Assets

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 $14,031,630 and $10,193,424 as of June 30, 2017 and 2016, 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 Rosemarie Poblete, Controller-Treasurer of BART, at 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
Statements of Net Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 14,662,974	$ 10,604,170
Grants receivable - California Department of Transportation	1,015,824	788,938
Facility improvement grants receivable	3,494,967	1,363,351
Incentive, assessment and other receivables -		
National Railroad Passenger Corporation	48,000	4,525,025
Other Receivables	150,831	-
Prepaid Assets	-	586
Total unrestricted current assets	19,372,596	17,282,070
Restricted assets		
Cash and cash equivalents	21,777	21,742
Total current assets	19,394,373	17,303,812
Noncurrent assets		
Depreciable capital assets, net	4,022,699	4,810,334
Total assets	23,417,072	22,114,146
Liabilities		
Current liabilities		
Accounts payable	1,225,783	959,007
Due to National Railroad Passenger Corporation	2,114,264	3,114,131
Due to San Francisco Bay Area Rapid Transit District	1,514,730	1,044,759
Unearned revenue and other liabilities -		
California Department of Transportation and		
California Office of Emergency Services	13,654,613	11,098,494
Total current liabilities	18,509,390	16,216,391
Net Position		
Net investment in capital assets	4,022,699	4,810,334
Unrestricted net position	884,983	1,087,421
Total net position	$ 4,907,682	$ 5,897,755

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

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues		
Assessment revenues	$ -	$ 20,934
Other operating revenues	34,208	1,163
Total operating revenues	34,208	22,097
Operating expenses		
Train operations and bus feeder services	25,833,635	28,014,858
Marketing and administrative services	4,125,000	4,125,000
Depreciation expenses	832,823	1,063,168
Other operating expenses	254,532	224,134
Total operating expenses	31,045,990	33,427,160
Operating loss	(31,011,782)	(33,405,063)
Nonoperating revenues (expenses)		
Grants from California Department of Transportation	29,958,635	32,139,857
Facility improvement grant revenues	14,759,009	4,622,565
Facility improvement grant expenses	(14,759,009)	(4,622,565)
Interest income	17,886	8,100
Nonoperating revenues, net	29,976,521	32,147,957
Change in net position before capital contributions	(1,035,261)	(1,257,106)
Capital Contributions		
Grants restricted for capital expenditures	45,188	-
Change in net position	(990,073)	(1,257,106)
Net position, beginning of year	5,897,755	7,154,861
Net position, end of year	$ 4,907,682	$ 5,897,755

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

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Assessment fees and other operating revenues	$ 34,893	$ 112,112
Payments for train operations and bus feeder services	(26,472,830)	(24,917,697)
Payments for marketing and administrative services	(3,737,855)	(3,815,082)
Payments for other operating expenses	(328,668)	(124,895)
Net cash used in operating activities	(30,504,460)	(28,745,562)
Cash flows from noncapital financing activities		
Receipts from grants for train operations and bus feeder services	26,544,416	25,368,876
Receipts from grants for marketing and administrative services	3,881,629	3,942,727
Receipts from grants for other operating expenses	6,223,866	5,398,207
Grants received for facility improvements	12,627,394	4,326,051
Expenditures for facility improvement grants	(14,731,926)	(4,254,115)
Net cash provided by noncapital financing activities	34,545,379	34,781,746
Cash flows from capital and related financing activities		
Cash advance received from (paid to) S. F. Bay Area Rapid Transit District	-	(100,000)
Grants received for capital expenditures	45,222	-
Acquisition of capital assets	(45,188)	-
Net cash provided by (used in) capital and related financing activities	34	(100,000)
Cash flows from investing activities		
Interest received on investments	17,886	8,100
Net change in cash and cash equivalents	4,058,839	5,944,285
Cash and cash equivalents, beginning of year	10,625,912	4,681,628
Cash and cash equivalents, end of year	$ 14,684,751	$ 10,625,912
Reconciliation of cash and cash equivalents to Statement of Net Position		
Unrestricted assets	$ 14,662,974	$ 10,604,170
Restricted assets	21,777	21,742
Cash and cash equivalents, end of year	$ 14,684,751	$ 10,625,912
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (31,011,782)	$ (33,405,063)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	832,823	1,063,168
Changes in assets and liabilities:		
(Increase) decrease in assessment and other receivables, National Railroad Passenger Corporation	(35,883)	122,015
(Increase) decrease in Prepaid Assets	586	85,617
Increase in accounts payable	271,359	34,700
Increase (decrease) in due to National Railroad Passenger Corporation	(999,867)	3,114,131
Increase (decrease) in due to S. F. Bay Area Rapid Transit District	438,304	239,870
Net cash used in operating activities	$ (30,504,460)	$ (28,745,562)
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities		
Receivable from AMTRAK also recorded as Unearned Liability	$ -	$ 4,508,340

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

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 six member agencies are the San Francisco Bay Area Rapid Transit District ("Managing Agency"), Placer County Transportation Planning Agency, Sacramento Regional Transit District, Santa Clara Valley Transportation Authority, Solano Transportation Authority, and the Yolo County Transportation District. The governing board of the Authority consists of six members from the Managing Agency and two members from each of the five other Agencies. The Authority is responsible for the administration and management of the operation of the existing rail service in the Auburn-Sacramento-Suisun City-Oakland-San Jose Corridor ("Capitol Corridor Rail Service").

On July 1, 1998, the Authority entered into an 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 the National Railroad Passenger Corporation ("AMTRAK") under contract to the Authority on railroad track owned by the Union Pacific Railroad Company ("UPRR").

2 – Summary of Significant Accounting Policies

(a) Basis of Accounting and Presentation

The basic financial statements provide information about the Authority's 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.

(b) Proprietary Accounting and Financial Reporting

The Enterprise Fund, a proprietary 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.

2 – Summary of Significant Accounting Policies (Continued)

(c) 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.

(d) 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.

(e) Unearned Revenue and Other Liabilities - State of California, Department of Transportation

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).

(f) 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. 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. As of fiscal year end 2017 and 2016 the Authority has $0 restricted net position. All other net position of the Authority is unrestricted.

(g) 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.

2 – Summary of Significant Accounting Policies (Continued)

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.

(h) 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.

(i) 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.

(j) New Accounting Pronouncements Adopted

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77), which requires governments that enter into tax abatement agreements to disclose additional information about the agreements including a brief descriptive information, the gross dollar amount of taxes abated during the period, and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. GASB 77 is effective for the Authority's fiscal year ended June 30, 2017. This Statement did not impact the Authority's financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* (GASB 80), to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments, which was established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*. GASB 80 is effective for the Authority's fiscal year ending June 30, 2017. This statement did not impact the Authority's financial statements.

3 – Cash and Cash Equivalents

The Authority does not have a written investment policy. In March 2009, the Authority's Managing Agency suspended the investment account and fund sweep service agreement whereby the Authority's excess cash had been invested for a higher yield than those in a traditional bank account. This change was made because the fees generated by the sweep account exceeded the interest earned on the prevailing money market yield. Instead the Authority opted for the Public Funds Interest Checking account, which yielded an average of 0.196% and 0.15% interest annually for fiscal year 2017 and 2016, respectively.

3 – Cash and Cash Equivalents (Continued)

Deposits

The carrying amount of the Authority's deposits with banks was $14,684,751 and $10,625,912 as of June 30, 2017 and 2016, respectively. The bank balance was $18,752,968 and $10,289,285 at June 30, 2017 and 2016, respectively. The bank balance of cash deposits at June 30, 2017 was less than the carrying value due to outstanding checks of $4,068,217. At June 30, 2016 the bank balance was less than the carrying value due to deposits in transit of $731,362 offset with outstanding checks of $394,735.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposit 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 market 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 Agency'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.

4 – Capital Assets

The changes in capital assets for the year ended June 30, 2017 are summarized as follows:

	Lives (Years)	2016	Additions and Transfers	Retirements and Transfers	2017
Depreciable capital assets:					
Communication equipment	10	$ 6,062,911	$ -	$ -	$ 6,062,911
Yard equipment	20	63,872	-	-	63,872
Ticket vending equipment	10	304,830	-	-	304,830
Food catering equipment	10	24,164	-	-	24,164
Security equipment	10	1,307,944	-	-	1,307,944
Office equipment and furniture	5	6,212	-	-	6,212
Station equipment	5	49,407	45,188	-	94,595
Intangible system software development	15	1,639,067	-	-	1,639,067
Total depreciable capital assets		9,458,407	45,188	-	9,503,595
Less accumulated depreciation		(4,648,073)	(832,823)	-	(5,480,896)
Total depreciable capital assets, net		4,810,334	(787,635)	-	4,022,699
Total capital assets, net		$ 4,810,334	$ (787,635)	$ -	$ 4,022,699

There were no additions to construction in progress in 2017 as all projects relate to facility improvement expenses.

Asset placed into service during fiscal year 2017 amounted to $45,188 specifically for the emergency call box replacement project.

4 – Capital Assets (Continued)

The changes in capital assets for the year ended June 30, 2016 are summarized as follows:

	Lives (Years)	2015	Additions and Transfers	Retirements and Transfers	2016
Nondepreciable capital assets:					
Construction in progress	N/A	$ 626,760	$ -	$ (626,760)	$ -
Depreciable capital assets:					
Communication equipment	10	5,710,093	352,818	-	6,062,911
Yard equipment	20	63,872	-	-	63,872
Ticket vending equipment	10	304,830	-	-	304,830
Food catering equipment	10	24,164	-	-	24,164
Security equipment	10	1,263,211	190,922	(146,189)	1,307,944
Office equipment and furniture	5	6,212	-	-	6,212
Station equipment	5	16,818	32,589	-	49,407
Intangible system software development	15	1,588,636	50,431	-	1,639,067
Total depreciable capital assets		8,977,836	626,760	(146,189)	9,458,407
Less accumulated depreciation		(3,731,094)	(1,063,168)	146,189	(4,648,073)
Total depreciable capital assets, net		5,246,742	(436,408)	-	4,810,334
Total capital assets, net		$ 5,873,502	$ (436,408)	$ (626,760)	$ 4,810,334

There were no additions to construction in progress in 2016 as all projects relate to facility improvement expenses.

Assets placed into service during fiscal year 2016 amounted to $626,760 for the following projects: Passenger Information Display Signs, Automated Ticket Vending, Wireless Information System Development Project and Security Cameras and Signs Replacement.

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 $107,141,785 of which Improvements with budgeted costs totaling $95,037,632 had been completed through fiscal year 2017. 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. 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.

5 – Facility Improvement Grant Expenses (Continued)

The facility improvement grant expenses, which is not limited to the UPRR Construction and Maintenance Agreement, amounted to $14,759,009 and $4,622,565 in fiscal year 2017 and 2016, and consisted of expenditures for the following projects:

	2017	2016
California High Speed Rail Project	$ 183,463	$ 16,544
Capitalized Maintenance 2015	41,585	588,676
Capitol Corridor Track, Bridge and Signal Upgrade	467,634	510,685
E-Lockers and Folding Bicycle Rental Project	61,403	3,805
FY13/14 Safety Improvements	-	43,211
FY14/15 Safety Improvements	54,949	12,380
Oakland to San Jose Double Track Phase 2	1,930,749	1,164,821
Oleum Tunnel	-	800,000
On Board Information System (OBIS)	1,753,627	924,507
Roseville 3rd track	-	549,879
TAMC Rail Extension	1,596	8,057
Turnout Component Upgrade	114,481	-
Electronic Bicycle Locker	81,929	-
Install 4 eLocker Quads	41,202	-
Folding Bicycle Rental Equipment	5,252	-
Sacramento-Roseville Track	189,020	-
Sacramento-Roseville Engineering-Design	3,583	-
Auburn Security Camera & Power	114,504	-
Richmond Passenger Information & Parking Project	102,189	-
Diesel Exhaust Fluid Storage	25,000	-
Install Safety and informational Signage	39,582	-
Right-of-Way Fencing	608,723	-
Service Optimization - Ticket	6,744	-
LED Platform Lights	53,992	-
Travel Time Saving Project	8,877,802	-
Total	$ 14,759,009	$ 4,622,565

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 amounted to $4,079,766 and $3,871,100 for the years ended June 30, 2017 and 2016, respectively.

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, 2017 and 2016 is as follows:

	2017	2016
Construction costs	$ 62,343	$ 30,676
Marketing and administrative services	1,452,387	1,014,083
	$ 1,514,730	$ 1,044,759

7 – Unearned Revenue and Other Liabilities – State of California, Department of Transportation and California Emergency Management Agency

Unearned revenue and other liabilities - State of California, Department of Transportation and California Office of Emergency Services ("CalOES"), consist of amounts received in advance of incurring the expenditures related to:

	2017	2016
Train operations and bus feeder services	$ 16,690	$ 2,712,447
Unused portion of reinvestment program	13,395,937	8,290,359
Advance for facilities improvement projects	21,778	21,744
Other	220,208	73,944
	$ 13,654,613	$ 11,098,494

As of June 30, 2017 and June 30, 2016, the unearned revenue for train operations and bus feeder services was $16,690 and $2,712,447, respectively. For fiscal year 2016, payment for train operations was received from the State in advance of the monthly payment for train operations and bus services to AMTRAK for July 2016.

Beginning in October 2001, the Authority's operating agreement with AMTRAK included an annual allocation from the State for the Capitol Corridor Reinvestment Program ("CCRP funds"). As agreed to, these CCRP funds follow Caltrans Division of Rail protocol and policy for minor capital projects. There were no CCRP funds allocated to the Authority in fiscal years 2017 and 2016.

7 – Unearned Revenue and Other Liabilities – State of California, Department of Transportation and California Emergency Management Agency (Continued)

Effective October 1, 2014, all payments for On-Time Performance (OTP) was disbursed using the operating funds received from the State as compared to prior years where OTP charges were disbursed using CCRP funds. As of June 30, 2017 and 2016, the unused portion of the cumulative advance amounts to $13,395,937 and $8,290,359, respectively. The increase in advances from State by $5,105,578 is largely due to the credits received from AMTRAK as a result of the fiscal year 2017 reconciliation of results of train operations.

As of June 30, 2017 and 2016, the unutilized balance of the advances received from the CalOES for facilities improvements and capital asset development was $21,778 and $21,742, respectively.

8 – Assessment Revenue

According to the 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 them fees for nonperformance. For the years ended June 30, 2017 and 2016, the mechanical assessment revenue earned was $0 and $20,934, respectively.

9 – Charges for Train Operations and Bus Feeder Services

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

Funding Source	**2017**	**2016**
Operating	$ 24,731,833	$ 26,620,498
CCRP	1,090,787	1,362,698
MCIP	11,015	31,662
TOTALS	$ 25,833,635	$ 28,014,858

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 amounted to $24,731,834 and $26,620,498 for fiscal years 2017 and 2016, respectively, net of adjustment due to year end reconciliation with AMTRAK for results of operations. 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 at June 30, 2017 and 2016 amounted to $2,114,264 and $3,114,131, respectively.

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 received a $500,000 allocation for minor capital improvements in fiscal years 2017 and 2016. 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. The Authority incurred other charges related to train operations and bus feeder services under CCRP and MCIP funds. Other charges for train operations and bus feeder services paid to various vendors from CCRP and MCIP funds amounted to $1,101,802 and $1,394,360 for fiscal years 2017 and 2016, respectively.

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 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, 2020. The Board may then select the current Managing Agency or another rail transit agency to provide marketing and administrative support to the Board. The charges for marketing and administrative services are summarized as follows:

	2017	2016
Salaries and benefits	$ 3,921,985	$ 3,759,875
Advertising	923	9,727
Other consulting fees	52,447	188,229
Travel and entertainment	47,030	52,642
Legal and accounting	32,833	32,189
Dues and subscriptions	18,190	10,604
Telephone	17,365	20,278
Office supplies	15,344	35,930
Training and seminars	9,223	7,478
Repairs and maintenance	-	2,242
Miscellaneous expenses	9,660	5,806
	$ 4,125,000	$ 4,125,000

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, 2017 and 2016, the receivable account due from the State amounted to $1,015,824 and $788,938, respectively. The balance as of June 2017 and 2016 includes amounts due of $11,796 and $28,282 for AMTRAK train operation services, respectively.

The Authority also receives from the State and other funding agencies for facility improvements and capital projects. As of June 30, 2017 and 2016, the total grants receivable were $3,494,967 and $1,363,351 respectively.

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 $14,031,630 and $10,193,424 as of June 30, 2017 and 2016, respectively.

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 $10,000,000. There have been no claims payments related to these programs that exceeded insurance limits in the last three years.

14 – Concentrations

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 99.6% in fiscal year 2017 and 99.9% in fiscal year 2016. At June 30, 2017 and 2016, receivables from the State represented 19% and 16% of total assets, respectively.

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