CAPITOL CORRIDOR JOINT POWERS AUTHORITY

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

For the Years Ended June 30, 2019 and 2018

MGO Certified Public Accountants

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
For the Years Ended June 30, 2019 and 2018

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MGO Certified Public Accountants

Independent Auditor's Report

To the 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 years ended June 30, 2019 and 2018 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 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 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, 2019 and 2018, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2020 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 solely 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.

Macias Gini & O'Connell LLP

Walnut Creek, California
February 7, 2020

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2019 and 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, 2019, with selected comparative information for the years ended June 30, 2018 and 2017. 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 6 member agencies along the Capitol Corridor route, a 170-mile corridor, with 18 stations, between San Jose and Auburn.

The 6 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 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 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 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 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, deferred inflows of resources, 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 *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 13 – 26 of this report.

Financial Highlights

Statements of Net Position

A comparison of the Authority's statements of net position as of June 30, 2019, 2018 and 2017 is as follows:

	2019	2018	2017
Current assets	$ 26,186,029	$ 26,452,497	$ 19,394,373
Noncurrent assets - capital assets, net	3,265,703	4,098,910	4,022,699
Total assets	29,451,732	30,551,407	23,417,072
Current liabilities	25,427,056	25,676,243	18,509,390
Net position			
Net investment in capital assets	3,265,703	4,098,910	4,022,699
Unrestricted net position	758,973	776,254	884,983
Total net position	$ 4,024,676	$ 4,875,164	$ 4,907,682

Current Assets

In fiscal year 2019, current assets decreased by $266,468 primarily due to the following: (1) a net increase of $3,030,075 in cash and cash equivalents resulted from an increase in restricted cash and cash equivalents of $3,491,111 from receipt of SB1 funds in the amount of $5,220,500 with an unspent balance of $5,488,593 (including interest) as of fiscal year ended June 30, 2019, offset by a $461,036 decrease in unrestricted cash and cash equivalents; (2) a decrease in facility improvement grants receivable of $2,292,463 and other receivables of $2,902,109 resulting from lower overall project related expenses in fiscal year 2019 and timing of account settlements; (3) an increase in receivables from the State related to administrative and marketing expenses of $849,457 as there were six full months of billing outstanding in fiscal year 2019 compared to three months worth of administrative and marketing expenses outstanding in fiscal year 2018; and (4) an increase of $1,048,282 in amounts due from AMTRAK as the year-end reconciliation of results of operations closed with $1,099,032 due from AMTRAK.

In fiscal year 2018, current assets increased by $7,058,124 mainly due to the followings: (1) increase in restricted cash and cash equivalents by $1,976,163 primarily resulting from receipt of SB1 funds amounting to $2,008,625 with unspent balance of $1,970,401 as of fiscal year-end, offset by $670,446 decrease in unrestricted cash and cash equivalents (2) increase in facility improvement grants receivable by $2,526,159 and other receivables by $2,773,278 due to the timing in receipt of collection; and (3) increase in receivable from the state related to administrative and marketing expenses by $450,220, as there were three full months of billing and partial bills outstanding from October 2017 to March 2018.

Noncurrent Assets

In fiscal year 2019, noncurrent assets which consist primarily of depreciable assets, decreased by $833,207 due to the depreciation expense of $946,721, offset by capitalization of $113,514 worth of capital assets related to security cameras, service vehicle and Passenger Information Display System (PIDS).

In fiscal year 2018, noncurrent assets which consist primarily of depreciable assets, increased by $76,211 due to the capitalization of $922,543 worth of capital assets related to security cameras and PIDS, offset by fiscal year 2018 depreciation expense of $ $846,332.

Current Liabilities

In fiscal year 2019, current liabilities decreased by $249,187 due to the effects of the followings: (1) decrease in accounts payable by $3,039,074 as total capital related expenditures decreased by $5,555,045 in fiscal year 2019 compared to fiscal year 2018; (2) increase in amount due to BART by $868,875 as there were six months of administrative charges settled after fiscal year-end 2019; (3) increase in total advances from the State by $3,309,784 primarily accounted for by: (a) an increase of $2,935,010 of Revenue Above Budget (RAB) funds resulting from year-end reconciliation of results of operations; (b) an increase in State Rail Assistance (SRA) specifically Senate Bill 1 (SB1) - Road Repair and Accountability Act of 2017 fund balance by $3,508,710; and offset by (c) a settlement of $2,649,073 of advance funding received from the State for train operations; and (d) a reduction in advances for Capitol Corridor Reinvestment Program (CCRP) by $291,858; and (4) decrease of $1,388,772 in amounts due to AMTRAK.

In fiscal year 2018, current liabilities increased by $7,166,853 due to the effects of the followings: (1) increase in accounts payable by $2,784,569 mostly from increases in capital related payables from $739,865 in fiscal year 2017 compared to $2,784,569 in fiscal year 2018; and (2) increase in advances from the State by $4,628,295 primarily accounted for by $1,970,401 of unspent SB1 grant and receipt in fiscal year 2018 of July 2018 operating funds amounting to $2,632,383.

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, 2019, 2018 and 2017 is as follows:

	2019	2018	2017
Operating revenues	$ 15,965	$ 105,030	$ 64,433
Operating expenses	(31,891,930)	(32,454,543)	(31,076,215)
Operating loss	(31,875,965)	(32,349,513)	(31,011,782)
Nonoperating revenues (expenses)			
Grants from California Department of Transportation	30,902,122	31,359,154	29,958,635
Facility improvement grant revenues	8,507,660	14,062,705	14,759,009
Facility improvement grant expenses	(8,507,660)	(14,062,705)	(14,759,009)
Interest income	37,035	35,298	17,886
Nonoperating revenues, net	30,939,157	31,394,452	29,976,521
Change in net position before capital contributions	(936,808)	(955,061)	(1,035,261)
Capital contributions	86,320	922,543	45,188
Change in net position	(850,488)	(32,518)	(990,073)
Net position, beginning of year	4,875,164	4,907,682	5,897,755
Net position, end of year	$ 4,024,676	$ 4,875,164	$ 4,907,682

Operating Expenses

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 2019, operating expenses decreased by $562,613 due to the overall decrease in route net expenses attributed to increased ridership revenue offset by slight increase in route costs and additives and fuel costs which were factored in the calculation of net operating cost due to AMTRAK.

Nonoperating Revenues (Expenses)

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 Capitol Corridor track are owned by Union Pacific Railroad Company ("UPRR") per 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 2019, the expenditures for facility improvement and consequently the grants revenues were lower by $5,555,045 compared to fiscal year 2018. Please refer to Note 5 for project details and expenses.

In fiscal year 2018, the grants for facility improvement revenues and expenses were slightly lower by $696,304 compared to fiscal year 2017. 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 Expenditures."

In fiscal year 2019, the Authority recognized capital assets of $86,320 funded by grants for the security cameras and PIDS acquired during the year.

In fiscal year 2018, $922,543 was accounted for as grants restricted for capital expenditures specifically for the security cameras and PIDS.

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 $5,951,049 and $21,051,153 as of June 30, 2019 and 2018, 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.

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CAPITOL CORRIDOR JOINT POWERS AUTHORITY
Statements of Net Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 13,531,492	$ 13,992,528
Grants receivable - California Department of Transportation	2,315,501	1,466,044
Facility improvement grants receivable	3,728,663	6,021,126
Incentive, assessment and other receivables - National Railroad Passenger Corporation	1,099,032	50,750
Other receivables	22,000	2,924,109
Prepaid Assets	290	-
Total unrestricted current assets	20,696,978	24,454,557
Restricted assets		
Cash and cash equivalents	5,489,051	1,997,940
Total current assets	26,186,029	26,452,497
Noncurrent assets		
Depreciable capital assets, net	3,265,703	4,098,910
Total assets	29,451,732	30,551,407
Liabilities		
Current liabilities		
Accounts payable	971,278	4,010,352
Due to National Railroad Passenger Corporation	-	1,388,772
Due to San Francisco Bay Area Rapid Transit District	2,511,571	1,642,696
Unearned revenue and other liabilities - California Department of Transportation, California Office of Emergency Services and California State Rail Agency	21,944,207	18,634,423
Total current liabilities	25,427,056	25,676,243
Net Position		
Net investment in capital assets	3,265,703	4,098,910
Unrestricted net position	758,973	776,254
Total net position	$ 4,024,676	$ 4,875,164

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, 2019 and 2018

	2019	2018
Operating revenues		
Assessment revenues	$ 15,475	$ 50,750
Other operating revenues	490	54,280
Total operating revenues	15,965	105,030
Operating expenses		
Train operations and bus feeder services	25,502,132	26,760,902
Marketing and administrative services	4,676,921	4,649,002
WiFi Services	711,350	-
Depreciation expenses	946,721	846,332
Other operating expenses	54,806	198,307
Total operating expenses	31,891,930	32,454,543
Operating loss	(31,875,965)	(32,349,513)
Nonoperating revenues (expenses)		
Grants from California Department of Transportation	30,902,122	31,359,154
Facility improvement grant revenues	8,507,660	14,062,705
Facility improvement grant expenses	(8,507,660)	(14,062,705)
Interest income	37,035	35,298
Nonoperating revenues, net	30,939,157	31,394,452
Change in net position before capital contributions	(936,808)	(955,061)
Capital Contributions		
Grants restricted for capital expenses	86,320	922,543
Change in net position	(850,488)	(32,518)
Net position, beginning of year	4,875,164	4,907,682
Net position, end of year	$ 4,024,676	$ 4,875,164

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, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Assessment fees and other operating revenues	$ 15,965	$ 105,974
Payments for train operations and bus feeder services	(28,830,785)	(27,501,123)
Payments for marketing and administrative services	(4,071,777)	(4,455,488)
Payments for other operating expenses	(66,185)	(285,224)
Net cash used in operating activities	(32,952,782)	(32,135,861)
Cash flows from noncapital financing activities		
Receipts from grants for train operations and bus feeder services	24,732,783	24,576,131
Receipts from grants for marketing and administrative services	3,815,668	4,198,782
Receipts from grants for other operating expenses	4,075,412	2,540,798
Grants received for facility improvements	14,652,637	13,163,143
Expenses for facility improvement grants	(11,276,404)	(11,078,334)
Net cash provided by noncapital financing activities	36,000,096	33,400,520
Cash flows from capital and related financing activities		
Grants received for capital expenses	59,240	928,304
Acquisition of capital assets	(113,514)	(922,543)
Net cash provided by capital and related financing activities	(54,274)	5,761
Cash flows from investing activities		
Interest received on investments	37,035	35,298
Net change in cash and cash equivalents	3,030,075	1,305,718
Cash and cash equivalents, beginning of year	15,990,468	14,684,750
Cash and cash equivalents, end of year	$ 19,020,543	$ 15,990,468
Reconciliation of cash and cash equivalents to Statement of Net Position		
Unrestricted	$ 13,531,492	$ 13,992,528
Restricted	5,489,051	1,997,940
Cash and cash equivalents, end of year	$ 19,020,543	$ 15,990,468
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (31,875,965)	$ (32,349,513)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	946,721	846,332
Changes in assets and liabilities:		
(Increase) decrease in incentive, assessment and other receivables, National Railroad Passenger Corporation	(1,065,678)	(1,367)
(Increase) decrease in prepaid assets	(290)	-
Increase (decrease) in accounts payable	(218,847)	(49,643)
Increase (decrease) in due to National Railroad Passenger Corporation	(1,388,772)	(725,492)
Increase (decrease) in due to San Francisco Bay Area Rapid Transit District	650,049	143,822
Net cash used in operating activities	$ (32,952,782)	$ (32,135,861)

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

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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 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").

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 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, 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.

(b) Proprietary 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.

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. This includes funding pertaining to Senate Bill 1 (SB1) as well as funding from the California Office of Emergency Services (CalOES) for capital project activities.

(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 2019 and 2018, the Authority does not have 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) Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year's presentation.

(k) New Accounting Pronouncements Adopted and Those to be Adopted in Future Years

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of the Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this Statement are effective for the Authority's fiscal year ended June 30, 2018. This Statement did not have a significant impact to the Authority's financial statements.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for the Authority's fiscal year ended June 30, 2019. This Statement did not have a significant impact to the Authority's financial statements.

2 – Summary of Significant Accounting Policies (Continued)

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of the Statement is to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. This Statement requires that additional information related to debt be disclosed in the financial statement notes, including unused lines of credit; assets pledged as collateral for the debt; and terms specific in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirement of this Statement are effective for the Authority's fiscal year ended June 30, 2019. This Statement did not have a significant impact to the Authority's financial statements.

The Authority is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

- In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The Statement 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 the Authority's fiscal year ending June 30, 2020.

- In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of the Statement is to improve the accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the consistency of information about governments' leasing activities. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2021.

- In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Costs Incurred Before the End of a Construction Period*. The objectives of the Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2021.

2 – Summary of Significant Accounting Policies (Continued)

- In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are 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 the Authority's fiscal year ending June 30, 2020.

- In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issues, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2022.

3 – Cash and Cash Equivalents

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 charged to 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 0.20% interest annually for both fiscal years 2019 and 2018.

In June 19, 2019, CCJPA 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:

3 – Cash and Cash Equivalents (Continued)

	Maximum Maturity (1)		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating (2)	
Investment Type	**CGC**	**CCJPA**	**CGC**	**CCJPA**	**CGC**	**CCJPA**	**CGC**	**CCJPA**
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-Negotiable 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
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) CCJPA will not invest in these investment types unless specifically authorized by the Board.

The 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.

Deposits

The carrying amount of the Authority's deposits with banks was $19,020,543 and $15,990,468 as of June 30, 2019 and 2018, respectively. The bank balance was $23,866,567 and $15,568,356 at June 30, 2019 and 2018, respectively. The bank balance at June 30, 2019 was less than the carrying amount due to outstanding checks totaling $4,846,024. The bank balance at June 30, 2018 was less than the carrying amount due to deposits in transit of $461,693 offset by outstanding checks totaling $39,581.

Restricted cash amounting to $5,489,051 represents unspent advances for capital related projects. California Governor's Office of Emergency Services (CalOES) has remaining unspent project funds including interest amounting to $458 and the balance of $5,488,593 is from Senate Bill 1 (SB1) allocation.

The breakdown of restricted cash components as of June 30, 2019 and 2018, respectively, is reflected as follows:

	2019	2018
Source of funding:		
CalOES	$ 458	$ 27,539
SB1	5,488,593	1,970,401
	$ 5,489,051	$ 1,997,940

3 – Cash and Cash Equivalents (Continued)

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 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 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.

4 – Capital Assets

The changes in capital assets for the year ended June 30, 2019 are summarized as follows:

	Lives (Years)	July 1, 2018	Additions and Transfers	Retirements and Transfers	June 30, 2019
Depreciable capital assets:					
Communication equipment	10	$ 6,062,911	$ -	$ -	$ 6,062,911
Yard equipment	20	38,078	27,194	-	65,272
Ticket vending equipment	10	304,830	-	-	304,830
Food catering equipment	10	24,164	-	-	24,164
Security equipment	10	2,099,244	79,017	-	2,178,261
Office equipment and furniture	5	6,212	-		6,212
Station equipment	5	225,838	7,303	-	233,141
Intangible system software development	15	1,639,067	-	-	1,639,067
Total depreciable capital assets		10,400,344	113,514	-	10,513,858
Less accumulated depreciation		(6,301,434)	(946,721)	-	(7,248,155)
Total depreciable capital assets, net		$ 4,098,910	$ (833,207)	$ -	$ 3,265,703

There were no additions to construction in progress in 2019 as all projects relate to facility improvement expenses.

Assets placed into service for fiscal year 2019 amounted to $113,514 for service vehicle, security cameras and PIDS.

4 – Capital Assets (Continued)

The changes in capital assets for the year ended June 30, 2018 are summarized as follows:

	Lives (Years)	July 1, 2017	Additions and Transfers	Retirements and Transfers	June 30, 2018
Depreciable capital assets:					
Communication equipment	10	$ 6,062,911	$ -	$ -	$ 6,062,911
Yard equipment	20	63,872	-	(25,794)	38,078
Ticket vending equipment	10	304,830	-	-	304,830
Food catering equipment	10	24,164	-	-	24,164
Security equipment	10	1,307,944	791,300	-	2,099,244
Office equipment and furniture	5	6,212	-		6,212
Station equipment	5	94,595	131,243	-	225,838
Intangible system software development	15	1,639,067	-	-	1,639,067
Total depreciable capital assets		9,503,595	922,543	(25,794)	10,400,344
Less accumulated depreciation		(5,480,896)	(846,332)	25,794	(6,301,434)
Total depreciable capital assets, net		$ 4,022,699	$ 76,211	$ -	$ 4,098,910

There were no additions to construction in progress in 2018 as all projects relate to facility improvement expenses. Asset placed into service during fiscal year 2018 amounted to $922,543 specifically for security cameras and PIDS.

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 $117,933,785 of which Improvements with budgeted costs totaling $96,882,632 had been completed through fiscal year 2019. 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.

5 – Facility Improvement Grant Expenses (Continued)

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, amounted to $8,507,660 and $14,062,705 in fiscal years 2019 and 2018, and consisted of expenditures for the following projects:

	2019	2018
A's Ballpark Howard Terminal Rail Assessment	$ 19,539	$ -
Alviso Adaptation Alternatives	165,610	-
Auburn Security Camera & Power	232,732	1,026,440
Cal ITP Staffing	834,902	-
California High Speed Rail Project	45,898	217,259
Capitalized Maintenance 2015	-	8,415
CCJPA Data Analytics/Business	130,000	-
Contribution to 2nd Transbay Tube Planning	79,362	-
Electronic Bicycle Locker	-	68,713
E-Lockers and Folding Bicycle Rental Project	47,162	236,416
E-Lockers at Stations	3,600	-
Final Design Oakland Maintenance Facility	35,050	-
Folding Bicycle Rental Equip	32,589	1,384
FY 17 Minor Capital Improvement Project	312,863	21,058
FY14/15 Safety Improvements	235,007	312,994
FY19 HDR Task Orders	34,842	-
Install 4 eLocker Quads	-	13,755
Install Safety and information	-	582,682
OKJ-SJC Service Expansion II	302,444	-
On Board Information System (OBIS)	(31)	1,177,718
Passenger Information Display System (PIDS) Development	100,913	39,031
Repairs and Improvements	8	465,815
Right-of-way Clean up and Fencing	1,181,372	-
Right-of-Way Fencing	-	1,839
Sacramento- Roseville Engineering-Design	1,564,089	321,602
Sacramento-Roseville Track	2,696	37,221
Santa Clara Station Alignment Study	8,515	-
Security Fence Material	-	249,898
Service Optimization - Ticket	-	201,771
Service Optimization -Mode of Access Survey	6,558	86
Service Optimization -Operations	92,586	57,655
Service Optimization: Model Reconciliation	45,448	-
Signal Reliability Improvement	945,664	-
Trackside Positive Train Control (PTC)	-	4,952,572
Travel Time Saving Project	935,341	3,033,465
Turnout Component Upgrade	967,234	993,580
Wayside Power at Oakland Maintenance Facility	1,551	3,448
WiFi Transition	144,116	37,888
Total	$ 8,507,660	$ 14,062,705

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 $5,043,934 and $4,846,472 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018 is as follows:

	2019	2018
Construction costs	$ 249,444	$ 51,725
Marketing and administrative services and other expenses	2,262,127	1,590,971
	$ 2,511,571	$ 1,642,696

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:

	2019	2018
Train operations and bus feeder services	$ -	$ 2,649,073
Unused portion reinvestment program and revenue above budget	16,390,602	13,747,450
Advance for facilities improvement projects	5,479,570	1,997,940
Other	74,035	239,960
	$ 21,944,207	$ 18,634,423

At June 30, 2019, there was no unearned revenue for train operations and bus feeder services. At June 30, 2018, the unearned revenue for train operations and bus feeder services was $2,649,073. For fiscal year 2018, revenue to be used for payment to Amtrak for train operations for the month of July 2018 was received from the State in June 2018 resulting in unearned revenue as of June 30, 2018.

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

The State of California provides funding for train operations to the CCJPA 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 CCJPA 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 CCJPA. 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 is retained by the CCJPA for future service enhancement and project use. The unspent funding is tracked into subaccounts. Revenue above monthly budget is recorded by the Authority as Revenue Above Budget ("RAB") for use by the Authority for service enhancements pursuant to the Authority's enabling legislation. The balance of the credits go to Capitol Corridor Reinvestment Program ("CCRP") and may be used to fund projects and other operating costs.

As of June 30, 2019 and 2018, the funds retained by the Authority amounted to $16,390,602 and $13,747,450, respectively.

	CCRP	RAB	Total
Balance, June 30, 2018	$ 4,079,149	$ 9,668,301	$ 13,747,450
Credits received	1,881,437	3,295,477	5,176,914
Credits used for capital and operating	(2,173,294)	(360,468)	(2,533,762)
Balance, June 30, 2019	$ 3,787,292	$ 12,603,310	$ 16,390,602

	CCRP	RAB	Total
Balance, June 30, 2017	$ 6,864,544	$ 6,531,393	$ 13,395,937
Credits received	3,518,790	3,136,908	6,655,698
Credits used for capital and operating	(6,304,185)	-	(6,304,185)
Balance, June 30, 2018	$ 4,079,149	$ 9,668,301	$ 13,747,450

The Authority receives advance funding from the State of California for capital related projects, specifically from CalOES. In fiscal year 2018, 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.

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

Balances of advance for facilities improvement projects are listed below:

	2019	2018
CalOES	$ 459	$ 27,539
SB1	5,479,111	1,970,401
	$ 5,479,570	$ 1,997,940

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, 2019 and 2018, the mechanical assessment revenue earned was $15,475 and $50,750, respectively.

9 – Charges for Train Operations, Bus Feeder Services and WiFi Services

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

Funding Source	2019	2018
Operating	$ 23,893,957	$ 24,571,618
CCRP	1,432,261	2,189,284
Revenue Above Budget (RAB)	187,710	-
MCIP	(11,796)	-
Total train operations and bus feeder services	25,502,132	26,760,902
WiFi Services	711,350	-
Total	$ 26,213,482	$ 26,760,902

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 $23,893,957 and $24,571,618 for fiscal years 2019 and 2018, respectively. This reimbursement also includes call center costs, which was stipulated starting in the 2014 contract with AMTRAK. There was no unreimbursed amount due to AMTRAK for train operations at June 30, 2019. The unreimbursed amount due to AMTRAK for train operations at June 30, 2018 amounted to $1,388,772.

As discussed in Note 7, the Authority can spend CCRP funds for both operating and capital projects. In fiscal year 2019 and 2018, operating expenses funded by CCRP amounted to $1,432,261 and $2,189,284 respectively.

9 – Charges for Train Operations and Bus Feeder Services (Continued)

In fiscal year 2019, the Authority spent $214,905 of RAB funds, of which $187,710 covered operating expenses and $27,195 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 received a $500,000 allocation for minor capital improvements in fiscal years 2019 and 2018, respectively. 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 years 2019, net operating expenses funded by MCIP amounted to $(11,796). There was no net operating expenses funded by MCIP for fiscal year 2018.

Starting in fiscal year 2019, the State approved to transfer the provision of 3rd party onboard Wi-Fi and its associated management expenses for the CCJPA, Pacific Surfliner and San Joaquin intercity passenger rail services from AMTRAK to the CCJPA. Initial year allocation for Wi-Fi service and management for all three state-supported corridors is $1,368,000. For the year ended June 30, 2019, the Authority recorded $711,350 in Wi-Fi expenses.

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:

	2019	2018
Salaries and benefits	$ 4,402,746	$ 4,412,411
Advertising	27,500	444
Other consulting fees	64,396	77,827
Travel and entertainment	35,416	61,067
Legal and accounting	45,773	33,490
Dues and subscriptions	14,777	13,703
Telephone	22,490	19,914
Office supplies	29,592	11,012
Printing and graphic design	10,369	-
Training and seminars	1,027	5,168
Repairs and maintenance	11,265	62
Miscellaneous expenses	11,570	13,904
	$ 4,676,921	$ 4,649,002

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, 2019 and 2018, the receivable account due from the State amounted to $2,315,501 and $1,466,044, respectively.

The Authority also receives grants from the State and other funding agencies for facility improvements and capital projects. As of June 30, 2019 and 2018, the total grants receivable were $3,728,663 and $6,021,126 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 $5,951,049 and $21,051,153 as of June 30, 2019 and 2018, 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 $12,000,000. There have been no claims payments related to these programs that exceeded insurance limits in the last three years.

14 – Concentration of Credit Risk

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 99.9% and 99.6% in fiscal year 2019 and 2018, respectively. At June 30, 2019 and 2018, receivables from the State represented 21.0% and 24.5% of total assets, respectively.

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*

To the 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 for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated February 7, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over the financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
February 7, 2020