CAPITOL CORRIDOR JOINT POWERS AUTHORITY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

CAPITOL CORRIDOR JOINT POWERS AUTHORITY

FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Capitol Corridor Joint Powers Authority
Oakland, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Capitol Corridor Joint Powers Authority ("Authority"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 5 to the financial statements, during the year ended June 30, 2022, the Authority adopted new accounting guidance, GASB Statement No. 87, *Leases*. The adoption resulted in recording lease and other liabilities and a corresponding right-of-use lease asset. Net position as of July 1, 2021 was restated by $20,619 as a result of adoption. Our opinion is not modified with respect to this matter.

(Continued)

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

(Continued)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2023 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.

Crowe LLP

Crowe LLP

San Francisco, California
January 31, 2023

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, 2022, with selected comparative information for the year ended June 30, 2021. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Basic Financial Statements

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

Overview of the Basic Financial Statements

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

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

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

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

The basic financial statements can be found on pages 10 – 13 of this report.

The *notes to the basic financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the basic financial statements can be found on pages 14 – 30 of this report.

(Continued)

Financial Highlights

Condensed Statements of Net Position

A comparison of the Authority's statements of net position as of June 30, 2022 and 2021 is as follows:

			Change	
	2022	2021	Amount	Percent
Current assets	$ 40,466,491	$ 32,599,766	$ 7,866,725	24%
Noncurrent assets - capital assets, net	4,602,855	1,531,603	3,071,252	201%
Total assets	45,069,346	34,131,369	10,937,977	32%
Current liabilities	40,738,659	31,789,043	8,949,616	28%
Noncurrent liabilities	1,349,567	-	1,349,567	N/A
Total liabililties	42,088,226	31,789,043	10,299,183	32%
Net position				
Net investment in capital assets	2,043,515	1,498,711	544,804	36%
Unrestricted net position	937,605	843,615	93,990	11%
Total net position	$ 2,981,120	$ 2,342,326	$ 638,794	27%

Current Assets

Current assets increased in fiscal year 2022 by $7,866,725 primarily due to the following: (1) net increase of $4,216,369 in cash and cash equivalents which resulted from: (a) increase in restricted cash and cash equivalents of $3,785,142 from receipt of Senate Bill 1 (SB1) funds in the amount of $6,274,074 offset by $2,488,932 disbursed during the fiscal year; (b) $431,227 increase in unrestricted cash and cash equivalents; (2) increase in facility improvement grants receivable of $838,476 resulting from higher overall project related expenses in fiscal year 2022 and timing of account settlements; (3) increase in receivables from the State related to administrative and marketing expenses by $686,320 as there were six full months of billing outstanding with higher overall reimbursable amounts on the billings in fiscal year 2022; and (4) $2,175,454 increase in receivable from Amtrak in the current fiscal year from reconciliation of annual operating results, mostly from excess funding for train operations.

(Continued)

Noncurrent Assets

Noncurrent assets increased in fiscal year 2022 by $3,071,252 attributable to the following: (1) $4,416,514 right-to-use leased assets was recognized from adoption of GASB 87 in fiscal year 2022; (2) $494,598 were added to construction in progress related to the California Integrated Travel Project (Cal-ITP) to modernize fare payment terminals on intercity trains used on the Capitol Corridor and San Joaquin passenger rail services; (3) $30,662 increase in capital assets from acquisition of service vehicle; and offset by (4) depreciation and amortization in the amount of $1,870,522.

Current Liabilities

Current liabilities increased in fiscal year 2022 by $8,949,616 mostly due to the following: (1) increase in total unearned revenue by $7,641,681 primarily from: (a) $3,786,194 increase in the balance of advances received from the State funded by State Rail Assistance (SRA), specifically SB1 - Road Repair and Accountability Act of 2017, a total of $6,274,074 of SB1 funds were received offset by $2,487,880 earned during the fiscal year; (b) $4,537,249 increase in advances from State associated with funding for train operations mostly from $2,841,799 to cover the National Railroad Passenger Corporation ("AMTRAK") operating expenses for July 2022 and for excess funding for fiscal year 2022 in the amount of $1,693,605; and offset by (c) decrease of $590,058 in Revenue Above Budget (RAB) funds used for capital projects and operating expenses; and (d) decrease of $91,704 in advances funded by Capitol Corridor Reinvestment Program (CCRP) and other liabilities; (2) $319,876 increase in amount due to BART from higher overall capital labor related expenses in fiscal year 2022; (3) $1,164,157 increase in lease liability and other liability due to adoption of GASB 87 in fiscal year 2022; offset by (4) $176,098 decrease in payable to vendors due to timing in receipt and settlement of invoices.

Noncurrent Liabilities

Noncurrent liabilities increased in fiscal year 2022 by $1,349,567 associated with implementing GASB 87 in fiscal year 2022. Additional information on GASB 87 adoption can be found in Note 5 – Leases.

Condensed Statements of Revenues, Expenses and Changes in Net Position

A comparison of the Authority's statements of revenues, expenses and changes in net position for the years ended June 30, 2022 and 2021 is as follows:

(Continued)

			Change	
	2022	**2021**	**Amount**	**Percent**
Operating revenues	$ 94,708	$ 57,529	$ 37,179	65%
Operating expenses	(29,096,660)	(19,764,767)	(9,331,893)	47%
Operating loss	(29,001,952)	(19,707,238)	(9,294,714)	47%
Nonoperating revenues (expenses)				
Grants from California Department of Transportation	28,280,050	18,899,132	9,380,918	50%
Facility improvement grant revenues	23,617,966	15,719,534	7,898,432	50%
Facility improvement grant expenses	(22,692,383)	(15,719,534)	(6,972,849)	44%
Interest income (expense)	(38,866)	3,731	(42,597)	-1142%
Nonoperating revenues, net	29,166,767	18,902,863	10,263,904	54%
Change in net position before capital contributions	164,815	(804,375)	969,190	-120%
Capital contributions	494,598	-	494,598	N/A
Change in net position	659,413	(804,375)	1,463,788	-182%
Net position, beginning of year, as restated *	2,321,707	3,146,701	(824,994)	-26%
Net position, end of year	$ 2,981,120	$ 2,342,326	$ 638,794	27%

* Beginning net position from 2022 was restated due to implementation of GASB Statement No. 87 (See Note 5).

(Continued)

Operating Expenses

The Authority's operating expenses consist of charges for train operations and bus feeder services, marketing and administrative expenses, WiFi services and other operating expenses. A significant portion of these expenses is primarily financed from funding received from the State of California. This State funding is reported by the Authority as "Grants from California Department of Transportation". Net operating expenses in fiscal year 2022 increased by $9,331,893 despite the decrease of $201,429 on AMTRAK operating expenses, net of passenger fares, mostly due to the decrease in total Federal Coronavirus relief funding by $8,230,776, as funds allocated from Coronavirus Aid, Relief, and Economic Security (CARES) Act and Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) were exhausted. Total funding received in fiscal year 2022 was $13,691,530 compared to $21,922,307 recognized in fiscal year 2021. Funding for the current fiscal year mostly came from the American Rescue Plan Act (ARPA) of 2021. Additional information on the Authority's Coronavirus Relief fundings can be found in Note 13 – Commitments and Contingencies. Advertising and promotion expenses also increased by $545,835 in the current fiscal year attributable to the Authority's main focus to attract passengers and increase ridership in fiscal year 2022.

Nonoperating Revenues (Expenses)

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

In fiscal year 2022, grant revenue for facility improvement were higher by $7,898,432 compared to fiscal year 2021 mainly due to increase reimbursement for expenses related to the OKJ-SJC Service Expansion II Project, California Integrated Travel Project (ITP) Staffing Support Services and Davis Crossover and Signal Replacement project. The increase in Facility improvement expenses were lower than grant revenues since lease related expenses were recognized as right-to-use assets as a result of implementing GASB 87 and the related amortization were reported under operating expenses. Interest expense related to the leases were also netted from interest income and shown separately under nonoperating expenses. The Authority's capital improvement expenses by projects are detailed in Note 6 – Facility Improvement Grant Expenses. Interest expense increased by $42,597 primarily driven by the lease obligations due to adoption of GASB 87.

Capital Contributions

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

In fiscal year 2022, the Authority recognized construction in progress assets of $464,202 funded by grants for the California Integrated Travel Project (Cal-ITP) to modernize fare payment terminals on intercity trains. In addition, $30,396 of funds allocated by the State for Minor Capital Improvement Project (MCIP) were used to acquire a shop equipment for the Oakland maintenance facility. In fiscal year 2021, the Authority did not have any grant fund expenses that were capitalizable.

(Continued)

Capital Assets

Net capital assets increased in fiscal year 2022 by $3,071,252 from the following changes: (1) $4,416,514 right-to-use leased assets was recognized from adoption of GASB 87 in fiscal year 2022; (2) $494,598 were added to construction in progress related to the California Integrated Travel Project (Cal-ITP) to modernize fare payment terminals on intercity trains used on the Capitol Corridor and San Joaquin passenger rail services; (3) $30,662 increase in capital assets from acquisition of service vehicle; and offset by (4) depreciation and amortization in the amount of $1,870,522.

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 $11,110,000 and $2,760,000 as of June 30, 2022 and 2021, respectively.

Contacting the Authority's Financial Management

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

This page is intentionally left blank.

ASSETS	
Current assets	
Unrestricted assets	
Cash and cash equivalents	$ 14,824,505
Grants receivable	3,345,799
Facility improvement grants receivable	6,904,198
Incentive, assessment and other receivables - National Railroad Passenger Corporation	2,223,304
Total unrestricted current assets	27,297,806
Restricted assets	
Cash and cash equivalents	13,168,685
Total current assets	40,466,491
Noncurrent assets	
Capital assets	
Nondepreciable	464,202
Depreciable, net of accumulated depreciation and amortization	4,138,653
Total noncurrent assets	4,602,855
Total assets	45,069,346
LIABILITIES	
Current liabilities	
Accounts payable	3,044,632
Due to San Francisco Bay Area Rapid Transit District	1,949,585
Lease liability	369,816
Other liability related to leases	794,341
Unearned revenues	34,580,285
Total current liabilities	40,738,659
Noncurrent liabilities	
Lease liability, net of current portion	589,015
Other liability related to leases	760,552
Total noncurrent liabilities	1,349,567
Total liabilities	42,088,226
NET POSITION	
Net investment in capital assets	2,043,515
Unrestricted net position	937,605
Total net position	$ 2,981,120

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

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
For the Year Ended June 30, 2022

Operating revenues	
Assessment revenues	$ 92,900
Other operating revenues	1,808
Total operating revenues	94,708
Operating expenses	
Train operations and bus feeder services	19,500,342
Marketing and administrative services and NTRC charges	6,186,449
WiFi services	1,520,872
Depreciation and amortization	1,870,522
Other operating expenses	18,475
Total operating expenses	29,096,660
Operating loss	(29,001,952)
Nonoperating revenues (expenses)	
Grants from California Department of Transportation	28,280,050
Facility improvement grant revenues	23,617,966
Facility improvement grant expenses	(22,692,383)
Interest expense, net	(38,866)
Nonoperating revenues, net	29,166,767
Change in net position before capital contributions	164,815
Capital contributions	
Grants restricted for capital expenses	494,598
	494,598
Change in net position	659,413
Net position, beginning of year	2,342,326
Restatement due to GASB 87 implementation (Note 5)	(20,619)
Net position, beginning of year, as restated	2,321,707
Net position, end of year	$ 2,981,120

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

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022

Cash flows from operating activities	
Assessment fees and other operating revenues	$ 74,308
Payments for train operations, bus feeder and WiFi services	(23,631,166)
Payments for marketing and administrative services	(6,120,988)
Other operating cash receipts	59,536
Net cash used in operating activities	(29,618,310)
Cash flows from noncapital financing activities	
Grants received for train operations, bus feeder and WiFi services	25,933,573
Grants received for marketing and administrative services	5,500,128
Grants received for facility improvements	26,565,681
Grants disbursed for facility improvements	(22,898,214)
Net cash provided by noncapital financing activities	35,101,168
Cash flows from capital and related financing activities	
Grants received for capital expenses	494,598
Acquisition of capital assets	(446,077)
Principal and interest payments related to leases	(1,320,044)
Net cash used in capital and related financing activities	(1,271,523)
Cash flows from investing activities	
Interest received	5,034
Net cash provided by investing activities	5,034
Net change in cash and cash equivalents	4,216,369
Cash and cash equivalents, beginning of year	23,776,821
Cash and cash equivalents, end of year	$ 27,993,190
Reconciliation of cash and cash equivalents to Statement of Net Position	
Unrestricted	$ 14,824,505
Restricted	13,168,685
Cash and cash equivalents, end of year	$ 27,993,190

(Continued)

Reconciliation of operating loss to net cash from operating activities	
Operating loss	$ (29,001,952)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	1,870,522
Changes in operating assets and liabilities:	
Incentive, assessment and other receivables - National Railroad Passenger Corporation	(20,400)
Prepaid assets	49,894
Accounts payable	167,362
Due from National Railroad Passenger Corporation	(2,163,137)
Due to San Francisco Bay Area Rapid Transit District	141,807
Other liability	(647,262)
Sales tax payable	(15,144)
Net cash used in operating activities	$ (29,618,310)
Supplemental disclosures of cash flow information	
Noncash transaction	
Capital assets acquired with a liability at year-end	$ 48,521

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

This page is intentionally left blank.

NOTE 1 – DESCRIPTION OF REPORTING ENTITY

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Fair Value Measurements: The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

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

Capital Assets: Capital assets are stated at cost (except for intangible right-to-use lease assets, the measurement of which is discussed in "Leases" below and in Note 5) and depreciated using the straight-line method over the estimated useful lives. 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.

The construction in progress is not depreciated. The other tangible and intangible property, plant, equipment, right to use – leased assets, are depreciated/amortized using the straight-line method over the following estimated useful lives:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets, being depreciated and amortized	Lives
Tangible assets	
Communication equipment	5-20
Yard equipment	3-20
Ticket vending equipment	10
Food catering Equipment	10
Security equipment	10
Office equipment and furniture	5
Station equipment	5-30
Intangible assets	
* Right to use - leased assets	
Equipment	5
System software development	15

* The lives of the right to use - leased assets are the shorter of the lease term or the estimated useful lives

Leases: In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

Lessee Leases

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life. The Authority recognizes lease liabilities with an initial, individual value of $5,000 or more.

The Authority follows BART's key estimates and assumptions related to leases when determining (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease terms, and (3) lease payments.

- The incremental borrowing rate of 3% was used as the discount rate for lessee leases
- The lease term includes the noncancellable period of the lease
- The lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise

The Authority monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with capital assets and lease liabilities are reported with current liabilities and long term liabilities on the statement of net position. Please refer to Note 5 for further information.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unearned Revenues: The Authority receives advance grant funding from the State for the operations of the Capitol Corridor track structure. The Authority recognizes the revenues in the period in which the related expenses are incurred (Note 8).

Net Position: Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The net position section on the statement of net position was combined to report total net position and presents it in three components: net investment in capital assets, restricted and unrestricted. Net investment in capital assets includes capital assets net of accumulated depreciation and amortization and capital-related liabilities. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation and include amounts restricted for debt service and other liabilities. Generally, the Authority's policy is to spend restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. As of June 30, 2022, the Authority does not have restricted net position. All other net position of the Authority is unrestricted.

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

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

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

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

New Accounting Pronouncements Adopted: GASB Statement No. 87, *Leases*, has an objective to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. It 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. The requirements of this statement are effective for reporting periods beginning after June 15, 2021. The Authority adopted this standard for fiscal year ended June 30, 2022. The adoption of this standard changed the accounting and reporting of the Authority's leases as a lessee. See Note 5 to the financial statements for more details on the impact of implementation as of July 1, 2021.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash, cash equivalents and investments are reported as follow:

	Unrestricted	Restricted	Total
Cash deposits	$ 9,807,891	$ 13,168,685	$ 22,976,576
Cash equivalents (Treasury Bills)	5,016,614	-	5,016,614
Total	$ 14,824,505	$ 13,168,685	$ 27,993,190

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

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

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

(Continued)

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

Restricted Cash: Restricted cash represents unspent advances for capital related projects. The breakdown of restricted cash components as of June 30, 2022, is reflected as follows:

Source of funding:		
California Office of Emergency Services	$	556
Senate Bill 1		13,168,129
	$	13,168,685

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

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

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

The carrying amount of the Authority's deposits with banks was $22,976,576 as of June 30, 2022. The bank balance was $26,110,272 at June 30, 2022. The bank balance at June 30, 2022 was more than the carrying amount due to outstanding checks totaling $3,133,696.

Interest Rate Risk: Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. One of the Authority's primary objectives is to provide sufficient liquidity to meet its cash outflow needs, however, the Authority does not have any policies specifically addressing interest rate risk, except as outlined in the CGC. A summary of investments by type of investments and by segmented time distribution as of June 30, 2022 is as follows:

Investment Type		
Treasury Bills	$	5,016,614
Maturity		Less than one year

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

Credit Risk: The Authority's credit rating risk is governed by Section 53601 of the CGC which, among others, limits investments in money market mutual funds to those funds with the highest evaluations granted by the rating agencies, which is AAAm. The Authority has investments in U.S. Treasury bills. The following is a summary of the credit quality distribution for securities with credit exposure as rated by Standard & Poor's, Fitch Ratings and/or Moody's as of June 30, 2022:

Investment Type		
Treasury Bills	$	5,016,614
Credit Rating		AAA

Fair Value Hierarchy: The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable.

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

The following is a summary of the fair value of investments of the Authority as of June 30, 2022:

Investment Type		
Treasury Bills	$	5,016,614
Fair Value Hierarchy		Level 1

(Continued)

NOTE 4 – CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2022 are summarized as follows:

	July 1, 2021, as restated	Additions and Transfers	Retirements and Transfers	June 30, 2022
Capital assets, not being depreciated or amortized				
Construction in progress	$ -	$ 494,598	$ (30,396)	$ 464,202
Total capital assets, not being depreciated or amortized	-	494,598	(30,396)	464,202
Capital assets, being depreciated and amortized				
Tangible assets				
Communication equipment	6,062,911	-	-	6,062,911
Yard equipment	98,164	61,058	-	159,222
Ticket vending equipment	304,830	-	-	304,830
Food catering Equipment	24,164	-	-	24,164
Security equipment	2,213,216	-	-	2,213,216
Station equipment	233,141	-	-	233,141
Intangible assets				
Right to use - leased assets				
Equipment	4,416,514	-	-	4,416,514
System software development	1,639,067	-	-	1,639,067
Total capital assets, being depreciated and amortized	14,992,007	61,058	-	15,053,065
Less accumulated depreciation and amortization:				
Tangible assets				
Communication equipment	(5,887,013)	(154,858)	-	(6,041,871)
Yard equipment	(68,201)	(22,250)	-	(90,451)
Ticket vending equipment	(304,830)	-	-	(304,830)
Food catering Equipment	(24,164)	-	-	(24,164)
Security equipment	(1,428,925)	(217,858)	-	(1,646,783)
Station equipment	(174,314)	(34,776)	-	(209,090)
Intangible assets				
Right to use - leased assets				
Equipment	-	(1,331,096)	-	(1,331,096)
System software development	(1,156,443)	(109,684)	-	(1,266,127)
Total accumulated depreciation and amortization	(9,043,890)	(1,870,522)	-	(10,914,412)
Total capital assets, being depreciated and amortized, net	5,948,117	(1,809,464)	-	4,138,653
Total capital assets, net	$ 5,948,117	$ (1,314,866)	$ (30,396)	$ 4,602,855

(Continued)

NOTE 5 – LEASES

In June 2017, GASB issued Statement No. 87 ("GASB 87"), Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. Starting in fiscal year 2022, CCJPA adopted GASB 87.

Lessee:

The Authority is lessee on noncancellable leases of WiFi equipment and passenger information display system with 5 years lease terms. The Authority recognizes a lease liability and an intangible right-to-use leased asset with an initial, individual value of $5,000 or more.

Upon adoption of GASB 87 on July 1, 2021, the Authority recognized $2,237,883 of lease liabilities, $2,199,250 of other liabilities relating to initial direct costs that will be paid over the remaining lease term, and $4,416,514 of right-to-use leased assets. The opening balance adjustment related to lessee leases is presented below:

Right-to-use leased assets	$ 4,416,514
Long term lease liability	(958,831)
Short term lease liability	(1,279,052)
Long term other liability-initial direct cost	(1,551,988)
Short term other liability-initial direct cost	(647,262)
Opening net position adjustment	20,619

Activity in lease liabilities is presented below:

	July 1, 2021 as restated	Increase	Decrease	June 30, 2022
Total lease liability	$ 2,237,883	$ -	$ (1,279,052)	$ 958,831

Activity in other liabilities related to lease is presented below:

	July 1, 2021 as restated	Increase	Decrease	June 30, 2022
Interest Payable	$ -	$ 2,905	$ -	$ 2,905
Other liability-initial direct cost	2,199,250	-	(647,262)	1,551,988
Total other liability related to leases	$ 2,199,250	$ 2,905	$ (647,262)	$ 1,554,893

(Continued)

NOTE 6 – FACILITY IMPROVEMENT GRANT EXPENSES

Future payments under lessee leases at June 30, 2022 are as follows:

Year ending June 30	Total	Principal	Interest
2023	$ 396,280	$ 369,816	$ 26,464
2024	463,035	451,504	11,531
2025	138,373	137,511	862
	$ 997,688	$ 958,831	$ 38,857

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 $5,565,000 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 $130,433,785 of which Improvements with budgeted costs totaling $119,323,785 had been completed through fiscal year 2022. The Construction Agreement also states that UPRR shall be the sole owner of all the Improvements upon commencement of the construction and at all times thereafter.

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

(Continued)

NOTE 6 – FACILITY IMPROVEMENT GRANT EXPENSES (Continued)

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

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

The facility improvement grant expenses, which is not limited to the UPRR Construction and Maintenance Agreement, consisted of expenses for the following projects in fiscal year 2022:

California Integrated Travel Project Staffing *	$ 11,149,653
Capitalized Maintenance 2015	233,507
Capitalized Maintenance 2021	242,447
Capitalized Maintenance 2022	292,458
Carquinez High Level Study	164,210
Contribution to 2nd Transbay Tube Planning	12,656
Davis Crossover and Signal Replacement	2,298,016
Final Design Oakland Maintenance Facility	3,022
FY 17 Minor Capital Improvement Project	2,490
FY 20 Minor Capital Improvement Project	93,738
Link21 *	83,181
FY22 CA IPR Wi-Fi Management	66,500
OKJ-SJC Service Expansion II	4,972,861
Passenger Information Display Systems (PIDS) Development **	1,094,826
Right-of-way Safety and Security	669,101
Sacramento - Roseville Engineering Design	841,835
Sacramento - Roseville Right-of-Way Acquisition	115,735
Sacramento Valley Station Access Study	44,853
Santa Clara Siding	106,308
Service Optimization - Operations	1,800
Stege Signal Replacement	1,128,769
Total	$ 23,617,966

* Projects funded by California Intercity Passenger Rail (IPR) supplemental allocations from California State Transportation Agency (CalSTA) and supports Capitol Corridor, Pacific Surfliner and San Joaquin Intercity Passenger Rails.
** Included $925,583 grants fund expenses related to GASB 87 leases.

NOTE 7 – RELATED PARTY TRANSACTIONS

Capital project expenses, facility improvement grant expenses, marketing and administrative services and other operating expenses incurred by the Managing Agency on behalf of the Authority including overhead, amounted to $6,039,204 for the year ended June 30, 2022.

(Continued)

NOTE 7 – RELATED PARTY TRANSACTIONS (Continued)

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, 2022, is as follows:

Construction costs	$	415,351
Marketing and administrative services and other expenses		1,534,234
	$	1,949,585

NOTE 8 – UNEARNED REVENUES

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

Train operations and bus feeder services	$	7,401,151
Unused portion reinvestment program and revenue above budget		13,946,087
Advance for facilities improvement projects		13,158,532
Others		74,515
	$	34,580,285

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

The operating agreement between AMTRAK and the Authority establishes the monthly passenger and other allocated revenue, actual monthly route costs and additives, and actual third-party costs for operation of the Capitol Corridor on behalf of the Authority. A monthly reconciliation of results of operation and funding from the State is done and funds received from the State in excess of actual operating cost are retained by the Authority for future service enhancement and project use. The unspent funding may be used to cover operating expenses or tracked into subaccounts, Revenue Above Budget ("RAB") and Capitol Corridor Reinvestment Program ("CCRP"), for future support of capital or operating projects. RAB is the excess of actual revenue over budgeted revenue for use by the Authority for service enhancements pursuant to the Authority's enabling legislation. Any remaining balance after RAB has been taken into account is tracked as CCRP and may be used to fund projects and other operating costs. As of June 30, 2022, the excess amount retained by the Authority is $7,401,151.

(Continued)

NOTE 8 – UNEARNED REVENUES (Continued)

As of June 30, 2022, the funds retained by the Authority for RAB and CCRP, included as part of the total unearned revenue, amounted to $13,946,087. In fiscal year 2022, $66,500 CCRP fund and $177,016 RAB fund were used to supplement State grant funding sources for capital projects that will enhance the Capitol Corridor service.

	CCRP	RAB	Total
Balance, July 1, 2021	$ 1,771,163	$ 12,841,542	$ 14,612,705
Credits received	-	-	-
Credits used for operating expenses	(10,060)	(413,042)	(423,102)
Credits used for capital expenses	(66,500)	(177,016)	(243,516)
Balance, June 30, 2022	$ 1,694,603	$ 12,251,484	$ 13,946,087

The Authority was approved to receive allocations of State Rail Assistance (‘SRA’) program with funds coming from SB1, the Road Repair and Accountability Act of 2017. In fiscal year 2022, the advance fundings were used in eligible expenses categories including customer access, system safety, operational infrastructure enhancements, planning/project support and operations. Balance of unspent SB1 allocation at June 30, 2022, is as follows:

	Senate Bill 1
Balance, July 1, 2021	$ 9,372,338
Advances received	6,274,074
Expenses incurred during fiscal year	(2,487,880)
Balance, June 30, 2022	$ 13,158,532

NOTE 9 – ASSESSMENT REVENUE

According to the AMTRAK operating agreement, the Authority assesses the nonperformance of AMTRAK with regards to standards set in the operating agreement, including but not limited to “On Time Performance and Maintenance of Stations,” and charges fees for nonperformance. For the year ended June 30, 2022, the mechanical assessment revenue amounted to $92,900.

(Continued)

NOTE 10 – 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	
Operating	$ 19,107,902
CCRP	10,060
Revenue Above Budget (RAB)	382,380
Total	$ 19,500,342

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 $19,107,902 for fiscal year 2022. This reimbursement includes call center costs, which was stipulated starting in the 2014 contract with AMTRAK. At June 30, 2022, based on the annual reconciliation of train operations, the Authority booked a net receivable from AMTRAK in the amount of $2,223,304 to recognize $2,512,793 excess funding contributions for train operations and bus feeder services and assessment revenue credit of $68,250, offset by $270,965 for bus termination settlement cost and $86,774 for MCIP related expenses.

As discussed in Note 8, the Authority can spend CCRP fund for both operating and capital projects. In fiscal year 2022, operating expenses funded by CCRP amounted to $10,060.

In fiscal year 2022, operating expenses funded by RAB amounted to $413,042, of which $30,662 was used for the acquisition of a service vehicle and $382,380 was used to cover other operating expenses.

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 receive a $500,000 allocation for MCIP in fiscal year 2022. Under the terms of the operating agreement, the Authority must encumber the allocated amount and authorize funding for Authority approved projects by the end of the second year after the year of allocation. Projects must be completed with final invoices sent by the Authority to the State for reimbursement. For fiscal year 2022, $96,229 were used to cover operating expenses and $30,396 were used to acquire a shop equipment for the Oakland maintenance facility.

Operating expenses for Wi-Fi services are funded by the California Intercity Passenger Rail (IPR) Support Supplemental allocation and support the provision of onboard Wi-Fi and its associated management expenses for the Capitol Corridor and San Joaquin intercity passenger rail services, which was transferred from Amtrak to the Authority in fiscal year 2019. For the year ended June 30, 2022, the Authority recorded $1,520,872 in Wi-Fi expenses, net of $969,285 amortization expense and $30,328 interest expense associated with right-to-use leased assets that were accounted for under GASB 87, which are shown separately on the Statement of Revenues, Expenses, and Changes in Net Position.

(Continued)

NOTE 11 – CHARGES FOR MARKETING AND ADMINISTRATIVE SERVICES

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

Salaries and benefits	$ 4,844,540
Advertising	716,065
Other consulting fees	122,850
Travel and entertainment	10,124
Legal and accounting	48,098
Dues and subscriptions	19,355
Insurance	139,320
Telephone	17,830
Office supplies	7,600
Training and seminars	1,231
Repairs and maintenance	19,544
Printing and graphic design	44,037
Temporary help	35,670
Sponsorship & Outreach	2,500
Project Management	40,028
Signage costs	13
Information Technology	115,948
Miscellaneous expenses	1,696
	$ 6,186,449

NOTE 12 – 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, 2022, the receivable due from the State amounted to $3,345,799.

The Authority also receives grants from the State and other funding agencies for facility improvements and capital projects. As of June 30, 2022, the total facility improvement grants receivable was $6,904,198.

(Continued)

NOTE 13 – 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 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 $11,110,000 as of June 30, 2022.

Contingencies Due to COVID-19: In May 2020, the California State Transportation Agency (CalSTA) provided guidance to the California Intercity Passenger Rail (IPR) Joint Powers Authorities (JPAs) regarding actions to ensure that the resources of the Authority are effectively managed amid tremendous uncertainty due to the COVID-19 global pandemic. The Authority operated a temporarily reduced service of 55% of pre-pandemic levels until June 2021, when the train service was restored to 11 weekday roundtrips and nine weekend roundtrips, representing 85% of pre-pandemic service levels. In October of 2022, weekend service was fully restored to pre-pandemic levels at 11 round trips and weekday service increased by an additional round trip to 12, as approved by CalSTA and the Authority’s Board of Directors.

With a goal of restoring to full pre-pandemic levels of train service, the Authority will continue to work with CalSTA and the California Department of Transportation (Caltrans) Division of Rail and Mass Transit (DRMT) to monitor and analyze equipment availability, ridership demand, staffing levels, and funding resources, including cost-saving strategies and potential additional federal relief support. As described below, the Authority has benefited from three tranches of federal fundings provided to AMTRAK for the State-Supported services which has helped the Authority to support the Capitol Corridor operating costs during a time of an unprecedented decline in ridership and revenue.

COVID Relief Funding:

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

In response to the financial impacts of the COVID-19 global pandemic, the Federal Railroad Administration (FRA) has awarded $1.02 billion CARES Act funding to AMTRAK, $239 million of which was allocated to mitigate the cost of operating AMTRAK’s 28 State-supported routes which were facing severe declines in revenue and ridership due to the public health crisis. The legislation limits AMTRAK’s Federal Year (FFY) 2020 and FFY 2021 charges to State-supported IPRs at 80% of the FFY 2019 invoiced amount, which for the Authority was $19.5 million. The final month supported by the CARES Act was January 2021 for which the payment was at 60.7% of FFY 2019 charges. The CARES Act funding has reduced the Authority’s payment to AMTRAK by $4,409,456 in FY 2020 and $8,797,325 in FY 2021 for a total of $13,206,781. The CARES Act credit was fully utilized prior to FY 2022.

(Continued)

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

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

Under CRRSAA 2021 (December of 2020), the FRA has provided $175 million to AMTRAK to benefit the State-supported intercity rail services. The amount allocated to the Authority was calculated through a prescribed formula based on FY 2019 operating costs and revenue and has reduced the Authority's payments to AMTRAK by $13,124,982 in FY 2021 and $283,274 in FY 2022 for a total of $13,408,256. The CRRSAA 2021 credit was fully utilized in FY 2022.

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

Under ARPA of 2021 (March of 2021), the FRA has allocated $175 million to AMTRAK to offset revenue loss for the State-supported services due to the global pandemic. The credit to the Authority was calculated through a prescribed formula based on FY 2019 operating costs and revenue and has reduced the Authority's payments to AMTRAK by $13,408,256 in FY 2022. The ARPA of 2021 credit was fully utilized in FY 2022.

NOTE 14 – 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 a general aggregate limit of $10,000,000 and a self-insured retention of $100,000. There have been no claims payments related to these programs that exceeded insurance limits in the last four years.

NOTE 15 – CONCENTRATION OF FUNDING

The Authority receives substantially all of its funds for operating and capital purposes from the State. The Authority's net revenues provided by the State were 98% in fiscal year 2022. At June 30, 2022, receivables from the State represented 23% of total assets.

This page is intentionally left blank.

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Capitol Corridor Joint Powers Authority
Oakland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Capitol Corridor Joint Powers Authority ("Authority") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 31, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

(Continued)

Purpose of this Report

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

Crowe LLP

Crowe LLP

San Francisco, California
January 31, 2023