CAPITOL CORRIDOR JOINT POWERS AUTHORITY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2023

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FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

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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, 2023, 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, 2023, 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.

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.

(Continued)

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.

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.

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2024 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
February 2, 2024

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, 2023, with selected comparative information for the year ended June 30, 2022. 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 9 – 12 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 13 – 29 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, 2023 and 2022 is as follows:

	2023	2022	Change Amount	Change Percent
Current assets	$ 47,325,574	$ 40,466,491	$ 6,859,083	17 %
Noncurrent assets - capital assets, net	3,133,961	4,602,855	(1,468,894)	(32) %
Total assets	50,459,535	45,069,346	5,390,189	12 %
Current liabilities	47,068,054	40,738,659	6,329,395	16 %
Noncurrent liabilities	252,673	1,349,567	(1,096,894)	(81) %
Total liabililties	47,320,727	42,088,226	5,232,501	12 %
Net position				
Net investment in capital assets	1,784,394	2,043,515	(259,121)	(13) %
Restricted for other liabilities	171,259	-	171,259	N/A
Unrestricted net position	1,183,155	937,605	245,550	26 %
Total net position	$ 3,138,808	$ 2,981,120	$ 157,688	5 %

Current Assets

Current assets increased in fiscal year 2023 by $6,859,083 primarily due to the following: (1) net increase of $7,979,324 in cash and cash equivalents which resulted from: (a) increase in restricted cash and cash equivalents of $4,566,923 from receipt of Senate Bill 1 (SB1) funds in the amount of $8,614,783 offset by $4,047,860 disbursed during the fiscal year; (b) increase in unrestricted cash of $3,412,401 mostly from one month cash advance for train operations received from the State in fiscal year 2022 compared to two months cash advances received in fiscal year 2023; (2) increase in facility improvement grants receivable of $552,490 resulting from higher overall project related expenses in fiscal year 2023 and timing of account settlements; (3) increase in receivables from the State related to administrative and marketing expenses by $280,560 as there were six full months of billing outstanding with higher overall reimbursable amounts on the billings in fiscal year 2023; and offset by (4) decrease in receivable from AMTRAK of $1,953,395 in the current fiscal year from reconciliation of annual operating results.

Noncurrent Assets

Noncurrent assets decreased in fiscal year 2023 by $1,468,894 attributable to the following: (1) $158,804 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; offset by (2) depreciation and amortization in the amount of $1,627,698.

(Continued)

Current Liabilities

Current liabilities increased in fiscal year 2023 by $6,329,395 mostly due to the following: (1) increase in accounts payable by $5,766,825 for amounts owed to AMTRAK and other vendors resulting from higher project costs in fiscal year 2023 and timing of settlement of accounts; (2) increase in total unearned revenue by $525,732 primarily from: (a) increase of $4,405,818 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 $8,614,783 of SB1 funds were received offset by $4,208,965 earned during the fiscal year; and offset by (b) decrease of $3,184,407 from utilization of cash advances received in prior years from the State to cover the National Railroad Passenger Corporation ("AMTRAK") operating expenses of $3,020,280 and the El Dorado County Transit Authority bus transfer service costs of $164,127 in fiscal year 2023; (c) decrease of $412,260 in Revenue Above Budget (RAB) funds used for capital projects and operating expenses; and (d) decrease of $283,419 in advances funded by Capitol Corridor Reinvestment Program (CCRP) and other liabilities; (3) increase in amount due to BART by $103,636 related to higher overall labor related expenses and administrative support overhead rate in fiscal year 2023; offset by (4) decrease in lease liability and other liabilities by $66,798.

Noncurrent Liabilities

Noncurrent liabilities decreased in fiscal year 2023 by $1,096,894 mainly due to reclassification of the current portion of GASB 87 lease related liabilities.

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, 2023 and 2022 is as follows:

			Change	
	2023	2022	Amount	Percent
Operating revenues	$ 124,420	$ 94,708	$ 29,712	31 %
Operating expenses	(45,350,704)	(29,096,660)	(16,254,044)	56 %
Operating loss	(45,226,284)	(29,001,952)	(16,224,332)	56 %
Nonoperating revenues (expenses)				
Grants from California Department of Transportation	44,696,151	28,280,050	16,416,101	58 %
Facility improvement grant revenues	22,469,903	23,617,966	(1,148,063)	(5) %
Facility improvement grant expenses	(22,278,806)	(22,692,383)	413,577	(2) %
Interest income (expense)	337,920	(38,866)	376,786	969 %
Nonoperating revenues, net	45,225,168	29,166,767	16,058,401	55 %
Change in net position before capital contributions	(1,116)	164,815	(165,931)	(101) %
Capital contributions	158,804	494,598	(335,794)	(68) %
Change in net position	157,688	659,413	(501,725)	(76) %
Net position, beginning of year	2,981,120	2,321,707	659,413	28 %
Net position, end of year	$ 3,138,808	$ 2,981,120	$ 157,688	5 %

(Continued)

Operating Expenses

The Authority's operating expenses consist of charges for train operations and bus feeder services, marketing and administrative expenses, Wi-Fi services, passenger information display system supports 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", which is reported as nonoperating revenue. Net operating expenses in fiscal year 2023 increased by $16,254,044 mostly due to the following: (1) increase of $16,004,074 in train operating expenses primarily from (a) increase of $1,586,960 from higher costs in overall route expenses net of passenger revenue collected; and (b) decrease of $13,691,530 in Federal Coronavirus relief funding passed through from AMTRAK; (2) passenger information display system support (PIDS) expenses of $449,942 to support sitewide project and its associated management expenses incurred in fiscal year 2023 but none in fiscal year 2022; offset by (3) decrease of $242,825 in depreciation and amortization expenses.

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".

In fiscal year 2023, grant revenue for facility improvement were lower by $1,148,063 compared to fiscal year 2022 mainly due to decrease in reimbursement received for expenses related to the OKJ-SJC Service Expansion II Project, California Integrated Travel Project (Cal-ITP) state wide program and Signal Reliability Improvement project. The Authority's capital improvement expenses by projects are detailed in Note 6 – Facility Improvement Grant Expenses.

Interest income increased by $376,786 primarily driven by the higher interest income earned on investments and bank deposits.

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."

Capital contributions recognized in fiscal year 2023 in the amount of $158,804 is associated with capital expenditures recognized as construction in progress ,which is funded by grants for 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.

(Continued)

Capital Assets

Net capital assets decreased in fiscal year 2023 by $1,468,894 from the following changes: (1) $158,804 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; offset by (2) depreciation and amortization in the amount of $1,627,698.

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

The Authority has construction and other significant commitments amounting to $14,760,000 and $11,110,000 as of June 30, 2023 and 2022, respectively.

Contacting the Authority's Financial Management

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

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ASSETS	
Current assets	
Unrestricted assets	
Cash and cash equivalents	$ 18,236,905
Grants receivable	3,626,359
Facility improvement grants receivable	7,456,688
Incentive, assessment and other receivables - National Railroad Passenger Corporation	269,909
Other receivables	104
Total unrestricted current assets	29,589,965
Restricted assets	
Cash and cash equivalents	17,735,609
Total current assets	47,325,574
Noncurrent assets	
Capital assets	
Nondepreciable	623,006
Depreciable, net of accumulated depreciation and amortization	2,510,955
Total noncurrent assets	3,133,961
Total assets	50,459,535
LIABILITIES	
Current liabilities	
Accounts payable	3,451,524
Due to National Railroad Passenger Corporation	5,359,933
Due to San Francisco Bay Area Rapid Transit District	2,053,220
Lease liability	451,505
Other liability related to leases	645,717
Other current liability	137
Unearned revenues	35,106,018
Total current liabilities	47,068,054
Noncurrent liabilities	
Lease liability, net of current portion	137,511
Other liability related to leases	115,162
Total noncurrent liabilities	252,673
Total liabilities	47,320,727
NET POSITION	
Net investment in capital assets	1,784,394
Restricted for other liabilities	171,259
Unrestricted net position	1,183,155
Total net position	$ 3,138,808

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, 2023

Operating revenues	
Assessment revenues	$ 109,325
Passenger revenues	11,242
Other operating revenues	3,853
Total operating revenues	124,420
Operating expenses	
Train operations and bus feeder services	35,504,416
Marketing and administrative services	6,192,613
WiFi services	1,552,559
Passenger information display systems support	449,942
Depreciation and amortization	1,627,698
Other operating expenses	23,476
Total operating expenses	45,350,704
Operating loss	(45,226,284)
Nonoperating revenues (expenses)	
Grants from California Department of Transportation	44,696,151
Facility improvement grant revenues	22,469,903
Facility improvement grant expenses	(22,278,806)
Interest income, net	337,920
Nonoperating revenues, net	45,225,168
Change in net position before capital contributions	(1,116)
Capital contributions	
Grants restricted for capital expenses	158,804
Change in net position	157,688
Net position, beginning of year	2,981,120
Net position, end of year	$ 3,138,808

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, 2023

Cash flows from operating activities	
Assessment fees and other operating revenues	$ 135,695
Payments for train operations, bus feeder and WiFi services	(31,106,953)
Payments for marketing and administrative services	(5,923,637)
Payments for other operating expenses	(17,417)
Net cash used in operating activities	(36,912,312)
Cash flows from noncapital financing activities	
Grants received for train operations, bus feeder and WiFi services	34,623,598
Grants received for marketing and administrative services	5,912,053
Grants received for facility improvements	26,323,237
Grants disbursed for facility improvements	(21,932,779)
Net cash provided by noncapital financing activities	44,926,109
Cash flows from capital and related financing activities	
Grants received for capital expenses	158,804
Acquisition of capital assets	(158,804)
Principal and interest payments related to leases	(396,280)
Net cash used in capital and related financing activities	(396,280)
Cash flows from investing activities	
Interest received	361,807
Net cash provided by investing activities	361,807
Net change in cash and cash equivalents	7,979,324
Cash and cash equivalents, beginning of year	27,993,190
Cash and cash equivalents, end of year	$ 35,972,514
Reconciliation of cash and cash equivalents to Statement of Net Position	
Unrestricted	$ 18,236,905
Restricted	17,735,609
Cash and cash equivalents, end of year	$ 35,972,514

(Continued)

Reconciliation of operating loss to net cash from operating activities	
Operating loss	$ (45,226,284)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	1,627,698
Changes in operating assets and liabilities:	
Incentive, assessment and other receivables - National Railroad Passenger Corporation	11,275
Deposit in transit	(104)
Accounts payable	260,327
Due from National Railroad Passenger Corporation	7,302,053
Due to San Francisco Bay Area Rapid Transit District	(95,827)
Other liability	(791,435)
Sales tax payable	(15)
Net cash used in operating activities	$ (36,912,312)

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

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NOTE 1 – DESCRIPTION OF REPORTING ENTITY

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Accounting and Presentation</u>: 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:

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets, being depreciated or 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.

<u>Leases</u>:

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.

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 passenger revenues that are collected directly by the Authority. This differs from passenger revenues that are collected by AMTRAK, which are netted from train operations and bus feeder services expenses. Other 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 which fund 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:

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations. 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 reporting periods beginning after December 15, 2021. The Authority adopted this statement in fiscal year 2023. The adoption of the standard had no impact on the Authority's financial statements.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 94, *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs)*, establishes standards of accounting and financial reporting for PPPs and APAs for governments. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Authority adopted this statement on July 1, 2022. The adoption of the standard had no impact on the Authority's financial statements.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, establishes standards of accounting and financial reporting for SBITAs by a government end user (a government). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Authority adopted this statement on July 1, 2022. The adoption of the standard had no impact on the Authority's financial statements.

GASB Statement No. 99, *Omnibus 2022*, enhances comparability in accounting and financial reporting and to improve consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this statement are effective as follows: (a) The requirements in paragraph 26-32 related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by the pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. (b) The requirements in paragraphs 11-25 related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. (c) The requirements in paragraphs 4-10 related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The Authority adopted paragraphs 26-32 in fiscal year 2022 and paragraphs 11-25 in fiscal year 2023. The adoption of the above requirements has no impact on the Authority financial statements. Management is currently evaluating the effect of the remaining paragraphs of this statement on the Authority's financial statements.

GASB Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for accounting changes and errors corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Management is currently evaluating the effect of this statement on the Authority's financial statements.

GASB Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences and associated salary-related payments by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management is currently evaluating the effect of this statement on the Authority's financial statements.

GASB Statement No. 102, *Certain Risk Disclosures*, enhances disclosure requirements related to a government's vulnerabilities due to certain concentrations or constraints. Management is currently evaluating the effect of this statement on the Authority's financial statements.

NOTE 3 – CASH AND CASH EQUIVALENTS

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.

Restricted Cash: Restricted cash represents unspent advances for capital related projects. The breakdown of restricted cash components as of June 30, 2023, is reflected as follows:

Source of funding:	
California Office of Emergency Services	$ 562
Senate Bill 1	17,735,047
	$ 17,735,609

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.

(Continued)

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

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 $35,972,514 as of June 30, 2023. The bank balance was $36,806,279 on June 30, 2023. The bank balance on June 30, 2023 was more than the carrying amount due to outstanding checks totaling $833,765.

<u>Interest Rate Risk</u>: Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. One of the Authority's primary objectives is to provide sufficient liquidity to meet its cash outflow needs, however, the Authority does not have any policies specifically addressing interest rate risk, except as outlined in the CGC. The Authority does not have any investments as of June 30, 2023.

<u>Credit Risk</u>: The Authority's credit rating risk is governed by Section 53601 of the CGC which, among others, limits investments in money market mutual funds to those funds with the highest evaluations granted by the rating agencies, which is AAAm. The Authority does not have any investments as of June 30, 2023.

(Continued)

NOTE 4 – CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2023, are summarized as follows:

	July 1, 2022	Additions and Transfers	Retirements and Transfers	June 30, 2023
Capital assets, not being depreciated or amortized				
Construction in progress	$ 464,202	$ 158,804	$ -	$ 623,006
Total capital assets, not being depreciated or amortized	464,202	158,804	-	623,006
Capital assets, being depreciated and amortized				
Tangible assets				
Communication equipment	6,062,911	-	-	6,062,911
Yard equipment	159,222	-	(29,020)	130,202
Ticket vending equipment	304,830	-	(304,830)	-
Food catering Equipment	24,164	-	(24,164)	-
Security equipment	2,213,216	-	(43,633)	2,169,583
Station equipment	233,141	-	-	233,141
Intangible assets				
Right to use - leased assets				
Equipment	4,416,514	-	969,285	5,385,799
System software development	1,639,067	-	-	1,639,067
Total capital assets, being depreciated and amortized	15,053,065	-	567,638	15,620,703
Less accumulated depreciation and amortization:				
Tangible assets				
Communication equipment	(6,041,871)	(14,430)	-	(6,056,301)
Yard equipment	(90,451)	(24,425)	29,020	(85,856)
Ticket vending equipment	(304,830)	-	304,830	-
Food catering Equipment	(24,164)	-	24,164	-
Security equipment	(1,646,783)	(113,185)	43,633	(1,716,335)
Station equipment	(209,090)	(17,743)	-	(226,833)
Intangible assets				
Right to use - leased assets				
Equipment	(1,331,096)	(1,348,161)	(969,285)	(3,648,542)
System software development	(1,266,127)	(109,754)	-	(1,375,881)
Total accumulated depreciation and amortization	(10,914,412)	(1,627,698)	(567,638)	(13,109,748)
Total capital assets, being depreciated and amortized, net	4,138,653	(1,627,698)	-	2,510,955
Total capital assets, net	$ 4,602,855	$ (1,468,894)	$ -	$ 3,133,961

(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. CCJPA adopted GASB 87 in fiscal year 2022.

Lessee:

The Authority is lessee on noncancellable leases of Wi-Fi 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.

Activity in lease liabilities is presented below:

	July 1, 2022	Increase	Decrease	June 30, 2023
Total lease liability	$ 958,831	$ -	$ (369,815)	$ 589,016

Activity in other liabilities related to lease is presented below:

	July 1, 2022	Increase	Decrease	June 30, 2023
Interest Payable	$ 2,905	$ 4,399	$ (6,977)	$ 327
Other liability-initial direct cost	1,551,988	-	(791,436)	760,552
Total other liability related to leases	$ 1,554,893	$ 4,399	$ (798,413)	$ 760,879

Future payments under lessee leases on June 30, 2023 are as follows:

Year ending June 30	Total	Principal	Interest
2024	$ 463,036	$ 451,505	$ 11,531
2025	138,373	137,511	862
	$ 601,409	$ 589,016	$ 12,393

(Continued)

NOTE 6 – 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 $5,565,000 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 $135,133,785 of which Improvements with budgeted costs totaling $120,373,785 had been completed through fiscal year 2023. The Construction Agreement also states that UPRR shall be the sole owner of all the Improvements upon commencement of the construction and at all times thereafter.

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

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

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

(Continued)

NOTE 6 – FACILITY IMPROVEMENT GRANT EXPENSES (Continued)

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 2023:

California Integrated Travel Project (State Wide Program) *	$ 9,409,576
Capitalized Maintenance 2015	67,468
Capitalized Maintenance 2022	431,046
Capitalized Maintenance 2023	15,649
Carquinez High Level Study	217,776
Contribution to 2nd Transbay Tube Planning	93,965
F59 Emissions Testing	14,476
FY 20 Minor Capital Improvement Project	270,811
FY 23 Minor Capital Improvement Project	180,497
FY 22 CA IPR Wi-Fi Management *	28,500
FY 23 CA IPR Wi-Fi Management *	155,000
Grade Separation and Safety Improvements	10,754
Infrastructure Reliability Improvements	1,752
Link21 *	1,038,237
OKJ-SJC Service Expansion II	3,711,880
Passenger Information Display Systems Support (PIDS)**	515,987
Right-of-way Safety and Security	3,184,472
Sacramento - Roseville Engineering Design	1,509,027
Sacramento - Roseville Right-of-Way Acquisition	151,969
Sacramento Valley Station Access Study	273,178
Santa Clara Crossover	2,135
Santa Clara Siding	63,235
Signal Reliability Improvement	420,577
Station Improvements	12,188
Tap2Ride (California Integrated Travel Project) Pilot Program *	689,748
Total	$ 22,469,903

* 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 $191,097 grant funded lease expenses accounted for under GASB 87.

(Continued)

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 $5,915,918 for the year ended June 30, 2023.

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 on June 30, 2023, is as follows:

Construction costs	$ 624,021
Marketing and administrative services and other expenses	1,429,199
	$ 2,053,220

NOTE 8 – UNEARNED REVENUES

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

Train operations and bus feeder services	$ 4,216,744
Unused portion reinvestment program and revenue above budget	13,250,418
Advance for facilities improvement projects	17,564,350
Others	74,506
	$ 35,106,018

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, 2023, the excess amount retained by the Authority is $17,467,162, breakdown as follows:

(Continued)

NOTE 8 – UNEARNED REVENUES (Continued)

	CCRP	RAB	Others	Total
Balance, July 1, 2022	$ 1,694,603	$ 12,251,484	$ 7,401,151	$ 21,347,238
Credits received	-	-	31,906,958	31,906,958
Credits used for operating expenses	(4,733)	(412,260)	(35,091,365)	(35,508,358)
Credits used for capital expenses	(278,676)	-	-	(278,676)
Balance, June 30, 2023	$ 1,411,194	$ 11,839,224	$ 4,216,744	$ 17,467,162

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 2023, 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 on June 30, 2023, is as follows:

	Senate Bill 1
Balance, July 1, 2022	$ 13,158,532
Advances received	8,614,783
Expenses incurred during fiscal year	(4,208,965)
Balance, June 30, 2023	$ 17,564,350

NOTE 9 – OPERATING REVENUES

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, 2023, the mechanical assessment revenue amounted to $109,325.

In fiscal year 2023, CCJPA initiated a Minimum Viable Product (MVP) or pilot program of contactless payments onboard Capitol Corridor trains under the California Integrated Travel Project (Cal-ITP) for which the Authority serves as a fiscal sponsor on behalf of the State of California. This pilot is referred to as Capitol Corridor's Tap2Ride program. The Cal-ITP state program seeks to unify transit in California with a common fare payment system, real-time data standard, and seamless verification of eligibility for transit discounts. Under Tap2Ride, CCJPA started collecting passenger revenue directly for train trips in March 2023. For the year ended June 30, 2023, CCJPA recognized $11,242 Tap2Ride passenger fare revenue.

(Continued)

NOTE 10 – CHARGES FOR TRAIN OPERATIONS, BUS FEEDER SERVICES, WIFI SERVICES AND PASSENGER INFORMATION DISPLAY SYSTEM SUPPORTS

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

Funding Source		
Operating		
Train Operations	$ 34,927,238	
Bus Services	160,185	$ 35,087,423
CCRP		4,733
Revenue Above Budget		412,260
Total Train Operations and Bus Feeder Services		$ 35,504,416

In accordance with the operating agreement, AMTRAK provides rail passenger services over the Capitol Corridor route and related bus feeder services. The amount of $34,927,238 committed to AMTRAK by the Authority in fiscal year 2023 is based on a fixed amount mutually agreed to in advance by both parties and adjusted to actual at the end of the fiscal year. This reimbursement includes call center costs, which was stipulated starting in the 2014 contract with AMTRAK. On June 30, 2023, based on the annual reconciliation of train operations, the Authority booked a receivable from AMTRAK in the amount of $269,909 to recognize $212,934 excess funding contributions for train operations and bus feeder services and assessment revenue credit of $56,975. The Authority recognized a payable of $5,359,933 to AMTRAK for the unpaid portion of train operating expenses in the amount of $5,342,491 and $17,442 related to video surveillance system equipment maintenance and for California Passenger Information Display System project related expenses.

For bus services, the Authority reimbursed El Dorado County Transit Authority the amount of $160,185 in fiscal year 2023 for the South Lake Tahoe commuter bus services in accordance with a Memorandum of Understanding, which commenced on July 2021.

As discussed in Note 8, the Authority can spend CCRP fund for both operating and capital projects. In fiscal year 2023, operating expenses funded by CCRP amounted to $4,733.

In fiscal year 2023, the Authority spent $412,260 of RAB funds to cover 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 2023. 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 2023, the Authority spent MCIP fund in the amount of $451,308 for noncapitalizable facility improvement expenses.

NOTE 10 – CHARGES FOR TRAIN OPERATIONS, BUS FEEDER SERVICES, WIFI SERVICES AND PASSENGER INFORMATION DISPLAY SYSTEM SUPPORTS (Continued)

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, 2023, the Authority recorded \$1,552,559 in Wi-Fi expenses, net of lease related expenses that were recognized under GASB 87 in the amount of \$969,284 for amortization expense associated with right-to-use lease assets and \$19,489 for the related interest expense, which are reported on the Statement of Revenues, Expenses, and Changes in Net Position as part of Depreciation and Amortization and Interest Income.

Operating expenses for Passenger Information Display System Support (PIDS) are funded by the California Intercity Passenger Rail (IPR) Support Supplemental allocation and support the maintenance of existing legacy PIDS equipment statewide and related management expenses for the three IPRS, the Capitol Corridor service managed by CCJPA, the San Joaquin service managed by the San Joaquin Joint Powers Authority (SJJPA), and the Pacific Surfliner managed by the Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency (LOSSAN). The legacy PIDS statewide support project was transferred from AMTRAK under three respective AMTRAK operating agreements to the Authority in fiscal year 2023. For the year ended June 30, 2023, the Authority recorded \$449,942 in passenger information display system support expenses.

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.

(Continued)

NOTE 11 – CHARGES FOR MARKETING AND ADMINISTRATIVE SERVICES (Continued)

The charges for marketing and administrative services are summarized as follows:

Salaries and benefits	$ 4,187,998
Advertising	895,776
Other consulting fees	191,149
Bus Service	167,824
Information Technology	161,287
Insurance	139,388
Temporary help	126,705
Printing and graphic design	54,674
Legal and accounting	44,171
Project Management	40,333
Office supplies	34,118
Repairs and maintenance	33,743
Telephone	33,203
Survey expense	24,821
Travel and entertainment	22,980
Dues and subscriptions	17,801
Equipment maintenance	12,506
Sponsorship & Outreach	2,304
Training and seminars	1,357
Miscellaneous expenses	475
	$ 6,192,613

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. On June 30, 2023, the receivable due from the State amounted to $3,626,359.

The Authority also receives grants from the State and other funding agencies for facility improvements and capital projects. As of June 30, 2023, the total facility improvement grants receivable was $7,456,688.

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 $14,760,000 as of June 30, 2023.

Contingencies: 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, which has remained in place throughout fiscal year 2023.

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 and revenue growth strategies.

Pursuant to the CalSTA's guidance to reduce costs in FY2023-24 per its Annual Business Plan approval letter, the Authority will continue ongoing efforts to reduce operating costs and increase revenue throughout the coming fiscal year, with many cost saving measures underway.

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 99% in fiscal year 2023. On June 30, 2023, receivables from the State represented 22% of total assets.

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

Board of Directors
Capitol Corridor Joint Powers Authority
Oakland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Capitol Corridor Joint Powers Authority ("Authority") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 2, 2024.

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
February 2, 2024