CAPITOL CORRIDOR JOINT POWERS AUTHORITY

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

For the Years Ended June 30, 2020 and 2019

Certified
Public
Accountants

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MGO Certified Public Accountants

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Capitol Corridor Joint Powers Authority (Authority) as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
February 5, 2021

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2020 and 2019

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, 2020, with selected comparative information for the years ended June 30, 2019 and 2018. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Authority was created by the State of California ("State") Legislature in 1996. It is a partnership among six local transportation agencies and was formed for the purpose of administering and managing the operation of the Capitol Corridor Rail Service as part of the California intercity passenger rail system. The Authority receives funding from the State to operate and improve the Capitol Corridor Rail Service in order to provide a frequent, safe, reliable and affordable travel alternative to the I-80/I-680 highway corridor between Auburn and Oakland and I-880 between Oakland and San Jose. The Capitol Corridor connects outlying communities to the train service via an extensive, dedicated motor coach network that assists passengers traveling beyond the train stations. It is overseen by a Board of Directors, comprised of 16 elected officials from the 6 member agencies along the Capitol Corridor route, a 170-mile corridor, with 18 stations, between San Jose and Auburn.

The 6 transportation agencies comprising the Authority are the San Francisco Bay Area Rapid Transit District ("BART"), the Managing Agency, Placer County Transportation Planning Agency, Sacramento Regional Transit District, Santa Clara Valley Transportation Authority, Solano Transportation Authority and Yolo County Transportation District.

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

The Basic Financial Statements

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

Overview of the Basic Financial Statements

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

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

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

The *notes to the basic financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 – 27 of this report.

Financial Highlights

Statements of Net Position

A comparison of the Authority's statements of net position as of June 30, 2020, 2019 and 2018 is as follows:

	2020	2019	2018
Current assets	$ 40,068,796	$ 26,186,029	$ 26,452,497
Noncurrent assets - capital assets, net	2,351,987	3,265,703	4,098,910
Total assets	42,420,783	29,451,732	30,551,407
Current liabilities	39,274,082	25,427,056	25,676,243
Net position			
Net investment in capital assets	2,351,987	3,265,703	4,098,910
Unrestricted net position	794,714	758,973	776,254
Total net position	$ 3,146,701	$ 4,024,676	$ 4,875,164

Current Assets

In fiscal year 2020, current assets increased by $13,882,767 primarily due to the following: (1) a net increase of $13,910,163 in cash and cash equivalents which resulted from: (a) increase in SB1 funds by $4,894,318, a total of $6,712,816 of SB1 funds was received in fiscal year 2020 with an unspent balance of $10,382,911, (including interest) as of fiscal year end; (b) receipt of State operating funds amounting to $6,010,070 to cover future operating expenses; (c) receipt of $2,602,923 to cover the National Railroad Passenger Corporation ("AMTRAK") operating expenses for July 2020; (d) increase in Revenue Above Budget (RAB) funds by $572,846 resulting from year end reconciliation of results of operation for the period July 2019- September 2019 following the State's fiscal year; (2) an increase in facility improvement grants receivable of $1,484,149 resulting from higher overall project related expenses in fiscal year 2020 and timing of account settlements; offset by (3) decrease in receivable from the State of $492,958 as there were only four months of outstanding billings related to administrative and marketing expenses compared to six months' worth of outstanding billings as of the end of fiscal year 2019; and (4) settlement of receivable from AMTRAK amounting to $1,099,032.

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

Noncurrent Assets

In fiscal year 2020, noncurrent assets which consist primarily of depreciable assets, decreased by $913,716 due to the depreciation expense of $948,671, offset by capitalization of $34,955 specifically for security cameras.

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

Current Liabilities

In fiscal year 2020, current liabilities increased by $13,847,026 mostly due to the following: (1) increase in accounts payable by $2,540,718 for amounts owed to AMTRAK and other vendors resulting from higher project costs in fiscal year 2020 and timing of settlement of accounts; (2) increase in total unearned revenue by $12,389,919 primarily accounted for by: (a) an increase of $572,846 of RAB funds resulting from year-end reconciliation of results of operations; (b) an increase in State Rail Assistance (SRA), specifically Senate Bill 1 (SB1) - Road Repair and Accountability Act of 2017 fund balance by $4,892,924; (c) increase by $8,612,993 in amounts due to the State for advance funding received for train operations for July 2020 of $2,602,923, and $6,010,070 from excess State operating fund received resulting from the reduced net route cost due for the AMTRAK CARES Act credit; and offset by (d) a reduction in advances for Capitol

Corridor Reinvestment Program (CCRP) by $1,689,320; and (3) decrease in amount due to BART by $1,083,611.

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

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, 2020, 2019 and 2018 is as follows:

	2020	2019	2018
Operating revenues	$ 4,163	$ 15,965	$ 105,030
Operating expenses	(31,560,780)	(31,891,930)	(32,454,543)
Operating loss	(31,556,617)	(31,875,965)	(32,349,513)
Nonoperating revenues (expenses)			
Grants from California Department of Transportation	30,581,025	30,902,122	31,359,154
Facility improvement grant revenues	10,317,462	8,507,660	14,062,705
Facility improvement grant expenses	(10,317,462)	(8,507,660)	(14,062,705)
Interest income	62,662	37,035	35,298
Nonoperating revenues, net	30,643,687	30,939,157	31,394,452
Change in net position before capital contributions	(912,930)	(936,808)	(955,061)
Capital contributions	34,955	86,320	922,543
Change in net position	(877,975)	(850,488)	(32,518)
Net position, beginning of year	4,024,676	4,875,164	4,907,682
Net position, end of year	$ 3,146,701	$ 4,024,676	$ 4,875,164

Operating Expenses

The Authority's operating expenses consist of charges for train operations and bus feeder services, marketing and administrative expenses and other operating expenses. A significant portion of these expenses is primarily financed from funding received from the State of California. This State funding is reported as grants from the State of California, Department of Transportation. In fiscal year 2020, operating expenses decreased by $331,150 despite the overall increase in route net expenses attributed to decreased ridership revenue caused by the pandemic. AMTRAK CARES Act credit amounting to $4,409,456 has offset the fiscal year 2020 increase in route costs and additives and fuel costs which were factored in the calculation of net operating cost due to AMTRAK.

Nonoperating Revenues (Expenses)

Facility improvement grant expenses refer to capital improvement expenses that are not capitalized nor recorded as capital assets by the Authority since the improvements in the Capitol Corridor track are owned by Union Pacific Railroad Company ("UPRR") per Construction Agreement (see Note 5). These types of expenses are primarily those covered by the Construction Agreement entered into between the Authority and UPRR. Grants received associated with these types of expenses are recorded by the Authority as ‘‘Facility Improvement Grant Revenues", the related expenses are recorded as "Facility Improvement Grant Expenses".

In fiscal year 2020, the expenditures for facility improvement and consequently the grants revenues were higher by $1,809,802 compared to fiscal year 2019 mainly due to planning expenses related to the New Transbay Rail Crossing and California Integrated Travel Project (ITP) Staffing Support Services. Please refer to Note 5 for project details and expenses.

In fiscal year 2019, the expenditures for facility improvement and consequently the grants revenues were lower by $5,555,045 compared to fiscal year 2018. Please refer to Note 5 for project details and expenses.

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 2020, the Authority recognized capital assets of $34,955 funded by grants for the security cameras.

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

Capital Assets

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

The Authority has construction and other significant commitments amounting to $5,235,000 and $5,951,049 as of June 30, 2020 and 2019, respectively.

Contacting the Authority's Financial Management

The Authority's financial report is designed to provide the Authority's Board of Directors, management, creditors, legislative and oversight agencies, citizens and customers with an overview of the Authority's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact Rosemarie Poblete, Controller-Treasurer of BART, at 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

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CAPITOL CORRIDOR JOINT POWERS AUTHORITY
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 22,547,238	$ 13,531,492
Grants receivable - California Department of Transportation	1,822,543	2,315,501
Facility improvement grants receivable	5,212,812	3,728,663
Incentive, assessment and other receivables -		
National Railroad Passenger Corporation	-	1,099,032
Other receivables	101,861	22,000
Prepaid assets	874	290
Total unrestricted current assets	29,685,328	20,696,978
Restricted assets		
Cash and cash equivalents	10,383,468	5,489,051
Total current assets	40,068,796	26,186,029
Noncurrent assets		
Depreciable capital assets, net	2,351,987	3,265,703
Total assets	42,420,783	29,451,732
Liabilities		
Current liabilities		
Accounts payable	1,542,991	971,278
Due to National Railroad Passenger Corporation	1,969,005	-
Due to San Francisco Bay Area Rapid Transit District	1,427,960	2,511,571
Unearned revenue -		
California Department of Transportation, California		
Office of Emergency Services and California State Rail Agency	34,334,126	21,944,207
Total current liabilities	39,274,082	25,427,056
Net Position		
Net investment in capital assets	2,351,987	3,265,703
Unrestricted net position	794,714	758,973
Total net position	$ 3,146,701	$ 4,024,676

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

CAPITOL CORRIDOR JOINT POWERS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenues		
Assessment revenues	$ -	$ 15,475
Other operating revenues	4,163	490
Total operating revenues	4,163	15,965
Operating expenses		
Train operations and bus feeder services	23,062,272	25,502,132
Marketing and administrative services and NTRC charges	5,121,636	4,676,921
WiFi Services	2,397,118	711,350
Depreciation expenses	948,671	946,721
Other operating expenses	31,083	54,806
Total operating expenses	31,560,780	31,891,930
Operating loss	(31,556,617)	(31,875,965)
Nonoperating revenues (expenses)		
Grants from California Department of Transportation	30,581,025	30,902,122
Facility improvement grant revenues	10,317,462	8,507,660
Facility improvement grant expenses	(10,317,462)	(8,507,660)
Interest income	62,662	37,035
Nonoperating revenues, net	30,643,687	30,939,157
Change in net position before capital contributions	(912,930)	(936,808)
Capital Contributions		
Grants restricted for capital expenses	34,955	86,320
Change in net position	(877,975)	(850,488)
Net position, beginning of year	4,024,676	4,875,164
Net position, end of year	$ 3,146,701	$ 4,024,676

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

CAPITOL CORRIDOR JOINT POWERS AUTHORITY

Statements of Cash Flows

For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Assessment fees and other operating revenues	$ 4,163	$ 15,965
Payments for train operations and bus feeder services	(22,481,421)	(28,830,785)
Payments for marketing and administrative services	(6,074,691)	(4,071,777)
Payments for other operating expenses	(122,285)	(66,185)
Net cash used in operating activities	(28,674,234)	(32,952,782)
Cash flows from noncapital financing activities		
Receipts from grants for train operations and bus feeder services	34,072,383	24,732,783
Receipts from grants for marketing and administrative services	5,614,593	3,815,668
Grants received (disbursed) for other operating expenses	(1,116,474)	4,075,412
Grants received for facility improvements	13,726,237	14,652,637
Grants disbursed for facility improvements	(9,775,434)	(11,276,404)
Net cash provided by noncapital financing activities	42,521,305	36,000,096
Cash flows from capital and related financing activities		
Grants received for capital expenses	35,385	59,240
Acquisition of capital assets	(34,955)	(113,514)
Net cash provided by capital and related financing activities	430	(54,274)
Cash flows from investing activities		
Interest received on investments	62,662	37,035
Net change in cash and cash equivalents	13,910,163	3,030,075
Cash and cash equivalents, beginning of year	19,020,543	15,990,468
Cash and cash equivalents, end of year	$ 32,930,706	$ 19,020,543
Reconciliation of cash and cash equivalents to Statement of Net Position		
Unrestricted	$ 22,547,238	$ 13,531,492
Restricted	10,383,468	5,489,051
Cash and cash equivalents, end of year	$ 32,930,706	$ 19,020,543
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (31,556,617)	$ (31,875,965)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	948,671	946,721
Changes in assets and liabilities:		
(Increase) decrease in incentive, assessment and other receivables, National Railroad Passenger Corporation	1,019,171	(1,065,678)
(Increase) in prepaid assets	(584)	(290)
(Decrease) in accounts payable	(12,791)	(218,847)
Increase (decrease) in due to National Railroad Passenger Corporation	1,969,005	(1,388,772)
Increase (decrease) in due to San Francisco Bay Area Rapid Transit District	(1,041,089)	650,049
Net cash used in operating activities	$ (28,674,234)	$ (32,952,782)
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities		
Allocation of RAB funds for capital use	$ 2,295,190	$ -
Allocation of CCRP fund for capital use	$ -	$ 7,634,923

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

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1 – Description of Reporting Entity

In July 1996, Senate Bill 457 was passed, which provided for the creation of the Capitol Corridor Joint Powers Board ("Board"). On December 31, 1996, the Board entered into a Joint Exercise of Powers Agreement with six public transportation agencies ("Agencies") to establish the Capitol Corridor Joint Powers Authority ("Authority"), a public instrumentality of the State of California. The 6 member agencies are the San Francisco Bay Area Rapid Transit District ("Managing Agency" or "BART"), Placer County Transportation Planning Agency, Sacramento Regional Transit District, Santa Clara Valley Transportation Authority, Solano Transportation Authority, and Yolo County Transportation District. The governing board of the Authority consists of six members from the Managing Agency and two members from each of the five other Agencies. The Authority is responsible for the administration and managing the operation of the existing rail service in the Auburn-Sacramento-Suisun City-Oakland-San Jose Corridor ("Capitol Corridor Rail Service").

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

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

2 – Summary of Significant Accounting Policies

(a) Basis of Accounting and Presentation

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

(b) Proprietary Accounting and Financial Reporting

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

2 – Summary of Significant Accounting Policies (Continued)

(c) Restricted Assets

Certain assets of the Authority are classified as restricted on the statement of net position because their use is subject to externally imposed stipulations, either by agreement or by laws or regulations. This includes funding pertaining to Senate Bill 1 (SB1) as well as funding from the California Office of Emergency Services (CalOES) for capital project activities.

(d) Capital Assets

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

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

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

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

(f) Net Position

Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The net position section on the statement of net position was combined to report total net position and presents it in three components: net investment in capital assets, restricted and unrestricted. Net investment in capital assets includes capital assets net of accumulated depreciation. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation and include amounts restricted for debt service and other liabilities. As of fiscal year end 2020 and 2019, the Authority does not have restricted net position. All other net position of the Authority is unrestricted.

(g) Operating Revenues and Expenses

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

2 – Summary of Significant Accounting Policies (Continued)

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

(h) Nonoperating Revenues and Expenses

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

(i) Use of Estimates

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

(j) Reclassifications

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

(k) New Accounting Pronouncements Adopted

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Costs Incurred Before the End of a Construction Period*. The objectives of the Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The Statement is effective for the Authority's fiscal year ended June 30, 2020. This Statement did not have a significant impact to the Authority's financial statements.

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. This Statement is effective for the Authority's fiscal year ended June 30, 2020. This Statement did not have a significant impact to the Authority's financial statements.

3 – Cash and Cash Equivalents

In March 2009, the Authority's Managing Agency suspended the investment account and fund sweep service agreement whereby the Authority's excess cash had been invested for a higher yield than those in a traditional bank account. This change was made because the fees charged to the sweep account exceeded the interest earned on the prevailing money market yield. Instead the Authority opted for the Public Funds Interest Checking account, which yielded an average of 0.79% and 0.2% interest annually for fiscal years 2020 and 2019, respectively.

In 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-Negotiable Time Deposits	5 years	5 years	30%	30%	None	None	None	None
Medium Term Notes/Bonds (3)	5 years	5 years	30%	30%	None	None	A	A
Municipal Securities of California Local Agencies	5 years	5 years	None	None	None	None	None	None
Mutual Funds (3)	N/A	N/A	20%	20%	10%	10%	AAA	AAA
Notes, Bonds, or Other Obligations	5 years	5 years	None	None	None	None	None	None
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.

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

Deposits

The carrying amount of the Authority's deposits with banks was $32,930,706 and $19,020,543 as of June 30, 2020 and 2019, respectively. The bank balance was $33,183,875 and $23,866,567 at June 30, 2020 and 2019, respectively. The bank balances at June 30, 2020 and 2019 were less than the carrying amounts due to outstanding checks totaling $253,169 and $4,846,024, respectively.

3 – Cash and Cash Equivalents (Continued)

Restricted cash amounting to $10,383,468, at June 30, 2020, represents unspent advances for capital related projects. California Governor's Office of Emergency Services (CalOES) has remaining unspent project funds including interest amounting to $556, the source of $10,382,912 is from the Senate Bill 1 (SB1) allocation.

The breakdown of restricted cash components as of June 30, 2020 and 2019, respectively, is reflected as follows:

	2020	2019
Source of funding:		
CalOES	$ 556	$ 458
SB1	10,382,912	5,488,593
	$ 10,383,468	$ 5,489,051

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, 2020 and 2019 is as follows:

	2020	2019
Investment Type		
Treasury Bills	$ 5,040,000	$ -
Maturity	Less than one year	N/A

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, 2020 and 2019:

	2020	2019
Investment Type		
Treasury Bills	$ 5,040,000	$ -
Credit Rating	AAA	N/A

3 – Cash and Cash Equivalents (Continued)

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, 2020 and June 30, 2019:

	2020	2019
Investment Type		
Treasury Bills	$ 5,040,000	$ -
Fair Market Value Hierarchy	Level 1	N/A

Custodial Credit Risk

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

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

4 – Capital Assets

The changes in capital assets for the year ended June 30, 2020 are summarized as follows:

	Lives (Years)	July 1, 2019	Additions and Transfers	Retirements and Transfers	June 30, 2020
Depreciable capital assets:					
Communication equipment	10	$ 6,062,911	$ -	$ -	$ 6,062,911
Yard equipment	20	65,272	-	-	65,272
Ticket vending equipment	10	304,830	-	-	304,830
Food catering equipment	10	24,164	-	-	24,164
Security equipment	10	2,178,261	34,955	-	2,213,216
Office equipment and furniture	5	6,212	-		6,212
Station equipment	5	233,141	-	-	233,141
Intangible system software development	15	1,639,067	-	-	1,639,067
Total depreciable capital assets		10,513,858	34,955	-	10,548,813
Less accumulated depreciation		(7,248,155)	(948,671)	-	(8,196,826)
Total depreciable capital assets, net		$ 3,265,703	$ (913,716)	$ -	$ 2,351,987

4 – Capital Assets (Continued)

There were no additions to construction in progress in 2020 as all projects relate to facility improvement expenses.

Assets placed into service for fiscal year 2020 amounted to $34,955 for security cameras.

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

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

There were no additions to construction in progress in 2019 as all projects relate to facility improvement expenses. Assets placed into service for fiscal year 2019 amounted to $113,514 for service vehicle, security cameras and PIDS.

5 – Facility Improvement Grant Expenses

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

In April 2002, the Authority signed a construction and maintenance agreement (the "Construction Agreement") with UPRR. The Construction Agreement and subsequent amendments stipulate that the Authority shall provide the construction funding to UPRR for construction projects on the Capitol Corridor track (the "Improvements") in an amount up to $117,933,785 of which Improvements with budgeted costs totaling $114,893,785 had been completed through fiscal year 2020. 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.

5 – Facility Improvement Grant Expenses (Continued)

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

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

The facility improvement grant expenses, which is not limited to the UPRR Construction and Maintenance Agreement, amounted to $10,317,462 and $8,507,660 in fiscal years 2020 and 2019, and consisted of expenditures for the following projects:

	2020	2019
A's Ballpark Howard Terminal Rail Assessment	$ -	$ 19,539
Alviso Adaptation Alternatives	126,403	165,610
Auburn Security Camera & Power	99,488	232,732
Cal ITP Staffing *	3,180,947	834,902
California High Speed Rail Project	-	45,898
Capitalized Maintenance 2015	7,151	-
CCJPA Data Analytics/Business	-	130,000
Contribution to 2nd Transbay Tube Planning	146,163	79,362
Davis Crossover and Signal Replacement	215,292	-
E-Lockers and Folding Bicycle Rental Project	-	47,162
E-Lockers at Stations	-	3,600
Final Design Oakland Maintenance Facility	65,565	35,050
Santa Clara Siding	357,367	-
Station Information Signage	71,705	-
Folding Bicycle Rental Equipment	-	32,589
FY 17 Minor Capital Improvement Project	86,857	312,863
FY14/15 Safety Improvements	19,313	235,007
FY19 HDR Task Orders	-	34,842
FY20 New Transbay Rail Crossing *	1,011,961	-
OKJ-SJC Service Expansion II	1,535,789	302,444
On Board Information System (OBIS)	-	(31)
OBIS Decommissioning	3,169	-
Passenger Information Display System (PIDS) Development	471,485	100,913
Repairs and Improvements	-	8
Right-of-way Clean up and Fencing	426,541	1,181,372
Sacramento- Roseville Engineering-Design	1,237,269	1,564,089
Sacramento-Roseville Track	5,869	2,696
Santa Clara Station Alignment Study	3,862	8,515
Service Optimization -Mode of Access Survey	1,258	6,558
Service Optimization -Operations	1,613	92,586
Service Optimization: Model Reconciliation	-	45,448
Signal Reliability Improvement	564,499	945,664
Travel Time Saving Project	3,460	935,341
Turnout Component Upgrade	671,271	967,234
Wayside Power at Oakland Maintenance Facility	3,165	1,551
WiFi Transition	-	144,116
Total	$ 10,317,462	$ 8,507,660

* 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 IPRs.

6 – Related Party Transactions

Capital project expenses, facility improvement grant expenses, marketing and administrative services and other operating expenses incurred by the Managing Agency on behalf of the Authority amounted to $5,354,731 and $5,043,934 for the years ended June 30, 2020 and 2019, respectively.

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

A summary of amounts owed to the Managing Agency at June 30, 2020 and 2019 is as follows:

	2020	2019
Construction costs	$ 206,544	$ 249,444
Marketing and administrative services and other expenses	1,221,416	2,262,127
	$ 1,427,960	$ 2,511,571

7 – Unearned Revenue and Other Liabilities – State of California, Department of Transportation and California Office of Emergency Services and California State Rail Agency

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

	2020	2019
Train operations and bus feeder services	$ 8,612,993	$ -
Unused portion reinvestment program and revenue above budget	15,274,128	16,390,602
Advance for facilities improvement projects	10,372,593	5,479,570
Other	74,412	74,035
	$ 34,334,126	$ 21,944,207

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.

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

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 is retained by the Authority for future service enhancement and project use. The unspent funding is tracked into subaccounts, Revenue Above Budget ("RAB") and Capitol Corridor Reinvestment Program ("CCRP"). 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.

In fiscal year 2020, the Authority only accounted for CCRP and RAB from the months of July to September 2019, following the State's fiscal year. Residual amount from October 2019 to June 2020, amounting to $6,010,070, is retained by the Authority to cover higher operating expenses anticipated in fiscal year 2021 resulting from the effects of the pandemic.

As of June 30, 2020 and 2019, the funds retained by the Authority for RAB and CCRP, included as part of the total unearned revenue, amounted to $15,274,128 and $16,390,602, respectively.

	CCRP	RAB	Total
Balance, June 30, 2019	$ 3,787,292	$ 12,603,310	$ 16,390,602
Credits received	(226,420)	902,914	676,494
Credits used for operating expenses	(1,224,892)	(228,711)	(1,453,603)
Credits used for capital expenses	(238,008)	(101,357)	(339,365)
Balance, June 30, 2020	$ 2,097,972	$ 13,176,156	$ 15,274,128

	CCRP	RAB	Total
Balance, June 30, 2018	$ 4,079,149	$ 9,668,301	$ 13,747,450
Credits received	1,881,437	3,295,477	5,176,914
Credits used for operating expenses	(1,432,260)	(214,905)	(1,647,165)
Credits used for capital expenses	(741,034)	(145,563)	(886,597)
Balance, June 30, 2019	$ 3,787,292	$ 12,603,310	$ 16,390,602

In fiscal year 2018, the Authority was approved to receive allocations of State Rail Assistance ("SRA") program with funds coming from SB1, the Road Repair and Accountability Act of 2017. The Authority received SB1 allocation of $6,712,816 in fiscal year 2020 and $5,220,500 in fiscal year 2019. Balance of unspent SB1 allocation was $10,372,036 and $5,479,111 at June 30, 2020 and 2019, respectively.

8 – Assessment Revenue

According to the operating agreement, the Authority assesses the nonperformance of AMTRAK with regards to standards set in the operating agreement, including but not limited to "On Time Performance and Maintenance of Stations," and charges them fees for nonperformance. There was no mechanical assessment revenue earned for the year ended June 30, 2020. For the year ended June 30, 2019, the mechanical assessment revenue earned was $15,475.

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

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

Funding Source	**2020**	**2019**
Operating	$ 21,608,669	$ 23,893,957
CCRP	1,224,892	1,432,260
Revenue Above Budget (RAB)	228,711	187,711
MCIP	-	(11,796)
Total train operations and bus feeder services	23,062,272	25,502,132
WiFi Services	2,397,118	711,350
Total	$ 25,459,390	$ 26,213,482

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 $21,608,669 and $23,893,957 for fiscal years 2020 and 2019, respectively. This reimbursement also includes call center costs, which was stipulated starting in the 2014 contract with AMTRAK. The unreimbursed amount due to AMTRAK for train operations was $1,969,005 and is recorded as Due to AMTRAK at June 30, 2020. There was no unreimbursed amount due to AMTRAK for train operations at June 30, 2019.

As discussed in Note 7, the Authority can spend CCRP funds for both operating and capital projects. In fiscal year 2020 and 2019, operating expenses funded by CCRP amounted to $1,224,892 and $1,432,260 respectively.

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

In fiscal year 2020, the Authority spent $228,711 of RAB funds to cover operating expenses.

In fiscal year 2019, the Authority spent $214,905 of RAB funds, of which $187,710 covered operating expenses and $27,195 was used for the acquisition of a service vehicle.

Included in the Authority's operating agreement with AMTRAK is an annual allocation from the State, for minor capital improvement projects ("MCIP") to improve facilities used on the Capitol Corridor route. The Authority received a $500,000 allocation for minor capital improvements in fiscal years 2020 and 2019, respectively. Under the terms of the operating agreement, the Authority must encumber the allocated amount and authorize funding for Authority approved projects by the end of the second year after the year of allocation. Projects must be completed with final invoices sent by the Authority to the State for reimbursement. For fiscal year 2020, there was no net operating expenses funded by MCIP. For fiscal year 2019, the net operating expenses funded by MCIP amounted to $(11,796).

Starting in fiscal year 2019, the State approved to transfer the provision of 3rd party onboard Wi-Fi and its associated management expenses for the CCJPA, Pacific Surfliner and San Joaquin intercity passenger rail services from AMTRAK to the CCJPA. For the years ended June 30, 2020 and 2019, the Authority recorded $2,397,118 and $711,350, respectively, in Wi-Fi expenses.

10 – Charges for Marketing and Administrative Services

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

	2020	2019
Salaries and benefits	$ 4,603,125	$ 4,402,746
Advertising	494	27,500
Other consulting fees	211,206	64,396
Travel and entertainment	21,799	35,416
Legal and accounting	107,636	45,773
Insurance	104,514	-
Dues and subscriptions	17,158	14,777
Telephone	15,037	22,490
Office supplies	15,914	29,592
Printing and graphic design	1,561	10,369
Training and seminars	2,811	1,027
Repairs and maintenance	107	11,265
Temporary help	6,284	-
Miscellaneous expenses	13,990	11,570
	$ 5,121,636	$ 4,676,921

11 – Grants from State of California

Effective July 1, 1998, the Authority and the State entered into a Fund Transfer Agreement ("FTA"). The FTA provides for State funding, appropriated by the State Budget Act and allocated to the Authority in accordance with provisions of the FTA and ITA, for the Capitol Corridor Rail Service. In accordance with the ITA and FTA provisions, any required funding is contributed towards actual marketing and administrative costs and operational losses of the Capitol Corridor Rail Service. Effective November 10, 2003, the ITA was amended so that the term shall continue after July 1, 2004 until terminated by either party, by giving advance written notice to the other as stipulated in the ITA. The FTA shall remain in effect for as long as the ITA remains in effect. At June 30, 2020 and 2019, the receivable account due from the State amounted to $1,822,543 and $2,315,501, respectively.

The Authority also receives grants from the State and other funding agencies for facility improvements and capital projects. As of June 30, 2020 and 2019, the total grants receivable was $5,212,812 and $3,728,663 respectively.

12 – Commitments and Contingencies

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

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

The Authority has construction and other significant commitments amounting to $5,235,000 and $5,951,049 as of June 30, 2020 and 2019, respectively.

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 in the midst of tremendous uncertainty due to the COVID-19 global pandemic. CalSTA's guidance limits operations to no more than 50-60% of service levels in the currently approved Annual Business Plans (ABP) and seeks other cost reduction areas.

12 – Commitments and Contingencies (Continued)

In November 2020, the Authority's Board of Directors approved a revised FY 2020-21 Annual Business Plan (ABP) which includes updated operating plans and operating cost estimates as a result of the COVID-19 pandemic and its impact on travel demand for the Capitol Corridor intercity passenger rail service. Key ABP revisions approved by the Board include:

- Operating Plan - Due to decreased ridership demand related to COVID-19 starting in March 2020 that is forecasted to persist into FY 2021, the Authority will continue to operate temporarily reduced train service that is 55% of normal until health and financial conditions permit a return of partial or complete service. The expectation is that service levels will be revisited throughout the year with the potential to add service. For budget forecasting purposes, the revised business plan reflects this reduced level of service through the remainder of the fiscal year. Connecting bus services are also reduced. Other significant operating plan changes include temporarily discontinuing food and beverage services onboard all trains and the rollout of a paper-free Transit Transfer Program.
- Northern California Equipment Fleet - In response to the changing demands for service due to the COVID-19 pandemic, the Authority worked collaboratively with Caltrans and the other Intercity Passenger Rail (IPR) to implement a revised fleet plan for FY 2021 that minimizes the use of AMTRAK leased cars in the state and maximizes the use of the California owned fleet. Capitol Corridor will operate the temporary reduced service with a fleet that generally relies on seven four-car trainsets.
- Marketing Strategies - In response to the public health crisis, communication strategies will include an emphasis on safety precautions being taken on Capitol Corridor service and changes in rail or connecting bus schedules throughout the year. As local health conditions permit, marketing and communication efforts will shift toward an active outreach effort to rebuild ridership.
- Funding Requirements – The budget was updated to include the temporary reduction in service levels and ridership demand due, the carryover of unexpended prior year FY 2020 operating funds due to the CARES Act, the extension of CARES Act funding for the months of October through December 2020, and the initial allocation received from CalSTA for the first four months of FY 2021.

The Authority will continue to work with CalSTA, Caltrans, and AMTRAK to develop updated Operations estimates based on the current status and planned resumption of the Capitol Corridor service, as well as any additional cost saving actions identified in upcoming discussions. The Authority will participate in regular budget check-in meetings with CalSTA throughout the fiscal year to review updated operations estimates on both the current status and planned resumption of the Capitol Corridor service and assess additional operations funding needs for FY 2021.

12 – Commitments and Contingencies (Continued)

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 of Coronavirus Aid, Relief, and Economic Security (CARES) Act funding to AMTRAK. Of the amount awarded to AMTRAK, $239 million of the CARES Act funding was allocated to mitigate the cost of operating AMTRAK's 28 State-supported IPR routes which were facing severe declines in revenue and ridership due to the public health crisis. The legislation limits Amtrak's FY2020 charges to State-supported IPRs at 80% of the FY2019 invoiced amount, which for the Authority was $19.5 million. The CARES Act funding reduced the Authority's FY2020 charges by $8.5 million or 30%, allowing the Authority to carryover $8.7 million of FY2020 surplus operations funding to be used in FY2021. At the conclusion of FY 2020, approximately $79 million of the CARES Act funding awarded to AMTRAK remains unexpended and will be applied proportionally to state services, including the Authority, to support the first four months of FY 2021.

FY 2021 COVID-19 Emergency Relief

The Consolidated Appropriations Act of 2021 signed by President Trump on December 27, 2020, includes $900 billion in COVID-19 emergency relief. The relief bill includes funding for state-supported intercity rail services as a part of the $1 billion package provided to AMTRAK. Funding for each state-supported route is calculated through a prescribed formula based on FY 2019 operating costs and revenue. Based on this calculation, it is estimated that the Authority's benefit from the new COVID-relief bill will be approximately $13 million in FY 2021.

13 – Risk Management

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

14 – Concentration of Credit Risk

The Authority receives substantially all of its funds for operating and capital purposes from the State. The Authority's net revenues provided by the State were 99.9% and 99.9% in fiscal year 2020 and 2019, respectively. At June 30, 2020 and 2019, receivables from the State represented 17.0% and 21.0% of total assets, respectively.

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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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Capitol Corridor Joint Power Authority (Authority), as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated February 5, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
February 5, 2021