CAPITOL CORRIDOR JOINT POWERS AUTHORITY

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

For the Years Ended June 30, 2015 and 2014

MGO Certified Public Accountants

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
For the Years Ended June 30, 2015 and 2014

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Capitol Corridor Joint Powers Authority ("Authority") as of and for the years ended June 30, 2015 and 2014 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Macias Gini & O'Connell LLP

Oakland, California
February 10, 2016

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, 2015, with selected comparative information for the years ended June 30, 2014 and 2013. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

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

The enabling legislation called for BART to provide dedicated staff and administrative management to the Authority for a three-year term starting in February 1998. The administrative support service agreement between BART and the Authority has been renewed several times with the current agreement ending in February 2020. BART's management responsibilities on behalf of the Authority include but are not limited to the overseeing of day-to-day rail and motor coach scheduling and operations; reinvesting operating efficiencies into service enhancements; overseeing deployment and maintenance of rolling stock and coordinating with appropriate agencies and local communities to develop and implement a capital improvement program.

The Basic Financial Statements

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

Overview of the Basic Financial Statements

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

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

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

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

The financial statements can be found on page 8 – 10 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 page 11 – 22 of this report.

Financial Highlights

Statements of Net Position

A comparison of the Authority's statements of net position as of June 30, 2015, 2014 and 2013 is as follows:

	2015	2014	2013
Current assets	$ 10,244,970	$ 15,905,493	$ 14,863,731
Noncurrent assets - capital assets, net	5,873,502	6,675,709	7,415,196
Total assets	16,118,472	22,581,202	22,278,927
Current liabilities	8,963,611	14,635,515	13,564,032
Net position			
Net investment in capital assets	5,873,502	6,675,709	7,415,196
Unrestricted net position	1,281,359	1,269,978	1,299,699
Total net position	$ 7,154,861	$ 7,945,687	$ 8,714,895

In fiscal year 2015, current assets decreased by $5,660,523 primarily due to the decrease in cash and cash equivalents by $6,959,754. In fiscal year 2015, the Authority settled its entire obligation for train operations with the National Railroad Corporation ("AMTRAK") that were previously withheld due to reporting compliance issues (see discussion on page 5 on current liabilities). Grants receivable from the California Department of Transportation also decreased by $1,706,890, as there were only two months of administrative and marketing billings that were uncollected at June 30, 2015, compared to six months unpaid billing at June 30, 2014. The aforementioned decreases were offset by an increase in receivable from AMTRAK by $3,218,853 largely due to credits from reduction in operating costs, which is expected to be received by the Authority related to the fiscal year 2015 reconciliation of results of train operations.

In fiscal year 2014, current assets increased by $1,041,762 primarily due to the increase in cash and cash equivalents by $5,252,883. This is mainly due to withholding of payments for train operations to AMTRAK for reporting compliance issues (see discussion below on current liabilities). Assessments and other receivables also increased by $189,546 brought about by the annual reconciliation process with AMTRAK. These are offset by the decrease in facility improvement grants receivable by $4,511,827 resulting from relatively fewer capital related projects undertaken in fiscal year 2014 compared to fiscal year 2013.

In fiscal year 2015, noncurrent assets decreased by $802,207 due to depreciation of capital assets amounting to $816,618, offset by the net increase of $14,411 in capitalized expenditures.

In fiscal year 2014, noncurrent assets decreased by $739,487 due to depreciation of capital assets amounting to $820,227, offset by the net increase of $80,740 in capitalized expenditures.

In fiscal year 2015, current liabilities decreased by $5,671,904 due to the effects of the following (1) decrease by $7,745,602 of amounts due to AMTRAK as all train operations payments withheld due to reporting compliance issues along with the call center settlement of $1,260,000 were resolved in fiscal year 2015; (2) decrease in liability due to BART by $1,121,812 as there were only two months of administrative and marketing expenses unpaid at the end of fiscal year 2015 compared to six months at the end of fiscal year 2014; and (3) offset by an increase of $3,284,656 in unearned revenue primarily due to credits from reduction in operating costs, which is expected to be received from fiscal year 2015 reconciliation of results of train operations with AMTRAK.

In fiscal year 2014, current liabilities increased by $1,071,483 due to the effects of the following (1) increase by $4,044,813 of amounts due to AMTRAK as portion of train operations payments were withheld due to reporting compliance issues; (2) increase in unearned revenue by $3,235,346 primarily due to receipt of one month advance payment for train operations amounting to $2,913,116 and increase of $274,511 for advance funding received from the State of California for the Capitol Corridor Reinvestment Program; (3) increase in payable to vendors amounting to $139,053 due to the timing of new projects that began near year-end; and (4) offset by the decrease in liability due to San Francisco Bay Area Rapid Transit District by $6,347,729 as facility grants receivable were collected during fiscal 2014 that enabled the Authority to settle the $5,000,000 loan from BART together with other advances with net amount of $1,347,729.

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, 2015, 2014 and 2013 is as follows:

	2015	2014	2013
Operating revenues	$ 134,887	$ 94,458	$ 51,609
Operating expenses	(34,735,782)	(34,269,712)	(34,728,413)
Operating loss	(34,600,895)	(34,175,254)	(34,676,804)
Nonoperating revenues (expenses)			
Grants from State of California, Department of Transportation	33,783,275	33,310,869	33,371,972
Grants for facility improvement revenues	3,158,052	3,242,285	8,844,701
Facility improvement grant expenses	(3,158,052)	(3,242,285)	(8,844,701)
Interest income	12,384	14,433	10,654
Nonoperating revenues, net	33,795,659	33,325,302	33,382,626
Change in net position before capital contributions	(805,236)	(849,952)	(1,294,178)
Capital contributions	14,410	80,744	105,356
Change in net position	(790,826)	(769,208)	(1,188,822)
Net position, beginning of year	7,945,687	8,714,895	9,903,717
Net position, end of year	$ 7,154,861	$ 7,945,687	$ 8,714,895

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. There were no significant changes in the Authority's operating expenses over the last three fiscal years since the funding provided by the State remains relatively flat.

Facility improvement grant expenses refer to capital improvement expenses that are not capitalized nor recorded as capital assets by the Authority. These types of expenses are primarily those covered by the Construction Agreement entered into between the Authority and the Union Pacific Railroad Company. 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 2015, the grants for facility improvement revenues and expenses were lower by $84,233 compared to fiscal year 2014 as the following projects were completed or were substantially complete as of end of fiscal year 2015: On-board communication safety and operations control, Capitalized maintenance phase 3, Row crossing barriers and swing, Wayfinding and Safety Information Signs and Web Application.

The following projects comprise the facility improvement charges for fiscal year 2015: Row Crossing Barriers and Swing, Roseville 3rd Track, Capitalized Maintenance 2015, On-board Communication Safety and Operations Control, California High Speed Rail Project Coordination, Transit Agency for Monterey County ("TAMC") Rail Extension, the Oakland to San Jose Double Track Phase 2, E-Lockers at Stations, FY13/14 Safety Improvements, Wayfinding and Safety Information Signs and Web Application. Please refer to Note 5 for project details and expenses.

In fiscal year 2014, the grants for facility improvement revenues and expenses were lower by $5,602,416 compared to fiscal year 2013 as the following projects undertaken in fiscal years 2012 and 2013 were completed or near completion with minimal trailing expenses in fiscal year 2014: Bahia Viaduct Track Project, Yolo West Crossover and Positive Train Control Dispatch and Equipment Upgrades.

Capital contributions consist of grants received by the Authority from the State, from either the Department of Transportation or the California Office of Emergency Services ("CalOES") relating to capital improvements owned by the Authority. These grants are recorded by the Authority as "Grants Restricted for Capital Expenditures." In fiscal year 2015, capital contributions is lower by $66,334 compared to fiscal year 2014 as there were minimal trailing capitalized construction activities related to Wireless Information System Development project, which was substantially complete in fiscal year 2014.

In fiscal year 2014, capital contributions is lower by $24,612 compared to fiscal year 2013 as capitalized construction activities related to the Wireless Information System Development and the Security Cameras at the Stations projects undertaken in 2012 were completed or were near completion in fiscal year 2014.

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 $11,111,782 and $10,997,867 as of June 30, 2015, and 2014.

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, Interim Controller-Treasurer of BART, at 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

CAPITOL CORRIDOR JOINT POWERS AUTHORITY
Statements of Net Position
June 30, 2015 and 2014

	2015	2014
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 4,659,883	$ 11,619,637
Grants receivable - California Department of Transportation	920,560	2,627,450
Facility improvement grants receivable	1,066,837	1,361,280
Incentive, assessment and other receivables -		
National Railroad Passenger Corporation	3,489,742	270,887
Prepaid Assets	86,203	-
Total unrestricted current assets	10,223,225	15,879,254
Restricted assets		
Cash and cash equivalents	21,745	26,239
Total current assets	10,244,970	15,905,493
Noncurrent assets		
Nondepreciable capital assets	626,760	624,077
Depreciable capital assets, net	5,246,742	6,051,632
Total noncurrent assets	5,873,502	6,675,709
Total assets	16,118,472	22,581,202
Liabilities		
Current liabilities		
Accounts payable	427,120	516,266
Due to National Railroad Passenger Corporation	-	7,745,602
Due to San Francisco Bay Area Rapid Transit District	1,033,626	2,155,438
Unearned revenue and other liabilities -		
California Department of Transportation and		
California Emergency Management Agency	7,502,865	4,218,209
Total current liabilities	8,963,611	14,635,515
Net Position		
Net investment in capital assets	5,873,502	6,675,709
Unrestricted net position	1,281,359	1,269,978
Total net position	$ 7,154,861	$ 7,945,687

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, 2015 and 2014

	2015	2014
Operating revenues		
Assessment revenues	$ 134,525	$ 43,025
Other operating revenues	362	51,433
Total operating revenues	134,887	94,458
Operating expenses		
Train operations and bus feeder services	29,658,275	29,185,869
Marketing and administrative services	4,125,000	4,125,000
Depreciation expenses	816,618	820,227
Other operating expenses	135,889	138,616
Total operating expenses	34,735,782	34,269,712
Operating loss	(34,600,895)	(34,175,254)
Nonoperating revenues (expenses)		
Grants from California Department of Transportation	33,783,275	33,310,869
Facility improvement grant revenues	3,158,052	3,242,285
Facility improvement grant expenses	(3,158,052)	(3,242,285)
Interest income	12,384	14,433
Nonoperating revenues, net	33,795,659	33,325,302
Change in net position before capital contributions	(805,236)	(849,952)
Capital Contributions		
Grants restricted for capital expenditures	14,410	80,744
Change in net position	(790,826)	(769,208)
Net position, beginning of year	7,945,687	8,714,895
Net position, end of year	$ 7,154,861	$ 7,945,687

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, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Assessment fees and other operating revenues	$ 87,214	$ 100,774
Payments for train operations and bus feeder services	(37,346,261)	(25,271,171)
Payments for marketing and administrative services	(5,368,356)	(5,414,835)
Payments for other operating expenses	(96,870)	(141,464)
Net cash used in operating activities	(42,724,273)	(30,726,696)
Cash flows from noncapital financing activities		
Receipts from grants for train operations and bus feeder services	24,166,349	28,883,358
Receipts from grants for marketing and administrative services	5,785,699	3,698,272
Receipts from grants for other operating expenses	5,704,087	3,625,476
Grants received for facility improvements	3,368,216	7,804,885
Payments for facility improvement grants expenses	(3,456,493)	(2,888,518)
Net cash provided by noncapital financing activities	35,567,858	41,123,473
Cash flows from capital and related financing activities		
Net cash advance received from (paid to) S. F. Bay Area Rapid Transit District	100,000	(5,000,000)
Grants received for capital expenditures	94,195	30,060
Acquisition of capital assets	(14,411)	(188,388)
Net cash provided by (used in) capital and related financing activities	179,783	(5,158,328)
Cash flows from investing activities		
Interest received on investments	12,384	14,433
Net change in cash and cash equivalents	(6,964,248)	5,252,883
Cash and cash equivalents, beginning of year	11,645,876	6,392,993
Cash and cash equivalents, end of year	$ 4,681,628	$ 11,645,876
Reconciliation of cash and cash equivalents to Statement of Net Position		
Unrestricted assets	$ 4,659,883	$ 11,619,637
Restricted assets	21,745	26,239
Cash and cash equivalents, end of year	$ 4,681,628	$ 11,645,876
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (34,600,895)	$ (34,175,254)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	816,618	820,227
Changes in assets and liabilities:		
(Increase) decrease in assessment and other receivables, National Railroad Passenger Corporation	(95,675)	38,316
(Increase) in Prepaid Assets	(86,203)	-
Increase (decrease) in accounts payable	20,252	(77,197)
Increase (decrease) in due to National Railroad Passenger Corporation	(7,745,602)	4,044,813
Increase (decrease) in due to S. F. Bay Area Rapid Transit District	(1,032,768)	(1,377,601)
Net cash used in operating activities	$ (42,724,273)	$ (30,726,696)
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities		
Receivable from AMTRAK offset by unearned revenues	$ 3,351,042	$ 227,862

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

1 – Description of Reporting Entity

In July 1996, Senate Bill 457 was passed, which provided for the creation of the Capitol Corridor Joint Powers Board ("Board"). On December 31, 1996, the Board entered into a Joint Exercise of Powers Agreement with six public transportation agencies ("Agencies") to establish the Capitol Corridor Joint Powers Authority ("Authority"), a public instrumentality of the State of California. The six member agencies are the San Francisco Bay Area Rapid Transit District ("BART" or "Managing Agency"), Placer County Transportation Planning Agency, Sacramento Regional Transit District, Santa Clara Valley Transportation Authority, Solano Transportation Authority, and the Yolo County Transportation District. The governing board of the Authority consists of six members from the Managing Agency and two members from each of the five other Agencies. The Authority is responsible for the administration and 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, managing and control of the operation of the Capitol Corridor Rail Service from the State to the Authority for an initial three-year term terminating June 30, 2001, and was renewed for a second three-year term which expired on June 30, 2004. Effective November 10, 2003, the ITA was amended such that the term shall continue on and after July 1, 2004 until terminated by either party, by giving advance written notice to the other as stipulated in the ITA.

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

2 – Summary of Significant Accounting Policies

(a) Basis of Accounting and Presentation

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

(b) Proprietary Accounting and Financial Reporting

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

(c) Cash and Cash Equivalents

The Authority considers all money market funds and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(d) 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.

(e) 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 capitalization 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.

(f) 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).

(g) 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 broad 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. At June 30, 2015 and 2014, the Authority has $0 restricted net position. All other net position of the Authority is unrestricted.

(h) Operating Revenues and Expenses

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

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

(i) 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.

(j) 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.

(k) New Accounting Pronouncements Adopted

In January 2013, the Governmental Accounting Standards Board ("GASB")issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement is intended to improve accounting and financial reporting for state and local governments' combinations and disposals of government operations. This statement provides guidance determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations; using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations; measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and reporting the disposal of government operations that have been transferred or sold. As of July 1, 2014, the Authority adopted this statement, which did not have a significant impact to its financial statements.

(l) Recent Accounting Pronouncements That Have Not Been Adopted

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which is intended to improve accounting and financial reporting for state and local governments' investments by enhancing the comparability of financial statements among governments by requiring measurements of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The statement also requires that donated capital assets, works of art and similar assets and capital assets received in service concession agreements be reported at acquisition value rather than fair value. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2016.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments* (GASB 76), which clarifies the hierarchy of GAAP and reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the scope of authoritative GAAP. GASB 76 is effective for the Authority's fiscal year ending June 30, 2016.

3 – Cash and Cash Equivalents

The Authority does not have a written investment policy. In March 2009, the Authority's Managing Agency suspended the investment account and fund sweep service agreement whereby the Authority's excess cash had been invested for a higher yield than those in a traditional bank account. This change was made because the fees generated by the sweep account exceeded the interest earned on the prevailing money market yield. Instead the Authority opted for the Public Funds Interest Checking account, which yielded an average of 0.17% and 0.23% interest annually for fiscal year 2015 and 2014, respectively.

Deposits

The carrying amount of the Authority's deposits with banks was $4,681,628 and $11,645,876 as of June 30, 2015 and 2014, respectively. The bank balance was $7,318,765 and $14,090,266 at June 30, 2015 and 2014, respectively. The bank balance of cash deposits on June 30, 2015 and 2014 was greater than the carrying value at June 30, 2015 and 2014 due to outstanding checks of $2,637,137 and $2,444,390, respectively.

Custodial Credit Risk

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

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

4 – Capital Assets

The changes in capital assets for the year ended June 30, 2015 are summarized as follows:

	Lives (Years)	2014	Additions	Transfers/ Retirements	2015
Nondepreciable capital assets:					
Construction in progress	NA	$ 624,077	$ 14,411	$ (11,728)	$ 626,760
Depreciable capital assets:					
Communication equipment	10	5,698,365	-	11,728	5,710,093
Yard equipment	20	63,872	-	-	63,872
Ticket vending equipment	10	304,830	-	-	304,830
Food catering equipment	10	24,164	-	-	24,164
Security equipment	10	1,263,211	-	-	1,263,211
Office equipment and furniture	5	6,212	-	-	6,212
Station equipment	5	16,818	-	-	16,818
Intangible system software development	15	1,588,636	-	-	1,588,636
Total depreciable capital assets		8,966,108	-	11,728	8,977,836
Less accumulated depreciation		(2,914,476)	(816,618)	-	(3,731,094)
Total depreciable capital assets, net		6,051,632	(816,618)	11,728	5,246,742
Total capital assets, net		$ 6,675,709	$ (802,207)	$ -	$ 5,873,502

In fiscal year 2015, the additions in construction in progress totaled $14,411 for the wireless information system development project.

Assets placed into service during fiscal year 2015 amounted to $11,728 for wireless information system.

The changes in capital assets for the year ended June 30, 2014 are summarized as follows:

	Lives (Years)	2013	Additions	Transfers/ Retirements	2014
Nondepreciable capital assets:					
Construction in progress	NA	$ 572,388	$ 80,740	$ (29,051)	$ 624,077
Depreciable capital assets:					
Communication equipment	10	5,704,747	-	(6,382)	5,698,365
Yard equipment	20	63,872	-	-	63,872
Ticket vending equipment	10	304,830	-	-	304,830
Food catering equipment	10	24,164	-	-	24,164
Security equipment	10	1,262,333	-	878	1,263,211
Office equipment and furniture	5	6,212	-	-	6,212
Station equipment	5	16,818	-	-	16,818
Intangible system software development	15	1,588,636	-	-	1,588,636
Total depreciable capital assets		8,971,612	-	(5,504)	8,966,108
Less accumulated depreciation		(2,128,804)	(820,227)	34,555	(2,914,476)
Total depreciable capital assets, net		6,842,808	(820,227)	29,051	6,051,632
Total capital assets, net		$ 7,415,196	$ (739,487)	$ -	$ 6,675,709

In fiscal year 2014, the additions in construction in progress totaled $80,740 accounted for by the following projects: automated ticket validation (“ATV”) system ($44,824), wireless information system development ($29,999), and security cameras at the stations ($5,917).

Assets placed into service during fiscal year 2014 include $28,173 for wireless information system development and $878 for station security cameras. Fully depreciated communication equipment worth $34,555 were retired in 2014.

5 – Facility Improvement Grant Expenses

In December 2000, the Authority and UPRR entered into a Track Access, Engineering and Design Agreement 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 $93,783,512 of which Improvements with budgeted costs totaling $93,183,512 had been completed through fiscal year 2015. 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.

The facility improvement grant expenses amounted to $3,158,052 and $3,242,285 in fiscal year 2015 and 2014, which consisted of expenditures for the following projects:

	2015	**2014**
Roseville 3rd track	$ 1,041,580	$ 986,276
Yolo West Crossover	-	53,001
On-board communication safety and operations control	4,010	69,664
Capitalized safety improvements phase 3	657,686	1,243,429
Capitalized maintenance phase 3	16,670	592,489
Capitol Corridor Track, Bridge and Signal Upgrade	260,671	50,000
Row crossing barriers and swing	11,976	77,069
Positive train control dispatch and equipment upgrades	413,613	-
California High Speed Rail Project Coordination	20,902	131,850
TAMC Rail Extension	11,946	17,882
Oakland to San Jose Double Track Phase 2	187,302	20,625
Capitalized maintenance 2015	366,812	-
E-Lockers and Folding Bicycle Rental Project	2,854	-
FY13/14 Safety Improvements	8,014	-
Wayfinding & Safety Information Signs	99,446	-
Web Application	54,570	-
Total	$ 3,158,052	$ 3,242,285

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.

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 $3,834,000 and $3,464,419 for the years ended June 30, 2015 and 2014, respectively. In fiscal year 2015, BART provided a $2,000,000 advance to the Authority to cover facility improvement expenses. A balance of $100,000 remains at June 30, 2015. An advance of $5,000,000 to cover facility improvement grant expenses was also provided by BART to the Authority during fiscal year 2013, which was eventually paid off in fiscal year 2014.

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, 2015 and 2014 is as follows:

	2015	2014
Construction costs	$ 159,413	$ 348,455
Marketing and administrative services	774,213	1,806,983
Other expenses/Advance to cover capital expenses	100,000	-
	$ 1,033,626	$ 2,155,438

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

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

	2015	2014
Train operations and bus feeder services	$ 2,806,770	$ 3,157,669
Unused portion of reinvestment program	4,600,406	956,434
Advance for facilities improvement projects	21,745	26,239
Other	73,944	77,867
	$ 7,502,865	$ 4,218,209

On June 30, 2015 and June 30, 2014, the unearned revenue for train operations and bus feeder services was $2,806,770 and $3,157,669, respectively. These advance payments were received in June 2015 and June 2014, respectively, from the State in advance of the monthly payment for train operations and bus services due to AMTRAK in July 2015 and July 2014, respectively.

Beginning in October 2001, the Authority's operating agreement with AMTRAK included an annual allocation from the State for the Capitol Corridor Reinvestment Program ("CCRP funds"). As agreed to, these CCRP funds follow Caltrans Division of Rail protocol and policy for minor capital projects. In fiscal year 2015, there was a total allocation of $889,000 for CCRP funds and $3,350,000 in fiscal year 2014. The allocation for CCRP for fiscal year 2015 is lower compared to fiscal year 2014 because effective October 1, 2014, all payments for On-Time Performance (OTP) was disbursed using the operating funds received from the State as compared to prior years where OTP charges were disbursed using CCRP funds. As of June 30, 2015 and 2014, the unused portion of the cumulative advance amounts to $4,600,406 and $956,434, respectively. The increase in CCRP balance by $3,643,972 is largely due to the credits from reduction in operating costs, which is expected to be received from AMTRAK from fiscal year 2015 reconciliation of results of train operations.

As of June 30, 2015 and June 30, 2014 the unutilized balance of the advances received from the CalOES for facilities improvements and capital asset development was $21,745 and $26,239, respectively.

8 – Assessment Revenue

According to the operating agreement, the Authority assesses the nonperformance of AMTRAK with regards to standards set in the operating agreement, including but not limited to "On Time Performance and Maintenance of Stations," and charges them fees for nonperformance. For the years ended June 30, 2015 and 2014, the mechanical assessment revenue earned was $134,525 and $43,025, respectively.

9 – Charges for Train Operations and Bus Feeder Services

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

	2015	2014
Operating	$ 27,617,549	$ 25,747,532
CCRP	1,587,881	3,294,470
Other	452,845	143,867
	$ 29,658,275	$ 29,185,869

In accordance with the operating agreement, AMTRAK provides rail passenger services over the Capitol Corridor route and related bus feeder services. The reimbursement to AMTRAK by the Authority is based on a fixed amount as mutually agreed to by both parties and amounted to $27,617,549 and $25,752,032 for fiscal years 2015 and 2014, respectively, net of adjustments due to year end reconciliation with AMTRAK for results of operations. This reimbursement also includes call center costs, which was stipulated starting in the 2014 contract with AMTRAK. The unreimbursed amount due to AMTRAK for train operations at June 30, 2015 and 2014 amounted to $0 and $7,745,602, respectively.

Included in the Authority's operating agreement with AMTRAK is an annual allocation from the State, for minor capital projects to improve facilities used on the Capitol Corridor route. The Authority received a $500,000 allocation for minor capital improvements in fiscal years 2015 and 2014. 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 second year after the year of allocation. Projects must be completed with final invoices sent by the Authority to the State for reimbursement. The Authority incurred other charges related to train operations and bus feeder services under CCRP funds and minor capital improvement project. Other charges for train operations and bus feeder services paid to various vendors amounted to $2,040,726 and $3,438,337 for fiscal years 2015 and 2014, respectively.

10 – Charges for Marketing and Administrative Services

Effective July 1, 1998, the Authority and the Managing Agency entered into an Agreement for Administrative Support ("Agreement"), which provided marketing and administrative support to the Board for the benefit of the Authority. The Managing Agency is reimbursed by the Authority for actual expenses incurred or paid on behalf of the Authority for marketing and administrative services. The Agreement has been extended to February 19, 2020. The Board may then select the current Managing Agency or another rail transit agency to provide marketing and administrative support to the Board.

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

	2015	2014
Salaries and benefits	$ 3,693,336	$ 3,347,209
Advertising	5,877	62,920
Insurance	115,354	115,354
Other consulting fees	135,660	240,512
Travel and entertainment	61,568	62,475
Legal and accounting	45,348	202,729
Dues and subscriptions	10,060	47,934
Telephone	19,147	20,471
Office supplies	31,464	17,701
Training and seminars	1,780	2,835
Repairs and maintenance	1,237	831
Miscellaneous expenses	4,169	4,029
	$ 4,125,000	$ 4,125,000

11 – Grants from State of California

Effective July 1, 1998, the Authority and the State entered into a Fund Transfer Agreement ("FTA"). The FTA provides for State funding, appropriated by the State Budget Act and allocated to the Authority in accordance with provisions of the FTA and ITA, for the Capitol Corridor Rail Service. In accordance with the ITA and FTA provisions, any required funding is contributed towards actual marketing and administrative costs and operational losses of the Capitol Corridor Rail Service. Effective November 10, 2003, the ITA was amended so that the term shall continue after July 1, 2004 until terminated by either party, by giving advance written notice to the other as stipulated in the ITA. The FTA shall remain in effect for as long as the ITA remains in effect. At June 30, 2015 and 2014, the amount due from the State amounted to $920,560 and $2,627,450, respectively. The balance as of June 2015 and 2014 includes receivables of $342,176 and $388,367 for AMTRAK train operation services, respectively.

The Authority also receives from the State and other agencies funding for facility improvements and capital projects. As of June 30, 2015 and 2014, the total grants receivable were $1,066,837 and $1,361,280, 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 $11,111,782 and $10,997,867 as of June 30, 2015, and 2014.

13 – Risk Management

The Authority has an indemnification agreement with AMTRAK, the contract operator, as part of the annual operating agreement, whereby the Authority, its employees and agents shall be held harmless for any and all claims, damages, liability and court awards associated with the train and bus feeder services operations, subject to certain exclusions. The Authority also carries a commercial general liability insurance policy, including personal and advertising coverage, with general aggregate limit of $10,000,000. There have been no claims payments related to these programs that exceeded insurance limits in the last three years.

14 – 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 96.1% in fiscal year 2015 and 95.5 % in fiscal year 2014. At June 30, 2015 and 2014, receivables from the State represented 11.0% and 15.8% of total assets, respectively.