

**LOS ANGELES - SAN DIEGO - SAN LUIS OBISPO
RAIL CORRIDOR AGENCY**

Basic Financial Statements

Year Ended June 30, 2018

(With Independent Auditors' Report Thereon)

LOS ANGELES - SAN DIEGO - SAN LUIS OBISPO
RAIL CORRIDOR AGENCY

Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles – San Diego – San Luis Obispo (LOSSAN) Rail Corridor Agency (Agency), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the LOSSAN Agency'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit 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 auditors' 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 LOSSAN Agency, as of June 30, 2018, and the changes in its financial position and cash flows for the year 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 on pages 3 through 8 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2019, on our consideration of the LOSSAN Agency'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 LOSSAN Agency'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 LOSSAN Agency's internal control over financial reporting and compliance.



Laguna Hills, California
January 7, 2019

Los Angeles - San Diego - San Luis Obispo Rail Corridor Agency
Management's Discussion and Analysis
(unaudited)
For the Fiscal Year Ended June 30, 2018

Introduction

The following discussion and analysis of the financial performance and activity of the Los Angeles - San Diego - San Luis Obispo (LOSSAN) Rail Corridor Agency (Agency) provides an introduction and understanding of the basic financial statements of the LOSSAN Agency for the year ended June 30, 2018. This discussion was prepared by management. We encourage readers to consider the information on financial performance presented in conjunction with the financial statements that begin on page 9.

The Basic Financial Statements

The basic financial statements provide information about the LOSSAN Agency'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 Financial Statements

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

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

The statement of revenues, expenses and changes in net position presents information showing how the LOSSAN Agency's 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.

The statement of cash flows presents information using the direct method and include a reconciliation of cash to the statement of net position. The financial statements can be found on pages 9-11 of this report.

Notes to the 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 12-19 of this report.

Statements of Net Position

As noted previously, net position may serve over time as a useful indicator of the LOSSAN Agency's financial position. At June 30, 2018, the LOSSAN Agency's net position was \$213,169, an increase of \$7,662 from June 30, 2017.

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The analysis below focuses on net position (Table 1) and changes in net position (Table 2, next page) of the LOSSAN Agency’s financial activities.

Table 1
LOSSAN Rail Corridor Agency
Net Position

	2018	2017	Difference Increase (Decrease)	% Increase (Decrease)
Current assets	\$ 33,377,294	\$ 26,108,318	\$ 7,268,976	27.8 %
Current liabilities	33,164,125	25,902,811	7,261,314	28.0 %
Net position:				
Unrestricted	\$ 213,169	\$ 205,507	\$ 7,662	3.7 %

In fiscal year 2018, total assets increased by \$7,268,976, primarily due to an increase in cash and receivables. Receivables increased by \$5,458,899 in due from other governments, primarily from state payments for May and June train operating expenses, administrative expenses, and grant reimbursements for Transit Transfer Program expenses. Cash increased by \$2,114,418 primarily due to the LOSSAN Agency receiving funding allocations from the State of California Department of Transportation (Caltrans) Division of Rail and Mass Transportation (DRMT) for fiscal year 2018 train operations and administrative services.

Total liabilities increased by \$7,261,314 primarily due to an increase in unearned revenue, offset by a decrease in accounts payable. Unearned revenue increased by \$10,600,682, which is comprised of an increase of \$5,221,273 in deferred train operations funds that will be carried forward to fiscal year 2019 per the interagency transfer agreement. The increase in unearned revenue also contains a net increase of \$3,329,469 for grant revenue from the California Office of Emergency Services and \$2,008,625 for State Rail Assistance fund grant revenues. This is offset by a decrease in accounts payable by \$3,491,535 primarily due to June amounts owed to Amtrak for train operations as well as amounts owed to various other vendors for advertising and marketing services paid in June.

Unrestricted net position represents the portion of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. Unrestricted net position changed from \$205,507 at June 30, 2017 to \$213,169 at June 30, 2018. This increase of \$7,662 was primarily due to interest revenue earned.

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The analysis in Table 2 below focuses on the changes in net position.

Table 2
LOSSAN Rail Corridor Agency
Changes in Net Position

	2018	2017	Difference Increase (Decrease)	% Increase (Decrease)
Operating expenses:				
Contracted services for train operations	\$ 23,416,027	\$ 20,894,595	\$ 2,521,432	12.1 %
Administrative fees	2,557,355	2,216,532	340,823	15.4 %
Marketing services	2,022,670	1,340,960	681,710	50.8 %
Other administrative expenses	169,490	209,170	(39,680)	(19.0) %
Total operating expenses	28,165,542	24,661,257	3,504,285	14.2 %
Operating income (loss)	(28,165,542)	(24,661,257)	(3,504,285)	(14.2) %
Nonoperating revenues (expenses):				
State funding for train operations	23,416,027	20,894,595	2,521,432	12.1 %
State funding for administration and marketing	4,749,515	3,766,662	982,853	26.1 %
State funding for minor projects facility enhancements	11	144,489	(144,478)	(99.9) %
Minor projects facility enhancement expenses	(11)	(144,489)	144,478	99.9 %
Grants for transit programs and security projects	121,795	1,908,700	(1,786,905)	(93.6) %
Contributions to other agencies grant expenses	(129,424)	(1,920,438)	1,791,014	93.3 %
Other miscellaneous revenue	3,500	7,777	(4,277)	(55.0) %
Investment income	11,791	7,662	4,129	53.9 %
Total nonoperating revenues (expenses)	28,173,204	24,664,958	3,508,246	14.2 %
Changes in net position	7,662	3,701	3,961	107.0 %
Total net position – beginning	205,507	201,806	3,701	1.8 %
Total net position – ending	\$ 213,169	\$ 205,507	\$ 7,662	3.7 %

The LOSSAN Agency’s operating expenses consist of net Amtrak charges for train operations and bus feeder services, marketing and administrative expenses and other expenses. Starting in fiscal year 2016, operating expenses are financed from funds received from Caltrans DRMT. This funding is reported as nonoperating revenue under State funding for administration and marketing and State funding for train operations. The LOSSAN Agency’s total nonoperating revenues increased by \$3,508,246 due to funds

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received from Caltrans DRMT for train operations, administrative and marketing funding. Total operating expenses increased by \$3,504,285 due to the cost for train operations, as well as administrative and marketing expenses.

Budgetary Highlights

Revenues

The primary sources of revenue for the LOSSAN Agency is from Caltrans DRMT. In fiscal year 2017-18, the original budget was \$42,293,315. This includes \$32,888,641 in revenue to fund the operations of train and bus feeder services. It also includes \$5,004,674 in administrative and marketing funding, \$3,900,000 in grant funds, and \$500,000 for minor projects. A budget amendment was completed which adjusted the total original revenue budget from \$42,293,315 down to \$41,944,436. The budget amendment was completed in order to align the original budget with the funds approved by the state as part of the annual business plan approval.

Actual revenues were lower than the final budget by \$13,641,797. This is primarily related to the deferral of revenue for the remaining balance of train operations, administrative and marketing funds, which were not used to cover expenses.

Expenses

The original expense budget for fiscal year 2017-18 was \$42,293,315 and consisted of \$32,888,641 for payments to Amtrak for train operations and bus feeder services, \$5,004,674 in administrative and marketing expenses, \$3,900,000 in grant expenses, and \$500,000 for minor projects. A budget amendment was completed which adjusted the total original expense budget from \$42,293,315 down to \$41,944,436. The budget amendment was completed in order to align the original budget with the funds approved by the state as part of the annual business plan approval.

Actual expenses were lower than the final budget by \$13,649,459. This is primarily due to actual overall net train operating costs coming in lower than budgeted by \$9.1 million. The LOSSAN Agency Board of Directors (Board) amended budget for train operations of \$32,539,762 included funding capacity to implement an additional round trip from San Diego to San Luis Obispo and peak period service into Santa Barbara County. The State level of funds scheduled to be provided was based on the Amtrak operating agreement amount of \$26,891,144, creating a budget variance of approximately \$5.6 million. The actual State funds needed to offset net train operations came in lower at \$23,416,026. Net train operating costs came in lower than forecast by \$3.5 million due to total revenues coming in higher than forecast, offset by fuel expenses coming in higher than forecast. Grant expenses were lower than budgeted by approximately \$3.7 million due to lower than anticipated activity with the Transit Transfer Program, the California Office of Emergency Services station security projects and Transit and Intercity Rail Capital Program corridor wide optimization study. State funded minor projects came under budget by approximately \$500,000 as no projects were completed during the fiscal year. Administrative expenses underran the budget by approximately \$277,829 during the year primarily due to a position vacancy.

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Economic and Other Factors

Funding for the LOSSAN Agency for administration, marketing, train and bus feeder operations is provided by Caltrans DRMT. This funding is subject to annual budget appropriation by the State Legislature, and to the extent required, programmed by the California Transportation Commission to carry out the purposes of the interagency transfer agreement (ITA) between the LOSSAN Agency and Caltrans.

The LOSSAN Agency has historically negotiated and entered into annual agreements with Amtrak to provide Pacific Surfliner intercity passenger rail service and connecting bus feeder services for the LOSSAN Rail Corridor. An agreement was entered into October 1, 2016, in which the term covered October 1, 2016 through September 30, 2017. A new two year agreement was entered into on October 1, 2017, with a term from October 1, 2017 through September 30, 2019. The LOSSAN Agency plans on amending the second year term amount to reflect the fiscal year 2018-19 adopted budget.

Per the ITA and the LOSSAN Joint Powers Agreement, the LOSSAN Agency must develop an annual business plan to be approved by the LOSSAN Agency Board and submitted to the Secretary of the California State Transportation Agency (CalSTA) by April 1 of each year. The business plan is a two-year planning, operations, and budget document that outlines operating and service goals for the Pacific Surfliner service. The Board approved the business plan for fiscal years 2018-19 and 2019-20, including a draft budget for fiscal year 2018-19, on March 19, 2018. On June 18, 2018, the Board amended the business plan for fiscal years 2018-19 and 2019-20 to reflect a revised budget in order to incorporate Amtrak’s operating revenue and expense forecast and other adjustments. The revised business plan for fiscal years 2018-19, including the amended budget for fiscal year 2018-19 was submitted to CalSTA on June 26, 2018.

The LOSSAN Agency’s fiscal year 2018-19 amended budget includes \$33,811,911 for net Amtrak operations, including \$480,768 for transit connectivity and integration programs. The budget includes \$6,428,904 for administrative and marketing funding and \$500,000 for minor projects. The budget also includes \$1,500,000 in transit and intercity rail capital program (TIRCP) grant funds to continue the transit transfer program. The budget includes \$1,000,000 in TIRCP funds for a corridor wide optimization study. The budget also includes \$1,500,000 for station security upgrades funded by the California Office of Emergency Services. The budget also includes \$4,900,000 in state rail assistance funds for various corridor improvement projects and \$1,500,000 in state transportation improvement program funds for the project approval and environmental phase of the central coast layover facility expansion.

During fiscal year 2017-18, CalSTA announced the recommendation to award the LOSSAN Agency \$188.3 million in TICRP grant funding. This grant funding is provided through Senate Bill 1 and proceeds from the State’s Cap and Trade program, and will help to advance much-needed capital improvements and planning studies on both the northern and southern ends of the LOSSAN Rail corridor. The LOSSAN Agency has not received any of these funds as of June 30, 2018. It is anticipated

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that some of the projects will begin in fiscal year 2019. Further detail on grants can be found in the notes to the financial statements.

Contacting the LOSSAN Agency's Management

This financial report is designed to provide the LOSSAN Agency's Board of Directors, management, creditors, legislative and oversight agencies, citizens and customers with an overview of the Agency's finances and to demonstrate its accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the LOSSAN Agency, at the Orange County Transportation Authority, 550 South Main Street, P.O. Box 14184, Orange, California 92863-1584.

**LOS ANGELES - SAN DIEGO - SAN LUIS OBISPO
RAIL CORRIDOR AGENCY**

**Statement of Net Position
June 30, 2018**

Assets:

Current Assets	
Cash and investments	\$ 27,520,616
Prepaid Expense	199,792
Receivables:	
Due from other governments	5,649,109
Other receivables - National Railroad Passenger Corporation	7,777
Total current assets	<u>33,377,294</u>

Liabilities:

Current Liabilities	
Accounts payable	478,533
Due to other governments	588,248
Unearned revenue	32,097,344
Total current liabilities	<u>33,164,125</u>

Net position:

Unrestricted	213,169
Total net position	<u><u>\$ 213,169</u></u>

See accompanying notes to the financial statements.

**LOS ANGELES - SAN DIEGO - SAN LUIS OBISPO
RAIL CORRIDOR AGENCY**

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2018

Operating Expenses:	
Contracted services for train operations and bus feeder services	\$ 23,416,027
Administrative fees and other expenses	2,726,845
Marketing services	2,022,670
Total Operating Expenses	<u>28,165,542</u>
Operating Loss	<u>(28,165,542)</u>
Nonoperating revenues (expenses)	
State funding for train operations	23,416,027
State funding for administration and marketing	4,749,515
State funding for minor projects facility enhancements	11
Minor projects facility enhancement expenses	(11)
Grants for transit programs and security projects	121,795
Contributions to other agencies grant expenses	(129,424)
Miscellaneous revenue	3,500
Interest income	11,791
Total nonoperating revenues (expenses)	<u>28,173,204</u>
Change in net position	7,662
Net position, beginning of year	205,507
Net position, end of year	<u><u>\$ 213,169</u></u>

See accompanying notes to the financial statements.

**LOS ANGELES - SAN DIEGO - SAN LUIS OBISPO
RAIL CORRIDOR AGENCY**

Statement of Cash Flows

Year Ended June 30, 2018

Cash flows from operating activities	
Payments for train operations and bus feeder services	\$ (24,273,202)
Payments for marketing and administrative services	(5,366,652)
Net cash used in operating activities	<u>(29,639,854)</u>
Cash flows from noncapital related financing activities	
Receipts from State for train operations and bus feeder services	24,006,302
Receipts from State for marketing and administrative services	3,834,836
Receipts for grant programs	7,108,926
Payments for grant expenses	(3,207,583)
Net cash provided by noncapital financing activities	<u>31,742,481</u>
Cash flows from investing activities	
Interest received on investments	11,791
Net cash provided by investing activities	<u>11,791</u>
Net increase in cash and cash equivalents	2,114,418
Cash and cash equivalents at beginning of year	25,406,198
Cash and cash equivalents at end of year	<u>\$ 27,520,616</u>
Cash and investments	\$ 27,520,616
Total cash and cash equivalents	<u>\$ 27,520,616</u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	(28,165,542)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Changes in assets and liabilities:	
(Increase) decrease in deposits with Amtrak	489,167
(Increase) decrease in prepaid expense	(184,825)
Increase (decrease) in accounts payables	(1,903,699)
Increase (decrease) in due to other governments	125,044
Net cash used in operating activities	<u>\$ (29,639,855)</u>

See accompanying notes to the financial statements.

Los Angeles - San Diego - San Luis Obispo Rail Corridor Agency
Notes to the Basic Financial Statements
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1. Reporting Entity

The Los Angeles – San Diego – San Luis Obispo (LOSSAN) Rail Corridor Agency (Agency) is a joint powers authority originally formed in 1989 that works to increase ridership, revenue, capacity, reliability, coordination and safety on the 351 mile coastal rail line between San Diego, Los Angeles and San Luis Obispo, California. The Agency consists of eleven member agencies which include the Los Angeles County Metropolitan Transportation Authority, North County Transit District, San Luis Obispo Council of Governments, Santa Barbara County Association of Governments, Ventura County Transportation Commission, Orange County Transportation Authority, Riverside County Transportation Commission, San Diego Metropolitan Transit System and San Diego Association of Governments. The governing board of the Agency is comprised of eleven voting members representing the member agencies, as well as four non-voting, ex-officio members representing Amtrak, California Department of Transportation (Caltrans) Division of Rail and Mass Transit (DRMT), California High Speed Rail and Southern California Association of Governments.

On September 29, 2012, Governor Jerry Brown signed SB1225 which authorized the LOSSAN Agency to oversee the state-supported intercity passenger rail service, commonly referred to as the Pacific Surfliner, subject to approval of an interagency transfer agreement (ITA) with the State of California. The ITA commenced on July 1, 2015 along with the transition of administrative responsibility for the Pacific Surfliner service to the LOSSAN Agency. The overall goal of the governance change is to transform the existing Pacific Surfliner intercity rail service into a service under local control that is more responsive to local needs, issues and consumer desires.

The LOSSAN Agency receives funding from Caltrans DRMT for administration and management of the Pacific Surfliner train service. The train equipment used in the LOSSAN Rail Corridor service is owned by the State of California and the train service is operated by the National Railroad Passenger Corporation (Amtrak) under contract to the LOSSAN Agency. The railroad track is owned by Burlington Northern and Santa Fe Railway (BNSF), Union Pacific Railroad Company (UPRR), Metrolink, and North County Transit District. The LOSSAN Agency is staffed by the Orange County Transportation Authority (OCTA) under a management services agreement.

2. Summary of Significant Accounting Policies

The accounting policies of the LOSSAN Agency are in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

(a) Basis of Accounting and Presentation

The basic financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues, consisting primarily of funding from Caltrans DRMT, are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Revenues received from Caltrans DRMT are received in advance and used by the LOSSAN Agency to fund train operations provided by Amtrak.

The financial statements are reported using an Enterprise fund and full accrual method of accounting.

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(b) Proprietary Accounting and Financial Reporting

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with an enterprise fund's principal ongoing operations. The primary funding source of the LOSSAN Agency is funding received by the Caltrans DRMT for both train operations and marketing and administration. This revenue is considered nonoperating revenue. Operating expenses for the LOSSAN Agency include the cost of train operations and bus feeder services, charges for marketing and administration, and other operating expenses. All expenses not meeting this definition are reported as nonoperating expenses.

(c) Cash and Investments

The LOSSAN Agency currently does not have a written investment policy. The treasurer of the managing agency, the Orange County Transportation Authority (OCTA), serves as the Agency's treasurer. The treasurer serves as the depository of funds and has custody of funds for the Agency.

The LOSSAN Agency entered into an interest earning investment contract with its bank in September 2015. Under the repurchase agreement, funds are transferred on a daily basis into an overnight sweep account. Funds are then transferred back into LOSSAN Agency's deposit account the next day with interest earned. The interest earned is a fixed amount of .05% on the daily balance transferred into the account. The amounts transferred to the overnight repurchase sweep account are valued at cost. The LOSSAN Agency did not have any other investments as of June 30, 2018. All amounts in the overnight repurchase sweep account as of June 30, 2018 represent cash and cash equivalents for cash flow purposes. See Note 3.

(d) Cash and Cash Equivalents

The LOSSAN Agency considers all short-term investments with an initial maturity of three months or less to be cash equivalents.

(e) Receivables

Receivables are recorded for amounts invoiced to Caltrans DRMT that are due and payable for actual Amtrak train operations and bus feeder services. Receivables also include grant funding due from the State and an amount due from Amtrak to cover expenses of the LOSSAN Agency Transit Transfer Program.

(f) Unearned Revenue

The LOSSAN Agency receives advance funding from the State to pay for Amtrak provided train operations and bus feeder services. The LOSSAN Agency recognizes revenues in the period in which the related expenses are incurred. Any funds received in advance or amounts due from the State that are not used to offset current expenses are classified as unearned revenue.

(g) Net Position

Net position represents the residual interest in the LOSSAN Agency's assets after liabilities are deducted. The statement of net position reports total net position. This amount reported is considered unrestricted net position since it is accessible for general use and is not invested in capital assets or restricted by third parties, constitutional provisions or enabling legislation.

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When both restricted and unrestricted resources are available for use, it is the LOSSAN Agency's policy to use restricted resources first and then unrestricted resources as needed and in accordance with the ITA.

(h) Operating Revenues and Expenses

Operating revenues generally result from providing services in conjunction with the LOSSAN Agency's principal ongoing operations. The LOSSAN Agency had no revenues classified as operating revenues for fiscal year 2018. Operating expenses consist of costs associated with train operations and bus feeder services, marketing and administrative expenses. Under the operating agreement the LOSSAN Agency has with Amtrak, the Agency pays Amtrak a predetermined annual amount to operate the train and bus feeder service. The contractual amount is based on Amtrak's anticipated annual costs of operating the service net of projected passenger fares that will be collected. Actual amounts are reconciled on a monthly basis within forty five days following the end of the month. Any surplus or deficits are applied to the following months invoice. Under the managing agency agreement the LOSSAN Agency has with OCTA, the Agency pays OCTA the fully burdened cost (including overhead) for administrative staffing services.

(i) Nonoperating Revenues and Expenses

Nonoperating revenues consists of funding from Caltrans DRMT for the administration of the LOSSAN Agency, including funding for marketing, operations for train and bus feeder services and minor projects for facility improvements. Nonoperating revenues and expenses also include grant revenues and related expenses for grant programs. In addition, nonoperating revenues and expenses include miscellaneous revenue and interest income earned from the overnight repurchase agreement sweep account. See Note 3.

(j) Operating Reserve Fund

The LOSSAN Agency has setup an Operating Reserve Fund in accordance with the ITA. Funds provided by the state for train operations which exceed the actual billings, are considered surplus funds and can be used to fund future variability in operating costs that may vary from the budgeted amount. The maximum level of funds allowed to be retained is 12.5% of the state subsidy level in the most recently completed Amtrak contract year. As of June 30, 2018 the Operating Reserve Fund balance is \$4,125,755.

(k) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures during the reporting period. As such, actual results could differ from those estimates.

3. Cash and Cash Equivalents

Beginning in September 2015, the LOSSAN Agency entered into a fixed interest investment repurchase agreement with Bank of the West, in which the daily balance of its checking account is transferred into an overnight sweep account. Under the repurchase agreement, the LOSSAN Agency earns a fixed .05% interest rate on the daily amount transferred to the sweep account, regardless of any fluctuation in the market price of the underlying securities purchased by the bank. The funds are collateralized by a U.S. Treasury note. Each business day, the bank automatically transfers the balance in the sweep account and interest earned back into the LOSSAN Agency bank deposit account.

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The repurchase agreement is measured at cost, based upon the deposit account value that is transferred to the sweep account.

4. Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. 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.

Under the terms of the repurchase agreement with the bank, amounts transferred into the overnight sweep account for investment by the bank is not a deposit and is not insured by the Federal Deposit Insurance Corporation or guaranteed by the government. The LOSSAN Agency retains a security interest in the amount of collateral placed into the sweep account, which is in a U.S. Treasury Note. Pursuant to the Master Repurchase Agreement the amounts in the overnight repurchase agreement sweep account are collateralized 102 percent with the collateral held by the bank's custodian.

If the bank were to fail, the LOSSAN Agency would be treated as either the owner of the securities or as a secured creditor of the bank. If the aggregate market value of the LOSSAN Agency's security were to decline, the LOSSAN Agency would become an unsecured creditor of the Bank to the extent that the aggregate market value becomes less than the account balance and accrued interest.

Upon completion of the daily sweep, funds transferred back into the LOSSAN Agency checking deposit account on a daily basis are considered deposits and the amounts are 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 institution's trust department or agent in the Agency's name.

5. Prepaid Expense

The LOSSAN Agency pays Amtrak on a monthly basis for providing train and bus feeder services. The amount paid is a contractual amount based on Amtrak's anticipated annual costs of operating the service net of projected passenger fares that will be collected. Actual amounts are reconciled on a monthly basis within forty-five days following the end of the month. Any surplus or deficits are applied to the following months invoice. Through the reconciliation of actual expenses through June 30, 2018, the LOSSAN Agency has \$14,967 in prepaid expenses to Amtrak that will be applied to fiscal year 2018-19 operating expenses.

During fiscal year 2017-18, the LOSSAN Agency purchased various marketing advertising that will be utilized in both fiscal years 2017-18 and 2018-19. Prepaid expenses includes \$184,825 in marketing advertising that relates to fiscal year 2018-19.

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6. Due From Other Governments

Due from other governments consists of amounts due to the LOSSAN Agency from Caltrans DRMT to fund administration and May and June train operations and bus feeder services. It also includes grant revenue from Caltrans DRMT for transit transfer program reimbursements.

	2018
Due from Caltrans DRMT for train operations	\$ 4,635,534
Due from Caltrans DRMT for administration	955,993
Due from Caltrans DRMT grant reimbursements	57,582
Total	<u>\$ 5,649,109</u>

7. Due To Other Governments

Due to other governments consists of amounts due to OCTA for administrative services and to various other government agencies for transit services provided under the transit transfer program. The table below provides detail of due to other governments as of June 30, 2018.

	2018
Due to OCTA for administrative services	\$ 561,124
Due to transit agencies for transit transfer program	27,124
Total	<u>\$ 588,248</u>

8. Unearned Revenue and Other Liabilities

Unearned revenue consists of amounts received from the State for fiscal year 2018 operating, administrative and marketing funding, in advance of incurring the expenses. It also includes unearned revenues from prior-year State operating and marketing funding received. It includes grant revenue from the California Office of Emergency Services for facility security and safety enhancements, State Rail Assistance grant revenues, and grant revenue from the Transit and Intercity Rail Capital Program grant for the transit transfer program. The table below shows detail of unearned revenue as of June 30, 2018.

	2018
Unearned advanced train operating funds	\$ 22,305,831
Unearned advanced marketing funds	2,255,052
Unearned grant revenue	7,225,094
Unearned advanced administrative funds	307,406
Unearned miscellaneous revenue	3,961
Total	<u>\$ 32,097,344</u>

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9. Contracted Services for Train Operations

The LOSSAN Agency negotiates and enters into annual agreements with Amtrak to provide Pacific Surfliner intercity passenger rail service and connecting bus feeder services for the LOSSAN Rail Corridor. A new agreement was entered into beginning October 1, 2017, which goes through September 30, 2019.

Payment to Amtrak by the LOSSAN Agency is based on a projected amount mutually agreed to by both parties as part of the agreement. This projected amount is net of related fare revenues. The actual amounts are reconciled and provided to the LOSSAN Agency on a monthly basis. Any surplus or deficits are applied to the following months invoice. The actual net expense for train operations as of June 30, 2018 is \$23,354,505 net of adjustments due to year end reconciliation with Amtrak from results of operations.

Beginning April 1, 2018, Amtrak implemented peak period hour rail service between Ventura and Santa Barbara counties. The LOSSAN Agency intends to enter into a cost sharing agreement with the Santa Barbara County Association of Governments (SBCAG) to offset costs associated with the service. The intent of the agreement is have SBCAG fund half of the cost to run the new service, with the State of California funding the other half of the costs. In addition, SBCAG will fund any fare discounts that were provided during the implementation and promotion of the new service. It is anticipated that the agreement will be executed in fiscal year 2019.

10. Charges for Marketing and Administration

Effective, November 21, 2013, the Agency entered into an agreement with OCTA to provide administrative support services through the initial term of the ITA (June 30, 2018). In accordance with the agreement, OCTA is reimbursed by the Agency for administrative staff time including an agreed upon overhead rate. Charges from OCTA for these services are highlighted in the table below under administrative services. A new administrative services agreement with OCTA was entered into on June 25, 2018, effective July 1, 2018 for a three year term through June 30, 2021. The agreement may be extended by mutual agreement for two additional three-year terms through June 30, 2027.

The LOSSAN Agency incurs other administrative charges for services as detailed in the table below.

	2018
Administrative Services	\$ 2,557,354
Marketing Expenses	2,022,670
Professional Services	36,340
Insurance	44,224
Legal Services	36,046
Travel	23,811
Audit Services	17,908
Other Business Expenses	11,162
Total	\$ 4,749,515

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11. State Funding for Train Operations and Administrative and Marketing

Effective July 1, 2015, the LOSSAN Agency and the State of California Department of Transportation (Caltrans) entered into an interagency transfer agreement (ITA), which transferred the administrative responsibility for the operation of rail services along the LOSSAN corridor. The ITA carried an initial three year term through June 30, 2018. As part of the ITA, the LOSSAN Agency entered into a Master Fund Transfer Agreement (MFTA) with the State. The MFTA provides for State funding, appropriated by the State Budget Act and allocated to the LOSSAN Agency in accordance with the provisions of the MFTA and ITA, for the LOSSAN corridor rail service. In accordance with the MFTA and ITA provisions, funding is contributed towards actual marketing and administrative costs, as well as train operations.

On June 30, 2018, the LOSSAN Agency and Caltrans entered into the first amended ITA, with a term commencing on July 1, 2018 and ceasing on the third anniversary date, June 30, 2021, with two four-year options for renewal.

12. Grants for Transit Programs

Beginning in June 2016, the LOSSAN Agency initiated a Pacific Surfliner Transit Transfer Program (Program) on a one year pilot basis, and has since continued the program for an additional year. The Program allows Pacific Surfliner passengers to transfer to connecting transit services by presenting a valid Pacific Surfliner ticket. The program is funded by Transit and Intercity Rail Capital Program grants awarded by the California State Transportation Agency. The California Transportation Commission (CTC) approved the allocation of \$1,675,000 for this pilot program. As of June 30, 2018, the total receivable is \$57,582 and is included as part of due from other governments.

The LOSSAN Agency was awarded grants from the California Office of Emergency Services for security and safety enhancements for rail facilities. In fiscal year 2017, a total of \$3,774,000 was received in which \$1,887,000 was recognized as revenue to offset program expenses, and \$1,887,000 was deferred. In fiscal year 2018, \$67,611 of the prior year deferred revenue of \$1,887,000 was recognized as revenue to offset program expenses, with the remaining balance of \$1,819,389 being deferred. In addition, \$3,397,080 in grant revenue was received during fiscal year 2018, which has been deferred until it is recognized to offset program expenses. This brings the total revenue deferred for these funds to \$5,216,469.

During fiscal year 2018, the LOSSAN Agency was awarded \$2,323,000 of State Rail Assistance (SRA) funds, of which \$2,008,625 was received during the year. Funding for this program comes from Senate Bill 1 (SB 1), the Road Repair and Accountability Act of 2017. The program funds will be used to improve rail service along the LOSSAN corridor, and includes projects for the San Luis Obispo platform repair, replacement of station siding, update of the LOSSAN Corridor strategic plan, corridor optimization software, and an interregional connectivity improvement project. These projects are anticipated to start in fiscal year 2019, and therefore the revenue received during the current fiscal year is deferred as of June 30, 2018.

During fiscal year 2018, the LOSSAN Agency was awarded \$188 million in Transit and Intercity Rail Capital Program grant funds to advance capital improvements and planning studies on both the northern and southern ends of the LOSSAN rail corridor. The funding is provided through SB 1 and the proceeds from the Cap and Trade program. On the northern end of the corridor, the program of projects includes construction of additional double track and siding extensions, station and layover facility enhancements, incentives for improved on-time performance, and signal switches and upgrades. On the southern end of

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the corridor, the program of projects includes signal improvements, creating a more robust capital maintenance program, installing new fencing in San Diego County and a feasibility study for a new maintenance and layover facility in San Diego. The LOSSAN Agency has not received these grant funds as of June 30, 2018. It is anticipated that some of these projects will begin in fiscal year 2019.

13. Commitments and Contingencies

The LOSSAN Agency has various outstanding contracts. Total outstanding purchase commitments at June 30, 2018 were \$14,075,713. The most significant is with Amtrak at \$12,129,190 which includes \$10,376,273 for train operations and bus feeder services, and \$1,691,396 for facility safety and security enhancements, and \$61,521 for marketing related costs for bus feeder services. Other purchase commitments for professional marketing services total \$1,533,974, while administrative and other professional services total \$133,736. This amount does not include a value for the administrative services agreement with OCTA, as this is an actual cost based reimbursable agreement. Cooperative agreements in place with other transit agencies for the Transit Transfer Program total \$278,813 as of June 30, 2018. The Transit Transfer Program agreements are also on a reimbursement basis, where the LOSSAN Agency is only billed when passengers use the program.

14. Risk Management

As part of the annual operating agreement with Amtrak, Amtrak is responsible to pay any settlement or final judgment of claims against the LOSSAN Agency arising directly from Amtrak's operations of the rail passenger and bus feeder service. The LOSSAN Agency pays an allocated share of the cost of Amtrak's master insurance policies as they relate to the services being provided by Amtrak under contract. The LOSSAN Agency also purchases general liability and excess liability insurance with an aggregate limit of \$4,000,000, errors and omissions public officials' liability of \$1,000,000 and crime liability of \$2,000,000. There have been no claims or settlements that have exceeded insurance coverages within the past three fiscal years.

15. Concentration of Funding

Funding for the administration of the LOSSAN Agency as well as funding for marketing, train and bus feeder operations is provided by Caltrans DRMT, and is subject to annual budget appropriation by the California State Legislature (Legislature) and programming by the California Transportation Commission (CTC). This represents 99% of total LOSSAN Agency revenue. There is no guaranty that funding will actually be appropriated by the Legislature and to the extent required, programmed by the CTC.



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

Board of Directors
Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency
Orange, 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 Los Angeles – San Diego – San Luis Obispo (LOSSAN) Rail Corridor Agency (Agency), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the LOSSAN Agency's basic financial statements, and have issued our report thereon dated January 7, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the LOSSAN Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LOSSAN Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the LOSSAN Agency'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 LOSSAN Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Laguna Hills, California
January 7, 2019