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

Basic Financial Statements

Year Ended June 30, 2020

(With Independent Auditor's Report Thereon)

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

Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S 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, 2020, 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.

Auditor's 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 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 LOSSAN Agency as of June 30, 2020, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 March 31, 2021 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 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.

Crowe LLP

Crowe LLP

Costa Mesa, California
March 31, 2021

Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency
Management's Discussion and Analysis
(unaudited)
For the Fiscal Year Ended June 30, 2020

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, 2020. 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 10.

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 10-12 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 13-26 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, 2020, the LOSSAN Agency's net position was $771,316, an increase of $358,913 from June 30, 2019.

The analysis below focuses on net position (Table 1) and changes in net position (Table 2, page 6) of the LOSSAN Agency's financial activities.

Net Position

	2020	2019	Difference Increase (Decrease)	% Increase (Decrease)
Assets:				
Current assets	$ 11,767,407	$ 22,175,889	$ (10,408,482)	-46.9%
Restricted assets	14,109,249	7,925,535	6,183,714	78.0%
Noncurrent capital assets, net	152,728	-	152,728	N/A
Total assets	26,029,384	30,101,424	(4,072,040)	-13.5%
Liabilities:				
Current liabilities	25,258,068	29,689,021	(4,430,952)	-14.9%
Total liabilities	25,258,068	29,689,021	(4,430,952)	-14.9%
Net position				
Net investment in capital assets	152,728	-	152,728	N/A
Unrestricted net position	618,588	412,403	206,185	50.0%
Total net position	$ 771,316	$ 412,403	$ 358,914	87.0%

In fiscal year 2020, total assets decreased by $4,072,040, primarily due to a decrease in cash and receivables, partially offset by an increase in restricted cash and cash equivalents. Cash decreased by $8,841,096 primarily due to a payment to Union Pacific for host railroad improvements related to positive train control. Receivables decreased by $2,278,814 in due from other governments, primarily due to receiving Caltrans DRMT grant funding, and Santa Barbara County Association of Governments (SBCAG) funding prior to the end of the fiscal year compared to fiscal year 2020 in which the receivables were outstanding. Restricted cash and cash equivalents increased by $6,183,714 primarily due to the receipt of State Rail Assistance (SRA) funds ($4,381,910), and an increase to the operating reserve fund ($3,341,535), partially offset by a decrease in restricted cash and cash equivalents for payments related to the California Office of Emergency Services (CalOES) grant program for rail facilities projects ($1,508,266).

In fiscal year 2020, noncurrent capital assets increased due to the capitalization of rail planning software. The increase is offset by depreciation for a net increase of $152,728. Information on capital assets can be found in Note 4 – Capital Assets in the accompanying notes to the basic financial statements.

Total liabilities decreased by $4,430,953 primarily due to a decrease in amount due to Union Pacific and accounts payable, partially offset by an increase in unearned revenue. Amount due to Union Pacific decreased by $8,500,000 due to a payment to Union Pacific during the fiscal year for host railroad improvements related to positive train control. Accounts payable decreased by $3,537,010 primarily due to a decrease to amounts due to Amtrak for net operating expenses. Unearned revenue increased by $7,901,680, which is primarily due to an increase of $5,946,252 in unearned train operating funds, and an overall increase in unearned revenue for grant programs. The increase in unearned revenues for grant programs is attributed to the receipt of SRA grant funds in excess of fiscal year 2020 SRA expenses. This is partially offset by a decrease of unearned revenue by $1,292,860 due to an increase in recognition of prior year unearned revenue to offset fiscal year 2020 administrative expenses.

Restricted assets represent cash received from CalOES and SRA grants, which is restricted for use on corridor-wide station safety and improvement projects. Additionally, restricted assets include a transfer of funds to the operating reserve fund for use on Amtrak operating expenses.

Net investment in capital assets increased by $152,728 due to an increase in capital assets offset by depreciation. 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 $412,403 at June 30, 2019 to $618,587 at June 30, 2020.

The analysis on changes in net position of the LOSSAN Agency's financial activities can be found in Table 2 on the next page.

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

LOSSAN Rail Corridor Agency

Changes in Net Position

	2020	2019	Difference Increase (Decrease)	% Increase (Decrease)
Operating revenues:				
Assessments	$ 51,200	$ 200,100	$ (148,900)	-74.4%
Fare reimbursements	378,165	382,192	(4,027)	-1.1%
Total operating revenues	429,365	582,292	(152,927)	-26.3%
Operating expenses:				
Contracted services for train operations	$ 26,526,543	$ 32,492,636	$ (5,966,093)	-18.4%
Administrative fees and other expenses	3,952,134	2,996,450	955,684	31.9%
Marketing services	1,834,596	2,760,356	(925,760)	-33.5%
Depreciation	20,172	-	20,172	N/A
Total operating expenses	32,333,445	38,249,442	(5,915,997)	-15.5%
Operating income (loss)	(31,904,080)	(37,667,150)	5,763,070	-15.3%
Nonoperating revenues (expenses):				
State funding for train operations	25,354,150	30,438,751	(5,084,601)	-16.7%
State funding for administration and marketing	5,786,730	5,756,806	29,924	0.5%
Contributions from other Agency for train operations	753,216	1,471,593	(718,377)	-48.8%
State funding for railroad improvements		8,500,000	(8,500,000)	-100.0%
Contributions for railroad improvements		(8,500,000)	8,500,000	-100.0%
State funding for railcar equipment improvements	379,824	-	379,824	N/A
Railcar equipment improvement expenses	(390,012)	-	(390,012)	N/A
Grants for transit programs and projects	6,453,530	3,736,377	2,717,153	72.7%
Grant expenses for transit programs and projects	(6,287,444)	(3,720,015)	(2,567,429)	69.0%
Other miscellaneous revenue	124	715	(591)	-82.7%
Investment income	212,875	182,157	30,718	16.9%
Total nonoperating revenues (expenses)	32,262,993	37,866,384	(5,603,391)	-14.8%
Changes in net position	358,913	199,234	159,679	80.1%
Total net position—beginning	412,403	213,169	199,234	93.5%
Total net position—ending	$ 771,316	$ 412,403	$ 358,913	87.0%

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. Operating expenses are partially funded by operating revenue that includes assessments charged to Amtrak in the performance of train operations, and fare subsidies provided by the Santa Barbara County Association of Governments. The majority of 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 net nonoperating revenues decreased by $5,603,391 primarily due to a decrease in recognizing revenues directly related to a decrease in net Amtrak operating expenses. Total operating expenses decreased by $5,915,997 primarily due to a decrease in net Amtrak operating expenses, as well as marketing expenses, partially offset by an increase in administrative fees. Amtrak is a recipient of the Coronavirus Aid, Relief, and Economic Security (CARES) Act funds. Under the CARES Act, Amtrak can charge no more than 80 percent of Federal Fiscal Year (FFY) 2018-19 costs for FFY 2019-20 (October 1, 2019 through September 30, 2020). Beginning in March 2020, Amtrak applied a credit to monthly invoices to adjust the net operating expenses due after CARES Act funding is applied. This lowered the total net operating expenses for fiscal year 2020.

Budgetary Highlights

<u>Revenues</u>

The primary sources of revenue for the LOSSAN Agency is from Caltrans DRMT. In fiscal year 2019-20, the original budget was $56,860,423. This includes $37,397,875 in revenue to fund the operations of train and bus feeder services. It also includes $6,962,548 in administrative and marketing funding, $12,000,000 in grant funds, $500,000 for minor projects and $84,000 in interest revenue. Two budget amendments were completed during fiscal year 2019-20 which adjusted the total original revenue and expense budget from $56,860,423 up to $93,034,766. The budget amendments were completed in order to align the original budget with the annual Amtrak financial forecast and incorporate funding for additional round trips and corridor improvement projects.

Actual revenues were lower than the final budget by $53,664,952. This is primarily due to lower than anticipated activity associated with grant programs ($41.0 million), lower state operating revenues recognized due to lower than anticipated operating expenses ($9.8 million) and lower marketing revenues recognized due to lower than anticipated marketing activity ($1.6 million).

<u>Expenses</u>

The original expense budget for fiscal year 2019-20 was $56,860,423 and consisted of $37,397,875 for payments to Amtrak for train operations and bus feeder services, $6,962,548 in administrative and marketing expenses, $12,000,000 in grant expenses, and $500,000 for minor projects.

Actual expenses were lower than the final budget by $54,023,866. This is primarily due to lower than anticipated grant related ($40.7 million) project expenses for corridor improvements necessary to implement two additional roundtrips north of Los Angeles on the Union Pacific Rail Road owned tracks, corridor wide SRA-funded projects, and North County Transit District activity for on-time performance and track maintenance. Net train operating expenses were lower than budgeted by $9.8 million due to less than anticipated Amtrak operating expenses due to a cap on the total costs Amtrak can charge state supported routes under the CARES Act. Marketing expenses came in lower than budgeted by $1.6 million primarily due to reductions in advertising expenses and professional services. Administrative expenses underran the budget by $1.0 million primarily due to position vacancies, and state funded minor projects came in under budget by $500,000 as no projects that qualified for this funding were completed during the fiscal year.

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. The current Amtrak operating agreement covers FFY 2019-20 and is effective through September 30, 2020. Following the end of the term, the agreement allows the continuation of service up to six months or until a new annual agreement is executed.

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 development of the annual budget request and submittal of the business plan for fiscal years 2020-21 and 2021-22 was significantly impacted by the COVID-19 pandemic.

In December 2019, a novel strain of coronavirus (COVID-19) spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. In March 2020, the State of California issued a statewide shelter-in-place order that continues to have significant impact on the operations and business results of the LOSSAN Agency. Also, in March 2020, the LOSSAN Agency directed Amtrak to reduce Pacific Surfliner train service, following direction by CalSTA to operate no more than 60% of train miles approved in the fiscal year 2019 annual business plan. The Pacific Surfliner service continued to operate at reduced levels through June 30, 2020 and will continue to do so until such time that ridership returns to pre-COVID-19 levels.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Stability (CARES) Act was signed into law. The CARES Act legislation placed a cap on the amount states must pay Amtrak; actual state supported payments in FFY 2020 can be no more than 80 percent of the FFY 2019 amounts. Amtrak is receiving federal CARES Act funds directly to cover the monthly difference between the cap and the actual net operating amount.

The LOSSAN Agency's FY 2020-21 adopted operating budget approved by the Board on May 18, 2020, includes $50,567,505 for net Amtrak operating costs. This amount reflects $131,510,548 in total Amtrak operating expenses, less $87,501,974 in total revenue. In addition, the operating budget included an estimate of $6,378,931 for implementation of a 14th round trip between San Diego and Los Angeles, 6th roundtrip between San Diego and Goleta, and a 3rd roundtrip between San Diego and San Luis Obispo, and $180,000 for emergency bus bridge services and the continuation of the transit transfer program. The budget also includes a revenue contribution of $1,177,275 from the Santa Barbara County Association of Governments for the estimated cost of re-timed trains to facilitate the morning peak-period service. Additional expenses and revenues of $500,000 are included for minor capital projects, consistent with prior year approved amounts.

The FY 2020-21 adopted budget includes $6,830,782 for administrative services and $3,240,390 for marketing services (including $1,240,390 surplus from FY 2020-21). Additionally, the adopted budget includes $19,682,000 for various grant programs.

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, 2020

Assets:	
Current Assets	
Cash and cash equivalents	$ 8,195,728
Restricted cash and cash equivalents	14,109,249
Prepaid expense	732,728
Receivables:	
Due from other governments	2,731,851
Other receivables - National Railroad Passenger Corporation	107,100
Total current assets	25,876,656
Noncurrent Assets:	
Depreciable capital assets, net	152,728
Total noncurrent assets	152,728
Total Assets	26,029,384
Liabilities:	
Current Liabilities	
Accounts payable	1,079,010
Due to other governments	2,716,639
Unearned revenue	21,462,419
Total liabilities	25,258,068
Net position:	
Net investment in captial assets	152,728
Unrestricted net position	618,588
Total net position	$ 771,316

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, 2020

Operating Revenues:	
Assessment revenue	$ 51,200
Fare reimbursements	378,165
Total Operating Revenue	429,365
Operating Expenses:	
Contracted services for train operations and bus feeder services	26,526,543
Administrative fees and other expenses	3,952,134
Marketing services	1,834,596
Depreciation	20,172
Total Operating Expenses	32,333,445
Operating Loss	(31,904,080)
Nonoperating revenues (expenses)	
State funding for train operations	25,354,150
State funding for administration and marketing	5,786,730
Contributions from other Agency for train operations	753,216
State funding for railcar equipment improvements	379,824
Railcar equipment improvement expenses	(390,012)
Grants for transit programs and projects	6,453,530
Grant expenses for transit programs and projects	(6,287,444)
Miscellaneous revenue	124
Interest income	212,875
Total nonoperating revenues (expenses)	32,262,993
Change in net position	358,913
Net position, beginning of year	412,403
Net position, end of year	$ 771,316

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, 2020

Cash flows from operating activities		
Payments for train operations and bus feeder services	$	(29,473,849)
Payments for marketing and administrative services		(6,355,960)
Net cash used in operating activities		(35,829,809)
Cash flows from noncapital related financing activities		
Receipts from State for train operations and bus feeder services		34,348,099
Receipts from State for marketing and administrative services		4,576,386
Payments for railroad improvements		(8,550,676)
Payments for railcar equipment improvements		(253,853)
Receipts for grant programs		10,256,741
Payments for grant expenses		(7,417,145)
Net cash provided by noncapital financing activities		32,959,552
Cash flows from capital and related financing activities		
Receipts from grants for capital expenses		172,900
Acquisition of capital asset		(172,900)
Net cash provided by noncapital financing activities		-
Cash flows from investing activities		
Interest received on investments		212,875
Net cash provided by investing activities		212,875
Net decrease in cash and cash equivalents		(2,657,382)
Cash and cash equivalents at beginning of year		24,962,359
Cash and cash equivalents at end of year	$	22,304,977
Reconciliation of operating loss to net cash used in operating activities		
Operating loss		(31,904,080)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Changes in assets and liabilities:		
Depreciation		20,172
(Increase) decrease in due from other governments		(172,312)
(Increase) decrease in other receivables		(43,312)
(Increase) decrease in prepaid assets		(660,228)
Increase (decrease) in accounts payables		(3,403,885)
Increase (decrease) in due to other governments		329,522
Increase (decrease) in retention payable		4,314
Net cash used in operating activities	$	(35,829,809)

See accompanying notes to the financial statements.

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 (UPPR), 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. The LOSSAN Agency has the authority to set and modify fares as the governing body managing the Pacific

Surfliner intercity passenger rail service. As the managing agency of the service, the LOSSAN Agency also has control over train schedules and corridor-wide improvements that will maximize revenue and ridership. Due to this unique responsibility provided to the LOSSAN Agency through SB1225, the LOSSAN Agency reports the financial statements as an Enterprise Fund.

(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. Operating revenue includes assessment fees charged to Amtrak in the performance of the train operations, and fare revenue subsidies provided by the Santa Barbara County Association of Governments (SBCAG) associated with retimed train service from Ventura to Santa Barbara and Goleta. 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, depreciation of capital assets, 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's cash and investments consist of an overnight repurchase sweep account, and a money marketing deposit account. The LOSSAN Agency did not have any other investments as of June 30, 2020. 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) Restricted Cash and Cash Equivalents

Restricted cash includes grant funds received from the California Office of Emergency Services (CalOES) to be used for security and safety enhancements of rail facilities. It also includes State Rail Assistance (SRA) grant funds to be used for various rail service improvements throughout the rail corridor.

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, 2020, the Operating Reserve Fund balance is $3,341,535. These funds are reported in restricted cash and will be used to cover any unanticipated Amtrak operating expenses during fiscal year 2021.

(f) 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 3 to 30 years. The LOSSAN Agency follows the Orange County Transportation Authority's capitalization policy which is to capitalize assets with a unit cost in excess of $5,000 and an estimated useful life greater than one year. The costs associated with the renovation or improvement of an existing capital asset shall also be capitalized if the cost exceeds $5,000 per unit and it either substantially enhances the asset's performance or productivity or extends the useful life of the asset.

(g) Unearned Revenue

The LOSSAN Agency receives advance funding from the State to pay for Amtrak provided train operations and bus feeder services, as well as administrative and marketing 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. Unearned revenue also includes various grant funding received that has not been used to offset current expenses.

(h) 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 in three components: net investment in capital assets, restricted and unrestricted. Net investment in capital assets includes capital assets net of accumulated depreciation. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation and include amounts restricted for debt service and other liabilities. As of June 30, 2020, the LOSSAN Agency has $0 in restricted net position. The amount reported in unrestricted net position is accessible for general use and is not invested in capital assets or restricted by third parties, constitutional provisions or enabling legislation.

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.

(i) 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.

(j) Recent Events

In December 2019, a novel strain of coronavirus (COVID-19) spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. In March 2020, the State of California issued a statewide shelter-in-place order that continues to have significant impact on the operations and business results of the LOSSAN Agency. The extent to which COVID-19 may impact future business activity and operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions required to contain it. Management has not included any contingencies in the financial statements specific to this recent event.

3. Cash and Cash Equivalents

(a) Cash and Investments

Beginning in September 2018, the LOSSAN Agency entered into a new 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 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. During fiscal year 2020, the interest rate decreased from 1.00% to 0.05%, which was the rate in effect as of June 30, 2020.

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

During fiscal year 2020, the LOSSAN Agency opened a money market deposit account with Bank of the West. As of June 30, 2020, the interest rate was 0.42%.

(b) 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, as well as funds in the LOSSAN Agency's money market account, 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.

4. Capital Asset

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

	Lives (Years)	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets:					
Software	5	$ -	$ 172,900	$ -	$ 172,900
Total depreciable capital assets		-	172,900	-	172,900
Less accumulated depreciation		-	(20,172)	-	(20,172)
Total depreciable capital assets, net		-	152,728	-	152,728
Total capital assets, net		$ -	$ 152,728	$ -	$ 152,728

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 month's invoice. See note 9 for more information on contracted services for train operations. Through the reconciliation of actual expenses through June 30, 2020, the LOSSAN Agency has $605,116 in prepaid expenses to Amtrak that will be applied to fiscal year 2020-21 operating expenses.

During fiscal year 2019-20, the LOSSAN Agency purchased various marketing advertising that will be utilized in both fiscal years 2019-20 and 2020-21. Prepaid expenses for marketing advertising as of June 30, 2020 is $76,104.

Prepaid expense also includes an annual license for a website platform that is utilized in both fiscal years 2019-20 and 2020-21. The prepaid expense balance for the annual license as of June 30, 2020 is $51,508.

6. Due From Other Governments

Due from other governments consists of amounts due to the LOSSAN Agency from Caltrans DRMT for grant revenue related to on-time performance and track maintenance, contributions for railroad improvements, transit transfer program reimbursements, as well as amounts due from Caltrans DRMT for Amtrak-owned railcar equipment improvements and administrative expenses including professional services for layover facility enhancements. It also consists of amounts from SBCAG for fare revenue subsidies.

Due from Caltrans DRMT grant reimbursements	$ 1,809,225
Due from Caltrans DRMT for railcar improvements	379,824
Due from SBCAG grant reimbursements	374,304
Due from Caltrans DRMT for administration	168,498
Total	$ 2,731,851

7. Due To Other Governments

Due to other governments consists of amounts due to the North County Transit District (NCTD) for train on-time performance and track maintenance, amounts due to OCTA for administrative services, amount due to the City of Grover Beach for contributions for facility improvements 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, 2020.

Due to NCTD for performance and maintenance	$	1,300,790
Due to OCTA for administrative services		984,704
Due to City of Grove Beach for facility improvements		400,000
Due to transit agencies for transit transfer program		31,145
Total	$	2,716,639

8. Unearned Revenue

Unearned revenue consists of amounts received from the State for fiscal year 2020 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 CalOES for facility security and safety enhancements, and SRA grant revenues. The table below shows detail of unearned revenue as of June 30, 2020.

Unearned advanced train operating funds	$	9,701,299
Unearned grant revenue		9,910,050
Unearned advanced marketing funds		1,660,100
Unearned advanced administrative funds		190,970
Total	$	21,462,419

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. An agreement was entered into which covers the time period between October 1, 2019 through September 30, 2020. Following the end of the term, the agreement allows the continuation of service up to six months or until a new annual agreement is executed. Given the uncertainty of future ridership and service levels due to recent events surrounding COVID-19, it is anticipated that the agreement with Amtrak will be continued.

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 month's invoice. The actual net expense for train operations for the year ended June 30, 2020 is $26,526,543 net of adjustments due to year end reconciliation with Amtrak from results of operations.

During fiscal year 2020, Amtrak was a recipient of the Coronavirus Aid, Relief, and Economic Security (CARES) Act funding that was passed by Congress and signed into law by the President on March 27, 2020. Through a grant with the Federal Railroad Administration (FRA), Amtrak received $1.02 billion, of which $239 million in funding was made available to Amtrak in lieu of an increase in payments from State-supported intercity passenger rail routes. The legislation contained language that placed a cap on the amount Amtrak can charge State-supported routes for federal fiscal year 2020 (October 1, 2019 through September 30, 2020), which limited the amount to 80% of the federal fiscal year 2019 amounts charged. Beginning in March 2020, Amtrak applied a credit to monthly invoices to adjust the net expenses due after CARES Act funding is applied.

Beginning April 1, 2018, Amtrak implemented peak period hour rail service between Ventura and Santa Barbara counties. The LOSSAN Agency entered into a cost sharing agreement with SBCAG to offset costs associated with the service. SBCAG funds a portion of the operating costs to run the service, and the State of California funds the other half of the costs. In addition, SBCAG pays the LOSSAN Agency for any fare discounts that are provided to customers for the service. This agreement expired in March 2020, during the time that peak period train service was suspended due to COVID-19 ridership decreases. The LOSSAN Agency intends to enter into a new agreement with SBCAG for the continuance of the service and fare subsidies.

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. 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. Charges from OCTA for administrative services as well as other administrative and marketing related expenses the LOSSAN Agency incurred as of June 30, 2020 are detailed in the table below.

Administrative Services	$ 3,527,889
Marketing Expenses	1,834,596
Professional Services	275,234
Insurance	62,953
Legal Services	31,490
Audit Services	23,800
Travel	21,395
Other Business Expenses	9,373
Total	$ 5,786,730

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.

During fiscal year 2020, Caltrans provided the LOSSAN Agency additional funding for one-time costs associated with the rebranding of Charger locomotives and for host railroad costs associated with railroad improvements needed for the implementation of positive train control.

12. Grants for Transit Programs

(a) Transit and Intercity Rail Capital Program (TIRCP)

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. The Program allows Pacific Surfliner passengers to transfer to connecting transit services by presenting a valid Pacific Surfliner ticket. The program is funded by a Transit and Intercity Rail Capital Program (TIRCP) grant 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, 2020, the total receivable is $98,437 and is included as part of due from other governments. The California Department of Transportation has approved an extension for the use of the grants funds to continue the program through June 30, 2021.

During fiscal year 2016, the LOSSAN Agency was awarded $82 million in TIRCP grant funds to advance several improvement projects on the LOSSAN rail corridor, including the replacement of five railway bridges, constructing additional double track, station and safety enhancements, signal and switch upgrades, planning studies to improve coordination between all trains operating on the corridor, as well as funding for on-time performance incentives and host railroad access on the northern end of the corridor. The original grant award included funding for the leasing of rail equipment, which will now be used for the projects mentioned above. For the majority of the projects, other transportation agencies will serve as the lead agency for the projects and will receive the grant funding directly. The LOSSAN Agency will be the lead agency for the planning studies and on-time performance incentive and host railroad access projects. The LOSSAN Agency began a corridor wide optimization study in fiscal year 2019 and has received $734,342 in reimbursements for this study during fiscal year 2020. Additional expenses are recorded through June 30, 2020 in the amount of $57,843, with a matching receivable in due from other governments.

During fiscal year 2018, the LOSSAN Agency was awarded $188 million in TIRCP 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 upgrades to signal systems and switches. On the southern end of the corridor, the program of projects includes signal improvements, host railroad on-time performance incentives and installing new fencing in San Diego County. During fiscal year 2020, the LOSSAN Agency entered into an agreement with host railroad track owner Union Pacific, to implement the program of projects on the northern end of the corridor to support future service expansion. The majority of these projects are anticipated to begin in fiscal year 2021. One of the projects which began in fiscal year 2020 is funded by Proposition 1B and is described in more detail under the Proposition 1B section.

The projects on the southern end of the corridor for signal improvements and fencing will be implemented by other agencies and grant funding will be drawn down directly by those agencies. For fiscal year 2020, the LOSSAN Agency has recorded approximately $3,395,316 in expenses related to an agreement with the NCTD for on-time performance and track maintenance. A receivable in the amount of $514,352 is recorded in due from other governments for reimbursements due from the State as of June 30, 2020.

During fiscal year 2020, the LOSSAN Agency was awarded $38 million in TIRCP grant funds for the design and construction of a dedicated layover facility in San Diego, and design and construction of an expanded maintenance and layover facility in San Luis Obispo (Central Coast Layover facility). During fiscal year 2020, a site feasibility study was initiated for the San Diego layover facility, which was funded by administrative funding. Also during fiscal year 2020, work was initiated to prepare the project report and environmental document (PR&ED) for the Central Coast Layover facility, which is funded by State Transportation Improvement Program grant funds (STIP).

(b) California Office of Emergency Services (CalOES)

The LOSSAN Agency was awarded grants from CalOES for security and safety enhancements for rail facilities in prior fiscal years totaling $7,171,080. To date, $3,790,333 has been recognized as revenue to offset program expenses, including $765,265 in fiscal year 2020, leaving a balance of $3,380,747 in unearned revenue.

(c) State Rail Assistance (SRA)

The LOSSAN Agency has been awarded SRA funding in the amount of $13,100,000 through the June 2020 allocation period. 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, station safety improvements and an interregional connectivity improvement project. The LOSSAN Agency has also obtained approval to use the funds for future continued operations of the Pacific Surfliner service if needed. Of the $13,100,000 in awarded funds, $7,316,242 has been received by the LOSSAN Agency through fiscal year 2020. Of this amount, $4,593,242 was received during fiscal year 2020. During fiscal year 2019, $41,835 of SRA revenue was recognized to offset project expenses, while $745,104 was recognized during fiscal year 2020, leaving a balance of $6,529,303 in unearned revenue.

In May of 2019, CalSTA awarded the LOSSAN Agency $718,750 of additional competitive SRA funds to complete a corridor integrated signage and wayfinding program. As part of the $4,593,242 in funds received during fiscal year 2020, $676,168 was for this project. This amount is included in unearned revenue, as this project was not initiated during fiscal year 2020. .

(d) State Transportation Improvement Program (STIP)

During fiscal year 2019, the California Transportation Commission (CTC) approved $3,500,000 in State Transportation Improvement Program (STIP) funds to advance the Central Coast Layover Facility Expansion project through project approval and environmental documents. The funding will be used to identify a preferred location and configuration, design and environmentally clear a new or expanded layover and light maintenance facility for the Pacific Surfliner intercity passenger rail service. Funds for this project are provided on a reimbursement basis. During fiscal year 2020, $518,348 in project expenses and relating grant revenue reimbursements have been recorded. As of June 30, 2020, $106,433 is recorded in receivable within due from other governments.

(e) Proposition 1B Funds

The LOSSAN Agency has been awarded $35 million by the California Air Resources Board for the Los Alamos Creek (Narlon) bridge replacement ($15,526,000) and an interim San Luis Obispo Layover facility expansion project ($1,600,000). The Narlon bridge replacement project will replace the current bridge built in 1895 at the San Antonio Creek crossing at Vandenberg Air Force Base. This project, as well as preliminary engineering for the San Luis Obispo Layover facility expansion will be implemented by Union Pacific under the agreement for infrastructure improvement projects on the northern end of the corridor to support future service expansion. Through June 30, 2020 total expenses incurred for work on the Narlon bride is $348,000. A matching receivable has been recorded in due from other governments.

13. Commitments and Contingencies

Commitments

The LOSSAN Agency has various outstanding contracts. Total outstanding purchase commitments at June 30, 2020 were $150,943,373. The most significant commitment is with Union Pacific for $108,100,000 for a program of railroad improvement projects necessary for service expansion along the rail corridor in Ventura, Santa Barbara and San Luis Obispo counties. Purchase commitments with Amtrak total $35,000,072 which includes 34,043,695 for train operations and bus feeder services, $573,943 for various facility safety and security improvements and $382,434 for design services for expansion of the Goleta layover facility. Purchase commitments for professional marketing services total $3,103,302, while administrative and other professional services total $163,747. This amount does not include a value for the administrative services agreement with OCTA, as this is an actual cost based reimbursable agreement.

Other purchase commitments with various vendors total $1,952,020 and include professional services for a corridor optimization study, San Diego layover facility study, and Central Coast layover facility environmental document. Outstanding purchasing agreements for cooperative agreements are in place with NCTD for on-time incentive and maintenance agreement totaling $1,748,776, with the City of Grover Beach for facility improvements totaling $400,000, and with other transit agencies for the Transit Transfer Program totaling $388,606 as of June 30, 2020. The Transit Transfer Program agreements are also on a reimbursement basis, where the LOSSAN Agency is only billed when passengers use the program. Finally, purchase commitments for rail planning & scheduling software, and database maintenance services total $86,850.

Contingencies

Since fiscal year 2019, the LOSSAN Agency has been disputing marketing related additive charges under the operating agreement with Amtrak. The dispute involves Amtrak's compliance with the Passenger Rail Investment and Improvement Act of 2020 (PRIIA 209) policy's definition of activities associated with the marketing additive charge to the LOSSAN Agency. The LOSSAN Agency's position is that Amtrak removed certain marketing services without amending the policy or mutually agreeing to a reduction of the marketing additive charge proportional to the services being provided. For fiscal year 2020, the amount being disputed is approximately $770,000. This amount has been recorded as an expense in the financial statements until the dispute is resolved.

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 approximately 80% of total actual revenues for fiscal year 2020. There is no guaranty that funding will actually be appropriated by the Legislature and to the extent required, programmed by the CTC. The remaining budgeted revenues are primarily grant related revenues.

16. Effect of New Pronouncements:

GASB Statement No. 84

In January 2017, GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This Statement was effective for the LOSSAN Agency's fiscal year ending June 30, 2020, but was postponed by one year per GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The LOSSAN Agency has not determined the effect of this Statement.

GASB Statement No. 87

In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement was effective for the LOSSAN Agency's fiscal year ending June 30, 2021 but was postponed by per GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. This Statement is now effective for the LOSSAN Agency's fiscal year ending June 30, 2022. The LOSSAN Agency has not determined the effect of this Statement.

GASB Statement No. 90

In August 2018, GASB issued Statement No. 90, Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement was effective for the LOSSAN Agency's fiscal year ending June 30, 2020, but was postponed by one year per GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The LOSSAN Agency has not determined the effect of this Statement.

GASB Statement No. 91

In May 2019, GASB issued Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement was effective for the LOSSAN Agency's fiscal year ending June 30, 2022, but was postponed by one year per GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The LOSSAN Agency has not determined the effect of this Statement.

GASB Statement No. 92

In January 2020, GASB issued Statement No. 92, Omnibus 2020. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Paragraphs 4, 5, 11 and 13 of this Statement are effective immediately. The remaining paragraphs of this Statement were effective for the LOSSAN Agency's fiscal year ending June 30, 2021, but were postponed by one year per GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The implementation of paragraphs 4, 5, 11 and 13 of this Statement did not have a material effect on the financial statements. The LOSSAN Agency has not determined the effect of the remaining paragraphs of this Statement.

GASB Statement No. 93

In March 2020, GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by: (1) providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment, (2) clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate, (3) clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable, (4) removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap, (5) identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap, (6) clarifying the definition of reference rate, as it is used in Statement 53, as amended, (7) providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend. The requirements of this Statement, except for paragraph 11b, are effective for the LOSSAN Agency's fiscal year ending June 30, 2021. The requirement in paragraph 11b is effective for the LOSSAN Agency's fiscal year ending June 30, 2022. GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, postponed the effective date of paragraphs 13 and 14 of this Statement by one year. The LOSSAN Agency has not determined the effect of this Statement.

GASB Statement No. 94

In March 2020, GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement is effective for the LOSSAN Agency's fiscal year ending June 30, 2023. The LOSSAN Agency has not determined the effect of this Statement.

GASB Statement No. 95

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

GASB Statement No. 96

In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users (governments). This Statement is effective for the LOSSAN Agency's fiscal year ending June 30, 2023. The LOSSAN Agency has not determined the effect of this Statement.

GASB Statement No. 97

In June 2020, GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Paragraphs 4 and 5 of this Statement are effective immediately, and the remaining paragraphs of this Statement are effective for the LOSSAN Agency's fiscal year ending June 30, 2022. The implementation of paragraphs 4 and 5 of this Statement did not have a material effect on the financial statements. The LOSSAN Agency has not determined the effect of the remaining paragraphs of this Statement.

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

Board of Directors
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, 2020, 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 March 31, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Crowe LLP

Crowe LLP

Costa Mesa, California
March 31, 2021