

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

Basic Financial Statements

Year Ended June 30, 2016

(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, 2016

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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, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the LOSSAN Rail Corridor 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 Rail Corridor Agency, as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the LOSSAN Rail Corridor Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* as of July 1, 2015. Further, as described in Note 2 to the financial statements, the LOSSAN Rail Corridor Agency changed its basis of accounting and presentation from a governmental fund to an enterprise fund, as of July 1, 2015. Our opinion is not modified with respect to these matters.

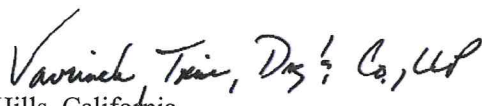
Other Matters

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 12, 2017, on our consideration of the LOSSAN Rail Corridor 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 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 Rail Corridor Agency's internal control over financial reporting and compliance.


Laguna Hills, California
January 12, 2017

Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency
Management’s Discussion and Analysis
(unaudited)
For the Fiscal Year Ended June 30, 2016

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, 2016. 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 LOSSAN 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. The LOSSAN rail corridor travels through six counties: San Diego, Orange, Los Angeles, Ventura, Santa Barbara, and San Luis Obispo, and is currently the second busiest intercity passenger rail corridor in the United States.

The LOSSAN Agency is governed by a Board of Directors composed of eleven voting members from 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 (OCTA), Riverside County Transportation Commission, San Diego Metropolitan Transit System, and San Diego Association of Governments. The LOSSAN Agency also includes four non-voting, ex-officio members representing the National Passenger Railroad Corporation (Amtrak), State of California Department of Transportation (Caltrans) Division of Rail and Mass Transit (DRMT), California High Speed Rail Authority 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 entered into an administrative support services agreement with OCTA on November 21, 2013, to provide staffing and administrative services to the Agency. The start-up term of the agreement commenced November 21, 2013 through June 30, 2015, and the initial term of the agreement is from July 1, 2015 through June 30, 2018.

The LOSSAN Agency entered into an agreement with Amtrak on June 1, 2016 for Amtrak to provide Pacific Surfliner intercity passenger rail service and connecting bus feeder services for the LOSSAN Rail Corridor. The agreement term is from June 1, 2016 through September 30, 2016. Caltrans DRMT had previously executed an operating and maintenance agreement with Amtrak to cover the operation of the Pacific Surfliner service from April 2015 to September 2015. The agreement between Caltrans and

Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency
Management’s Discussion and Analysis
(unaudited)
For the Fiscal Year Ended June 30, 2016

Amtrak included a continuation clause which allowed Caltrans to directly fund the operations of the Pacific Surfliner service from September 2015 through the end of May 2016.

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 plus deferred outflows of resources and liabilities plus deferred inflows of resources, 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 present 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 12-18 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, 2016, the LOSSAN Agency’s net position was \$201,806, an increase of \$1,671 from June 30, 2015.

Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency
Management’s Discussion and Analysis
(unaudited)
For the Fiscal Year Ended June 30, 2016

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

	2016	2015	Difference Increase (Decrease)	% Increase (Decrease)	
Current assets	\$ 10,477,867	\$ 225,533	\$ 10,252,334	4,545.8	%
Current liabilities	10,276,061	25,398	10,250,663	40,360.1	%
Net position:					
Unrestricted	\$ 201,806	\$ 200,135	\$ 1,671	0.83	%

In fiscal year 2016, total assets increased by \$10,252,334, due to an increase in cash and deposits with Amtrak. Cash increased by \$3,202,563 primarily due to the LOSSAN Agency receiving an annual funding allocation from Caltrans DRMT for fiscal year 2016 administrative and marketing programs. Assets also increased due to a deposit with Amtrak as a result of a reconciliation of actual costs for train operations compared to prepaid amounts made by Caltrans from October 2015 through May 2016. As of June 30, 2016, the deposit assigned to the LOSSAN Agency is \$7,029,711. Receivables increased by \$20,060 in due from other governments, due to grant revenue from Transit Transfer Program activity.

Total liabilities increased by \$10,250,663 primarily due to an increase in unearned revenue and due to other governments. Unearned revenue increased by \$9,820,061, which is comprised of \$7,029,711 of a deposit with Amtrak from a reconciliation of operating costs, which will be applied to future monthly train operating invoices until the amount is fully exhausted. Unearned revenue is also comprised of the balance of fiscal year 2016 administrative and marketing funding in the amount of \$2,790,350, which will be carried forward to fiscal year 2017. Due to other governments increased by \$400,662 primarily due to June payables owed to OCTA for providing administrative management services to the LOSSAN Agency.

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 \$200,135 at June 30, 2015 to \$201,806 at June 30, 2016. This increase of \$1,671 was primarily due to interest revenue earned.

Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency
Management's Discussion and Analysis
(unaudited)
For the Fiscal Year Ended June 30, 2016

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

Table 2
LOSSAN Rail Corridor Agency
Changes in Net Position

	2016	2015	Difference Increase (Decrease)	% Increase (Decrease)
Operating expenses:				
Contracted services for train operations	\$ 1,126,784	\$ 0	\$ 1,126,784	N/A
Administrative fees	1,312,202	484,696	827,506	170.7 %
Marketing services	381,318	0	381,318	N/A
Other administrative expenses	133,643	101,078	32,565	32.2 %
Total operating expenses	2,953,947	585,774	2,368,173	404.3 %
Operating income (loss)	(2,953,947)	(585,774)	(2,368,173)	(404.3) %
Nonoperating revenues (expenses):				
State funding for administration and marketing	1,827,163	0	1,827,163	N/A
State funding for train operations	1,126,784	0	1,126,784	N/A
Member Agency Contributions	0	629,987	(629,987)	100.0 %
Grants for transit programs	20,060	0	20,060	N/A
Contributions to other agencies	(20,060)	0	(20,060)	N/A
Investment income	1,671	0	1,671	N/A
Total nonoperating revenues (expenses)	2,955,618	629,987	2,325,631	369.2 %
Changes in net position	1,671	44,213	(42,542)	(96.2) %
Total net position – beginning	200,135	155,922	44,213	28.4 %
Total net position – ending	\$ 201,806	\$ 200,135	\$ 1,671	0.8 %

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. During fiscal year 2015, administrative fees were financed from member agency contributions. Starting fiscal year 2016, operating expenses were 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 \$2,325,631 due to funds received from Caltrans DRMT for both administrative and marketing funding. Total revenues also increased due to \$1,126,784 of deposits held by Amtrak (and assigned to the LOSSAN Agency) were recognized as revenue to offset the June 2016 actual cost of train operations. Total operating expenses increased by \$2,368,173 due to the hiring of administrative staff, completion of several marketing campaigns, as well as the actual costs for train operations for the month of June 2016.

Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency
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(unaudited)
For the Fiscal Year Ended June 30, 2016

Budgetary Highlights

Revenues

The primary sources of revenue for the LOSSAN Agency is from Caltrans DRMT. In fiscal year 2015-16, the original budget was \$51,698,668. This includes \$47,081,156 in revenue to fund the operations of train and bus feeder services. It also includes \$4,617,512 in administrative and marketing funding, as well as \$500,000 for minor projects. The original fiscal year 2015-16 budget assumed that an operating agreement with Amtrak for the train operations and bus feeder services would be in place, and that the LOSSAN Agency would be making monthly payments to Amtrak as well as receiving monthly advance funding from the State during the year. Due to the operating agreement being executed on June 1, 2016, the LOSSAN Agency did not receive monthly advance funding from the State during the entire fiscal year as budgeted. A budget amendment was completed which adjusted the total original revenue budget from \$51,698,668 down to \$7,250,129.

Actual revenues were lower than the final budget by \$4,274,451. This is primarily related to the deferral of revenue for the remaining balance of administrative and marketing funds. The variance is also due to an advance payment budgeted to be received in June, but not actually received until July.

Expenses

The original expense budget for fiscal year 2015-16 consisted of \$47,081,156 in payments to Amtrak for train operations and bus feeder services, \$4,617,512 in administrative and marketing expenses and \$500,000 for minor projects. As explained in the revenue section, the original fiscal year 2015-16 budget assumed that an operating agreement with Amtrak for the train operations and bus feeder services would be in place, and that the LOSSAN Agency would be making monthly payments to Amtrak during the fiscal year. Due to the operating agreement being executed on June 1, 2016, the LOSSAN Agency did not make monthly payments to Amtrak during the year as budgeted. In addition, the LOSSAN Agency did not incur any minor projects expenses. A budget amendment was completed which adjusted the total original expense budget from \$51,698,668 down to \$7,250,129.

Actual expenses were lower than the final budget by \$4,276,122. This is due to June actual train operations costs coming in lower than budgeted in the areas of fuel, host railroad and shared station costs by approximately \$1.5 million. Administrative expenses underran the budget by approximately \$1.2 million during the year primarily due to position vacancies. Marketing expenses also underran the budget by approximately \$1.6 million. Marketing expenses have been re-budgeted in fiscal year 2016-17.

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 ITA.

Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency
Management's Discussion and Analysis
(unaudited)
For the Fiscal Year Ended June 30, 2016

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, 2016**

Assets:

Current Assets

Cash and investments	\$ 3,428,096
Deposit with Amtrak	7,029,711
Receivables:	
Due from other Governments	20,060

Total current assets	<u>10,477,867</u>
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Liabilities:

Current Liabilities

Accounts payable	55,338
Due to other governments	400,662
Unearned revenue	9,820,061

Total current liabilities	<u>10,276,061</u>
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Net position:

Unrestricted	201,806
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Total net position	<u><u>\$ 201,806</u></u>
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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, 2016

Operating Expenses:

Contracted services for train operations	1,126,784
Administrative fees	1,312,202
Marketing services	381,318
Other Administrative expenses	133,643

Total Operating Expenses	<u>2,953,947</u>
Operating Loss	<u>(2,953,947)</u>

Nonoperating revenues (expenses)

State funding for administration and marketing	1,827,163
State funding for train operations	1,126,784
Grants for transit programs	20,060
Contributions to other agencies	(20,060)
Interest income	1,671

Total nonoperating revenues (expenses)	<u>2,955,618</u>
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Change in net position	1,671
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Net position, beginning of year	200,135
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Net position, end of year	<u><u>\$ 201,806</u></u>
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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, 2016

Cash flows from noncapital related financing activities	
Receipts from State for marketing and administrative services	\$ 4,617,512
Payments for marketing and administrative services	(1,416,620)
Net cash provided by noncapital financing activities	<u>3,200,892</u>
Cash flows from investing activities	
Interest received on investments	<u>1,671</u>
Net cash provided by investing activities	<u>1,671</u>
Net increase in cash and cash equivalents	3,202,563
Cash and cash equivalents at beginning of year	<u>225,533</u>
Cash and cash equivalents at end of year	<u><u>\$ 3,428,096</u></u>
Reconciliation of cash and cash equivalents to statement of net position:	
Cash and investments	<u>\$ 3,428,096</u>
Total cash and cash equivalents	<u><u>\$ 3,428,096</u></u>
 Supplemental disclosure of cash flow information:	
Noncash noncapital related financing activities	
Deposit with Amtrak assigned to LOSSAN by the State	8,156,495

See accompanying notes to the financial statements.

Los Angeles - San Diego - San Luis Obispo Rail Corridor Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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. 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 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.

Los Angeles - San Diego - San Luis Obispo Rail Corridor Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The financial statements are reported using an Enterprise fund and full accrual method of accounting, whereas the fiscal year 2014-15 financial statements were reported using a Governmental fund and modified accrual method, which may have an effect on the comparability between the two fiscal years.

(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 principal 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, 2016. All amounts in the overnight repurchase sweep account as of June 30, 2016 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 to cover expenses of the LOSSAN Agency Transit Transfer Program.

(f) Unearned Revenue

The LOSSAN Agency receives 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 revenues received over and above actual expenses are classified as unearned. The LOSSAN Agency also has a deposit with Amtrak resulting from a reconciliation of actual costs to amounts paid by Caltrans DRMT. This deposit is assigned to the LOSSAN Agency by Caltrans DRMT.

Los Angeles - San Diego - San Luis Obispo Rail Corridor Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

(g) Net Position

Net position represents the residual interest in the LOSSAN Agency's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted.

The statement of net position reports total net position and typically presents it in three categories:

- Net investment in capital assets – This includes net investment in capital assets net of accumulated depreciation and net of related debt. As of June 30, 2016, the LOSSAN Agency has \$0 net investment in capital assets.
- Restricted net position – Represents net position not accessible for general use, with the use subject to restrictions imposed by third parties or by law through constitutional provisions or enabling legislation. At June 30, 2016, the LOSSAN Agency has \$0 restricted net position.
- Unrestricted net position – Represents net position amounts not classified in either of the two classifications above and available for general use.

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 2016. Operating expenses consist of costs associated with train operations and bus feeder services, marketing and administrative expenses and contributions to other agencies. 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 and operations for train and bus feeder services. Nonoperating revenues and expenses also include grant revenues and related expenses for the Transit Transfer Program. In addition, nonoperating revenues and expenses include interest income earned from the overnight repurchase agreement sweep account. See Note 3.

(j) 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.

Los Angeles - San Diego - San Luis Obispo Rail Corridor Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

(k) New Accounting Pronouncements Adopted

GASB Statement No. 72

In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is considered to be the exit price. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for fiscal year ending June 30, 2016. The LOSSAN Agency implemented this statement effective July 1, 2015. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 76

In June 2015, GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for fiscal year ending June 30, 2016. The LOSSAN Agency implemented this statement effective July 1, 2015. The implementation of this Statement did not have a material effect on the financial statements.

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. Each business day, the bank automatically transfers the balance in the sweep account and interest earned back into the LOSSAN Agency bank deposit account. The amount swept into the overnight sweep account as of June 30, 2016 is \$3,428,211.

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.

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For the Fiscal Year Ended June 30, 2016

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. Due To Other Governments

Due to other governments consists of amounts due to OCTA for administrative services and for bus-bridge transit services provided. Due to other governments also include amounts due 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, 2016.

	2016
Due to OCTA for administrative services	\$ 388,520
Due to OCTA for bus-bridge services	2,081
Due to transit agencies for transit transfer program	10,061
Total	<u>\$ 400,662</u>

6. Deposit with Amtrak

The LOSSAN Agency has a deposit with Amtrak resulting from the reconciliation of actual costs compared to advance payments made by Caltrans (under their own operating agreement with Amtrak) from October 2015 through May 2016. A reconciliation of costs under this Caltrans and Amtrak agreement was completed in June 2016, which determined there was a balance of \$8,156,495 in payments over the actual net costs of Amtrak operations. This deposit with Amtrak was assigned to the LOSSAN Agency, and Amtrak began applying it to the June 2016 train operations and bus feeder invoice. As of June 30, 2016, the balance of the deposit with Amtrak is \$7,029,711. Amtrak will continue to apply the balance to future train operations and bus feeder services invoices until it is fully exhausted.

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7. Unearned Revenue and Other Liabilities

Unearned revenue consists of amounts received from the State for fiscal year 2016 administrative and marketing funding, in advance of incurring the expenses. The State has given the LOSSAN Agency the authority to use the remaining balance of fiscal year 2016 marketing funds in fiscal year 2017 for marketing purposes. Any remaining balance of fiscal year 2016 administrative funds will be deducted from the fiscal year 2017 administrative funding allocation provided by the State. Unearned revenue also includes a deposit with Amtrak. The table below shows detail of unearned revenue as of June 30, 2016.

	2016
Unearned deposit with Amtrak operating funds	\$ 7,029,711
Unearned advanced marketing funds	1,618,682
Unearned advanced administrative funds	1,171,668
Total	<u>\$ 9,820,061</u>

8. Contracted Services for Train Operations

In accordance with the operating agreement with Amtrak that began June 1, 2016, Amtrak provides passenger rail and bus feeder services through the LOSSAN corridor. The 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 amount for train operations for June 2016 is \$1,126,784, net of adjustments due to year end reconciliation with Amtrak from results of operations.

9. 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 on the next page under administrative services.

The LOSSAN Agency incurs other administrative charges for services such as marketing, legal, insurance, audit, travel and banking service, which are also detailed in the table below.

	2016
Administrative Services	\$ 1,312,202
Marketing Expenses	381,318
Legal Services	45,309
Insurance	45,004
Travel	14,389
Professional Services	19,199
Other Business Expenses	9,742
Total	<u>\$ 1,827,163</u>

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For the Fiscal Year Ended June 30, 2016

10. State Funding for Train Operations and Administrative and Marketing

Effective July 1, 2015, the LOSSAN Agency and the State of California Department of Transportation entered into an interagency transfer agreement (ITA), which transfers the administrative responsibility for the operation of rail services along the LOSSAN corridor. The ITA carries 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.

11. 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. The Program will allow 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 (CalSTA). The California Transportation Commission (CTC) approved the allocation of \$1,675,000 for this pilot program. As of June 30, 2016, the total receivable is \$20,060.

12. Commitments and Contingencies

The LOSSAN Agency has various outstanding contracts. Total outstanding purchase commitments at June 30, 2016 were \$11,129,059, the most significant is with Amtrak at \$7,590,814. Other purchase commitments for administrative, marketing and other professional services totaled \$2,320,376, \$808,739 and \$99,691 respectively. Cooperative agreements in place with other transit agencies for the Transit Transfer Program totaled \$309,439 as of June 30, 2016.

13. 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.

14. 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, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the LOSSAN Rail Corridor Agency's basic financial statements, and have issued our report thereon dated January 12, 2017. Our report included an emphasis of matter related to the LOSSAN Rail Corridor Agency's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, as of July 1, 2015. Our report also included an emphasis of matter related to the LOSSAN Rail Corridor Agency's change in basis of accounting and presentation from a governmental fund to an enterprise fund, as of July 1, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the LOSSAN Rail Corridor 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LOSSAN Rail Corridor Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the LOSSAN Rail Corridor 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 Rail Corridor 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 12, 2017