ATTACHMENT A

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

Basic Financial Statements

Year Ended June 30, 2022

(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, 2022

TABLE OF CONTENTS

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 Audit of the Financial Statements

Opinion

We have audited 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, 2022, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the LOSSAN Agency, as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 25, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Costa Mesa, California
January 25, 2023

Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency
Management's Discussion and Analysis
(unaudited)
For the Fiscal Year Ended June 30, 2022

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, 2022. 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 13-24 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, 2022, the LOSSAN Agency's net position was $509,271, an increase of $19,107 from June 30, 2021.

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.

Table 1
LOSSAN Rail Corridor Agency
Net Position

	2022	2021	Difference Increase (Decrease)	% Increase (Decrease)
Assets:				
Current assets	$ 77,407,037	$ 71,899,930	$ 5,507,107	7.7%
Noncurrent capital assets, net	83,568	118,148	(34,580)	(29.3%)
Total assets	77,490,605	72,018,078	5,472,527	7.6%
Liabilities:				
Current liabilities	76,981,334	71,527,914	5,453,420	7.6%
Total liabilities	76,981,334	71,527,914	5,453,420	7.6%
Net position				
Net investment in capital assets	83,568	118,148	(34,580)	(29.3%)
Unrestricted net position	425,703	372,016	53,687	14.4%
Total net position	$ 509,271	$ 490,164	$ 19,107	3.9%

In fiscal year 2022, total assets increased by $5,472,527, primarily due to an increase in cash and cash equivalents, and due from other governments. Cash and cash equivalents increased by $3,682,518, primarily from receipt of state funding for train operations. Receivables increased by $2,002,942 in due from other governments, primarily from State grant reimbursements for rail improvement projects on the northern end of the corridor, implemented by the railroad owner, Union Pacific Railroad (UPRR).

In fiscal year 2022, noncurrent capital assets decreased by $34,580 due to the depreciation of rail planning software. Information on capital assets can be found in Note 4 – Capital Assets in the accompanying notes to the basic financial statements.

Total liabilities increased by $5,453,420 primarily due to an increase in unearned revenue and due to other governments, partially offset by a decrease in accounts payable. Unearned revenue increased by $17,282,378, which is due to an increase of $14,728,727 in unearned revenue for train operating funds, an increase of $2,516,381 in unearned marketing and administrative funds, and an increase of $2,886,774 for grant programs relating to SRA. The increase in unearned revenue is partially offset by a decrease of unearned revenue of $2,849,504 to recognize revenue associated with the use of prior year California Office of Emergency Services (CalOES) grant program funds. Due to other governments increased by $1,379,391 primarily due to an increase in year-end accruals related to the North County Transit District capital maintenance and incentive agreement and Orange County Transportation Authority for administrative fees. Additionally, the decrease of $13,208,348 in accounts payable is primarily due to a decrease in amount due to Union Pacific for railroad improvement projects on the northern end of the corridor.

Net investment in capital assets decreased by $34,580 due to 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 $372,016 at June 30, 2021 to $425,703 at June 30, 2022.

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

	2022	2021	Difference Increase (Decrease)	% Increase (Decrease)
Operating revenues:				
Assessments	$ 143,800	$ 76,325	$ 67,475	88.4%
Fare reimbursements	-	5,020	(5,020)	(100.0%)
Total operating revenues	143,800	81,345	62,455	76.8%
Operating expenses:				
Contracted services for train operations	$ 2,306,469	$ 12,941,671	$ (10,635,202)	(82.2%)
Administrative fees and other expenses	4,858,766	4,714,735	144,031	3.1%
Marketing services	660,828	452,247	208,581	46.1%
Depreciation	34,580	34,580	-	0.0%
Total operating expenses	7,860,643	18,143,233	(10,282,590)	(56.7%)
Operating income (loss)	(7,716,843)	(18,061,888)	10,345,045	(57.3%)
Nonoperating revenues (expenses):				
State funding for train operations	2,279,938	12,745,727	(10,465,789)	(82.1%)
State funding for administration and marketing	5,519,594	5,166,982	352,612	6.8%
State funding for railcar equipment improvements	967,411	386,567	580,844	150.3%
Railcar equipment improvement expenses	(999,373)	(376,380)	(622,993)	165.5%
Grants for transit programs and railroad projects	38,709,109	42,802,854	(4,093,745)	(9.6%)
Grant expenses for transit programs and railroad projects	(38,800,042)	(42,992,889)	4,192,847	(9.8%)
Other miscellaneous revenue	-	312	(312)	(100.0%)
Investment income	59,313	47,563	11,750	24.7%
Total nonoperating revenues (expenses)	7,735,950	17,780,736	(10,044,786)	(56.5%)
Changes in net position	19,107	(281,152)	300,259	(106.8%)
Total net position—beginning	490,164	771,316	(281,152)	(36.5%)
Total net position—ending	$ 509,271	$ 490,164	$ 19,107	3.9%

The LOSSAN Agency's operating expenses consist of net Amtrak charges (operating revenue less operating expenses) 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. The majority of operating expenses are financed from funds received from California Department of Transportation (Caltrans) Department of Rail and Mass Transportation (DRMT). This funding is reported as nonoperating revenue under State funding for train operations. The LOSSAN Agency's net nonoperating revenues decreased by $10,044,786 primarily due to an overall lower funding requirement from the State resulting from overall lower net Amtrak operating expenses. Total operating expenses decreased by $10,282,590 primarily due to a decrease in net Amtrak operating expenses resulting from Amtrak directly receiving Federal relief funding through the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and American Rescue Plan Act (ARPA) funds.

Budgetary Highlights

<u>Revenues</u>

The primary sources of revenue for the LOSSAN Agency are from Caltrans DRMT. In fiscal year 2021-22, the original budget was $113,544,927. This includes $30,807,380 in revenue to fund the operations of train and bus feeder services. It also includes $8,215,547 in administrative and marketing funding (also includes interest revenue), $74,022,000 in grant funds, and $500,000 for minor projects. A budget amendment was completed during fiscal year 2021-22 which adjusted the total original revenue and expense budget from $113,544,927 up to $126,503,587.

Actual revenues were lower than the final budget by $74,786,775. This is primarily due to lower than anticipated activity associated with grant programs ($56 million), and lower state operating revenues recognized due to lower than anticipated operating expenses ($16.8 million).

<u>Expenses</u>

The original expense budget for fiscal year 2021-22 was $113,544,927 and consisted of $30,807,380 for payments to Amtrak for train operations and bus feeder services, $8,215,547 in administrative and marketing expenses, $74,022,000 in grant expenses, and $500,000 for minor projects. A budget amendment was completed during fiscal year 2021-22 which adjusted the total original revenue and expense budget from $113,544,927 up to $126,503,587.

Actual expenses were lower than the final budget by $91,201,647. This is primarily due to lower than anticipated grant related ($55.9 million) project expenses for UPRR managed rail improvement projects on the northern end of the corridor, and North County Transit District activity for on-time performance and track maintenance. Net train operating expenses were lower than budgeted by $30.3 million due to less than anticipated net Amtrak operating expenses due to Federal relief funding provided directly to Amtrak to reduce state supported route costs. Administrative expenses underran the budget by $3.3 million primarily due to position vacancies. Marketing expenses came in lower than budgeted by $1 million primarily due to reductions in advertising expenses and professional services.

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. 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.

The first four-year option term was executed prior to June 30, 2021 which extends the agreement through June 30, 2025. At the end of this term, one four-year option term will remain.

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 2022-23 and 2023-24 was approved by the LOSSAN Board of Directors on March 21, 2022. The FY 2022-23 and 2023-24 business plan presents a recovery strategy to restore full service following the service reductions necessary as a result of 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 had a significant impact on the operations and business results of the LOSSAN Agency. 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 service levels through June 2021. During fiscal year 2022, the Pacific Surfliner service increased to approximately 80 percent of pre-pandemic operating service levels.

The ability to expand Pacific Surfliner service has historically been constrained by both equipment availability as well as existing access and shared-use agreements with the host railroads on which the Pacific Surfliner service operates. While this constraint remains along several segments of the rail corridor, the ability to restore service to pre-Covid 19 levels is now primarily dependent on equipment availability, ridership, revenue and the availability of state funding.

During fiscal year 2021 and 2022, federal relief funding for State-supported intercity passenger rail was passed by Congress through CRSSAA (signed into law December 27, 2020), ARPA (signed into law March 11, 2021). During fiscal year 2021 and 2022, CRSSAA funds were applied by Amtrak to each month's total net operating expenses until fully exhausted in October 2021. ARPA funds were then applied to each month's net operating expenses until fully exhausted in June 2022. Both CRSSAA and ARPA provided approximately $28,355,073 each directly to Amtrak to offset the net operating costs for the Pacific Surfliner.

The LOSSAN Agency's FY 2022-23 adopted operating budget approved by the Board on March 21, 2022 includes $46,031,086 for net Amtrak operating costs. This amount reflects an estimated $118,503,600 in total Amtrak operating expenses, less $72,472,514 in estimated total revenue. The total net State operating funding request includes $30,000 for transit connectivity and integration, which includes estimates for the continuation of the Transit Transfer Program. Additional expenses and revenues of $833,000 are included for minor capital projects. This amount consists of $500,000 of new FY 2022-23 funding, consistent with prior year requests, and $333,000 in prior year approved funding allocations that are requested to be utilized in FY 2022-23.

The FY 2022-23 adopted budget includes $7,209,744 for administrative services and $1,600,000 for marketing services. Additionally, the adopted budget includes $67,087,750 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, 2022

Assets:		
Current Assets		
Cash and cash equivalents	$	33,199,310
Prepaid expense		133,719
Receivables:		
Due from other governments		43,746,783
Other receivables - National Railroad Passenger Corporation		327,225
Total current assets		77,407,037
Noncurrent Assets:		
Depreciable capital assets, net		83,568
Total noncurrent assets		83,568
Total Assets		77,490,605
Liabilities:		
Current Liabilities		
Accounts payable		28,350,552
Due to other governments		3,355,972
Unearned revenue		45,274,810
Total liabilities		76,981,334
Net position:		
Net investment in capital assets		83,568
Unrestricted net position		425,703
Total net position	$	509,271

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, 2022

Operating Revenues:		
Assessment revenue	$	143,800
Total Operating Revenue		143,800
Operating Expenses:		
Contracted services for train operations and bus feeder services		2,306,469
Administrative fees and other expenses		4,858,766
Marketing services		660,828
Depreciation		34,580
Total Operating Expenses		7,860,643
Operating Loss		(7,716,843)
Nonoperating revenues (expenses)		
State funding for train operations		2,279,938
State funding for administration and marketing		5,519,594
State funding for railcar equipment improvements		967,411
Railcar equipment improvement expenses		(999,373)
Grants for transit programs and railroad projects		38,709,109
Grant expenses for transit programs and railroad projects		(38,800,042)
Interest income		59,313
Total nonoperating revenues (expenses)		7,735,950
Change in net position		19,107
Net position, beginning of year		490,164
Net position, end of year	$	509,271

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, 2022

Cash flows from operating activities		
Payments for marketing and administrative services		(5,298,961)
Net cash used in operating activities		(5,298,961)
Cash flows from noncapital related financing activities		
Receipts from State for train operations and bus feeder services		17,008,665
Receipts from State for marketing and administrative services		8,035,975
Receipts from State for railcar equipment improvements		1,337,064
Payments for railcar equipment improvements		(1,200,000)
Receipts for grant programs		36,347,253
Payments for grant expenses		(52,606,791)
Net cash provided by noncapital financing activities		8,922,166
Cash flows from investing activities		
Interest received on investments		59,313
Net cash provided by investing activities		59,313
Net decrease in cash and cash equivalents		3,682,518
Cash and cash equivalents at beginning of year		29,516,792
Cash and cash equivalents at end of year	$	33,199,310
Reconciliation of operating loss to net cash used in operating activities		
Operating loss		(7,716,843)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Changes in assets and liabilities:		
Depreciation		34,580
(Increase) decrease in other receivables		(62,455)
(Increase) decrease in prepaid assets		322,152
Increase (decrease) in accounts payables		1,587,958
Increase (decrease) in due to other governments		444,793
Increase (decrease) in retention payable		90,854
Net cash used in operating activities	$	(5,298,961)

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), Ventura County Transportation Commission (VCTC), Los Angeles County Metropolitan Transportation Authority (LA Metro), Orange County Transportation Authority (OCTA), North County Transit District (NCTD), and San Diego Metropolitan Transit System (SDMTS). The Southern California Regional Rail Authority (SCRRA), otherwise known as Metrolink, maintains and operations the railroad track for portions owned by VCTC, LA Metro and OCTA, while NCTD maintains and operates a portion of track owned by SDMTS. 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. 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 a checking account and a money marketing deposit account. The LOSSAN Agency did not have any other investments as of June 30, 2022. 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

The ITA allows for the use of an Operating Reserve Fund. 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. The California State Transportation Agency has directed the LOSSAN Agency to use surplus funds to fund Amtrak current operating payments prior to using annually appropriated operating funding. Therefore, as of June 30, 2022, the Operating Reserve Fund balance is $0.

(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, 2022, 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.

3. Cash and Cash Equivalents

(a) Cash and Investments

The LOSSAN Agency has a checking account with Bank of the West. As of June 30, 2022, the interest rate was 0%.

The LOSSAN Agency has a money market deposit account with Bank of the West. As of June 30, 2022, the interest rate was .82%.

(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.

The funds held in the LOSSAN Agency's checking and money market accounts 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, 2022 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		(54,752)	(34,580)	-	(89,332)
Total depreciable capital assets, net		118,148	(34,580)	-	83,568
Total capital assets, net		$ 118,148	$ (34,580)	$ -	$ 83,568

5. Prepaid Expense

During the year, the LOSSAN Agency purchased various marketing advertising that will be utilized in both fiscal years 2021-22 and 2022-23. Prepaid expenses for marketing advertising as of June 30, 2022 is $21,321.

Prepaid expense also includes an annual license for a website platform that will be utilized in both fiscal years 2021-22 and 2022-23, as well as software maintenance for train analytics that will be utilized through fiscal year 2024. The prepaid expense balance for these items as of June 30, 2022 is $112,398.

6. Due From Other Governments

Due from other governments primarily consists of amounts due to the LOSSAN Agency from Caltrans DRMT for grant revenue related contributions for railroad improvements along the northern end of the corridor. The grant reimbursements category includes reimbursements for on-time performance and track maintenance, professional services for layover facility enhancements and funding for the transit transfer program. The railcar improvements category includes reimbursements for interior upgrades of railcars. The Amounts in due from other governments are detailed in the table on the following page.

Due from Caltrans DRMT for railroad improvements	$40,354,643
Due from Caltrans DRMT grant reimbursements	3,364,655
Due from Caltrans DRMT for railcar improvements	27,485
Total	$ 43,746,783

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 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, 2022.

Due to NCTD for performance and maintenance		$1,979,588
Due to OCTA for administrative services		1,345,775
Due to SJJPA for legislative services		20,000
Due to transit agencies for transit transfer program		10,609
Total	$	3,355,972

8. Unearned Revenue

Unearned revenue consists of amounts received from the State for fiscal year 2022 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 SRA grant revenues. The table below shows detail of unearned revenue as of June 30, 2022.

Unearned advance train operating funds	$	21,032,896
Unearned grant revenue		18,765,270
Unearned administrative funds		3,329,619
Unearned advanced marketing funds		2,147,025
Total	$	45,274,810

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, 2020 through September 30, 2021. 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 events surrounding COVID-19, the operating agreement was amended to continue the agreement through November 30, 2021. A new agreement was entered into effective October 1, 2021, through

September 30, 2022. Prior to the expiration of this agreement, a new annual agreement was entered into effective October 1, 2022, through September 30, 2023.

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 a future invoice. The actual net expense for train operations as of June 30, 2022 is $2,306,469 net of adjustments due to year end reconciliation with Amtrak from results of operations.

During fiscal year 2021, federal relief funding for State-supported intercity passenger rail was passed by Congress through the Coronavirus Response and Relief Supplemental Appropriations Act (CRSSAA) (signed into law December 27, 2020), and the American Rescue Plan Act (ARPA) (signed into law March 11, 2021). During fiscal year 2022, CRSSAA funds were applied by Amtrak to each month's total net operating expenses until fully exhausted in October 2021. ARPA funds were then applied to each month's net operating expenses until fully exhausted in June 2022. Both CRSSAA and ARPA each provided approximately $28,355,073 in total funding over the life of the programs directly to Amtrak to offset the net operating costs for the Pacific Surfliner.

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 has been extended by mutual agreement through June 30, 2024. The agreement may be extended for one more three-year option term 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, 2022 are detailed below.

Administrative Services	$ 4,044,796
Marketing Expenses	660,828
Professional Services	578,599
Other Business Expenses	76,507
Legal Services	61,356
Insurance	56,866
Audit Services	23,800
Travel	16,842
Total	$ 5,519,594

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.

The first four-year option term was executed prior to June 30, 2021 which extends the agreement through June 30, 2025. At the end of this term, one four-year option term will remain.

During fiscal year 2022, Caltrans provided the LOSSAN Agency additional funding for one-time costs associated with upgrading the interiors of railcars.

12. Grants for Transit Programs

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

During fiscal year 2016, the LOSSAN Agency was awarded $82 million in 2016 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. During fiscal year 2022, this project was closed out and total expenses incurred for the project were $153,285.

During fiscal year 2018, the LOSSAN Agency was awarded $188 million in 2018 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. These projects have progressed, and many are nearing completion. TIRCP related expenses for projects totaled $27,904,094, with a receivable of $25,965,827 due. Invoices paid during FY 22 include tie and rail replacement, non-powered switch and CTC upgrades, and bridge replacements. One of the projects, the Narlon bridge project, began in fiscal year 2020 and is also funded by Proposition 1B. This 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 2022, the LOSSAN Agency has incurred approximately $3,114,862 in expenses related to an agreement with the NCTD for on-time performance and track maintenance. A receivable in the amount of $1,979,588 is recorded in due from other governments for reimbursements which is due from the State as of June 30, 2022.

During fiscal year 2020, the LOSSAN Agency was awarded $38 million in 2020 TIRCP grant funds for the Environmental review, design, and construction of a dedicated layover facility in San Diego, and environmental review, design, and construction of an expanded maintenance and layover facility in San Luis Obispo (Central Coast Layover facility). During fiscal year 2021, a site feasibility study was completed for the San Diego layover facility, beginning the project report and environmental document (PR&ED) phase. Expenses incurred for the San Diego Layover totaled $14,383 for the fiscal year. Additionally, 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). Significant progress has been made on the PR&ED phase of the Central Coast Layover Facility, with completion of the phase slated for December 2022. During fiscal year 2022, expenses incurred related to the project totaled $177,716. As of June 30, 2022, receivables in the amount of $146,497 are recorded in due from other governments.

(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. The entire balance has been recognized as revenue to offset program expenses, including $2,848,467 in fiscal year 2022, leaving no balance in unearned revenue.

(c) State Rail Assistance (SRA)

The LOSSAN Agency was 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 are being used to improve rail service along the LOSSAN corridor, and includes projects for the San Luis Obispo platform repair, a refresh of business class equipment, improvements at the Grover Beach station, and corridor optimization software. The LOSSAN Agency has also obtained approval to use the funds for future continued operations of the Pacific Surfliner service if needed. When the final allocation was approved, the LOSSAN Agency was awarded an additional $754,547, bringing the total to $13,854,547. During fiscal year 2022, nothing was received in cycle 1 SRA funds. $121,710 of SRA related expenses were incurred during fiscal year 2022.

In FY 2021, the LOSSAN Agency was awarded $29,800,000 in round two SRA funding for four projects. The projects are an update to the LOSSAN Strategic Plan, various safety and corridor hardening improvements on the north corridor, the Interregional Connectivity Improvement Project, and funds for equipment replacement. Approximately $3,357,819 in round 2 funds were received during fiscal year 2022. There were $349,372 in round 2 expenses during the fiscal year. The remaining amount was reclassed to unearned revenue as of June 30, 2022.

In March of 2019, CalSTA awarded the LOSSAN Agency $718,750 of additional competitive SRA funds to complete a corridor integrated signage and wayfinding program. Nothing additional was received for this project in fiscal year 2022. As of June 30, 2022, the balance in total SRA unearned revenue is $18,621,444.

(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 2022, total expenses related to the project totaled $177,716. As of June 30, 2022, receivables in the amount of $146,497 are recorded in 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), Canada Honda bridge replacement ($11,000,000), Camarillo Station undercrossing ($3,445,000), Central Coast Layover Facility ($3,400,000), 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. The Canada Honda bridge project will replace another 100+ year old bridge 13 miles from the Narlon project. These projects, 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, 2022, total Prop 1B funded expenses incurred for work on the Narlon bridge are $3,282,434, and $127,688 for the Interim San Luis Obispo Layover facility. Receivables for Prop 1B total $95,697 due from other governments. The other projects are scheduled to begin in the following fiscal years.

13. Commitments and Contingencies

Commitments

The LOSSAN Agency has various outstanding contracts. Total outstanding purchase commitments on June 30, 2022 were $94,733,761. The most significant commitment is with Union Pacific for $62,460,080 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 $23,621,128 which includes $23,061,360 for train operations and bus feeder services, $329,966 for minor capital projects, $229,164 for design services for expansion of the Goleta layover facility and $638 for various facility safety and security improvements. Purchase commitments for professional marketing services total $2,185,957, while administrative and other professional services total $1,857,761. 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 $3,609,698 and include professional services for a corridor optimization study, San Diego layover facility environmental document, Central Coast layover facility environmental document and on-call program management support services. Outstanding purchasing agreements for cooperative agreements are in place with NCTD for on-time incentive and maintenance agreement totaling $591,622 and with other transit agencies for the Transit Transfer Program totaling $407,515 as of June 30, 2022. The Transit Transfer Program agreements are also on a reimbursement basis, where the LOSSAN Agency is only billed when passengers use the program.

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 2022, the amount being disputed is approximately $658,645. This amount has been recorded as an expense in the financial statements until the dispute is resolved. The cumulative amount being disputed from fiscal year 2019 through fiscal year 2022 is approximately $2,455,645.

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 35% of total LOSSAN Agency budgeted revenue. 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. 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 is effective for the LOSSAN Agency's fiscal year ending June 30, 2022. The LOSSAN Agency has determined the implementation of this Statement did not have a material impact on the financial statements.

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 determined the implementation of this Statement did not have a material impact on the financial statements.

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. 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 LOSSAN Agency has determined the implementation of this Statement did not have a material impact on the financial statements.

GASB Statement No. 99

In April 2022, GASB issued Statement No. 99, Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distribution, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The LOSSAN Agency has not determined the effect of this Statement.

GASB Statement No. 100

In June 2022, GASB issued Statement No. 100, Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62. The statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements. 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.

Crowe LLP
Independent Member Crowe Global

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, 2022, and the related notes to the financial statements, which collectively comprise the LOSSAN Agency's basic financial statements, and have issued our report thereon dated January 25, 2023.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-01 that we consider to be a significant deficiency.

(Continued)

Report on 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*.

The LOSSAN Agency's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the LOSSAN Agency's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Responses. The LOSSAN Agency's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

Costa Mesa, California
January 25, 2023

Finding 2022-001 – Timely Removal of Bank Access (Significant Deficiency)

Criteria

Agency should have internal controls in effect over access to cash transactions to reduce risk of invalid or unauthorized transactions.

Condition

An individual removed from duties with the agency in April 2022, retained access as a signer of the Agency's bank accounts through August 2022.

Cause

To remove bank access, the bank requires approval from two authorized positions (i.e., Managing Director, CFO, Treasurer). At the time of the individual's separation, only one person with the Agency met the requirement of being in an authorized position. As approval from two authorized positions is required, the Agency was unable to remove bank access until successfully working through the bank's policies in August 2022.

Effect

An individual removed from duties with the agency retained access to cash transactions for approximately four months after separating from the agency.

Recommendation

We recommend that management assess their resources and take steps to ensure there are more than two authorized positions filled at a time.

Management's Response

Management acknowledges the deficiency noted by the auditor. LOSSAN Agency management and staff monitored bank activity during the time the individual retained access and identified no transactions initiated by the individual. In addition, LOSSAN Agency management and staff regularly perform bank account reconciliations which reflected no unusual banking activity. The individual removed from duties did not have access to online banking. Management will pursue addressing the deficiency by seeking Board approval to appoint the Treasurer of the Managing Agency as the Treasurer of the LOSSAN Agency.