

**CAPITAL SOUTHEAST CONNECTOR  
JOINT POWERS AUTHORITY**

Independent Auditor's Reports, Management's  
Discussion and Analysis, Basic Financial Statements,  
and Required Supplementary Information

For the Fiscal Year Ended June 30, 2020



Certified  
Public  
Accountants

**CAPITAL SOUTHEAST CONNECTOR JPA**  
For the Fiscal Year Ended June 30, 2020

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## Independent Auditor's Report

Board of Directors of the Capital  
Southeast Connector JPA  
Mather, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Capital Southeast Connector Joint Powers Authority (Connector JPA), as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Connector JPA's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Connector JPA as of June 30, 2020, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 February 8, 2021, on our consideration of the Connector JPA'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 Connector JPA'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 Connector JPA's internal control over financial reporting and compliance.



Sacramento, California  
February 8, 2021

**CAPITAL SOUTHEAST CONNECTOR JPA**  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2020

This section of the Capital Southeast Connector JPA's (Connector JPA) annual financial statements presents a discussion and analysis of the Connector JPA's financial performance during the year ended June 30, 2020. Please read it in conjunction with the Connector JPA's basic financial statements following this section.

**FINANCIAL HIGHLIGHTS**

- The Connector JPA's total net position in fiscal year 2019-20 (FY 2019-20) increased by \$5.0 million.
- Total revenues decreased from \$5.6 million in fiscal year 2018-19 (FY 2018-19) to \$5.0 million in FY 2019-20.
- The total investment in capital assets increased \$5.3 million in FY 2019-20, from \$28.0 million in FY 2018-19 to \$33.3 million in FY 2019-20.
- At the end of FY 2019-20, the Connector JPA did not have any long-term liabilities.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Connector JPA's basic financial statements. The Connector JPA's basic financial statements are comprised of three components:

- 1) **Government-Wide** financial statement;
- 2) **Fund** financial statement;
- 3) **Notes** to the basic financial statements

**1) Government-Wide** Financial Statements are designed to provide readers with a broad overview of the Connector JPA's finances in a manner similar to private-sector businesses.

The *Statement of Net Position* presents information on all Connector JPA assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the Connector JPA is improving or deteriorating.

The *Statement of Activities* shows changes in net position during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., accounts payable). The Statement of Activities distinguishes functions of the Connector JPA that are principally supported by taxes and intergovernmental revenues (*governmental activities*).

The government-wide financial statements can be found on pages 8 through 9 of this report.

**2) Fund** Financial Statements are groupings of related accounts that are used to control resources that have been segregated for specific activities or objectives. The Connector JPA, like other states and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. The Connector JPA only has *governmental funds*.

**CAPITAL SOUTHEAST CONNECTOR JPA**  
Management's Discussion and Analysis (Unaudited) (Continued)  
For the Fiscal Year Ended June 30, 2020

*Governmental* funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Connector JPA's near-term financing decisions.

The governmental funds financial statements can be found on pages 10 through 11 of this report.

**3) Notes** to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found starting on page 12 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the Connector JPA is improving or deteriorating. In the case of the Connector JPA, assets exceeded liabilities by \$34.0 million at June 30, 2020.

**Condensed Statement of Net Position  
Governmental Activities  
June 30,**

	2020	2019	Increase/(Decrease)	
			Amount	Percentage
<b>Assets:</b>				
Current assets	\$ 1,110,522	\$ 1,845,717	\$ (735,195)	(40%)
Capital assets, non depreciable	33,292,560	28,036,205	5,256,355	19%
Total assets	<u>34,403,082</u>	<u>29,881,922</u>	<u>4,521,160</u>	15%
Current and other liabilities	<u>432,460</u>	<u>933,060</u>	<u>(500,600)</u>	(54%)
<b>Net Position:</b>				
Investment in capital assets	33,292,560	28,036,205	5,256,355	19%
Unrestricted	<u>678,062</u>	<u>912,657</u>	<u>(234,595)</u>	(26%)
Total Net Position:	<u>\$ 33,970,622</u>	<u>\$ 28,948,862</u>	<u>\$ 5,021,760</u>	17%

The Connector JPA reported an increase of \$5.0 million in *net position* compared to prior year balances. In the current year, net position increased primarily due to the increase in capital assets in the amount of \$5.3 million.

Current assets decreased from \$1.8 million at June 30, 2019 to \$1.1 million at June 30, 2020. This decrease primarily came from a decrease in accounts receivable. As stated above, capital assets increased approximately \$5.3 million during FY 2019-20, from \$28.0 million at June 30, 2019 to \$33.3 million at June 30, 2020. Significant additions to the project during FY 2019-20 included \$589 thousand in land

**CAPITAL SOUTHEAST CONNECTOR JPA**  
Management's Discussion and Analysis (Unaudited) (Continued)  
For the Fiscal Year Ended June 30, 2020

acquisitions and right of way, and \$3.6 million in project management, environmental and engineering services and mitigation expenses. Current liabilities decreased from \$933 thousand at June 30, 2019 to \$432 thousand at the end of the current fiscal year. These changes were due to lower amounts owed to service providers, primarily for engineering, at the end of the current fiscal year.

The following table indicates the changes in net position for the Connector JPA's governmental activities:

	<b>Statement of Activities</b>		<b>Year Ended June 30,</b>	
	2020	2019	Increase/(Decrease)	
			Amount	Percentage
Revenues				
Program Revenues:				
Capital grants and contributions	\$ 5,010,652	\$ 5,607,891	\$ (597,239)	(11%)
General Revenues:				
Interest income	11,108	15,029	(3,921)	(26%)
Total Revenues	5,021,760	5,622,920	(601,160)	(11%)
Net Position, July 1	28,948,862	23,325,942	5,622,920	24%
Net Position, June 30	<u>\$ 33,970,622</u>	<u>\$ 28,948,862</u>	<u>\$ 5,021,760</u>	17%

The decrease in capital grants and contributions revenue was primarily due to a decrease in direct project related expenses compared to the prior year; member contributions remained the same at \$225,000. As stated above, significant additions to the project during FY2019-20 included \$589 thousand in land acquisitions and right of way, and \$3.6 million in project management, environmental, engineering services and mitigation expenses. As the Connector JPA incurs these capitalized expenditures, the reimbursement revenue follows.

**FUND FINANCIAL ANALYSIS**

As noted earlier, the Connector JPA uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The public ways and facilities function is contained in the General Fund. The focus of the Connector JPA's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Connector JPA's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2020 and June 30, 2019, the Connector JPA's governmental funds reported a fund balance of \$640 thousand and \$833 thousand respectively, a decrease of \$193 thousand. The decrease in fund balance was attributed to expenditures of \$5.3 million compared to reimbursement activity of \$5.1 million in revenue during the year.

**CAPITAL SOUTHEAST CONNECTOR JPA**  
Management's Discussion and Analysis (Unaudited) (Continued)  
For the Fiscal Year Ended June 30, 2020

The Connector JPA received revenues from various sources. The following table presents the amount of revenues by source:

	<b>Revenues Classified by Source</b>				<b>General Fund</b>	
	2020	% of Total	2019	% of Total	Increase/(Decrease)	
					Amount	Percentage
Revenues						
Intergovernmental	\$ 4,785,652	95%	\$ 4,977,951	90%	\$ (192,299)	(4%)
Federal	42,000	1%	324,940	6%	(282,940)	(87%)
Contributions	225,000	4%	225,000	4%	-	0%
Interest	11,108	0%	15,029	0%	(3,921)	(26%)
<b>Total Revenues</b>	<b>\$ 5,063,760</b>	<b>100%</b>	<b>\$ 5,542,920</b>	<b>100%</b>	<b>\$ (479,160)</b>	<b>-8.6%</b>

The following provides an explanation of significant revenues by source that changed considerably over the prior year.

Intergovernmental revenues are allowable costs claimed from Measure A sales tax revenue bonds issued by the Sacramento Transportation Authority (STA). The sales tax revenue bonds are used to fund eligible Measure A capital projects. There was a decrease in revenues from STA Measure A during FY 2019-20 from \$5.0 million to \$4.8 million. As previously discussed, as the Connector JPA incurs project related expenditures, these amounts are reimbursed to the organization. Significant capitalized expenditures during FY 2019-20 included \$589 thousand in land acquisitions and right of way, and \$3.6 million in project management, environmental, engineering services and mitigation expenses.

Federal revenues are funding grants. The grants are for transportation related projects and related activities financed in part with federal-aid funds and authorized by the State or the Federal Highway Administration. The Sacramento Area Council of Governments (SACOG) conducts programming to allocate funds to projects based on regional apportionments of Federal Congestion Mitigation and Air Quality (CMAQ), Regional Surface Transportation Program (RSTP), and State Transport Action Improvement Program (STIP) funds. These funds are then allocated to projects. The Connector JPA has executed an agreement with the California Department of Transportation (Caltrans) to allow for disbursement of federal funds directly to the Connector JPA. The decrease in Federal revenues in FY 2019-20 was due to Connector JPA reduced project activity undertaken resulting in fewer costs claimed compared to FY 2018-19.



**CAPITAL SOUTHEAST CONNECTOR JPA**  
 Management's Discussion and Analysis (Unaudited) (Continued)  
 For the Fiscal Year Ended June 30, 2020

The following table presents expenditures of the General Fund:

<b>Expenditures by Function</b>						
<b>General Fund</b>						
	<u>2020</u>	<u>% of Total</u>	<u>2019</u>	<u>% of Total</u>	<u>Increase/(Decrease)</u>	
					<u>Amount</u>	<u>Percentage</u>
Expenditures						
Current:						
Public Ways & Facilities	<u>\$ 5,256,355</u>	<u>100%</u>	<u>\$ 5,567,402</u>	<u>100%</u>	<u>\$ (311,047)</u>	<u>(6%)</u>

The decrease in public ways and facilities expenditures was primarily due to a decrease in project management, environmental, and engineering services of \$1.6 million, offset by an increase in mitigation costs of \$1.3 million. Other decreases in expenditures came from a decrease in land and right of way.

**Analysis of General Fund Budget**

During the year, total revenues were less than the final budgeted amounts by \$3.1 million. Actual expenditures were less than budgetary estimates by \$2.9 million. During FY 2019-20, the Project used Federal grant funds totaling \$42 thousand.

**Economic Factors and Next Year's Budget**

The FY2020-21 Final Budget was adopted by the Connector JPA's Board of Directors on April 24, 2020.

The proposed means of financing the \$12 million in budgeted expenditures for FY 2020-21 includes:

- Measure A Bond and Measure A Bond Proceeds: \$11.8 million
- Member Contributions: \$225,000
- Interest: \$14,000

**Request for Information**

This financial report is designed to provide a general overview of the Connector JPA's finances for all those with an interest in the Connector JPA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Derek Minnema, Executive Director, Capital SouthEast Connector Joint Powers Authority, 10640 Mather Blvd., Suite 120, Mather, California 95655.

## **BASIC FINANCIAL STATEMENTS**

**CAPITAL SOUTHEAST CONNECTOR JPA**  
Statement of Net Position - Governmental Activities  
June 30, 2020

**ASSETS**

Current Assets:

Cash and investments	\$	768,346
Interest receivable		5,323
Prepaid expense		2,500
Accounts receivable		334,353
		334,353
Total Current Assets		1,110,522

Noncurrent assets:

Capital assets, non-depreciable		33,292,560
		33,292,560
Total Assets		34,403,082

**LIABILITIES**

Current Liabilities:

Accounts payable and accrued expenses		432,460
		432,460

**NET POSITION**

Investment in capital assets		33,292,560
Unrestricted		678,062
		678,062
Total Net Position	\$	33,970,622

See accompanying notes to the basic financial statements.

**CAPITAL SOUTHEAST CONNECTOR JPA**  
Statement of Activities - Governmental Activities  
For the Fiscal Year Ended June 30, 2020

	Expenses	Capital Grants and Contributions	Net Revenue and Change in Net Position
<b>FUNCTIONS/PROGRAMS</b>			
Public ways and facilities	\$ -	\$ 5,010,652	\$ 5,010,652
General revenues:			
Interest income			11,108
Change in Net Position			5,021,760
Net Position, July 1,			28,948,862
Net Position, June 30			\$ 33,970,622

See accompanying notes to the basic financial statements.

**CAPITAL SOUTHEAST CONNECTOR JPA**  
**Balance Sheet - Governmental Fund**  
**June 30, 2020**

	<u>General Fund</u>
<b>ASSETS:</b>	
Cash and investments	\$ 768,346
Interest receivable	5,323
Prepaid expense	2,500
Accounts receivable	334,353
Total Assets	\$ 1,110,522
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	
<b>LIABILITIES:</b>	
Accounts payable and accrued liabilities	\$ 432,460
 <b>DEFERRED INFLOWS OF RESOURCES:</b>	
Unavailable revenue	38,000
 <b>FUND BALANCE:</b>	
Nonspendable	2,500
Unassigned	637,562
Total Fund Balance	640,062
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 1,110,522

Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Position:

Total Fund Balance - governmental fund	\$ 640,062
Amounts reported for governmental activities in the Statement of Net Position (page 8) are different because:	
Revenue not available to liquidate liabilities of the current period are not recognized in the funds	38,000
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	33,292,560
Net Position of Governmental Activities (page 8)	\$ 33,970,622

See accompanying notes to the basic financial statements.

**CAPITAL SOUTHEAST CONNECTOR JPA**  
Statement of Revenue, Expenditures, and Change in Fund Balance - Governmental Fund  
For the Fiscal Year Ended June 30, 2020

	General Fund
<b>REVENUES:</b>	
Intergovernmental	\$ 4,785,652
Federal	42,000
Contributions	225,000
Interest	11,108
	5,063,760
<b>EXPENDITURES:</b>	
Current:	
Public ways and facilities	5,256,355
	(192,595)
Change in Fund Balance	(192,595)
Fund Balance - Beginning of the year	832,657
	\$ 640,062
	\$ 640,062
 Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance - Governmental Fund to the Statement of Activities:	
Change in Fund Balance - governmental fund	\$ (192,595)
 Amounts reported for governmental activities in the Statement of Activities (page 9) are different because:	
Governmental funds report revenues that are measureable and available. However, in the statement of activities revenues are accrued when they are earned.	(42,000)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.	5,256,355
	5,256,355
Change in Net Position of Governmental Activities (page 9)	\$ 5,021,760
	\$ 5,021,760

See accompanying notes to the basic financial statements.

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

## **CAPITAL SOUTHEAST CONNECTOR JPA**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

### **NOTE 1 – REPORTING ENTITY**

#### **Authorized Legislation and Organization**

The Capital Southeast Connector JPA, (Connector JPA), which was created effective December 12, 2006, pursuant to Section 6500 of the California State Government Code and the provisions of a Joint Exercise of Powers Agreement, is a political subdivision of the State of California.

The Connector JPA is a jointly governed organization under Section 6500 of the California State Government Code. Parties to this agreement are the City of Elk Grove, County of Sacramento, City of Rancho Cordova, City of Folsom, and the County of El Dorado.

The Connector JPA was formed to acquire, plan, design, finance, construct, operate, and maintain a multi-modal transportation corridor to connect the City of Elk Grove, the County of Sacramento, the City of Rancho Cordova, the City of Folsom, and the County of El Dorado.

The Connector JPA is governed by a Board of Directors, which is composed of one member from the Sacramento County Board of Supervisors, one member from the Elk Grove City Council, one member from the Rancho Cordova City Council, one member from the Folsom City Council, and one member from the El Dorado County Board of Supervisors.

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Presentation**

##### *Government-wide Financial Statements*

The Statement of Net Position and Statement of Activities display information about the primary government (Connector JPA).

The Statement of Activities presents direct expenses and program revenues for the public ways and facilities function of the Connector JPA's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented instead as general revenues.

When both restricted and unrestricted resources are available, restricted resources are used first, then unrestricted resources as needed.

##### *Fund Financial Statements*

The fund financial statements provide information about the Connector JPA's fund, which include only *governmental funds*.

The Connector JPA reports the following major governmental fund:

The *General Fund* is used to account for all revenues and expenditures necessary to carry out the basic governmental activities of the Connector JPA.



**CAPITAL SOUTHEAST CONNECTOR JPA**  
Notes to the Basic Financial Statements (Continued)  
For the Fiscal Year Ended June 30, 2020

**Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Connector JPA gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and contributions. Revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Interest and certain state and federal grants are accrued when their receipt occurs within one hundred twenty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

**Cash and Investments**

Pursuant to the Joint Exercise of Powers Agreement, the Treasurer of the County of Sacramento (County) has custody of all cash for the Connector JPA. The Connector JPA's share of the pooled cash account is separately accounted for and interest earned, net of related expenses, is apportioned at the end of each quarter based upon the relationship of its daily cash balance to the total of the pooled account.

Cash and investments in the County's investment pools are presented at fair value. Investment policies and related credit, custodial credit, concentration credit, and interest rate risk applicable to the Connector JPA's pooled funds are those of the County and are disclosed in the County's basic financial statements. The County treasurer's investment pool is subject to oversight by the Treasury Oversight Committee.

**Net Position**

Government-wide financial statements utilize a net position presentation.

- *Investment in capital assets* – This category groups all capital assets, including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Unrestricted Net Position* – This category represents net position of the Connector JPA not restricted for any project or other purpose.

**Fund Balances**

Governmental funds report fund balance in classifications based primarily on the extent to which the Connector JPA is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances for government funds are made up of the following:

- *Nonspendable Fund Balance* – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: amounts held for perpetuity and prepaid amounts.

**CAPITAL SOUTHEAST CONNECTOR JPA**  
Notes to the Basic Financial Statements (Continued)  
For the Fiscal Year Ended June 30, 2020

- *Restricted Fund Balance* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – includes amounts that can only be used for the specific purposes determined by a formal action of the Connector JPA’s highest level of decision-making authority, which is the Connector JPA’s Board of Directors. Commitments may be changed or lifted only by the adoption of a Board Resolution.
- *Assigned Fund Balance* – comprises amounts intended to be used by the Connector JPA for specific purposes that are neither restricted nor committed. Intent is expressed by the Connector JPA’s Board of Directors.
- *Unassigned Fund Balance* – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are available for any purpose.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

As of June 30, 2020, all of the Connector JPA’s General Fund balance is recorded as nonspendable and unassigned.

**Fair Value Measurement**

The Connector JPA categorizes the fair value measurement of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Connector JPA is a participant in the Sacramento County Treasurer’s Pool (County Pool). The County Pool is an external investment pool, is not rated and is not registered with the Securities and Exchange Commission (SEC). The Sacramento County Treasury Oversight Committee conducts County Pool oversight. Cash on deposit in the County Pool at June 30, 2020 is stated at fair value. The County Pool values participant shares on an amortized cost basis during the year and adjusts to fair value at year-end. For further information regarding the County Pool, refer to the County of Sacramento Comprehensive Annual Financial Report.

**CAPITAL SOUTHEAST CONNECTOR JPA**  
Notes to the Basic Financial Statements (Continued)  
For the Fiscal Year Ended June 30, 2020

**Use of Estimates**

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

**Future Accounting Pronouncements**

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The effective date of this Statement was postponed to fiscal years beginning after December 15, 2019, with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Authoritative Guidance*. The Connector JPA has not determined the effect, if any, on the financial statements.

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 government 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. The effective date of this Statement was postponed to fiscal years beginning after June 15, 2021 with the issuance of GASB Statement No. 95. The Connector JPA has not determined the effect, if any, on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The effective date of this Statement was postponed to fiscal years beginning after December 15, 2019, with the issuance of GASB Statement No. 95. The Connector JPA has not determined the effect, if any, on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The 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. The effective date of this Statement was postponed to fiscal years beginning after December 15, 2021 with the issuance of GASB Statement No. 95. The Connector JPA has not determined the effect, if any, on the financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative

**CAPITAL SOUTHEAST CONNECTOR JPA**  
Notes to the Basic Financial Statements (Continued)  
For the Fiscal Year Ended June 30, 2020

literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. The effective date of this Statement was postponed to fiscal years beginning after June 15, 2021 with the issuance of GASB Statement No. 95. The Connector JPA has not determined the effect, if any, on the financial statements.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements (except paragraphs 13 and 14) of this Statement are effective for reporting periods beginning after June 15, 2020. Paragraphs 13 and 14 have been postponed to reporting periods beginning after June 15, 2021 with the issuance of GASB Statement No. 95. The Connector JPA has not determined the effect, if any, on the financial statements.

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 (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The Connector JPA has not determined the effect, if any, on the financial statements.

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 (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The Connector JPA has not determined the effect, if any, on the financial statements.

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 – An Amendment of GASB Statement No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. 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

**CAPITAL SOUTHEAST CONNECTOR JPA**  
Notes to the Basic Financial Statements (Continued)  
For the Fiscal Year Ended June 30, 2020

plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The Connector JPA has not determined the effect, if any, on the financial statements.

**NOTE 3 – CASH AND INVESTMENTS**

As discussed in Note 2, the Connector JPA maintains cash deposits and investments with the County and involuntarily participates in the investment pool of the County, which is not rated by the credit rating agencies. The County Treasurer’s cash and investment pool is not registered with the SEC. The County’s Treasury Oversight Committee is charged with overseeing activity in the pool for compliance and code requirement. Additional information regarding the Pool, including the investment portfolio and related interest rate, custodial credit, credit and concentration credit risks, is presented in the County’s basic financial statements.

*Fair Value Measurement*

In instances where inputs used to measure fair value into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Connector JPA’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. Deposits and withdrawals from the County Pool are made on the basis of \$1 and not fair value. Accordingly, the Connector JPA’s proportionate share of investments in the County Pool at June 30, 2020 of \$767,846 is an uncategorized input not defined as a Level 1, or Level 3 input. The remaining \$500 is held by the Connector JPA as petty cash.

**NOTE 4 – ACCOUNTS RECEIVABLE**

The majority of the Connector JPA’s accounts receivable is comprised of Measure A claims submitted to the Sacramento Transportation Authority (STA) for expenditures incurred through June 30, 2020. Additional amounts are due from the California Department of Transportation and for miscellaneous receivables. As of June 30, 2020, \$246,068, \$77,000 and \$11,285 remains outstanding, respectively.

**NOTE 5 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2020 is as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 28,036,205	\$ 5,256,355	\$ -	\$ 33,292,560
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

**CAPITAL SOUTHEAST CONNECTOR JPA**  
Notes to the Basic Financial Statements (Continued)  
For the Fiscal Year Ended June 30, 2020

**NOTE 6 – RELATED PARTY TRANSACTIONS**

The Connector JPA uses other County of Sacramento departments for services, such as telecommunications, computer/IT support, treasury, personnel and employment services, and fiscal services, which includes federal invoicing and payment services. Expenditures paid to the County of Sacramento during the year were \$74,285.

**NOTE 7 – OPERATING LEASES**

The Connector JPA entered into a lease agreement on November 29, 2017 for a lease term that expires December 31, 2020. Rental expenditures for fiscal 2020 for office space were \$53,165.

The following is the amount due under the lease agreement signed on November 29, 2017.

	<u>Year Ending June 30,</u>
2021	\$ 26,077

The Connector JPA entered into a new lease agreement on July 1, 2020 for a lease term that expires December 31, 2023. Monthly lease expenditures will range from \$4,179 to \$4,418 for the term of the lease.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

The Connector JPA has executed contracts to purchase services, as of June 30, 2020, from various vendors. The Connector JPA is contracted with these vendors through various dates. Approximately \$5.2 million may be payable upon future performance under these contracts.

**NOTE 9 – COVID-19**

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally. Due to the nature of the Connector JPA's operations, there was minimal impact of COVID-19 on this year's financial statements of the Connector JPA. At this time, the Connector JPA cannot estimate the impact of COVID-19 on future year's financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CAPITAL SOUTHEAST CONNECTOR JPA**

Schedule of Revenues, Expenditures, and Changes in the General Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2020

	Budgeted amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ 6,330,000	\$ 7,934,189	\$ 4,785,652	\$ (3,148,537)
Federal	-	-	42,000	42,000
Contributions	225,000	225,000	225,000	-
Interest	8,000	8,000	11,108	3,108
Total Revenues	6,563,000	8,167,189	5,063,760	(3,103,429)
EXPENDITURES:				
Public ways and facilities	6,563,000	8,167,189	5,256,355	2,910,834
NET CHANGES IN FUND BALANCE	\$ -	\$ -	\$ (192,595)	\$ (192,595)

See note to the required supplementary information.



**CAPITAL SOUTHEAST CONNECTOR JPA**  
Note to The Required Supplementary Information  
For the Fiscal Year Ended June 30, 2020

**NOTE 1 – BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and are used as a management control device for the general fund. All annual appropriations lapse at fiscal year-end. The Executive Director and Administrative Services Officer prepare and submit a proposed budget to the Board of Directors in May for review. After reviewing the proposed budget and making such revisions as it may deem advisable, a final budget is prepared and adopted no later than the June board meeting. Revisions to the adopted budget must be presented to the Board of Directors by the Executive Director and approved by resolution. The legal level of budgetary control is at the total fund level.



**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 of the Capital  
Southeast Connector JPA  
Mather, 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 governmental activities and the general fund of the Capital Southeast Connector Joint Powers Authority (Connector JPA), as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Connector JPA's basic financial statements, and have issued our report thereon dated February 8, 2021.

***Internal Control Over Financial Reporting***

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

## **Purpose of this Report**

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

*Macias Gini & O'Connell LLP*

Sacramento, California

February 8, 2021