

**CAPITAL SOUTHEAST CONNECTOR
JOINT POWERS AUTHORITY**
Sacramento, California

Financial Statements

For the Fiscal Year Ended June 30, 2019



Certified
Public
Accountants

CAPITAL SOUTHEAST CONNECTOR JPA

For the Fiscal Year Ended June 30, 2019

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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 year ended June 30, 2019, 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, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 28, 2020, 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 28, 2020

CAPITAL SOUTHEAST CONNECTOR JPA
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

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, 2019. 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 2018-19 (FY 2018-19) increased by \$5.6 million.
- Total revenues decreased from \$8.0 million in Fiscal Year 2017-18 (FY 2017-18) to \$5.6 million in FY 2018-19.
- The total investment in Public Ways and Facilities increased \$5.6 million in FY 2018-19, from \$22.5 million in FY 2017-18 to \$28.0 million in FY 2018-19.
- At the end of FY 2018-19 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 statements;
- 2) **Fund** financial statements;
- 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., interest 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, 2019

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 \$28.9 million at June 30, 2019.

Condensed Statement of Net Position				
Governmental Activities				
June 30,				
	2019	2018	Amount	Percentage
Assets:				
Current assets	\$ 1,845,717	\$ 1,466,631	\$ 379,086	26%
Capital assets, non depreciable	28,036,205	22,468,803	5,567,402	25%
Total assets	29,881,922	23,935,434	5,946,488	25%
Current and other liabilities	933,060	609,492	323,568	53%
Net Position:				
Investment in capital assets	28,036,205	22,468,803	5,567,402	25%
Unrestricted	912,657	857,139	55,518	6%
Total Net Position:	\$ 28,948,862	\$ 23,325,942	\$ 5,622,920	24%

The Connector JPA reported an increase of \$5.6 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 \$5.6 million.

Current assets increased from \$1.5 million at June 30, 2018 to \$1.8 million at June 30, 2019. This increase primarily came from an increase in accounts receivable. As stated above, capital assets increased approximately \$5.6 million during FY 2018-19, from \$22.5 million at June 30, 2018 to \$28.0 million at June 30, 2019. Significant additions to the project during FY 2018-19 included \$676 thousand in land

CAPITAL SOUTHEAST CONNECTOR JPA
Management's Discussion and Analysis (Unaudited) (Continued)
For the Fiscal Year Ended June 30, 2019

acquisitions and right of way, and \$3.9 million in project management, environmental and engineering services. Current liabilities increased from \$609 thousand at June 30, 2018 to \$933 thousand at the end of the current fiscal year. These higher amounts were due to service providers, primarily engineering, at the end of the current fiscal year compared to the end of the prior fiscal year.

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

	Statement of Activities			
	Year Ended June 30,			
	2019	2018	Increase/(Decrease)	
			Amount	Percentage
Revenues				
Program Revenues:				
Capital grants and contributions	\$ 5,607,891	\$ 8,031,520	\$ (2,423,629)	(30%)
General Revenues:				
Interest income	15,029	12,568	2,461	20%
Total Revenues	5,622,920	8,044,088	(2,421,168)	(30%)
Change in Net Position	5,622,920	8,044,088	(2,421,168)	(30%)
Net Position, July 1	23,325,942	15,281,854	8,044,088	53%
Net Position, June 30	\$ 28,948,862	\$ 23,325,942	\$ 5,622,920	24%

The decrease in capital grants and contributions revenue was primarily due to a decrease in direct project related expenses compared to the prior year. As stated above, significant additions to the project during FY 2018-19 included \$676 thousand in land acquisitions and right of way, and \$3.9 million in project management, environmental and engineering services. As the Connector JPA incurs these capitalized expenses, the reimbursement revenue follows. Member contributions increased \$50,000 in FY 2018-19, from \$175,000 last year, to \$225,000 in the current year. Also, the Connector JPA received \$405 thousand in federal revenues during FY 2018-19, and \$75,000 from El Dorado County for funding Segment E1 of the project.

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, 2019 and June 30, 2018, the Connector JPA's governmental funds reported a fund balance of \$832,657 and \$857,139, respectively, a decrease of \$24,482. The decrease in fund balance was attributed to a decrease in cash, and increases in accounts receivable and current liabilities at the end of FY 2017-18 as compared to FY 2018-19. These changes are a result of the timing of expenditure and reimbursement activity.

CAPITAL SOUTHEAST CONNECTOR JPA
Management's Discussion and Analysis (Unaudited) (Continued)
For the Fiscal Year Ended June 30, 2019

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

	Revenues Classified by Source				General Fund	
	2019	% of Total	2018	% of Total	Increase/(Decrease)	
					Amount	Percentage
Revenues						
Intergovernmental revenues	\$ 4,977,951	89%	\$ 7,465,001	92%	\$ (2,487,050)	(33%)
Federal	324,940	6%	424,547	5%	(99,607)	(23%)
Contributions	225,000	4%	175,000	2%	50,000	29%
Interest	15,029	1%	12,568	1%	2,461	20%
Total Revenues	\$ 5,542,920	100%	\$ 8,077,116	100%	\$ (2,534,196)	(31%)

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

Intergovernmental revenues are allowable costs claimed from Measure A sale 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 2018-19 from \$7.5 million to \$5.0 million. As previously discussed, as the Connector JPA incurs project related expenses, these amounts are reimbursed to the organization. Significant capitalized expenditures during FY 2018-19 included \$676,000 in land acquisitions and right of way, and \$3.9 million in project management, environmental and engineering services.

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 2018-19 was due to Connector JPA reduced project activity undertaken resulting in fewer costs claimed compared to FY 2017-18.

Contributions are local funds received from the five member jurisdictions. The Connector JPA requested a \$10,000 per member increase in contributions from the member agencies in order to gradually reduce the need for Measure A funding for administrative expenses, resulting in total member contributions increasing from \$175,000 last year to \$225,000 during the current year.

CAPITAL SOUTHEAST CONNECTOR JPA
Management's Discussion and Analysis (Unaudited) (Continued)
For the Fiscal Year Ended June 30, 2019

The following table presents expenditures of the General Fund:

	Expenditures by Function				General Fund	
	2019	%	2018	%	<u>Increase/(Decrease)</u>	
	<u>2019</u>	<u>of Total</u>	<u>2018</u>	<u>of Total</u>	<u>Amount</u>	<u>Percentage</u>
Expenditures						
Current:						
Public Ways and Facilities	<u>\$ 5,567,402</u>	<u>100%</u>	<u>\$ 8,240,658</u>	<u>100%</u>	<u>\$ (2,673,256)</u>	<u>(32%)</u>

The decrease in expenditures was primarily due to no mitigation expenditures during FY 2018-19, as compared to \$2.4 million in mitigation expenditures in FY 2017-18. Other decreases in expenditures came from a decrease in land and right of way, and project management, environmental and engineering services. The Project is in the planning stage and will not be construction-ready until 2020, with a final completion date expected in 2035.

Analysis of General Fund Budget

During the year, total revenues were less than the final budgeted amounts by \$6.1 million. Actual expenditures were less than budgetary estimates by \$6.1 million. During FY 2018-19, the Project used Federal Grant Funds totaling \$325 thousand.

Economic Factors and Next Year's Budget

The FY 2019-20 Final Budget was adopted on May 24, 2019 and amended on August 23, 2019 by the Connector JPA's Board of Directors.

The proposed means of financing the \$8.2 million in budgeted expenditures for FY 2019-20 includes:

- Measure A Bond and Measure A Bond Proceeds: \$7.4 million
- Member Contributions: \$225,000
- Interest: \$8,000
- State Grant Funds: \$500,000

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, 2019

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and investments	\$ 477,464
Interest receivable	8,376
Prepaid expense	3,892
Accounts receivable	<u>1,355,985</u>
Total Current Assets	<u>1,845,717</u>
Noncurrent assets:	
Capital assets, non-depreciable	<u>28,036,205</u>
Total Assets	<u>29,881,922</u>
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued expenses	<u>933,060</u>
NET POSITION	
Investment in capital assets	28,036,205
Unrestricted	<u>912,657</u>
Total Net Position	<u><u>\$ 28,948,862</u></u>

See accompanying notes to the basic financial statements.

CAPITAL SOUTHEAST CONNECTOR JPA
Statement of Activities - Governmental Activities
For the Fiscal Year Ended June 30, 2019

	Expenses	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
FUNCTIONS/PROGRAMS			
Public ways and facilities	\$ -	\$ 5,607,891	\$ 5,607,891
			15,029
General revenues:			
Interest income			
			5,622,920
Change in Net Position			23,325,942
Net Position, July 1,			23,325,942
Net Position, June 30			\$ 28,948,862

See accompanying notes to the basic financial statements.

CAPITAL SOUTHEAST CONNECTOR JPA
Balance Sheet - Governmental Fund
June 30, 2019

	<u>General Fund</u>
ASSETS:	
Cash and investments	\$ 477,464
Interest receivable	8,376
Prepaid expense	3,892
Accounts receivable	1,355,985
Total Assets	\$ 1,845,717
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 933,060
 DEFERRED INFLOWS OF RESOURCES:	
Unavailable revenue	80,000
 FUND BALANCE:	
Nonspendable	3,892
Unassigned	828,765
Total Fund Balance	832,657
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 1,845,717

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

Total Fund Balance - governmental fund	\$ 832,657
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	80,000
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	28,036,205
Net Position of Governmental Activities	\$ 28,948,862

See accompanying notes to the basic financial statements.

CAPITAL SOUTHEAST CONNECTOR JPA
Statement of Revenue, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2019

	General Fund
REVENUES:	
Intergovernmental revenues	\$ 4,977,951
Federal	324,940
Contributions	225,000
Interest	15,029
Total Revenues	5,542,920
 EXPENDITURES:	
Public ways and facilities	5,567,402
Change in Fund Balance	(24,482)
Fund Balance - Beginning of the year	857,139
Fund Balance - End of the year	\$ 832,657
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund to the Statement of Activities:	
Net Change in Fund Balance - governmental fund	\$ (24,482)
 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.	80,000
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.	5,567,402
Change in Net Position of Governmental Activities (page 9)	\$ 5,622,920

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, 2019

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, 2019

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, 2019

- *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, 2019, 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 does not have any investments that are measured using Level 3 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, 2019 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, 2019

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.

New Accounting Pronouncements

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for fiscal years beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO's). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in the Statement. This Statement did not have an effect on the Connector JPA's financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for fiscal years beginning after June 15, 2018. The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. This Statement did not have an effect on the Connector JPA's financial statements.

Future Accounting Pronouncements

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, effective for fiscal years beginning after December 15, 2018. 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 Connector JPA has not determined the effect, if any, on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. 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 Connector JPA has not determined the effect, if any, on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*, effective for the fiscal years beginning after December 15, 2018. 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 Connector JPA has not determined the effect, if any, on the financial statements.

CAPITAL SOUTHEAST CONNECTOR JPA
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2019

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, effective for fiscal years beginning after December 15, 2020. 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 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, 2019 of \$476,984 is an uncategorized input not defined as a Level 1, or Level 3 input.

NOTE 4 – ACCOUNTS RECEIVABLE

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, 2019. As of June 30, 2019, \$1.3 million remains outstanding.

CAPITAL SOUTHEAST CONNECTOR JPA
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2019

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 22,468,803	\$ 5,567,402	\$ -	\$ 28,036,205

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 \$74,971.

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 2019 for office space were \$45,993.

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

<u>Year Ending June 30,</u>	
2020	\$ 47,426
2021	<u>24,071</u>
	<u>\$ 71,497</u>

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Connector JPA has executed contracts to purchase services from various vendors. The Connector JPA is contracted with these vendors through various dates. Approximately \$11.2 million may be payable upon future performance under these contracts. The major contracts outstanding are \$2.3 million for engineering and consulting and \$7.1 million for construction.

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, 2019

	Budgeted amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ 11,075,000	\$ 11,075,000	\$ 4,977,951	\$ (6,097,049)
Federal	330,000	330,000	324,940	(5,060)
Contributions	225,000	225,000	225,000	-
Interest	4,000	4,000	15,029	11,029
Total Revenues	<u>11,634,000</u>	<u>11,634,000</u>	<u>5,542,920</u>	<u>(6,091,080)</u>
EXPENDITURES:				
Public ways and facilities	<u>11,634,000</u>	<u>11,634,000</u>	<u>5,567,402</u>	<u>6,066,598</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (24,482)</u>	<u>\$ (24,482)</u>

See note to the Required Supplementary Information.

CAPITAL SOUTHEAST CONNECTOR JPA
Note to The Required Supplementary Information
For the Fiscal Year Ended June 30, 2019

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 year ended June 30, 2019, 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 28, 2020.

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, slightly slanted style.

Sacramento, California
February 28, 2020

CAPITAL SOUTHEAST CONNECTOR JPA
Schedule of Prior Year Finding
For the Fiscal Year Ended June 30, 2019

Finding 2018-001

SEGREGATION OF DUTIES IN THE GENERAL LEDGER AND FINANCIAL REPORTING

Criteria:

Management is responsible for the preparation and fair presentation of the financial statements. Management is also responsible for ensuring that financial records and related information are reliable and properly recorded. Internal controls should be designed in order to safeguard assets, prevent errors, and reduce the risk of fraud. A fundamental concept in a good system of internal control is the segregation of duties.

Condition:

Significant Deficiency - For the fiscal year ended June 30, 2018, the Authority began using QuickBooks accounting software to prepare the financial statements. It was noted that one person, an outside consultant to the Authority, has access to QuickBooks and is responsible for all entry and recording of Authority transactions, including journal entries, into the system. There is no independent review performed of transactions recorded in QuickBooks outside of the Authority's consultant. Pursuant to the Joint Exercise of Powers Agreement, the Treasurer of the County of Sacramento (County) has custody of all cash for the Connector Authority. COMPASS, the Sacramento County financial system and automated general ledger, maintains the cash balance of the Authority in a separate fund and creates a ledger and audit trail of all transactions incurred. Internal controls and access controls exist surrounding COMPASS to ensure that transactions recorded in the Authority's COMPASS fund are accurate and access to the system, and the recording of transactions is properly segregated. It was noted that there are no reconciliations performed by the Authority of the balances in QuickBooks to the balances in COMPASS on a regular basis.

Recommendation:

We recommend that the Authority develop and implement internal controls surrounding the use of QuickBooks. It is also recommended that the Authority perform a reconciliation of the amounts recorded in QuickBooks to COMPASS on a regular basis, no less than monthly.

Status:

Corrected.