

**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, 2023



Certified
Public
Accountants

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, 2023

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited 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, 2023, 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.

In our opinion, the accompanying 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, 2023, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

The Connector JPA's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 May 7, 2024, 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.

A handwritten signature in black ink. It reads "Macias Gini & O'Connell LLP". The "ampersand" symbol (&) is written as two small circles joined together. The "LLP" is written in a smaller, stylized font to the right of the ampersand.

Sacramento, California

May 7, 2024

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2023

This section of the Capital Southeast Connector Joint Powers Authority (Connector JPA) annual financial statements presents a discussion and analysis of the Connector JPA's financial performance during the fiscal year ended June 30, 2023. 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 2022-23 (FY 2022-23) increased by \$2,243,708.
- Total revenues decreased from \$11.1 million in Fiscal Year 2021-22 (FY 2021-22) to \$2.3 million in FY 2022-23.
- The total investment in capital assets increased \$5.1 million in FY 2022-23, from \$45.8 million in FY 2021-22 to \$50.9 million in FY 2022-23.
- The Connector JPA's fund balance in Fiscal Year 2022-23 (FY 2022-23) decreased by \$2.4 million to \$1.5 million.

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 of the Connector JPA's assets and liabilities, with the difference between the two reported amounts 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 identifies the Connector JPA's only function, public ways and facilities, which is principally supported by intergovernmental revenues and contributions from other governments (*governmental activities*).

The government-wide financial statements can be found on pages 11 through 12 of this report.

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

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Management's Discussion and Analysis (Unaudited) (Continued)

For the Fiscal Year Ended June 30, 2023

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 13 through 14 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 15 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 \$52.7 million at June 30, 2023.

Condensed Statement of Net Position
Governmental Activities
June 30,

	2023	2022	Increase/(Decrease)	
			Amount	Percentage
Assets:				
Current assets	\$ 1,799,297	\$ 4,677,450	\$ (2,878,153)	(62%)
Capital assets, net	51,361,242	46,620,800	4,740,442	10%
Total assets	53,160,539	51,298,250	1,862,289	4%
Liabilities:				
Current liabilities	279,571	759,190	(479,619)	(63%)
Noncurrent liabilities	140,954	42,754	98,200	230%
Total liabilities	420,525	801,944	(381,419)	(48%)
Net Position:				
Investment in capital assets	50,940,717	45,818,856	5,121,861	11%
Unrestricted	1,799,297	4,677,450	(2,878,153)	(62%)
Total Net Position:	\$ 52,740,014	\$ 50,496,306	\$ 2,341,908	4%

The Connector JPA reported an increase of \$2.2 million in *net position* compared to prior year balances. During FY 2022-23, net position increased primarily due to reimbursement of capitalized project expenditures.

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Management's Discussion and Analysis (Unaudited) (Continued)

For the Fiscal Year Ended June 30, 2023

Current assets decreased from \$4.7 million at June 30, 2022, to \$1.8 million at June 30, 2023. This decrease primarily came from a decrease in cash and investment balances. As stated above, capital assets increased approximately \$4.8 million during FY 2022-23, from \$46.6 million at June 30, 2022 to \$51.3 million June 30, 2023. Significant additions to the Capital Southeast Connector Expressway project (Project) during FY 2022-23 included \$3.2 million in construction related activities, and \$1.6 million in project management, environmental, and engineering services.

Total liabilities decreased from \$802 thousand at June 30, 2022 to \$421 thousand as of June 30, 2023. These changes were due to lower amounts due to service providers, primarily the City of Folsom for construction related activities, 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		Increase/(Decrease)	
			Fiscal Year Ended June 30,			
	2023	2022			Amount	Percentage
Revenues						
Program Revenues:						
Capital grants and contributions	\$ 2,207,017	\$ 11,124,809		\$ (8,917,792)		(80%)
General Revenues:						
Interest income	87,728	18,731		68,997		368%
Total Revenues	<u>2,294,745</u>	<u>11,143,540</u>		<u>(8,848,795)</u>		(79%)
Expenses						
Public ways and facilities	<u>51,037</u>	<u>53,327</u>		<u>(2,290)</u>		100%
Change in Net Position	2,243,708	11,090,213		(8,846,505)		(80%)
Net Position, July 1	50,496,306	39,406,093		11,090,213		28%
Net Position, June 30	<u>\$ 52,740,014</u>	<u>\$ 50,496,306</u>		<u>\$ 2,243,708</u>		4%

The decrease in capital grants and contributions revenue was primarily due to a decrease in Measure A reimbursements and other local revenues for project-related expenses compared to the prior year; member contributions remained unchanged at \$250,000 for FY 2021-22 and FY 2022-23. As stated above, significant additions to the Project during FY 2022-23 included \$3.2 million in construction related activities, and \$1.6 million in project management, environmental, and engineering services. Typically, the Connector JPA incurs these capitalized expenses, the reimbursement revenue follows. However, in FY 2022-23 the Connector utilized a combination of existing funds and reimbursements to fund project expenditures.

FUND FINANCIAL ANALYSIS

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

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Management's Discussion and Analysis (Unaudited) (Continued)

For the Fiscal Year Ended June 30, 2023

Governmental funds. The public ways and facilities function is contained in the General Fund. The focus of the Connector JPA's *governmental fund* 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, 2023, and June 30, 2022, the Connector JPA's governmental funds reported a fund balance of \$1.5 million and \$4.0 million respectively, a decrease of approximately \$2.5 million. The decrease in fund balance was attributed to a decrease in assets, notably a decrease in cash and investments of \$2.9 million offset by a decrease in liabilities of \$456 thousand at the end of FY 2022-23.

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

	Revenues Classified by Source				Increase/(Decrease)		
	General Fund	2023	% of Total	2022	% of Total	Amount	Percentage
Revenues							
Intergovernmental revenues	\$ 1,957,017	85%	\$ 10,874,809	97%	\$ (8,917,792)	(82%)	
Contributions	250,000	11%	250,000	2%	-	0%	
Interest	87,728	4%	18,731	1%	68,997	368%	
Total Revenues	<u>\$ 2,294,745</u>	<u>100%</u>	<u>\$ 11,143,540</u>	<u>100%</u>	<u>\$ (8,848,795)</u>	<u>(79%)</u>	

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 and disbursed by the Sacramento Transportation Authority (STA). The sales tax revenue is used to fund eligible Measure A capital projects. There was a decrease in intergovernmental revenues from STA Measure A during FY 2022-23 from \$7.4 million during FY 2021-22 to \$2.0 million during FY2022-23. As previously discussed, as the Connector JPA incurs project-related expenditures, these amounts are reimbursed to the organization. Also, during FY 2021-22, \$3.5 million in local revenues were received from the City of Elk Grove. Significant capitalized expenditures during FY 2022-23 included \$3.2 million in construction related activities, and \$1.6 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. Every two years, the Sacramento Area Council of Governments (SACOG) conducts a programming round to allocate funds to projects based on regional apportionments of Federal Congestion Mitigation and Air Quality (CMAQ), Regional Surface Transportation Program (RSTP), and State Transportation 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. No federal revenues were received or recognized during FY 2022-23 or FY 2021-22.

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Management's Discussion and Analysis (Unaudited) (Continued)

For the Fiscal Year Ended June 30, 2023

The following table presents expenditures of the General Fund:

	General Fund					
	2023	% of Total	2022	% of Total	Increase/(Decrease) Amount	Percentage
Expenditures						
Current:						
Public Ways & Facilities	\$ 4,664,480	99%	\$ 8,006,855	99%	\$ (3,342,375)	(42%)
Debt service - lease						
Principal	49,929	1%	44,853	1%	5,076	11%
Interest	2,674	0%	4,964	0%	(2,290)	(46%)
Total Expenditures	<u><u>\$ 4,717,083</u></u>	<u><u>100%</u></u>	<u><u>\$ 8,056,672</u></u>	<u><u>100%</u></u>	<u><u>\$ (3,342,375)</u></u>	<u><u>(41%)</u></u>

The expenditure activity of the Project was \$3.3 million less compared to the prior year. The primary category of decrease was mitigation of approximately \$4.0 million. Construction activities increased from \$1.2 million during FY 2021-22 to \$3.2 million in FY 2022-23. Project management, environmental, and engineering services amounted to almost \$1.6 million during the current year compared to \$2.8 million in FY 2021-22.

Analysis of General Fund Budget

During the year, total revenues were less than the final budgeted amounts by \$3.8 million. Anticipated expenditures for mitigation and engineering did not materialize as expected during FY 2022-23. Consequently, the revenue derived from reimbursements associated with the expenditures did not meet budgeted amounts. Measure A revenues recognized were \$465 thousand less than budgeted. Capitalized expenditures to the project amounted to \$4.7 million compared to a budget of \$6.1 million.

Economic Factors and Next Year's Budget

The FY 2023-24 Final Budget was adopted by the Connector JPA's Board of Directors on May 26, 2023, and during the October 20, 2023 Board of Directors meeting, an additional \$3 million was approved through a budget amendment. The additional state funding was allocated from the SB 1 Trade Corridor Enhancement Program.

The proposed means of financing the \$10.8 million in budgeted expenditures for FY 2023-24 include:

- Measure A Bond Proceeds: \$5.8 million
- Member Contributions: \$250 thousand
- Other Local Funding: \$1.0 million
- State Funding: \$3.0 million
- Federal Funding: \$700 thousand
- Interest: \$16 thousand

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Management's Discussion and Analysis (Unaudited) (Continued)

For the Fiscal Year Ended June 30, 2023

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.

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BASIC FINANCIAL STATEMENTS

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Statement of Net Position - Governmental Activities

June 30, 2023

ASSETS

Current Assets:

Cash and investments	\$ 1,372,043
Interest receivable	55,447
Prepaid items	37,633
Accounts receivable	<u>334,174</u>
Total Current Assets	<u>1,799,297</u>

Noncurrent Assets:

Capital assets, non-depreciable	51,337,061
Right-to-use asset	<u>24,181</u>
Total Noncurrent Assets	<u>51,361,242</u>
Total Assets	<u>53,160,539</u>

LIABILITIES

Current Liabilities:

Accounts payable and accrued expenses	253,446
Lease liability - current portion	<u>26,125</u>
Total Current Liabilities	<u>279,571</u>

Noncurrent Liabilities:

Retentions payable	<u>140,954</u>
Total Liabilities	<u>420,525</u>

NET POSITION

Net investment in capital assets	50,940,717
Unrestricted	<u>1,799,297</u>
Total Net Position	<u>\$ 52,740,014</u>

See accompanying notes to the basic financial statements.

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Statement of Activities - Governmental Activities

For the Fiscal Year Ended June 30, 2023

FUNCTIONS/PROGRAMS	Expenses	Capital Grants and Contributions	Net Revenue and Change in Net Position
	\$ 51,037	\$ 2,207,017	\$ 2,155,980
Public ways and facilities			
General revenues:			
Interest income			87,728
Change in Net Position			2,243,708
Net Position, July 1			50,496,306
Net Position, June 30			\$ 52,740,014

See accompanying notes to the basic financial statements.

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Balance Sheet - Governmental Fund

June 30, 2023

	<u>General Fund</u>
ASSETS:	
Cash and investments	\$ 1,372,043
Interest receivable	55,447
Prepaid items	37,633
Accounts receivable	334,174
Total Assets	\$ 1,799,297
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 253,446
FUND BALANCE:	
Nonspendable	37,633
Unassigned	1,508,218
Total Fund Balance	1,545,851
Total Liabilities and Fund Balance	\$ 1,799,297

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

Total Fund Balance - governmental fund	\$ 1,545,851
Amounts reported for governmental activities in the Statement of Net Position (page 8) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	51,361,242
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds	
Retentions payable	(140,954)
Net lease liability	(26,125)
Net Position of Governmental Activities (page 8)	\$ 52,740,014

See accompanying notes to the basic financial statements.

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY
Statement of Revenue, Expenditures, and Change in Fund Balance - Governmental Fund
For the Fiscal Year Ended June 30, 2023

	General Fund
REVENUES:	
Intergovernmental	\$ 1,957,017
Contributions	250,000
Interest	87,728
Total Revenues	2,294,745
EXPENDITURES:	
Public ways and facilities	4,664,480
Debt service - lease payments	
Principal	49,929
Interest	2,674
Total Expenditures	4,717,083
Change in Fund Balance	(2,422,338)
Fund Balance - July 1	3,968,189
Fund Balance - June 30	\$ 1,545,851
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	\$ (2,422,338)
Amounts reported for governmental activities in the Statement of Activities (page 9) are different because:	
Lease principal payments	49,929
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.	
Change in retentions payable	(124,325)
Governmental funds report additions to capital assets as expenditures. However, in the statement of activities, the cost of these assets are capitalized and depreciated/amortized over their estimated useful lives. This is the amount by which expenditures for additions to capital assets exceeded amortization in the current period.	
	4,740,442
Change in Net Position of Governmental Activities (page 9)	\$ 2,243,708

See accompanying notes to the basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

NOTE 1 – REPORTING ENTITY

Authorized Legislation and Organization

The Capital Southeast Connector Joint Powers Authority, (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 (Project) 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 JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2023

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 member contributions. Revenues from member 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 average daily cash balance to the total of the pooled account.

The value of the Connector JPA's shares in the County Pool is determined on an amortized cost basis, which approximates fair value.

Fair Value Measurement

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. As the Connector JPA participates in the County Investment Pool (County Pool), which is an external investment pool, it is not subject to the fair value hierarchy.

Net Position

Government-wide financial statements utilize a net position presentation.

- *Net 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:

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2023

- *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.
- *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, 2023, all of the Connector JPA’s General Fund balance is recorded as nonspendable and unassigned.

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.

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2023

NOTE 3 – CASH AND INVESTMENTS

As discussed in Note 2, the Connector JPA maintains cash and investments with the County and participates in the investment pool of the County, which is not rated by the credit rating agencies. At June 30, 2023, the Connector JPA's investment in the County Pool totaled \$1.4 million. Additional information regarding the County Pool, including the investment portfolio and related interest rate, custodial credit, credit and concentration of credit risks, is presented in Note 4 of the County's basic financial statements. The Connector JPA has not formally adopted an investment policy that addresses any of the risks previously noted. However, since the Connector JPA's investments are entirely in the County Pool, the Connector JPA follows the County's investment policy. Deposits and withdrawals from the County Pool are made on the basis of cost, and not fair value.

The County Pool is subject to regulatory oversight by the Treasury Oversight Committee of the County, as required by Section 27134 of the California Government Code. The County Pool is not registered with the U.S. Securities and Exchange Commission (SEC) as an investment company.

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, 2023.

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2023, is as follows:

	Balance		Balance
	June 30, 2022	Additions	Deletions
			June 30, 2023
Governmental activities:			
Capital assets, not being depreciated:			
Land and right of way	\$ 2,732,929	\$ -	\$ -
Mitigation	8,994,675	11,645	-
Construction in progress	<u>34,820,652</u>	<u>4,777,160</u>	<u>-</u>
Total Capital Assets, not being depreciated	<u>46,548,256</u>	<u>4,788,805</u>	<u>-</u>
Capital assets, being amortized:			
Right-to-use asset,	120,907	-	120,907
Less accumulated amortization	<u>(48,363)</u>	<u>(48,363)</u>	<u>-</u>
Total Capital Assets, being amortized, net	<u>72,544</u>	<u>(48,363)</u>	<u>-</u>
Total Capital Assets, net	<u>\$ 46,620,800</u>	<u>\$ 4,740,442</u>	<u>\$ -</u>
			<u>\$ 51,361,242</u>

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2023

NOTE 6 – LEASE LIABILITY

The Connector JPA entered into an office space lease agreement on July 1, 2020, for a lease term that expires on December 31, 2023.

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2023, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	\$ 26,125	\$ 382	\$ 26,507

NOTE 7 – RELATED PARTY TRANSACTIONS

The Connector JPA uses the County of Sacramento departments for services such as payroll, payment services, internet technology, human resources, administrative, and accounting. Expenditures incurred for services provided by the County of Sacramento for fiscal year 2023 were approximately \$51,000.

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. As of June 30, 2023, approximately \$5.3 million may be payable upon future performance under these contracts.

NOTE 9 – SUBSEQUENT EVENT

At the October 20, 2023 Board of Directors meeting, a resolution was approved to extend the JPA's lease for office space out to December 2026. This is the seventh extension of the lease agreement; there will be no rental increases during the calendar year 2024, and increases of approximately 3.15% for calendar years 2025 and 2026.

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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, 2023

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 5,881,013	\$ 5,881,013	\$ 1,957,017	\$ (3,923,996)
Contributions	250,000	250,000	250,000	-
Interest	10,000	10,000	87,728	77,728
Total Revenues	6,141,013	6,141,013	2,294,745	(3,846,268)
EXPENDITURES:				
Public ways and facilities	6,141,013	6,141,013	4,664,480	1,476,533
Debt service	-	-	52,603	(52,603)
Total Expenditures	6,141,013	6,141,013	4,717,083	1,423,930
NET CHANGES IN FUND BALANCE	\$ -	\$ -	\$ (2,422,338)	\$ (2,422,338)

See note to the required supplementary information.

CAPITAL SOUTHEAST CONNECTOR JOINT POWERS AUTHORITY

Note to the Required Supplementary Information

For the Fiscal Year Ended June 30, 2023

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 advised, 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 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, 2023, 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 May 7, 2024.

Report on 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 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 or significant deficiencies may exist that have not been identified.

Report on 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

May 7, 2024