

Inter Office Memo

To: Board of Directors
From: Kathy Casenave *KC*
Director of Finance

Date: January 6, 2011
Reviewed By: *Rich*

SUBJECT: FY 2010 Annual Audit

SUMMARY OF ISSUES:

The audit for FY 2010 has been completed and enclosed for your review. The letter on Page 1 expresses an unqualified opinion.

The Statement of Net Assets (Balance Sheet) of the audit report is on Page 6. Some differences between June 30, 2010 and June 30, 2009:

- Capital Assets increased by \$14.8 million mainly because of the purchase of fixed route buses. More detail is included in Note on Page 17.
- Current Assets increased by \$1.7 million, but, Current liabilities also increased by \$1.8 million..
- Long term liabilities decreased by \$345,000, attributable mainly to the funding of the OPEB liability for retiree health benefits. Setting up an irrevocable trust allows the Authority to remove the liability from its financial statements. More detail is reported in the Note on Page 21.

Other information:

Page 28-31- Letter from the auditor regarding testing for compliance with TDA and Federal laws and regulations, and other laws, regulations, contracts and grant agreements. The results of the tests disclosed no material weaknesses.

Page 33- There is one current year finding regarding the federal quarterly narrative reports the auditor identified as being a deficiency that is not considered to be material weakness.

Other Letters:

- Letter describing the testing and procedures the auditor took in auditing data (such as revenue miles, passenger miles, revenue hours) for the National Transit Database report. The testing found no matters that were not in conformity with NTD guidelines.
- Letter of agreed upon conditions that are designed to increase internal controls and efficiency. The auditors made five recommendations and management has responded.
- Letter to the audit committee noting that there are no significant transactions that have been recognized in a different period than when the transaction occurred.

RECOMMENDATION:

The A&F committee approved the audit and directed staff to forward it to the Board of Directors for approval.

ACTION REQUESTED:

The A&F requests that the Board approve the FY 2010 audit report prepared by Brown Armstrong Accountancy Corporation as submitted.
The audit report is attached.

AGREED-UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS AND/OR FINANCIAL REPORTING

To the Audit and Finance Committee
Central Contra Costa Transit Authority
Concord, California

We have audited the financial statements of the Central Contra Costa Transit Authority (the Authority) for the year ended June 30, 2010, and have issued our report thereon dated _____, 2010. In planning and performing our audit of the financial statements of the Authority, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

As a result of our audit, we noted certain agreed-upon findings. These findings and recommendations, which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other efficiencies and are summarized as follows:

Current Year Findings and Recommendations

Agreed Upon Condition 1 – Cash Disbursements

Condition

During our testing of cash disbursements, we selected 40 transactions to test. Out of the 40 transactions, we noted 1 instance in which proper approval (dual signature) was not obtained.

Recommendation

The Authority's policy requires dual signatures on all disbursements prior to payment. We recommend the Authority performs procedures to ensure all disbursements contain the required dual signatures.

Management Response

Management is in agreement with the recommendation and is committed to fully implementing it.

Agreed Upon Condition 2 – Capital Assets

Condition

During our testing of capital assets, we selected 15 items to physically inspect and noted the following:

- The Authority was unable to locate 1 item; therefore, we were unable to determine whether this item was still in use. The item was fully depreciated and had a total cost of \$323.
- We noted 7 items did not have tagged asset numbers and it was difficult to determine if we were looking at the correct asset.
- We noted 1 item was inadvertently allocated 100% federal. However, it should have been charged 80% federal and 20% local.
- We noted 2 bin storages were mis-tagged as a step ladder in the depreciation and amortization schedule.
- The schedule of additions included \$239,009 in assets that were reclassified and that were incorrectly reported as additions.

Recommendation

We recommend the Authority assign asset numbers to all assets and implement a policy requiring that all assets be tagged with an asset number. We also recommend the Authority expand on its existing capital asset policy to include detailed procedures on the performance of the physical inspection. Lastly, we recommend all capital asset schedules be reviewed by an individual independent of preparation to ensure they are accurate.

Management Response

- Management wishes to have the flexibility to determine which assets are tagged rather than a blanket policy that all assets are required to be tagged.
- The Authority does not have the staff to have every single transaction reviewed by a person independent of preparation. Staff will be more attentive in the future in reviewing own schedules.
- Over 1000 assets were physically inventoried with very few problems. Management believes that the expansion of the asset policy to include additional detailed procedures would not be the best use of staff time.
- Chair – This item was an office chair purchased in 1998 and should have been located in the Shop Maintenance office. There is one chair in that office that is not tagged. Tag numbers have occasionally come off, so for the physical inventory in August the chair in question was counted as present. However the Director of Maintenance has stated that all older chairs have been replaced, so this item will be removed from the asset list.
- 7 items not tagged/difficult to determine if looking at correct asset –
These items were purchased between 1990 and 1997 and they were physical improvements to the buildings or land- Alarm at reception desk, vault room door, admin building awning, lockers in administration building, carpet in Administration building, water meter, and bollards (concrete parking stops).

The Authority has not tagged immovable assets in the past and management believes that these assets were correctly identified for the auditor.

- 100% federal –

There were 93 assets purchased in FY 2010. The Accounting Manager enters them on the depreciation schedule and the Director of Finance spot checks the additions as well as spot checks the depreciation calculation for assets purchased in the prior years. In this instance, the 20% local depreciation posted to federal was \$178. If this error was not corrected in subsequent years, the total local depreciation labeled federal would be \$3,555. This has no effect on the financial statement.

- 2 bin storages mis-tagged – There are 2 overhead storage bins affixed to the wall in the Shop Maintenance office. The tag numbers on them are assigned to two step ladders that were purchased for \$105 each. The storage bins have been in the Shop Maintenance office for years and staff believes that they were purchased as part of an office set that included the desks purchased in 1997, so there should be no separate tags. We will remove the tags from the bins and affix to two step ladders. During the physical inventory it was observed that there were a number of step ladders that had no asset tag numbers.
- Schedule of additions – The schedule referred to is one that CCCTA prepares for the auditors showing the purchases by asset classification and by funding source. The reclassification of some assets purchased in prior years (which rarely happens) was inadvertently included as an addition. This schedule should have been compared to another internal schedule which also shows the purchases.

Agreed Upon Condition 3 – Workers' Compensation Liability

Condition

During our review of the Authority's workers' compensation liability calculation, we noted the schedule contained an error in the calculation related to one claim that resulted in the understatement of the liability by \$123,859.

Recommendation

We recommend a responsible individual independent of preparation review the calculations of the estimated liability for the Authority's self-insurance liabilities.

Management Response

The workers' compensation liability recorded on the balance sheet is actually the product of two estimates. The first estimate, made by the Authority's third party administrator, Corvel, is a reserve for future claims expenses.

The second estimate is made by the Authority's Director of Finance, reducing the reserves to 73% of the total cost. Past analysis of closed claims has shown actual costs to be about 73% of the third party administrator's total estimated cost.

An error was made this year in the second estimate. The total estimated liability should have been \$1,078,807, but was originally calculated and recorded at \$954,947.

Management concurs with the recommendation. Although the effect on the financial statements is small it would be prudent for another staff member to learn how to calculate the estimated liability.

Agreed Upon Condition 4 – Credit Card Expenditures

Condition

During our testing of credit card expenditures, we selected 10 transactions to test. Out of the 10 transactions, we noted 2 transactions did not contain the required dual signatures.

Recommendation

The Authority's policy requires dual signature on all disbursements prior to payment. We recommend the Authority enforce its policy and ensure all credit card expenditures contain the required dual signatures.

Management Response

Management is in agreement with the recommendation and is committed to fully implementing it.

Agreed Upon Condition 5 – Capital Assets Placed in Service

Condition

During our review of invoices for capital asset additions, we noted the Authority records assets as placed in service using the date the invoice was paid rather than the date when the asset was received and/or placed in service.

Recommendation

We recommend the Authority review its current process in place for recording assets and implement a procedure to record capital assets and depreciation when the invoices are received rather than when the invoices are paid.

Management Response

It is the Authority's position that the payment date is a better indicator of the date placed in service.

The Director of Maintenance or the Grants and Procurement Manager approve the invoices for payment only when the assets have been accepted and placed into service. Sometimes there is a lag time. For example, the bus purchase. Each bus goes through a post delivery inspection by our Maintenance Dept, the paperwork is then taken to DMV for registration and appointment is set up for DMV to come to the property to verify VIN numbers. Only then can the buses be placed into service.

Using the payment date also makes it easier for the Finance Dept. to reconcile fixed assets and keep track of grant reimbursement requests or drawdowns. Reimbursement for capital purchases is made only after payment (for local) or within 3 days of drawdown (for federal).

Status of Prior Year Findings and Recommendations

Agreed Upon Condition 1 – Capital Assets

Condition

During our testing of capital assets, we selected 15 items to physically inspect. Out of the 15 items, the Authority was unable to locate 3 items; therefore, we were unable to determine whether they were still in use. These items were fully depreciated and had a total cost of \$14,000.

Recommendation

The Authority is scheduled to perform a physical inventory in FY-2010. We recommend the Authority adjust the books after the count. Any assets that are not located and identified should be removed from the books.

Management Response

We agree with the audit recommendation.

Current Year Status

The Authority implemented a physical inventory in the current fiscal year 2010.

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This information is intended solely for the use of the Board of Directors and management of the Authority and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

By: Steven R. Starbuck

Bakersfield, California
_____, 2010

Pfx Engagement\15998 2010 Audit\FS Agreed Upon Conditions

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CENTRAL CONTRA COSTA TRANSIT AUTHORITY

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2010 AND 2009

CENTRAL CONTRA COSTA TRANSIT AUTHORITY
 JUNE 30, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Central Contra Costa Transit Authority
Concord, California

We have audited the accompanying basic financial statements of the Central Contra Costa Transit Authority (the Authority), as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for the Authority's post-employment benefits other than pension benefits, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during out audit of the 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Central Contra Costa Transit Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
_____, 2010

CENTRAL CONTRA COSTA TRANSIT AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010 AND 2009

Introduction

The following discussion and analysis of the financial performance and activity of the Central Contra Costa Transit Authority (the Authority) provide an introduction and understanding of the basic financial statements of the Authority. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Authority was established on March 27, 1980 under a joint exercise of power agreement to provide, either directly or through contract, public transportation services within certain areas of the County of Contra Costa. A Board of Directors composed of representatives of the member jurisdictions governs the Authority. Member jurisdictions include: Cities of Clayton, Concord, Lafayette, Martinez, Orinda, Pleasant Hill, San Ramon, Walnut Creek; Town of Moraga and Town of Danville; and County of Contra Costa. Each member jurisdiction appoints one regular representative to the Board of Directors and one alternative representative to act in the regular representative's absence.

The Authority is considered a primary government since it has a separate governing body, is legally separate, and is fiscally independent of other state and local governments. The Authority is not subject to income tax.

The Authority currently operates an active fixed route bus fleet of 131 and has approximately 258 employees. An independent contractor operates the Para-transit service. The Authority receives funds primarily from transit fares and federal, state and local grants. The disbursement of funds received by the Authority is set by Board policy, subject to applicable statutory requirements and by provisions of various grant contracts.

The Financial Statements

The Authority's basic financial statements include (1) the Statements of Net Assets, (2) the Statements of Revenues, Expenses, and Changes in Net Assets, and (3) the Statements of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Statements of Cash Flows

The Statements of Cash Flows is presented using the direct method and includes a reconciliation of operating cash flows to operating income. The Statements of Cash Flows basically provide detailed information about the cash received in the current and previous fiscal year and the uses of the cash received. This is the only cash-basis financial statement presented and it reconciles cash receipts and cash expenditures to the beginning and ending cash on hand.

Most of the cash received by the Authority during the fiscal year was from operating grants; most of the cash expenditures were for operating expenses.

Financial Highlights

- Operating revenues were \$4,755,809, while operating expenses were \$33,169,910. The Authority is able to cover its operating expenses through operating revenue and Federal, State, and local grants.

Statement of Net Assets

A comparison of the District's Statements of Net Assets as of June 30, 2010 and 2009, is as follows:

	2010	2009	2008	2010 to 2009		2009 to 2008	
				Increase/Decrease Amount	%	Increase/Decrease Amount	%
Current assets	\$ 9,631,753	\$ 7,909,713	\$ 9,503,221	\$ 1,722,040	21.77%	\$(1,593,508)	-16.77%
Noncurrent assets - capital assets, net	37,514,698	22,696,474	25,106,770	14,818,224	65.29%	(2,410,296)	-9.60%
Total assets	\$47,146,451	\$30,606,187	\$34,609,991	\$ 16,540,264	54.04%	\$(4,003,804)	-11.57%
Current liabilities	\$ 7,146,074	\$ 5,350,115	\$ 7,069,263	\$ 1,795,959	33.57%	\$(1,719,148)	-24.32%
Noncurrent liabilities	1,199,722	1,544,478	1,064,320	(344,756)	-22.32%	480,158	45.11%
Total liabilities	\$ 8,345,796	\$ 6,894,593	\$ 8,133,583	\$ 1,451,203	21.05%	\$(1,238,990)	-15.23%
Net assets							
Invested in capital assets, net of related debt	\$37,514,698	\$22,696,474	\$25,106,770	\$ 14,818,224	65.29%	\$(2,410,296)	-9.60%
Unrestricted net assets	1,285,957	1,015,120	1,369,638	270,837	26.68%	(354,518)	-25.88%
Total net assets	\$38,800,655	\$23,711,594	\$26,476,408	\$ 15,089,061	63.64%	\$(2,764,814)	-10.44%

The District's increase in net assets was mainly due to the increase in capital grant revenue for the purchase of fixed route buses.

Statement of Revenues, Expenses, and Changes in Net Assets

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Assets for fiscal years 2010 and 2009 is as follows:

	2010	2009	2008	2010 to 2009		2009 to 2008	
				Increase/Decrease Amount	%	Increase/Decrease Amount	%
Operating revenues	\$ 4,755,809	\$ 5,099,125	\$ 5,222,164	\$ (343,316)	-6.73%	\$ (123,039)	-2.36%
Operating expenses	(33,169,910)	(36,446,269)	(37,135,089)	3,276,359	-8.99%	688,820	-1.85%
Operating loss	(28,414,101)	(31,347,144)	(31,912,925)	2,933,043	-9.36%	565,781	-1.77%
Nonoperating revenues	24,781,511	26,563,511	27,635,071	(1,782,000)	-6.71%	(1,071,560)	-3.88%
Capital contributions	18,721,651	2,018,819	581,252	16,702,832	827.36%	1,437,567	247.32%
Increase (decrease) in net assets	\$15,089,061	\$(2,764,814)	\$(3,696,602)	\$ 17,853,875	-645.75%	\$ 931,788	-25.21%

The largest revenue category listed on the Statements of Revenues, Expenses, and Changes in Net Assets is state and local operating assistance (65% in 2010, 72% in 2009). Most of this revenue is provided under the Transportation Development Act (TDA), which returns to Contra Costa County ¼ cent of the sales tax collected in the County. The Authority is allocated a portion of the sales tax returned.

Operating a public transit service is labor intensive. Fifty-seven percent (57%) of the Authority's operating expenses is for wages and benefits paid to employees. The next largest category of expense is purchased transportation – the cost of providing public transportation through an independent private contractor.

Selected revenue increases, change from prior year:

	2010	2009	2008	2010 to 2009 Increase/ Decrease	2009 to 2008 Increase/ Decrease
Passenger revenue	\$ 3,885,782	\$ 4,220,251	\$ 4,232,001	\$ (334,469)	\$ (11,750)
Special transit fares	870,027	878,874	990,163	(8,847)	(111,289)
Federal operating assistance	4,919,543	2,738,770	2,873,523	2,180,773	(134,753)
State and local operating assistance	19,167,173	23,070,793	23,761,394	(3,903,620)	(690,601)

The increase in federal operating assistance in 2010 is due to stimulus funds. The Authority's state and local revenues decreased due to a decrease in STA revenue and TDA revenue.

Capital Assets

As of the end of fiscal year 2010, the District's capital assets, before accumulated depreciation, increased by \$6.4 million. The major addition during the year was for the purchase of fixed route replacement buses.

Details of the capital assets, net of accumulated depreciation as of June 30, 2010 and 2009, are as follows:

	2010	2009	2008	2010 to 2009		2009 to 2008	
				Increase/(Decrease) Amount	%	Increase/(Decrease) Amount	%
Land and land improvements	\$ 4,787,602	\$ 4,783,347	\$ 4,783,347	\$ 4,255	0.09%	\$ -	0.00%
Construction in process	1,619,465	466,607	220,395	1,152,858	247.07%	246,212	111.71%
Shop, office, other equipment, and service vehicles	6,121,883	7,058,388	7,863,621	(936,505)	-13.27%	(805,233)	-10.24%
Buildings and structures	12,365,099	12,006,866	12,209,691	358,233	2.98%	(202,825)	-1.66%
Revenue vehicles	51,849,967	44,856,760	43,535,025	6,993,207	15.59%	1,321,735	3.04%
Total	76,744,016	69,171,968	68,612,079	7,572,048	10.95%	559,889	0.82%
Less accumulated depreciation	(39,229,318)	(46,475,494)	(43,505,309)	7,246,176	-15.59%	(2,970,185)	6.83%
Net total	\$ 37,514,698	\$ 22,696,474	\$ 25,106,770	\$ 14,818,224	65.29%	\$(2,410,296)	-9.60%

Overall Financial Condition

Due to a decrease in sales tax revenue, state budget problems, and an increase in the cost of diesel fuel, the Authority implemented a reduction in service in the latter half of FY2009 and a fare increase. The Authority does not anticipate a need for either a service reduction or fare increase in FY2011

Contacting the District's Financial Management

The Authority's financial report is designed to provide the District's Board of Directors, management, creditors, legislative and oversight agencies, citizens and customers with an overview of the Central Contra Costa Transit Authority's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact Katherine Casenave, Director of Finance, at 2477 Arnold Industrial Way, Concord, California.

CENTRAL CONTRA COSTA TRANSIT AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009

	2010	2009
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 6,038,975	\$ 5,360,342
Capital and operating grants receivable	1,948,638	1,180,748
Materials and supplies	756,005	662,153
Other receivables, net of allowance (\$19,000) and (\$19,000)	719,604	576,587
Prepaid expenses and other assets	168,531	129,883
Total Current Assets	9,631,753	7,909,713
Capital Assets, net (Note 5)	37,514,698	22,696,474
TOTAL ASSETS	\$ 47,146,451	\$ 30,606,187
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 884,199	\$ 902,090
Cash overdraft (Note 2)	186,152	-
Due to other government, TDA payable (Note 12)	2,036,112	1,130,800
Deferred revenue grants	139,274	325,633
Deferred revenue PTMISEA (Note 6)	1,984,753	1,169,459
Other accrued liabilities	1,915,584	1,822,133
Total Current Liabilities	7,146,074	5,350,115
Long-Term Liabilities		
Self-insurance liabilities (Note 8)	1,188,372	927,168
OPEB liability (Note 11)	11,350	617,310
Total Long-Term Liabilities	1,199,722	1,544,478
TOTAL LIABILITIES	8,345,796	6,894,593
Net Assets		
Invested in capital assets, net of related debt	37,514,698	22,696,474
Unrestricted	1,285,957	1,015,120
TOTAL NET ASSETS	38,800,655	23,711,594
TOTAL LIABILITIES AND NET ASSETS	\$ 47,146,451	\$ 30,606,187

The accompanying notes are an integral part of these financial statements.

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CENTRAL CONTRA COSTA TRANSIT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Passenger fares	\$ 3,885,782	\$ 4,220,251
Special transit fares	870,027	878,874
Total Operating Revenues	<u>4,755,809</u>	<u>5,099,125</u>
Operating Expenses		
Salaries and benefits	19,015,853	20,769,571
Materials and supplies	2,563,005	3,267,658
Services	1,506,826	1,811,999
Purchased transportation	5,189,752	4,969,306
Insurance	402,633	607,083
Other	66,272	120,271
Utilities	266,807	261,119
Taxes	276,464	321,500
Leases and rentals	33,199	40,337
Depreciation	3,849,099	4,277,425
Total Operating Expenses	<u>33,169,910</u>	<u>36,446,269</u>
Operating Loss	(28,414,101)	(31,347,144)
Nonoperating Revenues (Expenses)		
Federal operating assistance	4,919,543	2,738,770
State and local operating assistance	19,167,173	23,070,793
Advertising revenue	515,468	688,589
Interest income	23,753	48,403
Other revenue	174,759	168,647
Loss on disposal of capital assets	(19,185)	(151,691)
Total Nonoperating Revenues	<u>24,781,511</u>	<u>26,563,511</u>
Net Loss Before Capital Contributions	(3,632,590)	(4,783,633)
Capital Contributions		
Grants restricted for capital expenditures (Note 3)	<u>18,721,651</u>	<u>2,018,819</u>
Increase (Decrease) in Net Assets	15,089,061	(2,764,814)
Total Net Assets, Beginning of Year	<u>23,711,594</u>	<u>26,476,408</u>
Total Net Assets, End of Year	<u>\$ 38,800,655</u>	<u>\$ 23,711,594</u>

The accompanying notes are an integral part of these financial statements.

**CENTRAL CONTRA COSTA TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 4,623,669	\$ 5,110,512
Payments to employees (salaries and benefits)	(19,267,158)	(20,699,221)
Payments to suppliers	(10,269,197)	(13,004,209)
Net Cash Used by Operating Activities	(24,912,686)	(28,592,918)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal operating grants	4,919,543	2,738,770
State and local operating grants	20,072,485	23,039,175
Other noncapital revenue	606,227	857,236
Net Cash Provided by Noncapital Financing Activities	25,598,255	26,635,181
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of property and equipment	84,000	-
Capital grants received	18,586,607	4,388,955
Expenditures for capital asset purchases	(18,701,296)	(2,018,820)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	(30,689)	2,370,135
CASH FLOWS PROVIDED FROM INVESTING ACTIVITIES		
Interest on investments	23,753	48,403
Net Increase in Cash and Cash Equivalents	678,633	460,801
Cash and Cash Equivalents, Beginning of Year	5,360,342	4,899,541
Cash and Cash Equivalents, End of Year	\$ 6,038,975	\$ 5,360,342

The accompanying notes are an integral part of these financial statements.

CENTRAL CONTRA COSTA TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Operating Loss	\$ (28,414,101)	\$ (31,347,144)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	3,849,099	4,277,425
Changes in assets and liabilities:		
(Increase) Decrease in receivables	(132,140)	11,387
(Increase) Decrease in materials and supplies	(93,852)	44,678
(Increase) in prepaid expenses	(38,648)	(21,074)
(Decrease) in accounts payable	(17,891)	(970,062)
(Decrease) in other liabilities	(65,153)	(588,128)
Net Cash Used by Operating Activities	<u>\$ (24,912,686)</u>	<u>\$ (28,592,918)</u>

The accompanying notes are an integral part of these financial statements.

**CENTRAL CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Central Contra Costa Transit Authority (the Authority) was created in 1980 under a joint exercise of power agreement to provide, either directly or through contract, public transportation services within certain areas of the County of Contra Costa. The Authority is governed by a Board of Directors composed of representatives of the member jurisdictions, which include the Cities of Clayton, Concord, Lafayette, Martinez, Orinda, Pleasant Hill, San Ramon, Walnut Creek; the Town of Moraga and the Town of Danville; and the County of Contra Costa. Each member jurisdiction appoints one regular representative to the Board of Directors and one alternate representative to act in the regular representative's absence.

The Authority is considered a primary government since it has a separate governing body, is legally separate, and is fiscally independent of other state or local governments.

A. Basis of Accounting and Presentation

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority's financial statements are accounted for as a Business-Type Activity, as defined by GASB, and are presented on the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Contributed Capital/Reserved Retained Earnings

The Authority receives grants from the Federal Transit Administration (FTA) and other agencies of the U.S. Department of Transportation and state and local transportation funds for the acquisition of transit-related equipment and improvements. Prior to July 1, 2001, capital grants were recognized as donated capital to the extent that project costs under the grant have been incurred. Capital grant funds earned, less amortization equal to accumulated depreciation of the related assets, were included in contributed capital. As required by current GASB standards, the Authority now includes capital grants in the determination of net income resulting in an increase in net revenue of \$18,721,651 and \$2,018,819 for the fiscal years ended June 30, 2010 and 2009, respectively.

Contributed capital and reserved retained earnings are presented in the net asset section as invested in capital assets, net of related debt and unrestricted net assets.

Net Assets

Net assets represent the residual interest in the Authority's assets after liabilities are deducted. Net assets are presented in three broad components: invested in capital assets, net of related debt; restricted; and unrestricted. Net assets invested in capital assets, net of related debt include capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net assets are restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. All other net assets are unrestricted.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Accounting and Presentation (Continued)

Proprietary Accounting and Financial Reporting

As required under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority will continue to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The Authority also applies all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Classification of Revenue

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund’s principal ongoing operational activities. Charges to customers represent the Authority’s principal operating revenues and include passenger fees and special transit fares. Operating expenses include the cost of operating maintenance and support of transit services and related capital assets, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating or other revenues and expenses.

B. 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. Cash and Cash Equivalents

Certain cash and cash equivalents are classified as restricted because their use is limited by applicable contracts or stipulations of the granting agency. Some of these restricted funds are required to be maintained in separate bank accounts. For purpose of the statements of cash flows, the Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, including cash and cash equivalents restricted for capital projects. At June 30, 2010, the Authority considered all of its cash and investments to be cash and cash equivalents.

D. Materials and Supplies

Materials and supplies are stated at cost using the first-in, first-out (FIFO) method.

E. Capital Assets

Capital assets are stated at cost and depreciated using the straight-line method over the following estimated useful lives:

Buildings and structures	30 years
Revenue transit vehicles	9-13 years
Shop, office, other equipment and service vehicles	3-10 years

Depreciation expense on assets acquired with capital grant funds is transferred to net assets – invested in capital assets, net of related debt after being charged to operations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets (Continued)

Major improvements and betterments to existing property, buildings and equipment are capitalized. Costs for maintenance and repairs which do not extend the useful lives of the applicable assets are charged to expense as incurred. Upon disposition, costs and accumulated depreciation are removed from the accounts and resulting gains or losses are included in operations.

F. Deferred Revenue

The Authority reports deferred revenue in its financial statements. Deferred revenues arise when resources are recovered by the Authority before it has legal claim to them.

G. Self-Insurance Liabilities

The Authority is self-insured for public liability and property damage for the first \$250,000 for each occurrence. Claims between \$250,000 and \$1,000,000 are insured through a compensation pool with the California Transit Systems Joint Powers Insurance Authority and claims in excess of \$1,000,000 are insured with excess insurance purchased through California Transit Systems Joint Powers Insurance Authority (CalTIP) up to \$20 million per occurrence. Additionally, the Authority is insured for workers' compensation claims with the Local Agency Workers' Compensation Excess (LAWCX). Refer to Note 8 for further descriptions. The Authority has recorded a liability for estimated claims to be paid, including incurred but not reported claims.

H. Capital and Operating Grants

Federal, state and local governments have made various grants available to the Authority for operating assistance and acquisition of capital assets. Grants for operating assistance, the acquisition of equipment or other capital outlay are not formally recognized in the accounts until the grant becomes a valid receivable as a result of the Authority's complying with appropriate grant requirements.

Operating assistance grants are included in nonoperating revenues in the year in which the grant is applicable and the related reimbursable expenditure is incurred. Grants received in excess of allowable expenditures are recorded as deferred revenue (refer to Notes 6 and 12).

I. Pension Costs

Pension costs are recognized when pension contributions are made, which are determined by the annual actuarial valuations.

J. Compensated Absences

Vacation benefits are accrued when earned and reduced when used. Sick leave, holiday pay and other absence pay are expensed when used.

K. Funding Sources/Programs

Transportation Development Act (TDA)

The Local Transportation Fund was created under the Transportation Development Act (TDA) to collect 1/4 cent of the State's 7 percent retail sales tax collected statewide. The 1/4 cent is returned by the State Board of Equalization to each county based on the amount of tax collected in that county. TDA funds are apportioned, allocated and paid in accordance with allocation instructions from the Metropolitan Transportation Commission to the Authority for specific transportation purposes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Funding Sources/Programs (Continued)

State Transit Assistance (STA)

This program provides a second source of funding for transportation planning and mass transportation purposes as specified by California legislation.

Federal Transportation Assistance (FTA)

Federal Transportation Assistance represents funding from the Federal Transit Administration (FTA) within the U.S. Department of Transportation to assist local transportation needs.

Bay Area Air Quality Management District (AB434 funds)

This is a federal grant program, passed through the California Department of Transportation, to reduce highway congestion and improve air quality. The program provides for matching requirements of 88.53% federal funding and 11.47% state funding.

Measure C Funds

This represents a local sales tax allocation administered by the Contra Costa Transportation Authority to claimants for transportation purposes within the County of Contra Costa.

L. Reclassifications

Certain amounts in the financial statements have been reclassified to be consistent and comparable from year to year.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at June 30:

	2010	2009
Cash on hand	\$ 530	\$ 530
Cash in banks	969,165	745,619
Investments	5,069,280	4,614,193
	\$ 6,038,975	\$ 5,360,342

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Cash on Hand and Cash in Banks

Investments Authorized by the California Government Code and the Authority's Investment Policy

The table below identifies the investment types that are authorized for the Authority by the California Government Code (or the Authority's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Negotiable Certificates of Deposit*	5 years	30%	None
County Pooled Investment Funds	N/A	100%	None
Local Agency Investment Fund (LAIF)	N/A	None	None

* Limited to nationally or state-chartered bank of a state or federal association (as defined by California Financial Code Section 5102) or by a state-licensed branch of a foreign bank. The maximum investment in a certificate of deposit shall not exceed the shareholder's equity in any depository bank; the total net worth of any depository savings association; or the total or unimpaired capital and surplus of any credit union or industrial loan company.

The Authority shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages. The Authority shall not invest any funds in any security that could result in zero interest accrual if held to maturity. The limitation does not apply to investments in shares of beneficial interest issued by diversified management companies as set forth in California Government Code Section 53601.6. In addition, the portfolio should consist of a mix of authorized types of investments. With the exception of investments in the California State LAIF, no more than fifty percent (50%) of the Authority's portfolio shall be deposited or invested in a single security type or with a single financial institution.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

		<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
2010					
<u>Investment Type</u>	<u>Amount</u>				
LAIF	<u>\$ 5,069,280</u>	<u>\$ 5,069,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2009					
<u>Investment Type</u>	<u>Amount</u>				
LAIF	<u>\$ 4,614,193</u>	<u>\$ 4,614,193</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Cash on Hand and Cash in Banks (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, and the actual rating as of year end for each investment type. The column marked "exempt from disclosure" identifies those investment types for which GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an Amendment of GASB Statement No. 3*, does not require disclosure as to credit risk:

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	Aa	Not Rated
LAIF	\$ 5,069,280	N/A	\$ -	\$ -	\$ -	\$ 5,069,280

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	Aa	Not Rated
LAIF	\$ 4,614,193	N/A	\$ -	\$ -	\$ -	\$ 4,614,193

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: \$2,045,707 and \$665,909 of the Authority's deposits with financial institutions were in excess of federal depository insurance limits and were held in collateralized accounts as of June 30, 2010 and 2009, respectively.

Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Authority did not have any investments in any one issuer (other than external investment pools) that represent 5% or more of total Authority's investments at June 30, 2010 or 2009.

NOTE 3 – CAPITAL GRANTS

The Authority receives grants from the FTA, which provide financing primarily for the acquisition of rolling stock. The Authority also receives grants under the State Transportation Development Act and State Toll Bridge revenue programs primarily for the acquisition of rolling stock and support equipment, and the purchase of furniture and fixtures.

A summary of federal, state and local grant activity for the years ended June 30 are as follows:

	<u>2010</u>	<u>2009</u>
Federal grants	\$ 14,814,721	\$ 1,177,168
State grants	3,472,431	158,998
TDA (local transportation grants)	<u>434,499</u>	<u>682,653</u>
Total Capital Assistance	<u>\$ 18,721,651</u>	<u>\$ 2,018,819</u>

NOTE 4 – OPERATING GRANTS

The Authority receives local transportation fund allocations pursuant to the 1971 State Transportation Development Act (TDA). These funds are generated within the County of Contra Costa and are allocated based on annual claims filed by the Authority and approved by the Metropolitan Transit Commission (MTC). Generally, the maximum annual TDA assistance the Authority can receive is limited to its actual operating costs less fare revenues received, federal operating assistance received and other local operating assistance (toll bridge revenue allocations, local sales tax allocations and related interest income). In computing the maximum TDA assistance eligibility, the Authority excludes safe harbor lease income, which for the years ended June 30, 2010 and 2009, were \$9,263 and \$30,390, respectively. For the years ended June 30, 2010 and 2009, the Authority's maximum TDA assistance eligibility was \$12,587,281 and \$15,755,064, respectively.

During the fiscal years ended June 30, 2010 and 2009, the Authority earned \$4,196,924 and \$2,669,734, respectively, of Measure J (2010) and Measure J and Measure C (2009) funds from the Contra Costa Transportation Authority, which is included in state and local operating assistance. These funds, derived from sales and use taxes, are to be used for new routes and supplemental service for existing routes that serve local San Francisco Bay Area Rapid Transit District stations.

Federal operating assistance funds have also been received pursuant to Sections 8 and 9 of the Urban Mass Transportation Act of 1974 (now FTA). These funds are apportioned to the local urbanized area and allocated to individual transit operators by MTC after FTA approval. Expenditures of federal operating assistance funds are subject to final audit and approval by MTC and FTA.

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity at June 30 is shown below:

June 30, 2010

	Balance June 30, 2009	Reclass and Other Adjustments	Additions	Deletions	Balance June 30, 2010
Capital Assets Not Being Depreciated:					
Construction In Process	\$ 466,607	\$ -	\$ 1,152,858	\$ -	\$ 1,619,465
Land	2,704,785	-	-	-	2,704,785
Total Capital Assets Not Being Depreciated	3,171,392	-	1,152,858	-	4,324,250
Capital Assets Being Depreciated:					
Land improvements	2,078,562	-	4,255	-	2,082,817
Shop, office, other equipment and service vehicles	7,058,388	(293,513)	325,108	968,100	6,121,883
Buildings and structures	12,006,866	293,513	65,224	504	12,365,099
Revenue vehicles	44,856,760	-	17,153,851	10,160,644	51,849,967
Total Capital Assets Being Depreciated	66,000,576	-	17,548,438	11,129,248	72,419,766
Less Accumulated Depreciation for:					
Land improvements	2,078,562	-	-	-	2,078,562
Shop, office, other equipment and service vehicles	5,687,980	(84,214)	332,587	939,784	4,996,569
Buildings and structures	8,229,344	84,214	461,803	-	8,775,361
Revenue vehicles	30,479,608	-	3,054,709	10,155,491	23,378,826
Total Accumulated Depreciation	46,475,494	-	3,849,099	11,095,275	39,229,318
Total Capital Assets Being Depreciated, Net	19,525,082	-	13,699,339	33,973	33,190,448
Total Capital Assets, Net	<u>\$22,696,474</u>	<u>\$ -</u>	<u>\$14,852,197</u>	<u>\$ 33,973</u>	<u>\$37,514,698</u>

Depreciation expense for the year ended June 30, 2010, was \$3,849,099.

June 30, 2009

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Capital Assets Not Being Depreciated:				
Construction In Process	\$ 220,395	\$ 246,212	\$ -	\$ 466,607
Land	2,704,785	-	-	2,704,785
Total Capital Assets Not Being Depreciated	2,925,180	246,212	-	3,171,392
Capital Assets Being Depreciated:				
Land improvements	2,078,562	-	-	2,078,562
Shop, office, other equipment and service vehicles	7,863,621	438,485	1,243,718	7,058,388
Buildings and structures	12,209,691	12,388	215,213	12,006,866
Revenue vehicles	43,535,025	1,321,735	-	44,856,760
Total Capital Assets Being Depreciated	65,686,899	1,772,608	1,458,931	66,000,576
Less Accumulated Depreciation for:				
Land improvements	2,078,562	-	-	2,078,562
Shop, office, other equipment and service vehicles	6,483,650	426,734	1,222,404	5,687,980
Buildings and structures	7,880,412	433,768	84,836	8,229,344
Revenue vehicles	27,062,685	3,416,923	-	30,479,608
Total Accumulated Depreciation	43,505,309	4,277,425	1,307,240	46,475,494
Total Capital Assets Being Depreciated, Net	22,181,590	(2,504,817)	151,691	19,525,082
Total Capital Assets, Net	<u>\$25,106,770</u>	<u>\$(2,258,605)</u>	<u>\$ 151,691</u>	<u>\$22,696,474</u>

Depreciation expense for the year ended June 30, 2009, was \$4,277,425.

NOTE 6 – DEFERRED REVENUE (PTMISEA)

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006. Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the State as instructed by statute as the Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements or for rolling stock procurement, rehabilitation or replacement.

During the fiscal year ended June 30, 2010, the Authority received funds of \$800,000 for construction at a transportation center at Pacheco, funds of \$1,971,591 for fixed route buses, and interest of \$19,297 from the State's PTMISEA account for construction at a transportation center at Diablo Valley Community College and Pacheco and fixed route buses. As of June 30, 2010, there were \$36,888 of expenditures incurred related to the Pacheco Transit Center and \$1,938,706 related to fixed route buses. The remaining proceeds of \$1,984,753, which includes accrued interest, was deferred as shown in the schedule below. Qualifying expenditures must be encumbered within three years from the date of the allocation and expended within three years from the date of the encumbrance.

	<u>2010</u>	<u>2009</u>
Deferred revenue, beginning of year	\$ 1,169,459	\$ 1,144,275
Proposition 1B (PTMISEA) funds allocated	2,771,591	-
Proposition 1B (PTMISEA) interest earned	19,297	25,184
Proposition 1B (PTMISEA) expenditures	<u>(1,975,594)</u>	<u>-</u>
Deferred revenue, end of year	<u>\$ 1,984,753</u>	<u>\$ 1,169,459</u>

NOTE 7 – EMPLOYEES' RETIREMENT PLAN

Plan Description

The Authority's defined benefit pension plan, the Public Employees' Retirement Fund, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Public Employees' Retirement Fund is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by state statutes within the Public Employees' Retirement Law. The Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

The contribution rate for plan members in CalPERS 2.0% at 60 Retirement Plan is 7% of their annual covered salary. The Authority's policy is to pay one-half of the non-management employees' 7% contribution and the full 7% for management employees.

Employers are required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The Authority's required employer contribution rate for fiscal 2009-10 was 4.777%. The funded ratio of the plan is 129.1% as of the June 30, 2007, actuarial valuation, meaning the plan can fully cover 100% of the covered employees and has excess funding available. The contribution requirements of the plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS.

NOTE 7 – EMPLOYEES' RETIREMENT PLAN (Continued)Annual Pension Cost

For fiscal year 2009-10, the Authority's annual required pension cost was \$606,714 and the Authority actually contributed \$606,714. The plan is currently overfunded and the required contribution for fiscal year 2009-10 was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) and (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of the plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a fifteen year period depending on the size of investment gains and/or losses. The plan's excess assets are being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010, was 32 years.

Three-Year Trend Information for the Plan

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2008	\$ 647,508	100.0%	\$ -
6/30/2009	\$ 729,611	100.0%	\$ -
6/30/2010	\$ 606,714	100.0%	\$ -

Required Supplementary Information - Funded Status of Plan

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
6/30/2003	\$ 32,812,718	\$36,205,777	\$ (3,393,059)	110.3%	\$12,426,494	(27.30%)
6/30/2004	\$ 35,675,543	\$39,040,988	\$ (3,365,445)	109.4%	\$11,906,365	(28.30%)
6/30/2005	\$ 38,279,038	\$42,339,802	\$ (4,060,764)	110.6%	\$11,816,647	(34.40%)
6/30/2006	\$ 42,003,073	\$48,704,733	\$ (6,701,660)	116.0%	\$12,552,065	(53.39%)
6/30/2007	\$ 45,146,830	\$50,768,851	\$ (5,622,021)	129.1%	\$13,199,584	(42.59%)

NOTE 8 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is self-insured for public liability and property damage up to \$250,000 per occurrence. Claims between \$250,000 and \$1,000,000 are insured through the California Transit Systems Joint Powers Insurance Authority (CalTIP), a joint powers agency (risk sharing pool) established in 1987 to provide an independently managed self-insurance program for member transit operators. Claims in excess of the pool limit are covered by excess insurance purchased by CalTIP up to \$20 million per occurrence. Specifically, the Authority has the following forms of coverage through CalTIP:

- bodily injury liability,
- property damage liability,
- public officials errors and omissions liability, and
- personal injury liability

The purpose of CalTIP is to spread the adverse effect of losses among the member agencies and to purchase excess insurance as a group, thereby reducing its expense.

NOTE 8 – RISK MANAGEMENT (Continued)

The Authority makes payments to CalTIP based on actuarial estimates of the amounts needed to pay prior-year and current-year claims. The claims liability of \$109,565 and \$101,462 at June 30, 2010 and 2009, respectively, is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, for Public Entity Risk Pools and for Entities Other Than Pools*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. This liability relates to the Authority's self-insured retention for its insurance program.

As of July 1, 2001, the Authority obtained insurance coverage relating to workers' compensation claims through the Local Agency Workers' Compensation Excess (LAWCX), a joint powers agency (risk sharing pool) established in 1992 as a state-wide joint powers authority of 35 members consisting of 22 municipalities, 11 joint powers authorities, and 2 special districts. The Authority is self-insured up to \$250,000 per occurrence. Claims between \$250,000 and \$5,000,000 are covered by LAWCX. The Authority pays an annual premium to the pool. LAWCX is a member of an excess insurance pool, California State Association of Counties (CSAC), which provides coverage for claims up to \$45 million per each occurrence.

The Authority makes payments to LAWCX on the actuarial estimates of the amounts needed to pay prior-year and current-year claims. The claims liability of \$1,078,807 and \$825,706 at June 30, 2010 and 2009, respectively, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. This liability relates to the Authority's self-insured retention for its insurance program.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Authority has received state and federal funds for specific purposes that are subject to review and audit by grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, the Authority believes that any required reimbursements will not be material.

Additionally, the Authority is involved in various lawsuits, claims and disputes, which for the most part are normal to the Authority's operations. In the opinion of Authority management, the costs that might be incurred, if any, would not materially affect the Authority's financial position or results of operations.

NOTE 10 – CASH RESERVE FUNDS

The Authority has designated two cash reserve funds as follows:

Safe Harbor Lease Reserve

The Authority maintains a reserve fund consisting of proceeds from the sale of federal income tax benefits under the safe harbor lease provisions of the Tax Equity and Fiscal Responsibility Act of 1982. The funds held are designated by the Authority's Board of Directors as a reserve against future unanticipated operating and capital funding shortfalls. As of June 30, 2010 and 2009, this fund, including accrued interest, totaled \$1,419,015 and \$1,406,440, respectively.

Self-Insurance Reserve

The Authority is self-insured for public liability and property damage up to \$250,000 for each occurrence. For workers' compensation claims they are also self-insured up to \$250,000 per occurrence. Claims in excess of this amount are insured. Refer to Note 8 for further description. The Authority has designated a cash reserve fund to cover anticipated liability and damage claims not covered by insurance. The Authority reserves for both reported actual and estimated incurred but not reported claims. The reserve for public liability and property damage as of June 30, 2010 and 2009, totaled \$109,565 and \$101,462, respectively, and for the workers' compensation totaled \$1,078,807 and \$825,706, respectively.

NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The Authority's Healthcare Insurance Benefits Program is a defined benefit post-employment healthcare plan in which retirees are eligible to participate. Benefits are provided through the CalPERS Health Benefits Program for all administrative employees and transit operators who retire from the Authority at or after age 50 with at least 5 years of service. As of June 30, 2010, the Authority had 109 retirees, of which 28 participate in the health benefits program. The Authority pays a portion of the cost of health insurance for retirees under any group plan offered by CalPERS, subject to certain restrictions as determined by the Authority.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For fiscal year 2009-10, the Authority's annual OPEB cost was \$222,447. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2010 and 2009, were as follows:

	2010	2009
Annual required contribution	\$ 234,346	\$ 697,048
Interest on net OPEB obligation	24,556	-
Adjustments to annual required contribution	(36,455)	-
	222,447	697,048
Annual OPEB cost	222,447	697,048
Contributions made	(527,950)	(79,738)
Adjustment to convert from pay-as-you-go to an irrevocable OPEB trust	(300,457)	-
	(605,960)	617,310
Change in net OPEB obligation (asset)	(605,960)	617,310
Net OPEB obligation (asset) - beginning of year	617,310	-
Net OPEB obligation (asset) - end of year	\$ 11,350	\$ 617,310

During the fiscal year, the Authority enabled an irrevocable trust to secure OPEB contributions for beneficiaries. Due to this change, coupled with prefunding of the trust during the fiscal year caused a positive change in the new OPEB obligation of approximately \$300,000.

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2010 and the two preceding years are as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net Ending OPEB Obligation (Asset)
2009	\$ 697,048	\$ 79,738	11.44%	\$ 617,310
2010	\$ 222,447	\$ 527,950	237.34%	\$ 11,350

Fiscal year 2008-09 was the year of implementation of GASB Statement No. 45 and the Authority has elected to implement prospectively. Therefore, 2008 comparative data is unavailable. In future years, three-year trend information will be presented.

NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Funding Policy, Funded Status and Funding Progress

The Authority's required contribution for 2009-10 was based on fully funded financing requirements. For fiscal year 2009-10, the Authority contributed \$527,950 to the plan.

As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$4,534,658, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$15,219,990, and the ratio of the unfunded actuarial accrued liability (UAAL) to covered payroll was 29.79 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and probabilities about the occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Calculations of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

The actuarial assumptions used for rates of employee turnover, retirement and mortality, as well as economic assumptions regarding healthcare inflation and interest were based on a standard set of actuarial assumptions modified as appropriate for the Authority. Retirement rates were based on Authority experience. Healthcare inflation rates are based on actuarial analysis of recent Authority experience and actuarial knowledge of the general healthcare environment. Discount rates were assumed between 5.0% and 7.75%. Healthcare costs were assumed to decrease by 0% per year. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis over 30 years. The remaining amortization period as of June 30, 2010, was 29 years.

NOTE 12 – TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

The Authority received TDA funds under Article 4 and 4.5 (two subsections: 99260(a) and 99275) of the TDA for the fiscal years ended June 30, 2010 and 2009, TDA funds received pursuant to these Sections of the California Public Utilities Code may be used for public transportation services and community transit services, respectively. According to the underlying TDA allocation instructions issued by the MTC, eligible costs must be incurred on or before June 30 of the fiscal year for which funds are allocated. Unused portions must revert back to the Contra Costa County's Local Transportation Fund (LTF).

NOTE 12 – TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS (Continued)

A summary of LTF allocations, corresponding expenditures and portion to be returned to the Contra Costa County's LTF as of the fiscal year ended June 30:

	2010	2009
LTF Allocations for Public Transportation Services:		
99260(a)	\$ 14,007,798	\$ 15,305,262
Less: applicable expenses	(11,971,686)	(15,123,020)
Unused portion to revert back to (balance due from) Contra Costs County's LTF (Current Year)	2,036,112	182,242
Prior year unused portion not returned	-	1,162,418
Total Unused Portion to Revert Back to	\$ 2,036,112	\$ 1,344,660
LTF Allocations for Community Transit Services:		
99275 and 99260(A)	\$ 615,595	\$ 632,044
Less: applicable expenses	(615,595)	(632,044)
Unused portion to revert back to Contra Costa County's LTF	-	-
Due Back	2,036,112	1,344,660
Due Back (From) MTC	-	(213,860)
Net Due Back	\$ 2,036,112	\$ 1,130,800

NOTE 13 – EMPLOYEE BENEFITS - DEFERRED COMPENSATION PLAN

Employees of the Authority may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code (IRC) Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The deferred compensation plan is available to all employees of the Authority. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency.

The deferred compensation plan is administered by an unrelated financial institution. Under the terms of IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are the property of the employee.

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REQUIRED SUPPLEMENTARY INFORMATION

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CENTRAL CONTRA COSTA TRANSIT AUTHORITY
SCHEDULE OF FUNDING PROGRESS
POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
JUNE 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
7/1/2008	\$ -	\$ 10,141,492	\$ 10,141,492	0.00%	\$ 15,578,722	65.10%
7/1/2009	\$ -	\$ 4,534,658	\$ 4,534,658	0.00%	\$ 15,219,990	29.79%

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SUPPLEMENTARY SCHEDULE AND OTHER REPORTS

CENTRAL CONTRA COSTA TRANSIT AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 JUNE 30, 2010

Federal Grantor/Program Title	Federal CFDA Number	Grant Expenses
U.S. DEPARTMENT OF TRANSPORTATION		
Direct Programs:		
Federal Transit Administration (FTA)		
FTA Capital and Operating Assistance Grants	20.507	
Grant CA-96-X036-01 - Operating Preventive Maintenance (ARRA Funds)		\$ 3,862,314
Grant CA-90-Y723-01 - Capital and Operating		13,697,389
Grant CA-90-Y623-00 - Capital and Operating		247,489
Grant CA-90-Y037-00 - Capital and Operating		481,761
Grant CA-90-Y269-01 - Capital and Operating		50,006
Grant CA-04-0103-01 - Capital and Operating		<u>856,606</u>
Total Capital and Operating Assistance Grants		<u>19,195,565</u>
Total FTA Grants		<u>\$ 19,195,565</u>

See accompanying notes to schedule of federal financial assistance.

CENTRAL CONTRA COSTA TRANSIT AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2010

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal financial assistance programs of the Central Contra Costa Transit Authority. Federal financial assistance is received directly from the FTA and is included on the SEFA.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying SEFA has been prepared on the accrual basis of accounting. Federal capital grant funds are used to purchase property, plant and equipment. Federal grants receivable are included in capital and operating grants receivable, which also includes receivables from state and local grant sources.

**REPORT ON TRANSPORTATION
DEVELOPMENT ACT COMPLIANCE**

To the Board of Directors
Central Contra Costa Transit Authority
Concord, California

We have audited the basic financial statements of the Central Contra Costa Transit Authority (the Authority) as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated _____, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to the Authority is the responsibility of the management of the Authority. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with certain provisions of the Transportation Development Act and the allocation instructions and resolutions of the Metropolitan Transportation Commission required by Section 6667 of Title 21, Chapter 3, Subchapter 2, Article 5.5 of the California Code of Regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and the Transportation Development Act.

This report is intended for the information of local, state, and federal governmental control agencies and the Authority's Board of Directors and management. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
_____, 2010

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Central Contra Costa Transit Authority
Concord, California

We have audited the basic financial statements of the Central Contra Costa Transit Authority (the Authority) as of and for the year ended June 30, 2010, and have issued our report thereon dated _____, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We also noted other matters involving internal control over financial reporting that we have reported to management of the Authority in a separate letter dated _____, 2010.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatements, 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*.

Also as part of our audit, we performed tests of compliance to determine whether certain state bond funds were received and expended in accordance with the applicable bond act and state accounting requirements.

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006. Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the State as instructed by statute as the Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements or for rolling stock procurement, rehabilitation or replacements.

During the fiscal year ended June 30, 2010, the Authority applied for and received proceeds of \$2,771,591, including interest of \$19,297 from the State's PTMISEA account for the purpose of transit fleet rehabilitation. As of June 30, 2010, PTMISEA funds received and expended were verified in the course of our audit as follows:

Balance – beginning of the year	\$ 1,169,459
Proceeds received:	
PTMISEA	2,771,591
Interest earned	19,297
Expenditures incurred:	
Transit fleet rehabilitation	1,975,594
Unexpended proceeds, June 30, 2010	\$ 1,984,753

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs section. We did not audit the Authority's responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Authority's management, the Board of Directors, the U.S. Department of Transportation, the Metropolitan Transportation Commission, Federal agencies and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
_____, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Central Contra Costa Transit Authority
Concord, California

Compliance

We have audited the Central Contra Costa Transit Authority (the Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2010. The Authority's major federal programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed one instance on noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompany schedule of findings and questioned costs as item 2010-1.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on the response.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority, as of and for the year ended June 30, 2010, and have issued our report thereon dated _____, 2010. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, and is not a required part of the financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information of the Authority's management, the Board of Directors, the U.S. Department of Transportation, the Metropolitan Transportation Commission, Federal agencies and the State Controller's Office. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
_____, 2010

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FINDINGS AND QUESTIONED COSTS SECTION

CENTRAL CONTRA COSTA TRANSIT AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 JUNE 30, 2010

Section I – Summary of Auditor’s Results

A. Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Deficiencies and significant deficiencies identified not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

B. Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Deficiencies and significant deficiencies identified not considered to be material weaknesses? No

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? Yes, see item 2010-1

C. Identification of major programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
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CFDA Number 20.507	Capital and Operating Assistance Formula Grants
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Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	No
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Section II – Financial Statement Audit Findings and Questioned Costs

None.

Section III – Federal Awards Findings and Questioned Costs

Finding 2010-1 – Quarterly Narrative Reports

Criteria

Proper review by another individual is essential to ensure Quarterly Narrative Reports are accurate.

Condition

During our review of the Quarterly Narrative Reports, we noted one of the quarterly reports contained an error due to a rejected drawdown request. Upon inquiry, we noted the reports are not reviewed or approved by an individual other than the preparer prior to submission.

Effect

Echo claim was entered twice causing an overstatement in the Quarterly Narrative Report of approximately \$3 million.

Cause

Lack of review by an individual independent of preparation.

Recommendation

The Authority should implement a procedure for a second responsible individual to review and approve quarterly reports to ensure proper input by the preparer.

Management Response

The Grants and Procurement Manager prepares quarterly reports for a total of 8 open federal grants. On one quarterly report, he reported more federal expenditures than actually occurred. This error was due to including a rejected drawdown request; when notified of the rejection he successfully drew down the funds. The error could have been eliminated if he had simply written "rejected" on the original request so it wouldn't have been included in the quarterly report total.

When this was discovered, the FTA was notified and we were told simply to adjust the amount on the next quarterly report.

The Authority believes that this was an unusual occurrence. It has not happened in the past nor is it likely to happen in the future. Furthermore, the best person to catch a mistake is the person most familiar with the federal programs.

The Grants and Procurement Manager will be more diligent in the future in preparing the quarterly reports.

Section IV – Summary of Prior Audit (June 30, 2009) Findings and Current Year Status

Finding 1 – Adjusting Journal Entries

Condition

The Authority does not have a formal policy regarding posting adjusting journal entries.

Recommendation

The Authority should implement formal procedures regarding preparation and posting of journal entries. The policy should include procedures for initialing the journal entries indicating that they have been reviewed.

Management Response

Closing entries were prepared by either the Accounting Manager or Director of Finance and were reviewed by the person not proposing the entry. A formal policy has been prepared in FY2010.

Current Year Status

Implemented.

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CENTRAL CONTRA COSTA TRANSIT AUTHORITY

**AGREED-UPON PROCEDURES FOR
URBANIZED AREA FORMULA
DATA REVIEW**

**FOR THE FISCAL YEAR ENDING
JUNE 30, 2010**

To the Board of Directors
Central Contra Costa Transit Authority
Concord, California

The Federal Transportation Administration (FTA) has established the following standards with regard to the data reported to it in the Urbanized Area Formula Statistics Form (901) of the Central Contra Costa Transit Authority's (the Authority) annual National Transit Database (NTD) report:

- A system is in place and maintained for recording data in accordance with NTD definitions. The correct data is being measured and no systematic errors exist.
- A system is in place to record data on a continuing basis, and the data gathering is an ongoing effort.
- Source documents are available to support the reported data and are maintained for FTA review and audit for a minimum of three (3) years following FTA's receipt of the NTD report. The data is fully documented and securely stored.
- A system of internal controls is in place to ensure the accuracy of the data collection process and that the recording system and reported comments are not altered. Documents are reviewed and signed by a supervisor, as required.
- The data collection methods are those suggested by FTA or meet FTA requirements.
- The deadhead miles, computed as the difference between the reported total actual vehicle miles data and the reported total actual vehicle revenue miles data, are accurate.
- Data is to be consistent with prior reporting periods and other facts known about the Authority's operations.

We have applied the procedures, which follow to the data, contained in the accompanying Urbanized Area Formula Statistics Form (901) for the fiscal year ending June 30, 2010. Such procedures, which were agreed to and specified by FTA in the 2001 Reporting Manual and were agreed to by the Authority, were applied to assist you in evaluating whether the Authority complied with the standards described above and that the information included in the NTD report Urbanized Area Formula Statistics Form (901) for the fiscal year ending June 30, 2010, is presented in conformity with the requirements of the Uniform System of Accounts and Records and Reporting System; Final Rule, as specified in 49 CFR Part 630, *Federal Register*, January 15, 1993, and as presented in the 2001 Reporting Manual. This report is intended solely for your information and FTA and should not be used by those who did not participate in determining the procedures.

The procedures described below were applied separately to each of the information systems used to develop the reported vehicle revenue miles, passenger miles, and operating expenses of the Authority, as applicable, for the fiscal year ending June 30, 2010, for each of the following modes:

- Bus service - directly operated
- Demand response service - purchased transportation

Agreed-Upon Procedures

- a. Obtained and read a copy of written procedures related to the system for reporting and maintaining data in accordance with the NTD requirements and definitions set forth in 49 CFR Part 630, Federal Register, January 15, 1993, and as presented in the 2001 Reporting Manual. If procedures were not written, discussed the procedures with the personnel assigned responsibility of supervising the preparation and maintenance of NTD data.
- b. Discussed the procedures (written or informal) with the personnel assigned the responsibility of supervising the preparation and maintenance of NTD data and determined:
 - The extent to which the Authority followed the procedures on a continuous basis, and
 - Whether they believe such procedures resulted in accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49 CFR Part 630, Federal Register, January 15, 1993, and as presented in the 2001 Reporting Manual.
- c. Inquired of the same person concerning the retention policy that was followed by the Authority with respect to source documents supporting the NTD data reported on the Urbanized Area Formula Statistics Form (901).

- d. Based on a description of the Authority's procedures obtained in items a and b above, identified all the source documents which are to be retained by the Authority for a minimum of three years.

For each type of source document, selected three months out of the year and observed that each type of source document existed for each of the periods.

- e. Discussed the system of internal controls with the person responsible for supervising and maintaining the NTD data. Inquired whether individuals, independent of the individuals preparing the source documents and posting the data summaries, reviewed the source documents and data summaries for completeness, accuracy, and reasonableness and how often such reviews were performed.
- f. Selected a random sample of the source documents and determined whether supervisors' signatures were present as required by the system of internal controls.
- g. Obtained the worksheets utilized by the Authority to prepare the final data which was transcribed onto the Urbanized Area Formula Statistics Form (901). Compared the periodic data included on the worksheets to the periodic summaries prepared by the Authority. Tested the arithmetical accuracy of the summarizations.
- h. Discussed the Authority's procedure for accumulating and recording passenger mile data in accordance with NTD requirements with the Authority staff. Inquired whether the procedure used was (1) a 100 percent count of actual passenger miles or (2) an estimate of passenger miles based on statistical sampling meeting FTA's 95 percent confidence and 10 percent precision requirements.

If the Authority conducted a statistical sample for estimating passenger miles, inquired whether the sampling procedure was (1) one of the two procedures suggested by FTA and described in FTA Circulars 2710.1A, 2710.2A; or (2) an alternative sampling procedure.

If the Authority used an alternative sampling procedure, inquired whether the procedure had been approved by FTA or whether a qualified statistician had determined that the procedure meets FTA's statistical requirements. Note that the use of an alternative sampling procedure had been approved in writing by a qualified statistician.

- i. Discussed with the Authority staff the Authority's eligibility to conduct statistical sampling for passenger mile data every third year. Determined whether the Authority met one of the three criteria which allow transit agencies to conduct statistical samples for accumulating passenger mile data every third year rather than annually. Specifically:

- According to the 1990 Census, the public transit agency served as an urbanized area of less than 500,000 population.
- The public transit agency directly operated fewer than 100 revenue vehicles in all modes in annual maximum revenue service (in any size urbanized area).
- The service was purchased from a provider (contractor) operating fewer than 100 revenue vehicles in annual maximum revenue service, and was included in the Authority's NTD report.

If the Authority met one of the above criteria, reviewed the NTD documentation for the most recent mandatory sampling year (2001) and determined that statistical sampling was conducted to accumulate passenger mile data meeting the 95 percent confidence and 10 percent precision requirements.

Determined how the Authority estimated annual passenger miles if the statistical requirements were waived.

- j. Obtained a description of the sampling procedure for estimation of passenger mile data used by the Authority. Obtained a copy of the Authority's working papers or methodology used to select the actual sample of runs for recording passenger mile data. If the average trip length was used, determined that the universe of runs were used as the sampling frame. Determined that the methodology was to select specific runs from the universe resulted in a random selection of runs. If a selected sample run was missed, determined that a replacement sample run was randomly selected. Determined that the Authority followed the stated sampling procedure.
- k. Selected a random sample of the source documents for accumulating passenger mile data and determined that they were complete (all required data was recorded) and that the computations were accurate. Selected a random sample of the accumulation periods and recomputed the accumulations for each of the selected periods. Listed the accumulation periods which were tested. Tested the arithmetical accuracy of the summarization.
- l. Discussed the procedures for systematic exclusion of charter, school bus, and other ineligible vehicle miles from the calculation of vehicle revenue miles with the Authority staff and determined that stated procedures were not applicable as the Authority does not provide charter or school bus service.
- m. For vehicle revenue mile data, documented the collection and recording methodology and determined that deadhead miles were systematically excluded from the computation.

This was accomplished as follows:

- If vehicle revenue miles were calculated from schedules, documented the procedures used to subtract missed trips. Selected a random sample of the days that service was operated and recomputed the daily total of missed trips and missed vehicle revenue miles. Tested the arithmetical accuracy of the summarization.
 - If vehicle revenue miles were calculated from hubodometers, documented the procedures used to calculate and subtract deadhead mileage. Selected a random sample of the hubodometer readings and determined that the stated procedures for hubodometer deadhead mileage adjustments were applied as prescribed. Tested the arithmetical accuracy of the summarization of intermediate accumulations.
 - If vehicle revenue miles were calculated from vehicle logs, selected a random sample of the vehicle logs and determined that the deadhead mileage had been correctly computed in accordance with FTA's definitions. Tested the arithmetical accuracy of the summarization of intermediate accumulations.
- n. Rail modes - not applicable.
 - o. Fixed guideway - not applicable.

- p. Fixed guideway - not applicable.
- q. Fixed guideway - not applicable.
- r. Fixed guideway - not applicable.
- s. Fixed guideway - not applicable.
- t. Compared operating expenses with audited financial data, after reconciling items were removed.
- u. If the Authority purchased transportation services, inquired of the personnel responsible for reporting the NTD data regarding the disposition of purchased transportation generated fare revenues. Specifically, determined whether purchased transportation fare revenues were retained by the contract service provider, and if so, the amount of such fares, or whether the purchased transportation fare revenues were returned to the Authority.

If purchased transportation fare revenues were retained by the purchased service provider, obtained documentation of retained fare revenue amounts as reported by the contract service provider and agreed the total to retained fare revenues reported on the Contractual Relationship Identification Form (002).

- v. If the Authority's report contained data for purchased transportation services, provided by contractor(s) operating fewer than 100 vehicles in maximum service, and assurances of the data for those services was not included in the engagement, obtained a copy of the Auditor Statement for Urbanized Area Formula data of the purchased transportation service and attach a copy of the statement to the report. If the Authority did not have an Auditor Statement for the purchased transportation data, note as an exception.
- w. If the Authority purchased transportation services, obtained a copy of the purchased transportation contract and determined that the contract (1) specified the specific mass transportation services to be provided by the contractor; (2) specified the monetary consideration obligated by the Authority or governmental unit contracting for the service; (3) specified the period covered by the contract and that this period was the same as, or a portion of, the period covered by the Authority's NTD report; and (4) was signed by representatives of both parties to the contract. Inquired of the person responsible for maintaining the NTD data regarding the retention of the executed contract, and determined that copies of the contracts are retained for three years.
- x. If the Authority provided service in more than one urbanized area, or an urbanized area and a non-urbanized area, inquired of the person responsible for maintaining the NTD data regarding the procedures for allocation of statistics between urbanized areas and non-urbanized areas. Obtained and reviewed the worksheets, route maps and urbanized area boundaries used for allocating the statistics and determined that the stated procedure was followed and that the computations were correct.
- y. Compared the data reported on the Urbanized Area Formula Statistics Form (901) to comparable data for the prior report year and calculated the percentage change from the prior year to the current year. For vehicle revenue mile, passenger mile, or operating expense data that have increased or decreased by more than 10 percent, inquired of the Authority management regarding the specifics of operations that led to the increases or decreases in the data relative to the prior reporting period.

The agreed-upon procedures are substantially less in scope than an examination, the objective of which is an expression of an opinion on the Urbanized Area Formula Statistics Form (901). Accordingly, we do not express such an opinion. Also, we do not express an opinion on the Authority's system of internal control taken as a whole.

DRAFT

In performing the procedures, no matters came to our attention that caused us to believe that the information included in the NTD report on the Urbanized Area Formula Statistics Form (901) for the fiscal year ending June 30, 2010, is not presented in conformity with the requirements of the Uniform System of Accounts and Records and Reporting System; Final Rule, as specified in 49 CFR Part 630, *Federal Register*, January 15, 1993, and as presented in the 2001 Reporting Manual. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report relates only to the information described above, and does not extend to the Authority's financial statements taken as a whole, or the forms in the Authority's NTD report other than the Urbanized Area Formula Statistics Form (901), for any date or period.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

By: Steven R. Starbuck

Bakersfield, California
_____, 2010

REQUIRED COMMUNICATION TO THE AUDIT AND FINANCE COMMITTEE IN ACCORDANCE WITH PROFESSIONAL STANDARDS

To the Audit and Finance Committee
Central Contra Costa Transit Authority
Concord, California

We have audited the financial statements of the Central Contra Costa Transit Authority (the Authority) for the year ended June 30, 2010, and have issued our report thereon dated _____, 2010. Professional standards require that we provide you with the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009/10. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Estimated Useful Lives of Capital Assets – Management estimates the useful lives of its capital assets for purposes of calculating annual depreciation expense to be reported in the Authority's results of operations. Estimated useful lives range from 9 to 13 years for Revenue Transit Vehicles; 3 to 10 years for Shop, Office Other Equipment, and Service Vehicles; and 30 years for Building and Structures.
- Self-Insurance Liability – This represents management's estimate of the estimated liability for Public Liability Claims and Workers' Compensation Claims to be paid for which the Authority is self-insured, and includes management's estimate of the ultimate costs for both reported claims and claims incurred but not reported.
- The liability for Post-Employment Benefits Other Than Pension Benefits is based on actuarial evaluations, which involve estimates of the value of reported amounts and probabilities about the occurrence of future events far into the future.

We evaluated the key factors and assumptions used to develop accounting estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were the disclosure of capital assets, self-insurance liability, and the liability for Post-Employment Benefits Other Than Pension Benefits as described above.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated _____, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Audit and Finance Committee, Board of Directors, and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

By: Steven R. Starbuck

Bakersfield, California
_____, 2010

DRAFT

Central Contra Costa Transit Authority
Period Ending: 6/30/10
Adjusting Journal Entries Report

			<u>DR.</u>	<u>CR.</u>
	10-50608001-165	Liability Loss	41,510	
	10-205050010	Accrued Expenses Payable		41,510
Total			<u>41,510</u>	<u>41,510</u>

To record legal invoices billed as of June 30, 2010, and not accrued.