**County Connection**

**INTER OFFICE MEMO**

To: Board of Directors Date: December 20, 2018

From: Erick Cheung, Chief Finance Officer

**SUBJECT: FY 2018 Financial Audit**

## Summary of Issues:

The audit for FY 2018 has been completed and enclosed for your review (Attachment A). The Administration and Finance Committee reviewed and accepted the report for Board approval after recommending some suggestions to the Management Discussion and Analysis which is reflected in the attached draft. A summary of the findings:

- The type of auditor's report is unmodified (the prior terminology was "unqualified") Pages 1&2 of the Basic Financial Statements (BFS).
- No material weaknesses were identified.
- No deficiencies and significant deficiencies were identified.
- No noncompliance issues material to the financial statements noted.

The Statement of Net Position (formerly the Balance Sheet) is $45,647,582 (Page 8 of BFS) a decrease of -$10,812,533. The following is a summary of the changes in Net Position between June 30, 2018 and June 30, 2017:

- Governmental Accounting Standards Board Statement No. 75 (GASB 75) - Accounting and Financial Reporting for Postemployment Benefits Other than Pension (OPEB) – GASB 75 replaces GASB Statement No. 45, which improved the accounting and financial reporting of OPEB. The total OPEB liability as of June 30, 2018, is $7,373,838 with fiduciary assets of $3,084,827 for a net OPEB liability of $4,289,011. GASB 75 also required a prior period adjustment, which decreased County Connection's beginning net position by -$5,971,222.

- Capital Assets – Capital Assets decreased -$3,296,735 to $54,814,016 to the depreciation on buses that were purchased in the previous fiscal year. Land and land improvements increased $239,680 due to pavement work in the bus yard. Construction in progress was $1,099,148 due to electric bus infrastructure, scheduling software, and bus shelters.

- Deferred Outflow of Resources – Deferred outflow of resources for pension increased from $5,703,630 to $6,537,889. The amount represents future pension contributions to CalPERS since it did not meet the discount rate during fiscal years 2015 and 2016 and partially offset by gains in 2017. Also, as mentioned earlier, GASB 75 was implemented this fiscal year which included OPEB deferred outflow of resources for $611,495. The amount is amortized over a maximum of 5 years.

- Deferred Inflow of Resources – The amount increased from $1,640,859 to $3,398,347 which represents excess investment income earned and changes in estimates based on actual or changes in assumptions that provide additional assets to the pension and retiree medical plans. Deferred inflow of resources for pension and OPEB is $1,329,473 and $2,068,874, respectively. The amount will be amortized over the remaining life of the gain not to exceed 5 years.
- Net pension and OPEB liability – The net pension liability and retiree medical as of June 30, 2017 (the measurement date) of $10,072,167 and $4,289,011, respectively. (See Note 7 and 11 of BFS for more information)

Other information:

Page 45-46 of the BFS - Letters from the auditor regarding testing for compliance with TDA laws and internal control based on standards contained in Government Auditing Standards issued by the Comptroller General of the United States. The results of the tests disclosed no instances of noncompliance or material weaknesses.

Page 47-50 of the BFS - Letter from the auditor regarding the compliance with the requirements of the Office of Management and Budget (OMB) Circular A-133. There are no current year findings or questioned costs.

Other Letters:

- Letter to the Audit and Finance Committee regarding the responsibilities of the auditor and the scope and timing of the audit. (Attachment B)
- Letter to the Finance Committee and Board of Directors regarding agreed upon conditions designed to increase efficiency and internal controls. The auditors have no current year conditions and recommendations. (Attachment C)
- Letter to the Audit and Finance Committee reviewing TDA and STA revenue, diesel fuel and PERS benefits. The auditor had no findings. (Attachment D)

## Recommendation:

The Administration and Finance Committee recommends that the Board approve the FY 2018 audit report prepared by Brown Armstrong Accountancy Corporation as submitted.

The audit report and letters are attached.

DRAFT

# CENTRAL CONTRA COSTA TRANSIT AUTHORITY
CONCORD, CALIFORNIA

## BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

Attachment A

DRAFT

**CENTRAL CONTRA COSTA TRANSIT AUTHORITY**
**JUNE 30, 2018**

## TABLE OF CONTENTS

DRAFT

# INDEPENDENT AUDITOR'S REPORT

To the Administrative and Finance Committee and Board of Directors
Central Contra Costa Transit Authority
Concord, California

## Report on the Financial Statements

We have audited the accompanying financial statements of the Central Contra Costa Transit Authority (the Authority), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

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

DRAFT

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of a Matter

During the year ended June 30, 2018, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

## Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management discussion and analysis and required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and to fulfill the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Report on Summarized Comparative Information*

We have previously audited the Authority's June 30, 2017, financial statements, and our report dated December 8, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent in all material respects, with the audited financial statements from which it has been derived.

DRAFT

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2018, 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* in considering the Authority's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
_____, 2018

**CENTRAL CONTRA COSTA TRANSIT AUTHORITY**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**JUNE 30, 2018**

## 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 (the County). A Board of Directors (the Board) 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 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 128 and has approximately 251 employees. An independent contractor operates the paratransit 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 Statement of Net Position, (2) the Statement of Revenues, Expenses, and Changes in Net Position, (3) the Statement of Cash Flows, and (4) the Notes to the Financial Statements. The Statement of Net Position presents information on all of the Authority's assets and deferred outflow of resources and liabilities and deferred inflow of resources, with the difference reported as net position. Over time, increases or decreases in net position are a useful indication of an improving or deteriorating financial condition. The Statement of Revenues, Expenses, and Changes in Net Position present the most recent fiscal year changes in net position. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

## Statement of Cash Flows

**The Statement of Cash Flows** is presented using the direct method and includes a reconciliation of operating cash flows to operating income. The Statement of Cash Flows basically provides 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 expenses to the beginning and ending cash on hand.

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

DRAFT

**New Significant Accounting Standard Implemented**

In fiscal year 2018, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 75 (GASB 75) – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*. GASB 75 replaces GASB Statement No. 45, which improved the accounting and financial reporting of OPEB. The measurement date for OPEB liability is as of June 30, 2017. The date reflects a one year lag and was used so that the financial statements could be issued timely and similar to GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions.*

The total OPEB liability as of June 30, 2018, is $7,373,838 with fiduciary net position of $3,084,827 for a net OPEB liability of $4,289,011. This also required a prior period adjustment, which decreased the Authority's beginning net position by -$5,971,222. Please refer to Note 16 for additional information.

**Financial Highlights**

Operating revenues were $4,857,447, while operating expenses were $43,255,054. The Authority is able to cover most of its operating expenses through operating revenue and federal, state, and local grants.

**Statements of Net Position**

A comparison of the Authority's Statements of Net Position as of June 30, 2018 and 2017, is as follows:

| | | | 2018 to 2017 Increase/Decrease | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| Current assets | $ 16,568,471 | $ 21,234,318 | $ (4,665,847) | -21.97% |
| Noncurrent assets | 54,814,016 | 58,117,188 | (3,303,172) | -5.68% |
| Total assets | 71,382,487 | 79,351,506 | (7,969,019) | -10.04% |
| Deferred outflow of resources | 7,149,384 | 5,703,630 | 1,445,754 | 25.35% |
| Total assets and deferred outflow of resources | $ 78,531,871 | $ 85,055,136 | $ (6,523,265) | -7.67% |
| Current liabilities | $ 14,437,876 | $ 18,659,223 | $ (4,221,347) | -22.62% |
| Noncurrent liabilities | 15,048,066 | 8,294,939 | 6,753,127 | 81.41% |
| Total liabilities | 29,485,942 | 26,954,162 | 2,531,780 | 9.39% |
| Deferred inflow of resources | 3,398,347 | 1,640,859 | 1,757,488 | 107.11% |
| Net position | | | | |
| Net investment in capital assets | 54,738,016 | 57,996,751 | (3,258,735) | -5.62% |
| Unrestricted net position | (9,090,434) | (1,536,636) | (7,553,798) | -491.58% |
| Total net position | 45,647,582 | 56,460,115 | (10,812,533) | -19.15% |
| Total liabilities, deferred inflow of resources, and net position | $ 78,531,871 | $ 85,055,136 | $ (6,523,265) | -7.67% |

The Authority's net position decreased -$4,841,311 and a prior period reduction for -$5,971,222 with the implementation of GASB 75 (as discussed above) for a balance of $45,647,582 as of June 30, 2018. The decrease in net position is due to allocating defined benefit pension expense for past years where interest income did not meet the assumed rate of 7.5% by California Public Employees Retirement System (CalPERS) for $1,807,421, implementing GASB 75 prior period adjustment as noted earlier, and depreciation of capital assets for $6,186,320.

**Statements of Revenues, Expenses, and Changes in Net Position**

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Position for fiscal years 2018 and 2017 is as follows:

| | | | 2018 to 2017 Increase/Decrease | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| Operating revenues | $ 4,857,447 | $ 4,756,711 | $ 100,736 | 2.12% |
| Operating expenses | (43,255,054) | (39,744,134) | 3,510,920 | 8.83% |
| Operating loss | (38,397,607) | (34,987,423) | (3,410,184) | -9.75% |
| Nonoperating revenues | 30,705,672 | 29,640,151 | 1,065,521 | 3.59% |
| Capital contributions | 2,850,624 | 19,010,487 | (16,159,863) | -85.00% |
| Increase (Decrease) in net position | $ (4,841,311) | $ 13,663,215 | $ (18,504,526) | -135.43% |

The largest revenue category listed on the Statements of Revenues, Expenses, and Changes in Net Position is state and local operating assistance at $27,996,289 (79% in 2018, 81% in 2017). Most of this revenue is provided under the Transportation Development Act (TDA), which returns to the County ¼ cent of the sales tax collected in the County and represented $17,755,507 in fiscal year 2018. The second largest revenue source is from Contra Costa Transportation Authority Measure J, which is a countywide ½ cent sales tax, of which the Authority received $6,239,347. Capital contributions have decreased $16,159,863 to $2,850,624 due to the Authority purchasing 35 buses and 4 electric trolleys in the previous year.

Operating a public transit service is labor intensive. The Authority's operating expenses for salaries and benefits paid to employees, including the defined benefit pension and OPEB adjustments, amounted to $25,683,679 or 59% (including GASB Statement No. 68 defined benefit pension and GASB 75 OPEB adjustments). The next two largest categories of expense are purchased transportation (the cost of providing public transportation through an independent private contractor) for $5,561,256 and depreciation of capital assets for $6,186,320.

Selected revenue increases (decreases) change from prior year:

| | 2018 | 2017 | 2018 to 2017 Increase/ Decrease |
|---|---|---|---|
| Passenger revenue | $ 3,221,580 | $ 3,275,964 | $ (54,384) |
| Special transit fares | 1,635,867 | 1,480,747 | 155,120 |
| Federal operating assistance | 1,655,674 | 1,002,950 | 652,724 |
| State and local operating assistance | 27,996,289 | 27,891,975 | 104,314 |

In fiscal year 2018, the Authority received $34.5 million based on the categories above and represent 97% of our operating revenue. Fare revenue declined -1.7%, or -$54 thousand, which is consistent with the decrease in fixed route passengers from 3.47 million to 3.42 million. Special transit fares have increased 10.5% or $155 thousand, due to amendments to the City of Walnut Creek Routes 5 and 7 for an increase of $46 thousand. Also, the Authority assisted the Bay Area Rapid Transit (BART) by providing bus bridges for $80 thousand as BART completed track improvements. Federal operating revenue increased $653 thousand to offset costs associated with the amended agreement with First Transit for paratransit services. The Authority received $104 thousand more in state and local operating assistance due to an increase in Measure J ($231 thousand) and TDA revenue ($100 thousand), with an offset decrease of lifeline revenue of (-$372 thousand).

## Capital Assets

Details of the capital assets, including assets acquired under capital lease, net of accumulated depreciation as of June 30, 2018 and 2017, are as follows:

| | | | 2018 to 2017 Increase/(Decrease) | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| Land and land improvements | $ 5,141,401 | $ 4,901,721 | $ 239,680 | 4.89% |
| Construction in process | 1,099,148 | 1,010,681 | 88,467 | 8.75% |
| Shop, office, other equipment, and service vehicles | 4,962,253 | 4,868,184 | 94,069 | 1.93% |
| Buildings and structures | 18,525,769 | 18,474,595 | 51,174 | 0.28% |
| Revenue vehicles | 73,365,206 | 79,033,455 | (5,668,249) | -7.17% |
| Total | 103,093,777 | 108,288,636 | (5,194,859) | -4.80% |
| Less accumulated depreciation | (48,279,761) | (50,177,885) | 1,898,124 | 3.78% |
| Net total | $ 54,814,016 | $ 58,110,751 | $ (3,296,735) | -5.67% |

At June 30, 2018, the Authority's net capital assets decreased -$3,296,735 due mainly to the depreciation on buses that were purchased in the previous fiscal year and disposition of buses during the fiscal year. Land and land improvements increased $239,680 due to pavement work in the bus yard. Construction in progress was $1,099,148 due to electric bus infrastructure, scheduling software, and bus shelters. Please refer to Note 5 in the notes to the financial statements for further details.

## Noncurrent Liabilities

At June 30, 2018, the Authority's noncurrent liabilities balance was $15,048,066, compared to $8,294,939 at June 30, 2017, which consisted of the net pension liability, OPEB liability, compensated absences, capital lease, and self-insurance liabilities. The increase is mainly due to pension liabilities increasing from $7,119,101 to $10,072,167 for fiscal year 2018 (see Notes 7, 8, 12, and 13 in the financial statements for further details). Also, as stated earlier the Authority implemented GASB 75 for OPEB liability. The implementation of this standard resulted in a liability of $4,289,011 for fiscal year 2018 (see Note 11 in the financial statements for more information).

## Overall Financial Condition

The impacts of the great recession in 2009 are still felt today from reduced service and rising pension costs. This was also the last time the Authority increased fares. The Authority ~~does not anticipate a service reduction nor fare increase in fiscal year 2019, but will begin~~ is beginning to feel the impacts of rising pension costs as the liability has risen substantially as shown above. This is due to CalPERS not receiving its expected investment returns of 7.5% (received 2.4% in fiscal year 2015 and 0.6% in fiscal year 2016). Also, in December 2016, the CalPERS Board approved lowering the investment rate from 7.5% to 7.0%, and the costs will be phased in over the three fiscal years beginning in fiscal year 2019.

In April 2017, the State passed the Road Repair and Accountability Act of 2017, Senate Bill 1 (SB1), which is estimated to generate $52.4 billion for transportation investments from infrastructure to public transit improvements over the next decade. The Authority will receive SB1 funding beginning in fiscal year 2019 and provide an additional $3.6 million. The Authority also has an unallocated TDA carryover for $7,338,519 which serves as a reserve and provides cash flow flexibility. Even with SB1 funds and the unallocated TDA carryover, the Authority is looking at service and fare adjustments that could begin ~~for fiscal~~as soon as fiscal year ~~2020~~ 2019 and has already held several public hearings. The changes are being considered as there are opportunities to improve efficiencies and reduce costs as benefits expense continue to outpace revenue. ~~There is currently a Proposition on the November ballot to repeal SB1 which would mean additional service reductions, if it were to pass.~~

## Contacting the Authority's Financial Management

The Authority's financial report is designed to provide the Authority's Board of Directors, management, creditors, legislative and oversight agencies, citizens, and customers with an overview of the Authority's

DRAFT

finances and to demonstrate its accountability for funds received. For additional information about this report, please contact Erick Cheung, Chief Finance Officer, at 2477 Arnold Industrial Way, Concord, California 94520.

DRAFT

# BASIC FINANCIAL STATEMENTS

DRAFT

# CENTRAL CONTRA COSTA TRANSIT AUTHORITY
## STATEMENT OF NET POSITION
## JUNE 30, 2018 (WITH COMPARATIVE TOTALS)

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents (Note 2) | $ 11,645,619 | $ 12,376,583 |
| Capital and operating grants receivable | 3,140,299 | 7,066,199 |
| Materials and supplies | 914,683 | 929,704 |
| Other receivables, net of allowance ($0 and $10,615, respectively) | 767,224 | 701,364 |
| Prepaid expenses | 100,646 | 160,468 |
| Total Current Assets | 16,568,471 | 21,234,318 |
| Noncurrent Assets | | |
| Other postemployment benefits (OPEB) asset | - | 6,437 |
| Capital assets, net, including assets acquired under capital lease (Note 5) | 54,814,016 | 58,110,751 |
| Total Noncurrent Assets | 54,814,016 | 58,117,188 |
| Total Assets | 71,382,487 | 79,351,506 |
| **DEFERRED OUTFLOWS OF RESOURCES (Note 7)** | | |
| OPEB | 611,495 | - |
| Pension | 6,537,889 | 5,703,630 |
| Total Deferred Outflows of Resources | 7,149,384 | 5,703,630 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ 78,531,871 | $ 85,055,136 |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Accounts payable | $ 3,003,264 | $ 7,859,989 |
| Capital lease (Notes 12 and 13) | 38,000 | 38,000 |
| Due to other government, TDA payable (Note 14) | 4,622,286 | 4,225,647 |
| Advances from grantors | 294,998 | 292,500 |
| Advances from PTMISEA (Note 6) | 3,336,970 | 3,696,791 |
| Compensated absences (Note 13) | 781,782 | 790,400 |
| Other accrued liabilities | 822,035 | 629,365 |
| Self-insurance liabilities (Notes 8 and 13) | 1,538,541 | 1,126,531 |
| Total Current Liabilities | 14,437,876 | 18,659,223 |
| Noncurrent Liabilities | | |
| Capital lease (Notes 12 and 13) | 38,000 | 76,000 |
| Compensated absences (Note 13) | 542,028 | 451,951 |
| Self-insurance liabilities (Notes 8 and 13) | 106,860 | 647,887 |
| OPEB liability (Note 11) | 4,289,011 | - |
| Net pension liability (Note 7) | 10,072,167 | 7,119,101 |
| Total Noncurrent Liabilities | 15,048,066 | 8,294,939 |
| Total Liabilities | 29,485,942 | 26,954,162 |
| **DEFERRED INFLOWS OF RESOURCES (Note 7)** | | |
| OPEB | 2,068,874 | - |
| Pension | 1,329,473 | 1,640,859 |
| Total Deferred Inflows of Resources | 3,398,347 | 1,640,859 |
| **NET POSITION** | | |
| Net investment in capital assets | 54,738,016 | 57,996,751 |
| Unrestricted | (9,090,434) | (1,536,636) |
| Total Net Position | 45,647,582 | 56,460,115 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | $ 78,531,871 | $ 85,055,136 |

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

DRAFT

# CENTRAL CONTRA COSTA TRANSIT AUTHORITY
## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
## FOR THE FISCAL YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS)

| | 2018 | 2017 |
|---|---|---|
| Operating Revenues | | |
| Passenger fares | $ 3,221,580 | $ 3,275,964 |
| Special transit fares | 1,635,867 | 1,480,747 |
| Total Operating Revenues | 4,857,447 | 4,756,711 |
| Operating Expenses | | |
| Salaries and benefits | 24,101,090 | 23,779,117 |
| Materials and supplies | 2,529,044 | 2,118,404 |
| Services | 1,744,973 | 1,783,220 |
| Purchased transportation | 5,561,256 | 5,309,410 |
| Insurance | 722,556 | 676,984 |
| Other | 202,460 | 178,786 |
| Utilities | 356,151 | 320,063 |
| Taxes | 226,116 | 184,435 |
| Leases and rentals | 42,499 | 48,466 |
| Defined benefit pension adjustment | 1,807,421 | (17,761) |
| Other postemployment benefits (OPEB) adjustment | (224,832) | - |
| Depreciation | 6,186,320 | 5,363,010 |
| Total Operating Expenses | 43,255,054 | 39,744,134 |
| Operating Loss | (38,397,607) | (34,987,423) |
| Nonoperating Revenues | | |
| Federal operating assistance | 1,655,674 | 1,002,950 |
| State and local operating assistance | 27,996,289 | 27,891,975 |
| Advertising revenue | 615,631 | 608,420 |
| Interest income | 118,161 | 38,789 |
| Other revenue | 108,077 | 83,538 |
| Gain on sale of capital assets | 211,840 | 14,479 |
| Total Nonoperating Revenues | 30,705,672 | 29,640,151 |
| Net Loss Before Capital Contributions | (7,691,935) | (5,347,272) |
| Capital Contributions | | |
| Grants restricted for capital expenses (Note 3) | 2,850,624 | 19,010,487 |
| Increase (Decrease) in Net Position | (4,841,311) | 13,663,215 |
| Total Net Position, Beginning of Year | 56,460,115 | 42,796,900 |
| Prior Period Adjustment (Note 16) | (5,971,222) | - |
| Total Net Position, Beginning of Year, as Restated | 50,488,893 | 42,796,900 |
| Total Net Position, End of Year | $ 45,647,582 | $ 56,460,115 |

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

DRAFT

**CENTRAL CONTRA COSTA TRANSIT AUTHORITY**
**STATEMENT OF CASH FLOWS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS)**

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | $ 4,791,587 | $ 4,659,223 |
| Payments to employees (salaries and benefits) | (23,949,541) | (23,313,776) |
| Payments to suppliers | (11,833,966) | (10,531,529) |
| Net Cash Used in Operating Activities | (30,991,920) | (29,186,082) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Federal operating grants | 1,227,077 | 2,035,309 |
| State and local operating grants | 29,017,121 | 27,992,507 |
| Other noncapital revenue | 726,206 | 661,813 |
| Net Cash Provided by Noncapital Financing Activities | 30,970,404 | 30,689,629 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from sale of capital assets | 134,867 | 245,290 |
| Principal payments on capital lease | (38,000) | (38,000) |
| Capital grants received | 6,221,107 | 10,171,111 |
| Capital asset purchases | (7,145,583) | (12,954,035) |
| Net Cash Flows Provided by (Used in) Capital and Related Financing Activities | (827,609) | (2,575,634) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | 118,161 | 38,789 |
| Net Decrease in Cash and Cash Equivalents | (730,964) | (1,033,298) |
| Cash and Cash Equivalents, Beginning of Year | 12,376,583 | 13,409,881 |
| Cash and Cash Equivalents, End of Year | $ 11,645,619 | $ 12,376,583 |

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

**CENTRAL CONTRA COSTA TRANSIT AUTHORITY**
**STATEMENT OF CASH FLOWS (Continued)**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS)**

| | 2018 | 2017 |
|---|---|---|
| Operating Loss | $ (38,397,607) | $ (34,987,423) |
| Adjustments to Reconcile Operating Loss to | | |
| Net Cash Used in Operating Activities: | | |
| Depreciation | 6,186,320 | 5,363,010 |
| Changes in assets, deferred outflow of resources, liabilities, | | |
| and deferred inflow of resources: | | |
| Increase in receivables | (65,860) | (97,488) |
| (Increase) Decrease in materials and supplies | 15,021 | (32,212) |
| (Increase) Decrease in prepaid expenses | 59,822 | (96,051) |
| Decrease in other postemployment benefits (OPEB) assets | 6,437 | 1,081 |
| Increase (Decrease) in accounts payable | (523,754) | 216,502 |
| Increase (Decrease) in net pension liability and related items | 1,807,421 | (17,761) |
| Decrease in OPEB liability | | |
| and related items | (224,832) | - |
| Increase in other liabilities and | | |
| compensated absences | 145,112 | 464,260 |
| Net Cash Used in Operating Activities | $ (30,991,920) | $ (29,186,082) |

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

## 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 County). The Authority is governed by a Board of Directors (the Board) 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 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 had 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 includes capital grants in the determination of net income resulting in an increase in net revenue of $2,850,624 for the fiscal year ended June 30, 2018.

Contributed capital and reserved retained earnings are presented in the net position section as net investment in capital assets and unrestricted net position.

**Net Position**

Net position represents the residual interest in the Authority's assets and deferred outflow of resources after liabilities and deferred inflow of resources are deducted. Net position is presented in three broad components: net investment in capital assets, restricted, and unrestricted. Net investment in capital assets includes capital assets net of accumulated depreciation attributable to the acquisition, construction, or improvement of those assets. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. All other net position is unrestricted.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, followed by unrestricted resources as they are needed.

The financial statements consist of (1) the Statement of Net Position, (2) the Statement of Revenues, Expenses, and Changes in Net Position, (3) the Statement of Cash Flows, and (4) the Notes to the Financial Statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

A. Basis of Accounting and Presentation (Continued)

**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 Enterprise Funds' 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 GAAP 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 the purpose of the Statement 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, 2018, 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 position, net investment in capital assets, after being charged to operations.

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 Outflows and Inflows of Resources

A deferred outflow of resources is defined as a consumption of net position by the Authority that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position that is applicable to a future reporting period. The Authority has deferred outflows of resources and deferred inflows of resources related to the California Public Employees' Retirement System (CalPERS) defined benefit plan for pensions and for its postemployment healthcare Plan. Refer to Notes 7 and 11 for more information.

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 (CalTIP) and claims in excess of $1,000,000 are insured with excess insurance purchased through CalTIP up to $25 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.

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 compliance 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 expense is incurred. Under the accrual basis of accounting, revenue may be recognized only when earned. Therefore, enterprise funds defer revenue recognition in connection with resources that have been received as of year-end, but not yet earned. Grants received in excess of allowable expenses are recorded as due to other government and advances (refer to Notes 6 and 14).

I. Defined Benefit Pension

For purposes of measuring the net pension liability, deferred outflow/inflow of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's CalPERS plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

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

J. Defined Benefit Other Post-Employment Benefit (OPEB)

The Authority's Healthcare Insurance Benefits Program is a defined-benefit post-employment health care plan. For purposes of measuring the OPEB liability, deferred outflow/inflow of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the net position of the Authority's OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by Brickmore and Public Agency Retirement Services (PARS). For this purpose, benefit payments (including refunds of employee contributions_ are recognized when due and payable in accordance with the benefit terms. Benefits are provided through CalPERS Health Benefits Program for all administrative employees, transit operators, and continue to the surviving spouses.

K. Compensated Absences

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

DRAFT

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

L. Funding Sources/Programs

**Transportation Development Act (TDA)**

The Local Transportation Fund was created under the TDA to collect ¼ cent of the State's 7 percent retail sales tax collected statewide. The ¼ 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.

**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**

Federal Transportation Assistance represents funding from within the U.S. Department of Transportation to assist local transportation needs.

**Measure J Funds**

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

M. Reclassifications

Comparative data for the prior year has been presented in the selected sections of the accompanying Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position. Also, certain accounts presented in the prior year's data may have been reclassified to be consistent with the current year's presentation.

N. Date of Management's Review

Subsequent events were evaluated through _____, 2018, which is the date the financial statements were available to be issued.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

O. Implementation of New Accounting Pronouncements

| | | |
|---|---|---|
| Statement No. 75 | *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* | The provisions of this statement are effective for fiscal years beginning after June 15, 2017. This statement basically parallels GASB Statement No. 68 and replaces GASB Statement No. 45. The Authority has implemented the provisions of GASB Statement No. 75 in the current year. As a result of this implementation, the Authority reported a prior period adjustment to net position in the amount of $(5,971,222) and recognized a net OPEB liability and deferred outflows of resources associated with OPEB as of June 30, 2018. See Note 11 for a detailed discussion of the effects of the Authority's current and prior period financial statements as a result of the adoption of this standard. |
| Statement No. 81 | *Irrevocable Split-Interest Agreements* | The provisions of this statement are effective for reporting periods beginning after December 15, 2016. There was no effect on the Authority's accounting and financial reporting as a result of implementing this standard. |
| Statement No. 85 | *Omnibus 2017* | The provisions of this statement are effective for periods beginning after June 15, 2017. There was no effect on the Authority's accounting and financial reporting as a result of implementing this standard. |
| Statement No. 86 | *Certain Debt Extinguishment Issues* | The requirements of this statement are effective for periods beginning after June 15, 2017. There was no effect on the Authority's accounting and financial reporting as a result of implementing this standard. |

DRAFT

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### P. Future Accounting Pronouncements

The GASB Statements listed below will be implemented in future financial statements:

| | | |
|---|---|---|
| Statement No. 83 | *Certain Asset Retirement Obligations* | The requirements of this statement are effective for periods beginning after June 15, 2018. The Authority has not fully judged the effect of the implementation of GASB Statement No. 83 as of the date of the basic financial statements. |
| Statement No. 84 | *Fiduciary Activities* | The requirements of this statement are effective for periods beginning after December 15, 2018. The Authority has not fully judged the effect of the implementation of GASB Statement No. 84 as of the date of the basic financial statements. |
| Statement No. 87 | *Leases* | The provisions of this statement are effective for periods beginning after December 15, 2019. The Authority has not fully judged the effect of the implementation of GASB Statement No. 87 as of the date of the basic financial statements. |
| Statement No. 88 | *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* | The requirements of this statement are effective for periods beginning after June 15, 2018.The Authority has not fully judged the effect of the implementation of GASB Statement No. 88 as of the date of the basic financial statements. |
| Statement No. 89 | *Accounting for Interest Cost Incurred before the End of a Construction Period* | The requirements of this statement are effective for periods beginning after December 15, 2019. The Authority has not fully judged the effect of the implementation of GASB Statement No. 89 as of the date of the basic financial statements. |
| Statement No. 90 | *Majority Equity Interests and amendment of GASB Statement No. 14 and No. 61* | The requirements of this statement are effective for periods beginning after December 15, 2018. The Authority has not fully judged the effect of the implementation of GASB Statement No. 90 as of the date of the basic financial statements. |

**NOTE 2 – CASH AND CASH EQUIVALENTS**

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

| | |
|---|---|
| Cash on hand | $ 450 |
| Cash in banks | 2,817,745 |
| Investments | 8,827,424 |
| | $ 11,645,619 |

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.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| Local Agency Bonds | 5 years | 100% | 50% |
| U.S. Treasury Obligations | 5 years | 100% | 50% |
| U.S. Agency Securities | 5 years | 100% | 50% |
| Negotiable Certificates of Deposit* | 5 years | 30% | 30% |
| County Pooled Investment Funds | N/A | 100% | 50% |
| Local Agency Investment Fund (LAIF) | N/A | 100% | 100% |

* 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.

**Investment in State Investment Pool**

The Authority is a voluntary participant in the LAIF that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2018, had a balance of $89 billion. Of that amount, 2.67% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 193 days as of June 30, 2018.

**NOTE 2 – CASH AND CASH EQUIVALENTS** (Continued)

Cash on Hand and Cash in Banks (Continued)

**Investment in State Investment Pool** (Continued)

LAIF has the following restrictions on withdrawals:

a) For same day transactions, the requesting agency must contact LAIF by 10 a.m. PST.
b) Transaction calls received after 10 a.m. are processed the following business day.
c) A requesting agency can only conduct a maximum of 15 transactions (combination of deposits and withdrawals) per month.
d) 24-hour notice is needed for withdrawals of $10 million or more.
e) The minimum transaction amount is $5,000, with amounts above the minimum transacted in increments of $1,000.
f) Prior to the funds transfer, an authorized person from the requesting agency must call LAIF to do a verbal transaction.

The State Treasurer's Office reports its investments at fair value. The fair value of securities in the State Treasurer's pooled investment program, including LAIF, generally is based on quoted market prices. The State Treasurer's Office performs a quarterly fair valuation of the pooled investment program portfolio. In addition, the State Treasurer's Office performs a monthly fair valuation of all securities held against carrying cost. These valuations and financial statements are posted to the State Treasurer's Office website at www.treasurer.ca.gov.

**Fair Value Measurements**

GASB Statement No. 72 improved the measuring of fair value for financial reporting purposes and enhanced disclosures about the fair value hierarchy as established by GAAP. The Authority's investments are held with LAIF, which is recorded on an amortized cost basis. As such, GASB Statement No. 72 does not apply.

**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:

| | | Remaining Maturity | | | |
|---|---|---|---|---|---|
| Investment Type | Amount | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | More Than 60 Months |
| LAIF | $ 8,827,424 | $ 8,827,424 | $ - | $ - | $ - |

**Disclosures Relating to Interest Rate Risk** (Continued)

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 or 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:

**NOTE 2 – CASH AND CASH EQUIVALENTS** (Continued)

Cash on Hand and Cash in Banks (Continued)

| Investment Type | Amount | Minimum Legal Rating | Exempt From Disclosure | Rating as of Year-End AAA | Aa | Not Rated |
|---|---|---|---|---|---|---|
| LAIF | $ 8,827,424 | N/A | $ - | $ - | $ - | $ 8,827,424 |

**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: $2,689,796 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, 2018.

**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, 2018.

**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 TDA 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 year ended June 30 is as follows:

| | |
|---|---|
| Federal grants | $ 2,191,582 |
| State grants | 409,529 |
| TDA (local transportation grants) | 249,513 |
| Total Capital Assistance | $ 2,850,624 |

DRAFT

## NOTE 4 – OPERATING GRANTS

The Authority receives local transportation fund allocations pursuant to the 1971 State TDA. These funds are generated within the County and are allocated based on annual claims filed by the Authority and approved by the Metropolitan Transportation 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 year ended June 30, 2018, was $20,871. For the year ended June 30, 2018, the Authority's maximum TDA assistance eligibility was $17,755,507.

During the fiscal year ended June 30, 2018, the Authority earned $6,239,347 of Measure J 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 bus services to alleviate congestion and improve mobility; transportation for seniors and people with disabilities; express bus service; and bus transit improvements.

During the fiscal year ended June 30, 2018, the Authority also earned other state and local operating assistance of $4,001,435, which mostly consisted of STA revenues.

Federal operating assistance funds have also been received pursuant to Sections 8 and 9 of the Urban Mass Transportation Act of 1974 (now FTA) for $1,655,674. These funds are apportioned to the local urbanized area and allocated to individual transit operators by MTC after FTA approval. Expenses of federal operating assistance funds are subject to final audit and approval by MTC and the FTA.

## NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity, including assets acquired under capital lease, at June 30 is shown below:

| | Balance June 30, 2017 | Additions | Deletions | Balance June 30, 2018 |
|---|---|---|---|---|
| Capital Assets Not Being Depreciated: | | | | |
| Construction in process | $ 1,010,681 | $ 88,467 | $ - | $ 1,099,148 |
| Land | 2,704,785 | - | - | 2,704,785 |
| Total Capital Assets Not Being Depreciated | 3,715,466 | 88,467 | - | 3,803,933 |
| Capital Assets Being Depreciated: | | | | |
| Land improvements | 2,196,936 | 239,680 | - | 2,436,616 |
| Shop, office, other equipment, and service vehicles | 4,868,184 | 173,700 | (79,631) | 4,962,253 |
| Buildings and structures | 18,474,595 | 51,174 | - | 18,525,769 |
| Revenue vehicles | 79,033,455 | 2,259,591 | (7,927,840) | 73,365,206 |
| Total Capital Assets Being Depreciated | 104,573,170 | 2,724,145 | (8,007,471) | 99,289,844 |
| Less Accumulated Depreciation for: | | | | |
| Land improvements | 2,131,703 | 27,578 | - | 2,159,281 |
| Shop, office, other equipment, and service vehicles | 3,741,181 | 350,982 | (79,631) | 4,012,532 |
| Buildings and structures | 12,917,924 | 495,052 | - | 13,412,976 |
| Revenue vehicles | 31,387,077 | 5,312,708 | (8,004,813) | 28,694,972 |
| Total Accumulated Depreciation | 50,177,885 | 6,186,320 | (8,084,444) | 48,279,761 |
| Total Capital Assets Being Depreciated, Net | 54,395,285 | (3,462,175) | 76,973 | 51,010,083 |
| Total Capital Assets, Net | $ 58,110,751 | $ (3,373,708) | $ 76,973 | $ 54,814,016 |

Depreciation expense for the year ended June 30, 2018, was $6,186,320.

DRAFT

**NOTE 6 – <u>ADVANCES FROM PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA)</u>**

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B). 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 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, 2018, the Authority received $285,190 funds, and earned interest of $54,368 from the State's PTMISEA account. As of June 30, 2018, there were $699,379 of expenses incurred related to rolling stock replacement, facility rehabilitation, lifeline bus stop, electric trolleys, and the Martinez shuttle and project. The remaining proceeds of $3,336,970, which includes accrued interest, was deferred as shown in the schedule below. Qualifying expenses must be encumbered within three years from the date of the allocation and expended within three years from the date of the encumbrance.

| | |
|---|---|
| Advances from PTMISEA, beginning of year | $ 3,696,791 |
| Proposition 1B (PTMISEA) funds allocated | 285,190 |
| Proposition 1B (PTMISEA) interest earned | 54,368 |
| Proposition 1B (PTMISEA) expenses | (699,379) |
| Advances from PTMISEA, end of year | $ 3,336,970 |

**NOTE 7 – <u>EMPLOYEES' RETIREMENT PENSION PLAN</u>**

A. <u>General Information about the Pension Plan</u>

***Plan Description*** – All qualified permanent and probationary employees are eligible to participate in the Authority's Plan. The Plan is an agent multiple-employer defined benefit pension plan administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and Authority resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website. The Authority's Plan is referred to by CalPERS as the Miscellaneous Plan.

***Benefits Provided*** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Classic members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. California Public Employees' Pension Reform Act (PEPRA) Members with five years of service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the California Public Employees' Retirement Law.

## NOTE 7 – EMPLOYEES' RETIREMENT PENSION PLAN (Continued)

A. General Information about the Pension Plan (Continued)

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

| | Miscellaneous | |
|---|---|---|
| Hire Date | Prior to January 1, 2013 | On or after January 1, 2013 |
| Benefit Formula | 2%@60 | 2%@62 |
| Benefit Vesting Schedule | 5 years service | 5 years service |
| Benefit Payments | monthly for life | monthly for life |
| Retirement Age | 50 | 52 |
| Monthly Benefits, as a Percentage of Eligible Compensation | 1.092%-2.418% | 1.000%-2.500% |
| Required Employee Contribution Rates | 6.967% | 6.750% |
| Required Employer Contribution Rates | 7.471% | 7.471% |

***Employees Covered*** – At June 30, 2018, the following employees were covered by the benefit terms for the Plan as of the June 30, 2016 actuarial valuation:

| | Miscellaneous |
|---|---|
| Inactive Employees or Beneficiaries Currently Receiving Benefits | 187 |
| Inactive Employees Entitled to but not yet Receiving Benefits | 178 |
| Active Employees | 254 |
| Total | 619 |

***Contributions*** – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2017 (the measurement date), the average active employee contribution rate is 6.967% of annual pay, and the employer's contribution rate is 7.471% of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

B. Net Pension Liability

The Authority's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**NOTE 7 – EMPLOYEES' RETIREMENT PENSION PLAN** (Continued)

B. Net Pension Liability (Continued)

***Actuarial Assumptions*** – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

| | Miscellaneous |
|---|---|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry Age Normal |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.75% |
| Projected Salary Increase | Varies by Entry Age and Service |
| Investment Rate of Return | 7.15% |
| Mortality | Derived using CalPERS' Membership Data for all funds. (1) |
| Post-Retirement Benefit Increase | Contract cost of living adjustment (COLA) up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter. |

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report from CalPERS.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website under Forms and Publications.

***Discount Rate*** – The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB Statement No. 68 section.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the reporting period ended June 30, 2018, the 7.15% discount rate was not reduced for administrative expense.

CalPERS reviews all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle every four years. Any changes to the discount rate will require the CalPERS' Board of Administration to take action and proper stakeholder outreach.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**NOTE 7 – EMPLOYEES' RETIREMENT PENSION PLAN** (Continued)

B. Net Pension Liability (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected PERF cash flows. Taking into account historical returns of all the PERF asset classes (which include the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014. These geometric rates of return are net of administrative expenses.

| Asset Class | Current Target Allocation | Real Return Years 1 - 10 [(a)] | Real Return Years 11+ [(b)] |
|---|---|---|---|
| Global Equity | 47.00% | 4.90% | 5.38% |
| Global Fixed Income | 19.00% | 0.80% | 2.27% |
| Inflation Sensitive | 6.00% | 0.60% | 1.39% |
| Private Equity | 12.00% | 6.60% | 6.63% |
| Real Estate | 11.00% | 2.80% | 5.21% |
| Infrastructure and Forestland | 3.00% | 3.90% | 5.36% |
| Liquidity | 2.00% | -0.40% | -0.90% |
| Total | 100.00% | | |

[(a)] An expected inflation of 2.5% used for this period.
[(b)] An expected inflation of 3.0% used for this period.

**NOTE 7 – EMPLOYEES' RETIREMENT PENSION PLAN** (Continued)

C. Changes in the Net Pension Liability

The changes in the net pension liability are as follows:

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability/(Asset) |
| Balance at June 30, 2016 (Valuation Date) | $ 84,156,944 | $ 77,037,843 | $ 7,119,101 |
| Changes in the year: | | | |
| Service Cost | 2,337,306 | - | 2,337,306 |
| Interest on the Total Pension Liability | 6,322,423 | - | 6,322,423 |
| Differences between Expected and Acutal Experience | (516,597) | - | (516,597) |
| Changes of Assumptions | 5,271,395 | - | 5,271,395 |
| Changes of Benefit Terms | - | - | - |
| Contribution - Employer | - | 1,070,201 | (1,070,201) |
| Contribution - Employee (Paid by Employer) | - | 527,557 | (527,557) |
| Contribution - Employee | - | 469,913 | (469,913) |
| Net Investment Income* | - | 8,507,531 | (8,507,531) |
| Benefit Payments, Including Refunds of Employee Contributions | (3,309,790) | (3,309,790) | - |
| Administrative Expenses | - | (113,741) | 113,741 |
| Net Changes during 2016-17 | 10,104,737 | 7,151,671 | 2,953,066 |
| Balance at June 30, 2017 (Measurement Date)* | $ 94,261,681 | $ 84,189,514 | $ 10,072,167 |

* Net of administrative expenses.

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

| | Discount Rate - 1% (6.15%) | Current Discount Rate (7.15%) | Discount Rate + 1% (8.15%) |
|---|---|---|---|
| Plan's Net Pension Liability | $ 22,996,562 | $ 10,072,167 | $ (638,428) |

***Pension Plan Fiduciary Net Position*** – Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**NOTE 7 – EMPLOYEES' RETIREMENT PENSION PLAN** (Continued)

D. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the Authority recognized a defined benefit pension adjustment (pension expense) of $1,807,421. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension Contributions Subsequent to Measurement Date | $ 1,564,471 | $ - |
| Changes of Assumptions | 3,846,694 | (408,516) |
| Differences between Expected and Actual Experience | - | (920,957) |
| Net Differences between Projected and Actual Earnings on Plan Investments | 1,126,724 | - |
| Total | $ 6,537,889 | $ (1,329,473) |

$1,564,471 reported as a deferred outflow of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Measurement Period Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2018 | $ 570,165 |
| 2019 | 2,315,534 |
| 2020 | 1,370,619 |
| 2021 | (612,373) |
| Total | $ 3,643,945 |

E. Payable to the Pension Plan

At June 30, 2018, the Authority reported a payable of $78,217 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

**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 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 $10 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.

DRAFT

**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 $440,000 at June 30, 2018, 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 LAWCX, a joint powers agency (risk sharing pool) established in 1992 as a state-wide joint powers authority. Currently, there are 34 members consisting of 23 municipalities, 10 joint powers authorities, and 1 special district. 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 also is a member of California State Association of Counties Excess Insurance Authority (CSAC-EIA), which purchases ACE American Insurance $45 million excess of $5 million and National Union Fire Insurance Co. statutory coverage excess of $50 million. CSAC-EIA is a member-directed risk sharing pool of counties and public entities committed to providing risk coverage programs and risk management services.

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 $1,205,401 at June 30, 2018, 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 as a reserve against future unanticipated operating and capital funding shortfalls. As of June 30, 2018, this fund, including accrued interest, totaled $1,475,680.

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, it is 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 reported actual and estimated incurred claims. The reserve for public liability and property damage as of June 30, 2018, totaled $440,000, and for the workers' compensation totaled $1,205,401.

**NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)**

A. General Information about the OPEB Plan

***Plan Description***

The Authority's Healthcare Insurance Benefits Program is a single-employer defined-benefit postemployment healthcare plan in which retirees are eligible to participate. Benefits are provided through CalPERS Health Benefits Program for all administrative employees and transit operators. Benefits continue to the surviving spouses.

***Benefits Provided***

Eligibility for retiree health benefits requires service or disability retirement from the Authority on or after age 50 (age 52 if a PEPRA member) with at least five years of CalPERS service.

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.

***Employees Covered by Benefit Terms***

At July 1, 2017 (the census date), the benefit terms covered the following employees:

| | |
|---|---|
| Retirees and survivors currently receiving benefits | 52 |
| Active employees | 224 |
| Total | 276 |

***Contributions***

The Actuarially Determined Contribution (ADC) consists of two basic components, which have been adjusted with interest to the Authority's fiscal year-end:

- The amounts attributed to service performed in the current fiscal year (the normal cost) and
- Amortization of the unfunded actuarial accrued liability (UAAL).

The development of the ADC reflects the assumption that the Authority will contribute at least 100% of this amount each year, with contributions comprising of direct payments to insurers toward retiree premiums, each current year's implicit subsidy, and contributions to the OPEB trust.

B. Net OPEB Liability

The Authority's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017.

***Actuarial Assumptions***

The total OPEB liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

B. Net OPEB Liability (Continued)

***Actuarial Assumptions*** (Continued)

| | |
|---|---|
| Valuation Date | July 1, 2017 |
| Funding Method | Entry Age Normal Cost, level percent of pay * |
| Asset Valuation Method | Market value of assets |
| Long-Term Return on Assets | 5.1% |
| Discount Rate | 5.1% |
| Participants Valued | Only current active employees, retired participants, and covered dependents are valued. No future entrants are considered in this valuation. |
| Salary Increase | 3.25% per year, used only to allocate the cost of benefits between service years |
| Assumed Increase for Amortization Payments | 3.0% per year where determined on a percent of pay basis |
| General Inflation Rate | 2.75% per year |

*Demographic actuarial assumptions used in this valuation are those used in the recent June 30, 2016 valuation of the retirement plans covering Authority employees, and are based on the 2014 experience study of the California Public Employees Retirement System using data from 1997 to 2011, except for a different basis used to project future mortality improvements. Rates for selected age and service are shown in the July 1, 2017 funding valuation. The representative mortality rates were those published by CalPERS in their 2014 study, adjusted to back out 20 years of Scale BB to central year 2008.*

| | |
|---|---|
| Mortality | Future rates of mortality were projected to improve on a generational basis using Bickmore Scale 2017. The Bickmore Scale 2017 was developed from a blending of data and methodologies found in two published sources: (1) the Society of Actuaries Mortality Improvement Scale MP-2016 Report, published in October 2016, and (2) the demographic assumptions used in the 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, published June 2016. See July 1, 2017 funding valuation for further information. |

| CalPERS Public Agency Miscellaneous Non-Industrial Deaths Only | | |
|---|---|---|
| Age | Male | Female |
| 20 | 0.00033 | 0.00021 |
| 30 | 0.00052 | 0.00027 |
| 40 | 0.0008 | 0.00053 |
| 50 | 0.00165 | 0.00106 |
| 60 | 0.00354 | 0.00223 |
| 70 | 0.00709 | 0.00467 |
| 80 | 0.01339 | 0.01036 |

**NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)** (Continued)

B. Net OPEB Liability (Continued)

* The level percent of pay aspect of the funding method refers to how the normal cost is determined. Use of level percent of pay cost allocations in the funding method is separate from and has no effect on a decision regarding use of a level percent of pay or level dollar basis for determining amortization payments.

Healthcare Trend — Medical plan premiums and claims costs by age are assumed to increase once each year. Increases over the prior year's level are assumed to be effective on the dates shown below.

| Effective January 1 | Premium Increase | Effective January 1 | Premium Increase |
|---|---|---|---|
| 2018 | 8.00% | 2022 | 6.00% |
| 2019 | 7.50% | 2023 | 5.50% |
| 2020 | 7.00% | 2024 | 5.00% |
| 2021 | 6.50% | 2025 & later | 5.00% |

***Actuarial Assumptions*** (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of the arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic Equity - Large Cap Funds | 15.50% | 6.70% |
| Domestic Equity - Mid Cap Funds | 3.00% | 7.00% |
| Domestic Equity - Small Cap Funds | 4.50% | 7.90% |
| Real Estate Investment Trust Funds | 1.00% | 5.70% |
| International Equity - Core | 4.00% | 7.30% |
| International Equity - Emerging Markets | 2.00% | 9.70% |
| Fixed Income - Short-Term | 14.00% | 3.80% |
| Fixed Income - Intermediate-Term | 49.25% | 4.60% |
| Fixed Income - High Yield | 1.75% | 6.00% |
| Cash Equivalents | 5.00% | 2.10% |
| Total | 100.00% | |

***Annual Money-Weighted Return***

For the fiscal year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expenses, was 9.38%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)** (Continued)

B. Net OPEB Liability (Continued)

***Discount Rate***

The discount rate used to measure the total OPEB liability was 5.10%. The projection of cash flows used to determine the discount rate assumed that the Authority contribution will be made at rates equal to the ADC rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to cover all future OPEB payments. Therefore, the discount rate was set equal to the long-term expected rate of return.

***Changes in the Net OPEB Liability***

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability/(Asset) |
| Balance at June 30, 2017 | $ 9,260,853 | $ 2,541,492 | $ 6,719,361 |
| Changes in the Year: | | | |
| Service Cost | 350,850 | - | 350,850 |
| Interest | 482,126 | - | 482,126 |
| Changes of Benefit Terms | - | - | - |
| Plan Experience | (1,408,629) | - | (1,408,629) |
| Changes of Assumptions | (994,873) | - | (994,873) |
| Benefit Payments | (316,489) | - | (316,489) |
| Contribution - Employer | - | 748,139 | (748,139) |
| Net Investment Income | - | 111,685 | (111,685) |
| Benefit Payments | - | (316,489) | 316,489 |
| Net Changes | (1,887,015) | 543,335 | (2,430,350) |
| Balance at June 30, 2018 | $ 7,373,838 | $ 3,084,827 | $ 4,289,011 |

***Sensitivity of the Net OPEB Liability to Changes in the Discount Rate***

The net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.10%) or one percentage point higher (6.10%), follows:

| | 1% Decrease 4.10% | Discount Rate 5.10% | 1% Increase 6.10% |
|---|---|---|---|
| Net OPEB Liability | $ 5,181,356 | $ 4,289,011 | $ 3,542,689 |

**NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)** (Continued)

B. Net OPEB Liability (Continued)

***Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates***

The net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (7.00%) or one percentage point higher (9.00%) than current healthcare cost trend rates, follows:

| | 1% Decrease 7.00% Decreasing to 4.00% | Discount Rate 8.00% Decreasing to 5.00% | 1% Increase 9.00% Decreasing to 6.00% |
|---|---|---|---|
| Net OPEB Liability | $ 3,770,890 | $ 4,289,011 | $ 5,226,116 |

**OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB**

For the year ended June 30, 2018, the Authority recognized an OPEB expense of $224,832. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Changes of Assumptions | $ - | $ 856,362 |
| Differences Between Expected and Actual Experience | - | 1,212,512 |
| Net Difference Between Projected and Actual Earnings on Investments | 23,150 | - |
| Contributions Made Subsequent to the Measurement Date | 588,345 | - |
| Total | $ 611,495 | $ 2,068,874 |

The $588,345 reported as a deferred outflow of resources related to contributions subsequent to the June 30, 2018 measurement date will be recognized as a reduction to the net OPEB liability during the fiscal year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related OPEB expenses will be recognized as follows:

| For the Fiscal Year Ending June 30, | Recognized Net Deferred Outflows (Inflows) of Resources |
|---|---|
| 2019 | $ (328,840) |
| 2020 | (328,840) |
| 2021 | (328,840) |
| 2022 | (328,842) |
| 2023 | (334,628) |
| Thereafter | (395,734) |
| Total | $ (2,045,724) |

**NOTE 12 – CAPITAL LEASE**

On May 27, 2014, the Authority entered into a capital lease agreement with a value of $212,000 for Solar Panel signs. Under the agreement, title passes to the Authority upon expiration of the lease period.

| Solar Panel signs | 2018 |
|---|---|
| Payable $38,000 per year with no interest. Required annual payments are due as follows. | $ 76,000 |
| Less Current Portion | 38,000 |
| Long-Term Portion | $ 38,000 |

Future minimum lease payments are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 38,000 | $ - | $ 38,000 |
| 2019 | 38,000 | - | 38,000 |
| Total | $ 76,000 | $ - | $ 76,000 |

The Authority will not receive sublease rental revenues nor pay any contingent rentals for the Solar Panel signs.

**NOTE 13 – CHANGES IN LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities at June 30, 2018, follows:

| | Balance June 30, 2017 | Additions | Deductions | Balance June 30, 2018 | Due Within One Year |
|---|---|---|---|---|---|
| Self-Insurance Liabilities | $ 1,774,418 | $ 1,698,804 | $ 1,827,821 | $ 1,645,401 | $ 1,538,541 |
| Compensated Absences | 1,242,351 | 882,069 | 800,610 | 1,323,810 | 781,782 |
| Capital Lease | 114,000 | - | 38,000 | 76,000 | 38,000 |
| Totals | $ 3,130,769 | $ 2,580,873 | $ 2,666,431 | $ 3,045,211 | $ 2,358,323 |

**NOTE 14 – TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS**

The Authority received TDA funds under Articles 4 and 4.5 (two subsections: 99260(a) and 99275) of the California Public Utilities Code for the fiscal year ended June 30, 2018. 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 County's Local Transportation Fund (LTF).

**NOTE 14 – TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS** (Continued)

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

| | |
|---|---|
| LTF Allocations for Public Transportation Services: | |
| 99260(a) | $ 19,877,894 |
| Less: applicable expenses | (16,955,344) |
| Unused portion to revert back to (balance due to) the County's LTF (Current Year) | 2,922,550 |
| Prior year unused portion not returned | 1,699,736 |
| Total Unused Portion to Revert Back to the County's LTF | $ 4,622,286 |
| LTF Allocations for Community Transit Services: | |
| 99275 and 99260(a) | $ 800,163 |
| Less: applicable expenses | (800,163) |
| Unused portion to revert back to the County's LTF | - |
| Total Due Back to the County's LTF | $ 4,622,286 |

**NOTE 15 – 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. Employees are allowed loans under the IRC Section 457 rules.

The deferred compensation plan is administered by an unrelated financial institution. Under the terms of IRC Section 457 Deferred Compensation Plans, 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.

**NOTE 16 – PRIOR PERIOD ADJUSTMENT**

| | |
|---|---|
| Net position at June 30, 2017, as previously reported | $ 56,460,115 |
| Incorporate OPEB pension liability and related items at June 30, 2017, per the actuarial valuation to comply with GASB Statement No. 75 | (5,971,222) |
| Net position at June 30, 2017, as restated | $ 50,488,893 |

DRAFT

# REQUIRED SUPPLEMENTARY INFORMATION

DRAFT

# CENTRAL CONTRA COSTA TRANSIT AUTHORITY
## AN AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
## SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
## AS OF JUNE 30, 2018
## LAST 10 YEARS*

| Measurement Period | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
|---|---|---|---|---|
| **Total Pension Liability** | | | | |
| Service Cost | $ 2,337,306 | $ 1,945,766 | $ 1,918,011 | $ 1,994,470 |
| Interest on Total Pension Liability | 6,322,423 | 6,022,970 | 5,722,716 | 5,409,869 |
| Changes of Benefit Terms | - | - | - | - |
| Changes of Assumptions | 5,271,395 | - | (1,429,806) | - |
| Differences between Expected and Actual Experience | (516,597) | (800,944) | (576,058) | - |
| Benefit Payments, Including Refunds of Employee Contributions | (3,309,790) | (3,141,095) | (2,716,414) | (2,653,773) |
| Net Change in Total Pension Liability | 10,104,737 | 4,026,697 | 2,918,449 | 4,750,566 |
| Total Pension Liability - Beginning | 84,156,944 | 80,130,247 | 77,211,798 | 72,461,232 |
| Total Pension Liability - Ending (a) | $ 94,261,681 | $ 84,156,944 | $ 80,130,247 | $ 77,211,798 |
| **Plan Fiduciary Net Position** | | | | |
| Contributions - Employer | $ 1,070,201 | $ 1,272,683 | $ 947,246 | $ 917,689 |
| Contributions - Employee (Paid by Employer) | 527,557 | 491,555 | 432,811 | 509,838 |
| Contributions - Employee | 469,913 | 506,311 | 515,306 | 447,265 |
| Net Investment Income** | 8,507,531 | 460,130 | 1,698,644 | 11,507,514 |
| Benefit Payments, Including Refunds of Employee Contributions | (3,309,790) | (3,141,095) | (2,716,414) | (2,653,773) |
| Administrative Expenses | (113,741) | (47,229) | (87,217) | - |
| Net Change in Plan Fiduciary Net Position | 7,151,671 | (457,645) | 790,376 | 10,728,533 |
| Plan Fiduciary Net Position - Beginning | 77,037,843 | 77,495,488 | 76,705,112 | 65,976,579 |
| Plan Fiduciary Net Position - Ending (b) | $ 84,189,514 | $ 77,037,843 | $ 77,495,488 | $ 76,705,112 |
| Net Pension Liability - Ending [(a) - (b)] | $ 10,072,167 | $ 7,119,101 | $ 2,634,759 | $ 506,686 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 89.31% | 91.54% | 96.71% | 99.34% |
| Covered-Employee Payroll | $ 14,786,527 | $ 13,915,228 | $ 13,613,535 | $ 13,553,073 |
| Net Pension Liability as a Percentage of Covered-Employee Payroll | 68.12% | 51.16% | 19.35% | 3.74% |

**CENTRAL CONTRA COSTA TRANSIT AUTHORITY**
**AN AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN**
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND**
**RELATED RATIOS (Continued)**
**AS OF JUNE 30, 2018**
**LAST 10 YEARS***

**Notes to Schedule:**

* When information is available, the required 10 years will be shown.
** Net investment income is net of administrative expenses.

**Benefit changes:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2016. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

**Changes of assumptions:** In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent.

**CENTRAL CONTRA COSTA TRANSIT AUTHORITY**
**AN AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN**
**SCHEDULE OF INVESTMENT RETURNS – PENSION**
**AS OF JUNE 30, 2018**
**LAST 10 YEARS***

| | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
|---|---|---|---|---|
| Annual Money-Weighted Rate of Return, Net of Investment Expense | 11.2% | 0.5% | 2.2% | 17.7% |

**CENTRAL CONTRA COSTA TRANSIT AUTHORITY**
**AN AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN**
**SCHEDULE OF CONTRIBUTIONS – PENSION**
**AS OF JUNE 30, 2018**
**LAST 10 YEARS***

| Fiscal Year Ended June 30 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Actuarially Determined Contributions | $ 1,070,201 | $ 1,272,683 | $ 947,246 | $ 917,689 |
| Contributions in Relation to the Actuarially Determined Contributions | (1,070,201) | (1,272,683) | (947,246) | (917,689) |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - |
| Covered-Employee Payroll** | $ 14,786,527 | $ 13,915,228 | $ 13,613,535 | $ 13,553,073 |
| Contributions as a Percentage of Covered-Employee Payroll | 7.24% | 9.15% | 6.96% | 6.77% |

**Notes to Schedule:**

* When information is available, the required 10 years will be shown.
** Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. Payroll was assumed to increase by the 3% percent payroll growth assumption.

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017 were from the June 30, 2014 valuation.

| | |
|---|---|
| Valuation date: | June 30, 2014 |

Methods and assumptions used to determine contribution rates:

| | |
|---|---|
| Actuarial cost method | Entry Age Normal Cost Method |
| Amortization method | Level percent of payroll |
| Average remaining amortization period | 20 years as of valuation date |
| Asset valuation method | 15 year smoothed market |
| Inflation | 2.75% |
| Projected salary increases | Varies by entry age and service. |
| Payroll growth | 3.00% |
| Investment rate of return | 7.50% (net of administrative expenses) |
| Retirement age | The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. |
| Mortality | The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries. |

# CENTRAL CONTRA COSTA TRANSIT AUTHORITY
## SINGLE-EMPLOYER DEFINED BENEFIT PLAN
## SCHEDULE OF CHANGES IN THE NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY AND RELATED RATIOS
## JUNE 30, 2018
## LAST 10 YEARS*

| Measurement Period | June 30, 2017 |
|---|---|
| **Total OPEB Liability** | |
| Service Cost | $ 350,850 |
| Interest on the Total OPEB Liability | 482,126 |
| Changes of Benefit Terms | - |
| Differences Between Expected and Actual Experience | (1,408,629) |
| Changes in Assumptions | (994,873) |
| Benefit Payments | (316,489) |
| Net Change in Total OPEB Liability | (1,887,015) |
| Total OPEB Liability - Beginning | 9,260,853 |
| Total OPEB Liability - Ending (a) | $ 7,373,838 |
| **Plan Fiduciary Net Position** | |
| Net Investment Income | $ 111,685 |
| Contributions - Employer | 748,139 |
| Benefit Payments | (316,489) |
| Net Change in Plan Fiduciary Net Position | 543,335 |
| Plan Fiduciary Net Position - Beginning | 2,541,492 |
| Plan Fiduciary Net Position - Ending (b) | $ 3,084,827 |
| Net OPEB Liability - Ending [(a) - (b)] | $ 4,289,011 |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 41.83% |
| Covered-Employee Payroll | $ 12,531,658 |
| Net OPEB Liability as a Percentage of Covered-Employee Payroll | 34.23% |

**Notes to Schedule:**

* When information is available, the required 10 years will be shown.

DRAFT

**CENTRAL CONTRA COSTA TRANSIT AUTHORITY**
**SINGLE-EMPLOYER DEFINED BENEFIT PLAN**
**SCHEDULE OF INVESTMENT RETURNS – OPEB**
**JUNE 30, 2018**
**LAST 10 YEARS***

| | June 30, 2017 |
|---|---|
| Annual Money-Weighted Rate of Return, Net of Investment Expense | 9.38% |

**Notes to Schedule:**

* When information is available, the required 10 years will be shown.

DRAFT

**CENTRAL CONTRA COSTA TRANSIT AUTHORITY**
**SINGLE-EMPLOYER DEFINED BENEFIT PLAN**
**SCHEDULE OF CONTRIBUTIONS – OPEB**
**JUNE 30, 2018**
**LAST 10 YEARS***

| Fiscal Year Ended June 30 | 2017 |
|---|---|
| Actuarially Determined Contribution | $ 748,139 |
| Less: Estimated Contributions to be Made | 748,139 |
| Contribution Deficiency (Excess) | $ - |
| Covered-Employee Payroll | $ 12,531,658 |
| Contributions as a Percentage of Covered-Employee Payroll | 5.97% |

**Notes to Schedule:**

* When information is available, the required 10 years will be shown.

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 were from the July 1, 2017 valuation.

| | |
|---|---|
| Valuation Date | July 1, 2017 |

Methods and assumptions used to determine contribution rates:

| | |
|---|---|
| Funding Method | Entry Age Normal Cost, level percent of pay |
| Asset Valuation Method | Market value of assets |
| Long-Term Return on Assets | 5.1% |
| Discount Rate | 5.1% |
| Participants Valued | Only current active employees, retired participants, and covered dependents are valued. No future entrants are considered in this valuation. |
| Salary Increase | 3.25% per year, used only to allocate the cost of benefits between service years |
| Assumed Increase for Amortization Payments | 3.0% per year where determined on a percent of pay basis |
| General Inflation Rate | 2.75% per year |

*Demographic actuarial assumptions used in this valuation are those used in the recent June 30, 2016 valuation of the retirement plans covering Authority employees, and are based on the 2014 experience study of the California Public Employees Retirement System using data from 1997 to 2011, except for a different basis used to project future mortality improvements. Rates for selected age and service are shown in the July 1, 2017 funding valuation. The representative mortality rates were those published by CalPERS in their 2014 study, adjusted to back out 20 years of Scale BB to central year 2008.*

| | |
|---|---|
| Mortality | Future rates of mortality were projected to improve on a generational basis using Bickmore Scale 2017. The Bickmore Scale 2017 was developed from a blending of data and methodologies found in two published sources: (1) the Society of Actuaries Mortality Improvement Scale MP-2016 Report, published in October 2016, and (2) the demographic assumptions used in the 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, published June 2016. See July 1, 2017 funding valuation for further information. |

DRAFT

## SUPPLEMENTARY SCHEDULE AND OTHER REPORTS

DRAFT

# CENTRAL CONTRA COSTA TRANSIT AUTHORITY
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| Federal Grantor/Program Title | Federal CFDA Number | Grant Expenditures | Passed-Through To Subrecipients |
|---|---|---|---|
| U.S. DEPARTMENT OF TRANSPORTATION | | | |
| Direct Programs: | | | |
| Federal Transit Administration (FTA) | | | |
| Capital and Operating Assistance Grants | 20.507 | | |
| Grant CA-04-0250-00 - Capital and Operating | | $ 132,004 | $ - |
| Grant CA-2018-142-00 - Capital and Operating | | 278,697 | - |
| Grant CA-2017-137-00 - Capital and Operating | | 981,716 | - |
| Grant CA-2016-013-00 - Capital and Operating | | 88,929 | - |
| Grant CA-2016-057-00 - Capital and Operating | | 962,686 | - |
| Grant CA-2016-121-00 - Capital and Operating | | 375,962 | - |
| Total FTA Capital and Operating Assistance Grants | | 2,819,994 | - |
| FTA 5339 Bus and Facilities Formula Program | 20.526 | | |
| Grant CA-2017-034-00 - Capital and Operating | | 1,200,970 | - |
| Total FTA Grants | | $ 4,020,964 | $ - |

See accompanying notes to schedule of expenditures of federal awards.

**CENTRAL CONTRA COSTA TRANSIT AUTHORITY**
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**JUNE 30, 2018**

## 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 Federal Transit Administration (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. The information in the SEFA is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

## NOTE 3 – INDIRECT COST RATE

The Authority did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

DRAFT

**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;* THE STATUTES, RULES, AND REGULATIONS OF THE CALIFORNIA TRANSPORTATION DEVELOPMENT ACT; AND THE ALLOCATION INSTRUCTIONS AND RESOLUTIONS OF THE TRANSPORTATION COMMISSION**

To the Administrative and Finance Committee and Board of Directors
Central Contra Costa Transit Authority
Concord, California

We have audited, 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; the statutes, rules, and regulations of the California Transportation Development Act (TDA); and the allocation instructions and resolutions of the Metropolitan Transportation Commission (MTC), the financial statements of the Central Contra Costa Transit Authority (the Authority) as of and for the fiscal year ended June 30, 2018, and related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated _____, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

DRAFT

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Additionally, we performed tests of the Authority's compliance with certain provisions of the TDA and the allocation instructions and resolutions of the MTC required by Section 6667 of Title 21, Chapter 3, Subchapter 2, Article 5.5 of the California Code of Regulations. 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 that are required to be reported under *Government Auditing Standards,* the TDA, and the MTC.

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, 2018, the Authority received $285,190 in allocated funds and earned interest of $54,368 from the State's PTMISEA account. During the fiscal year ended June 30, 2018, the Authority incurred $669,379 of expenses for rolling stock replacement, facility rehabilitation, lifeline bus stop, electric trolleys, and the Martinez shuttle and project. During the fiscal year ended June 30, 2018, PTMISEA funds received and expended were verified in the course of our audit as follows:

| | |
|---|---|
| Balance – beginning of the year | $ 3,696,791 |
| Proceeds received: | |
| PTMISEA | 285,190 |
| Interest earned | 54,368 |
| Expenses incurred: | |
| Rolling stock replacement, facility rehab, lifeline bus stop, and the Martinez Shuttle | (699,379) |
| Unexpended proceeds, June 30, 2018 | $ 3,336,970 |

## Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
_____, 2018

DRAFT

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Administrative and Finance Committee and Board of Directors
Central Contra Costa Transit Authority
Concord, California

**Report on Compliance for Each Major Federal Program**

We have audited the Central Contra Costa Transit Authority's (the Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the fiscal year ended June 30, 2018. 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.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the Authority's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Authority complied, in all material respects, with the types of compliance 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, 2018.

**Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
_____, 2018

# FINDINGS AND QUESTIONED COSTS SECTION

DRAFT

**CENTRAL CONTRA COSTA TRANSIT AUTHORITY**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**JUNE 30, 2018**

Section I – Summary of Auditor's Results

A. Financial Statements

| | |
|---|---|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | No |
| Deficiencies or 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 or significant deficiencies identified not considered to be material weaknesses? | No |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? | No |

C. Identification of Major Programs

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| CFDA Number 20.507 | FTA Capital and Operating Assistance Grants |
| CFDA Number 20.526 | FTA 5339 Bus and Facilities Formula Program |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $750,000 |
| Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statement Audit Findings and Questioned Costs

None.

Section III – Federal Awards Findings and Questioned Costs

None.

Section IV – Summary of Prior Audit (June 30, 2017) Findings and Current Year Status

None.

DRAFT

**REQUIRED COMMUNICATION TO THE ADMINISTRATIVE AND FINANCE COMMITTEE AND BOARD OF DIRECTORS IN ACCORDANCE WITH PROFESSIONAL STANDARDS (SAS 114)**

To the Administrative and Finance
Committee and Board of Directors of
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, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards,* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 11, 2018. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Matters**

*Qualitative Aspects of Accounting Practices*
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, during the year ended June 30, 2018, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Authority's financial statements were:

- Estimated Useful Lives of Capital Assets – Management estimates the lives of capital assets for purposes of calculating annual depreciation expense to be reported in the Authority's Statement of Revenues, Expenses, and Changes in Net Position. 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 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.

- Net Pension Liability and Post-Employment Benefits Other than Pension Benefits (OPEB) Liability – These are 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 the accounting estimates used in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the disclosures of capital assets and depreciation, employees' retirement pension plan and the net pension liability, risk management self-insurance liability, and the liability for OPEB in Notes 5, 7, 8, and 11, respectively, of the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

*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 clearly trivial, and communicate them to the appropriate level of management. There were no such misstatements.

*Disagreements with Management*
For purposes of this letter, a disagreement with management is 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 __________, 2018.

*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.

**Other Matters**

We applied certain limited procedures to the Management's Discussion and Analysis (MD&A), Schedule of Changes in the Net Pension Liability and Related Ratios, Schedule of Investment Returns – Pension, Schedule of Contributions - Pension, Schedule of Changes in the OPEB Liability and Related Ratios, Schedule of Investment Returns - OPEB, and Schedule of Contributions - OPEB, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. With respect to this supplementary schedule, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary schedule to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Restriction on Use**

This information is intended solely for the use of the Administrative 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

Bakersfield, California
__________, 2018

**AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING (MANAGEMENT LETTER)**

To the Administrative and Finance Committee and Board of Directors
Central Contra Costa Transit Authority
Concord, California

In planning and performing our audit of the financial statements of Central Contra Costa Transit Authority (the Authority), as of and for the fiscal year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations during our audit, we did not identify any deficiencies in internal control that we considered to be material weaknesses.  However, material weaknesses may exist that have not been identified.

The results of our audit disclosed no recommendations for the current year, and we are providing the disposition of the prior year comments.

DRAFT

## Current Year Conditions and Recommendations

None in the current year.

## Status of Prior Year Conditions and Recommendations

Agreed Upon Condition 1

During our Information Technology (IT) testing, we noted that one of the ten terminated employees tested did not have his information disabled until one day after the employee's termination. The delay was due to IT not receiving a timely email notification.

Recommendation

We recommend that Human Resources implement a checklist of procedures to be followed upon the termination of an employee. The checklist should include a notification to IT personnel the day the employee is terminated to ensure all system access is terminated in a timely manner.

Management Response

Management concurs with the finding. Human Resources has a checklist and will submit information to IT more timely.

Current Year Status

During our current year testing we noted that Human Resources has included a line item relating to communicating to IT if the employee has computer access. We noted that Human Resources does not contact IT if the employee does not have computer access.

********

This information is intended solely for the use of the Administrative and Finance Committee, 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

Bakersfield, California
__________, 2018

DRAFT

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

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

We have performed the procedures enumerated below, which were agreed to by the Central Contra Costa Transit Authority (the Authority), solely to assist you with respect to reviewing the State Transit Assistance (STA) and Transportation Development Act (TDA) funds allocated by the Metropolitan Transportation Commission (MTC), to review the cost of diesel fuel purchased by the Authority, and to review the California Public Employees' Retirement System (PERS) benefits paid by the Authority for the fiscal year ended June 30, 2018, and compare to the prior fiscal year ended June 30, 2017. Management is responsible for the Authority's accounting records. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and results are as follows:

1) Obtained the Authority's final amounts of TDA and STA funds received according to MTC for the fiscal years ended June 30, 2018 and 2017. Verified that the MTC allocation for fiscal year 2018 was not reduced from the allocation in 2017.

   *Results*: The 2018 MTC final TDA and STA allocation was not reduced from the prior year allocation. Refer to the attached schedule.

2) Obtained the cost of the diesel fuel purchased by the Authority for the fiscal years ended June 30, 2018 and 2017. Verified that the average cost of diesel fuel purchased in fiscal year 2018 did not increase by $500,000 over the prior fiscal year or $0.75 per gallon when compared to the average cost in fiscal year 2017.

   *Result*: The 2018 diesel fuel purchased by the Authority for the fiscal year ended June 30, 2018, did not increase by $500,000 over the prior year or $0.75 per gallon when compared to the average cost in fiscal year 2017. Refer to the attached schedule.

3) Obtained a schedule of the PERS benefits, other than Other Post Employment Benefits (OPEB), paid by the Authority for the fiscal years ended June 30, 2018 and 2017. Verified that the increase for fiscal year 2018 over fiscal year 2017 did not exceed $1,000,000.

   *Result*: The PERS benefits (other than OPEB) paid by the Authority for the fiscal year ended June 30, 2018, did not exceed $1,000,000. Refer to the attached schedule.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Authority's administrative and finance committee and management and is not intended to be, and should not be, used by anyone other than those specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
__________, 2018

DRAFT

| Criteria | Description of Criteria | Revenue | 2018 | 2017 | $ Change |
|---|---|---|---|---|---|
| (a) | Final amount of STA or TDA funds per MTC - must not be reduced from the prior year. | | | | |
| | | TDA 4.0 | $ 17,898,519 | $ 17,230,528 | |
| | | TDA 4.5 | 826,647 | 790,652 | |
| | Total TDA | | 18,725,166 | 18,021,180 | $ 703,986 |
| | | STA Pop-North/Small | 2,763,217 | 1,475,391 | |
| | | STA-Regl Paratransit | 441,938 | 235,968 | |
| | | STA Rev based | 567,667 | 441,617 | |
| | Total STA | | 3,772,822 | 2,152,976 | 1,619,846 |
| | Total STA and TDA | | $ 22,497,988 | $ 20,174,156 | $ 2,323,832 |
| (b) | Cost of diesel fuel purchased by the Authority (increase is not greater than $500,000 from prior year). This increase will occur if the average cost of diesel fuel purchased during fiscal year 2018 increased by $0.75 per gallon when compared to the average in fiscal year 2017. | | $ 1,354,462 | $ 1,104,108 | $ 250,354 |
| (c) | PERS benefits paid by the Authority, other than OPEB, did not increase by over $1,000,000 from the prior year. | | $ 1,548,185 | $ 1,522,798 | $ 25,387 |