

**EASTERN CONTRA COSTA
TRANSIT AUTHORITY**

**Independent Auditor's Report,
Financial Statements,
Supplemental Information, and
Single Audit Reports**

Years Ended June 30, 2009 and 2008

EASTERN CONTRA COSTA TRANSIT AUTHORITY
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

The Board of Directors,
Eastern Contra Costa Transit Authority
Antioch, California

We have audited the accompanying financial statements of the Eastern Contra Costa Transit Authority (Authority), also known as Tri Delta Transit, as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2009 and 2008 and the changes in its financial position and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2009, on our consideration of the Authority's internal control over financial reporting and 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 testing of internal control over financial reporting and compliance and the results of that testing and do not 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 Procedures* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information, listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

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



Clay, Millias & Co., LLP
December 14, 2009



TRI DELTA TRANSIT

EASTERN CONTRA COSTA TRANSIT AUTHORITY

801 Wilbur Avenue
Antioch • California 94509
925 • 754-6622
925 • 757-2530 FAX

Management's Discussion and Analysis

(MD&A)

FINANCIAL HIGHLIGHTS:

Management believes the financial position of the Eastern Contra Costa Transit Authority remains stable despite the unprecedented, worldwide economic downturn and the subsequent effects on the Authority's operations and available operating funds. The continuing strength of the Authority's financial position is a result of commitment to funding reserves and making necessary operational changes proportional to the changes in available funding.

Cash on hand increased significantly compared to prior years as a result of a \$1.4 million year-end cash infusion from the American Recovery and Reinvestment Act – commonly known as stimulus funds - of 2009 towards Preventive Maintenance.

Net Property, Plant and Equipment increased by 12%. The most significant factor in this increase was the replacement of eight revenue vehicles and the purchase of a 2.2 acre parcel of land using federal "earmarked" funds designated for this purpose. This parcel will be developed into the first of several park and ride lots in the area as part of a scheme to improve service as funding allows.

Year-end, total assets were \$21.7 million, which substantially exceeded liabilities of \$2.3 million. The resultant net assets at year-end were \$19.4 million.

The most significant change in the Authority's financial situation during FY 2009 was the redirection of State Transportation Assistance funds by the State to non-transit uses when struggling to balance the state budget. This raid on dedicated transit funding cut the Authority's non-operating revenues by \$1.5 million from budget in the second half of FY 09. The state has lost a lawsuit in this matter and been ordered to return the diverted transit funds in future years.

Fare revenues decreased by 4% over the previous fiscal year despite an increase in ridership of 4%. The drop in fare revenues despite the increased ridership is attributed to the introduction of fixed cost day passes concurrent with the elimination of transfer instruments.

Interest earnings were half of the prior year level due to significantly lower bank interest rates available on cash holdings combined with reduced levels of certificates of deposit during the year. The Authority utilized CDs to hold local, Measure C funds in reserve and, as that program expired, applied these cash reserves to demand responsive operations.

Operating expenses were 4% less than the prior fiscal year due to service reductions and other cost cutting measure implemented in response to the unforeseen reductions in state funding.

OVERVIEW OF THE FINANCIAL STATEMENTS:

The financial section of the annual report consists of four parts; the Report of Independent Auditors, Management's Discussion and analysis (this section), the Financial Statements, and required supplemental information.

The basic financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the Authority's assets and liabilities. The Authority follows the accrual method of accounting. Current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Net assets - the difference between the Authority's assets and liabilities - are a measure of the Authority's financial health or position.

The statement of revenues, expenses and changes in net assets provides a breakdown of the various areas of revenues and expenses encountered during the current year.

The statement of cash flows provides a breakdown of the various sources of cash flow, categorized into four areas: Cash flows from operating activities, noncapital financing activities, capital and related financing activities and investing activities

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE:

The Authority's total assets were \$21,728,806 on June 30, 2009. Total assets, total liabilities and total net assets are detailed in the financial statements. Summarized results are below:

***The Eastern Contra Costa Transit Authority
Summary Statement of Net Assets
As of June 30,***

	<u>2009</u>	<u>2008</u>
Current Assets	\$ 3,531,936	3,052,292
Restricted Investments	169,054	560,255
<u>Capital Assets</u>	<u>18,027,816</u>	<u>16,162,444</u>
Total Assets	\$21,728,806	19,774,991
Current Liabilities	\$ 2,356,510	1,527,266
<u>Long-Term Liabilities</u>	<u>0</u>	<u>0</u>
Total Liabilities	\$ 2,356,510	1,527,266
Net Assets		
Invested in capital assets, net of related debt	\$17,879,169	16,148,560
Restricted	169,054	1,169,925
<u>Unrestricted</u>	<u>1,324,073</u>	<u>929,240</u>
Total Net Assets	\$19,372,296	18,247,725

The Authority realized operating revenues of \$2,729,386 for the current year. When reduced by operating expenses of \$21,216,471 and supplemented with non-operating revenues of \$16,294,256, the Authority's income before capital contributions and Transportation Development Act (TDA) operating grant surplus resulted in a loss of \$2,192,829.

During fiscal year 2009, the Authority received capital contributions in the amount of \$3,680,872. The combination resulted in the Authority's net assets increasing by \$1,124,571. Details of the activity are in the financial statements presented earlier. Those statements are summarized on the following page.

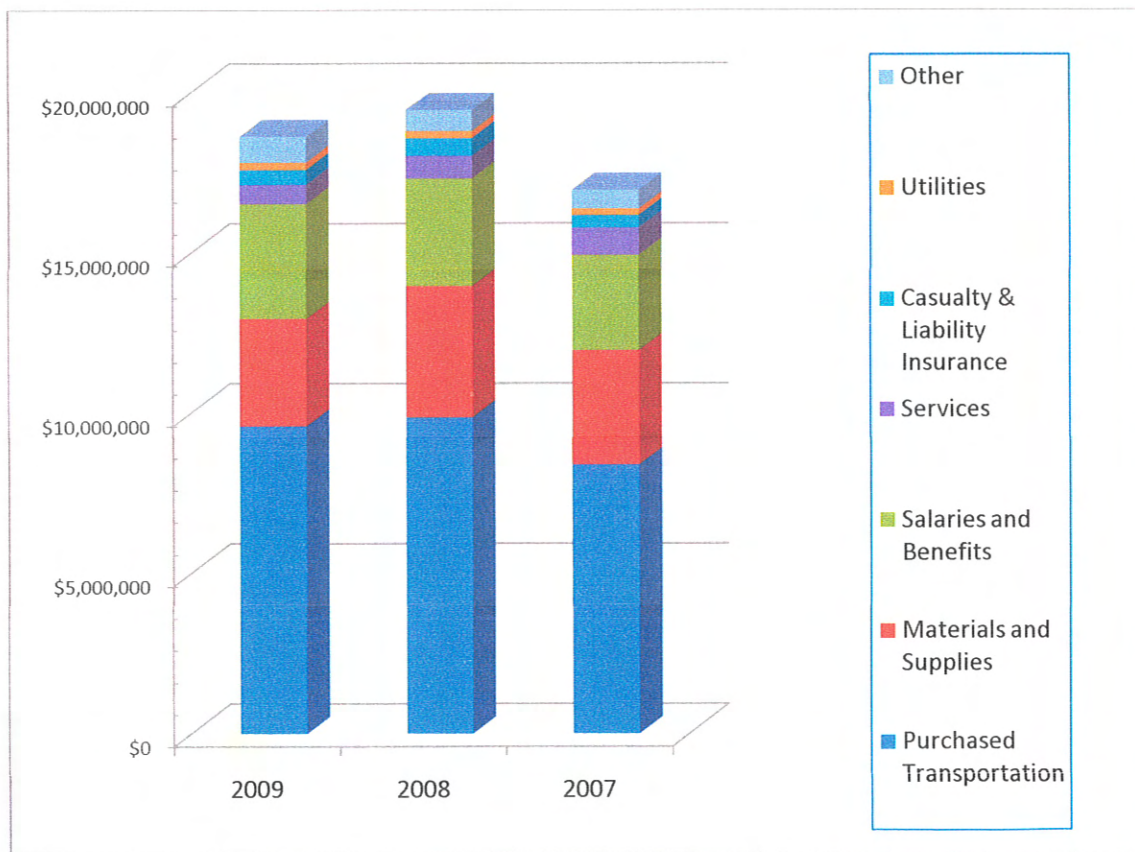
The Eastern Contra Costa Transit Authority
Summary Statement of Revenues, Expenses and Changes in Net Assets
As of June 30,

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Fares	\$ 2,535,780	2,627,756
<u>Other Operating Income</u>	<u>193,606</u>	<u>225,555</u>
Total Operating Revenues	2,729,386	2,853,311
Operating Expenses	\$18,650,256	19,479,465
<u>Depreciation expense</u>	<u>2,566,215</u>	<u>2,595,103</u>
Operating Income (Loss)	(\$18,487,085)	(19,221,258)
Non-operating Revenues (Expenses)		
Grants - Operating	\$16,281,340	16,445,172
Investment Income	68,497	133,193
<u>Other non-operating income</u>	<u>(55,581)</u>	<u>2,417</u>
Total Non-operating Revenues	\$16,294,256	16,580,782
Income (Loss) Before Contributions & TDA Surplus	(\$ 2,192,829)	(2,640,476)
Capital Contributions	3,680,872	1,094,563
<u>TDA Operating Deficit (Surplus)</u>	<u>(363,472)</u>	<u>68,708</u>
Increase (Decrease) in Net Assets	\$ 1,124,571	(1,477,205)
Net Assets, Beginning of year	\$ 18,247,725	19,724,930
Change in Net Assets	1,124,571	(1,477,205)
Net Assets, End of year	\$ 19,372,296	18,247,725

OVERALL ANALYSIS:

The Authority's overall financial position remains stable despite reductions in available non-operating revenue funds. Such funds were reduced in two ways: First, the state, in balancing its own budget redirected STA funds to non-transit uses taking \$1.5 million in FY 09 programmed funding from ECCTA. Second, as in the case of most public transit operators in California, the Authority depends heavily (58% of budgeted revenues) on funds generated from state and local consumption taxes (TDA, Measure C, Measure J). With the general economic malaise reducing retail and fuel sales, there is a proportional decrease in the sales tax generated funding sources for public transit.

In anticipation of funding reductions, the Authority made, and continues to make, reductions in its less productive services. Such reductions netted a savings in FY 09 for purchased transportation costs of \$330 thousand over the prior year.



Comparative Operating Costs

Reserves held in the Local Transportation Fund on ECCTA's behalf, were drawn upon during FY 09, with a commitment to replenish those reserves in the near future with fund replacements and cost reductions as necessary.

Reserves held in the Local Transportation Fund on ECCTA's behalf, were drawn upon during FY 09, with a commitment to replenish those reserves in the near future with fund replacements and cost reductions as necessary.

Ridership continued to grow in FY 09 at an annualized rate of 4%. But, as the Authority moves into FY 2010, that long term trend has reversed for the first time in ECCTA's history. There are several factors involved including reduced service, fare increases and lower gasoline prices.

Anticipating future fund reductions and flat or declining ridership until there is general economic improvement (more jobs) in the service area, ECCTA has adopted a multi-year approach to business that includes service and administrative staffing reductions, fare increases and variable cost containment. Capital expenditures reimbursed with local funds are deferred until reserves are rebuilt.

BUDGET VARIANCES:

The Authority's FY 09 budget was created during a more positive economic environment than what actually occurred. Fortunately, the Authority was able to make mid-course corrections during the fiscal year so excessive, unfavorable variances did not occur.

Service reductions allowed the Authority to reduce the operating expenses by 12% from the budgeted \$20,880,500 to \$18,650,256. Unfortunately, there was a corresponding reduction in fare revenues, advertising revenues were hit hard by the recession and operating funds came in at \$1,345,160 less than budgeted because of California's redirection of STA funds from transit uses. The net result was the Authority saving only \$373,385 net of non-capital revenues, and operating expenditures. This is a 2% overall improvement to the bottom line.

\$363,472 of this improvement creates excess TDA operating funds received for FY 09, thus this amount will be returned to the Authority's TDA reserve in the County's Local Transportation Fund for future use.

The Eastern Contra Costa Transit Authority

**Budget vs. Actual
Fiscal Year 2009**

	<u>2009A</u>	<u>2009B</u>	<u>Variance</u>	
Operating Revenues				
Fares	\$ 2,535,780	2,839,000	(303,220)	-12%
<u>Other Operating Income</u>	<u>193,606</u>	<u>245,000</u>	<u>(51,394)</u>	<u>-27%</u>
Total Operating Revenues	2,729,386	3,084,000	(354,614)	-13%
Operating Expenses	\$18,650,256	20,880,500	2,230,244	12%
<u>Depreciation expense</u>	<u>2,566,215</u>	<u>2,500,000</u>	<u>(66,215)</u>	<u>-3%</u>
Operating Income (Loss)	(\$18,487,085)	(20,296,500)	(1,809,415)	10%
Non-operating Revenues (Expenses)				
Grants - Operating	\$16,281,340	17,626,500	(1,345,160)	-8%
Investment Income	68,497	100,000	(31,503)	-45%
<u>Other non-operating income</u>	<u>(55,581)</u>	<u>70,000</u>	<u>(125,581)</u>	<u>-226%</u>
Total Non-operating Revenues	\$16,294,256	17,796,500	(1,502,244)	-9%
Income (Loss) Before Contributions & TDA Surplus	(\$ 2,192,829)	(2,500,000)	307,170	-14%
Capital Contributions	3,680,872	4,267,000	(586,128)	-16%
<u>TDA Operating Deficit (Surplus)</u>	<u>(363,472)</u>	<u>0</u>	<u>(636,471)</u>	<u>100%</u>
Increase (Decrease) in Net Assets	\$ 1,124,571	(1,767,000)	(642,429)	-57%
Net Assets, Beginning of year	\$ 18,247,725	18,247,725	0	0%
Change in Net Assets	1,124,571	1,767,000	642,429	57%
Net Assets, End of year	\$ 19,372,296	20,014,725	(642,429)	-3%
Passengers	2,822,380	3,018,000	(195,620)	-6%
Revenue Miles	3,091,902	3,390,000	(298,098)	-9%
Revenue Hours	210,601	276,400	(65,799)	-24%
\$/Passenger	\$6.61	\$6.92	0.31	4%
\$/Revenue Mile	\$6.03	\$6.16	0.13	2%
\$/Revenue Hour	\$88.56	\$75.54	(13.02)	-17%

(cost per unit excludes depreciation)

CAPITAL ASSET ACTIVITY:

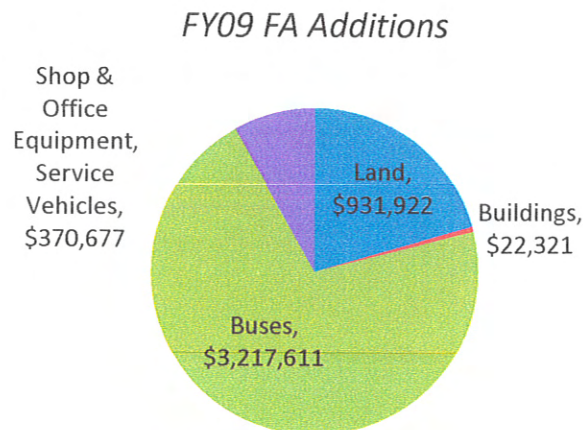
During the current year the Authority:

- Was awarded \$8,142,234 in new capital allocations available for reimbursement for various capital projects.
- Disbursed \$4,542,530 on capital projects in progress (the most significant being replacement of nine buses - \$3.2 million, and the acquisition of a parcel of land for development into a park and ride lot - \$1 million).
- Received \$3,680,872 in capital expenditure reimbursements.
- Disposed of nine obsolete buses
- Received a \$57 thousand bond refund from the facility expansion project.

The majority of capital funds that the Authority receives are from federal sources, particularly formula funds (FTA 5307).

In accordance with federal rules, the Authority applies a proactive maintenance philosophy to its capital assets. A facilities maintenance program has been developed and utilized to preserve the buildings and grounds that ECCTA occupies. Revenue vehicles are replaced using federal guidelines applicable to federal fund recipients.

ECCTA anticipates no issues for continued replacements of capital assets as they reach the end of their useful lives. However, due to funding restrictions and regional policies regarding the allocation of capital funds to Bay Area transit operators, capital acquisitions for expansion of existing scope or service are unlikely to be available for the foreseeable future.



OTHER POTENTIALLY SIGNIFICANT MATTERS

The authority has been actively pursuing cost reductions to maintain existing services and finding alternative sources of funding for both operations and capital expansion during this difficult economic period. ECCTA has been successful in controlling costs as exhibited in the year-to-year and current year-to-budget analysis provided earlier

The Authority has had success in securing project specific funds outside of the regional channels for capital development of a system of park and ride lots that can be used as multi-modal transfer points.

Despite these successes, until there is general economic recovery such that sales tax levels return to normal, the ability of the Authority to maintain existing service will be difficult due to limited funding and rising costs. And, service expansions are improbably if not impossible.

The more expensive-per-unit but mandated-by-law demand responsive service continues to grow as the dependent population in the Authority's service area grows placing additional demands on ECCTA resources.

The majority of the Authority's operating and capital funds, provided through federal, state and local programs, are controlled by a Regional Planning Organization, the Metropolitan Transportation Commission. The MTC is studying various ways to stabilize public transit business within the region. Given MTC's regional oversight of transit funding; the relative size of the Authority; and, the comparative populations of the Authority's service area to others in the region; any regional plans and programs implemented by the MTC could have a significant impact on the Authority. It would not be an overstatement to say that redirecting funds traditionally allocated to the Authority to alternative priorities by the MTC could be devastating to ECCTA as an organization.

CONTACTING THE AUTHORITY:

This financial report is designed to provide interested parties within the general public with an overview of the Authority's finances and to demonstrate the Authority's accountability for the public funds it receives. If you have any questions about this report or need additional financial information, contact:

ECCTA
801 Wilbur Avenue
Antioch, CA 94509
(925) 754-6622
www.trideltatransit.com

EASTERN CONTRA COSTA TRANSIT AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Unrestricted assets:		
Cash and investments	\$ 2,498,112	\$ 1,931,853
FTA revenue receivable	-	44,803
Grant revenue receivable	249,955	224,214
Other receivables	95,628	126,682
Maintenance inventories and supplies- cost	688,241	724,740
Total unrestricted net assets	<u>3,531,936</u>	<u>3,052,292</u>
Restricted assets:		
Measure C reserves	169,054	560,255
Total current assets	<u>3,700,990</u>	<u>3,612,547</u>
NONCURRENT ASSETS:		
Capital assets not being depreciated	1,902,808	970,886
Capital assets being depreciated, net	16,125,008	15,191,558
Total Noncurrent Assets	<u>18,027,816</u>	<u>16,162,444</u>
TOTAL ASSETS	<u>\$ 21,728,806</u>	<u>\$ 19,774,991</u>
<u>LIABILITIES:</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,199,315	\$ 828,410
TDA payable	363,472	-
Compensated absences	774,499	664,654
Other payables	19,224	34,202
Total current liabilities	<u>2,356,510</u>	<u>1,527,266</u>
NET ASSETS:		
Capital invested	17,879,169	16,148,560
Restricted for capital-Measure C	169,054	560,255
Restricted for capital-PTMISEA	-	609,670
Unrestricted	1,324,073	929,240
Total Net Assets	<u>19,372,296</u>	<u>18,247,725</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,728,806</u>	<u>\$ 19,774,991</u>

See accompanying notes to financial statements.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 JUNE 30, 2009 AND 2008

	2009	2008
OPERATING REVENUES:		
Passenger fares	\$ 2,535,780	\$ 2,627,756
Other operating income	193,606	225,555
Total Operating Revenues	<u>2,729,386</u>	<u>2,853,311</u>
OPERATING EXPENSES:		
Purchased transportation	9,608,614	9,877,618
Materials and supplies	3,355,838	4,098,627
Salaries and benefits	3,578,125	3,359,193
Services	607,711	710,963
Casualty and liability insurance	458,071	548,547
Utilities	233,625	220,888
Other	808,272	663,630
Depreciation	2,566,215	2,595,103
Total Operating expenses	<u>21,216,471</u>	<u>22,074,569</u>
OPERATING LOSS	(18,487,085)	(19,221,258)
NONOPERATING REVENUES:		
Federal grant revenues	1,550,786	-
TDA grant revenues	11,328,554	10,055,289
STA grant revenues	2,068,887	4,954,214
Measure C grant revenues	801,279	903,834
RM2 grant revenues	531,834	531,835
Other income (loss)	(55,581)	2,417
Interest income-Measure C	9,913	23,334
Interest income	58,584	109,859
Total Nonoperating Revenues	<u>16,294,256</u>	<u>16,580,782</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TDA OPERATING GRANT DEFICIT (SURPLUS)	(2,192,829)	(2,640,476)
CAPITAL CONTRIBUTIONS	3,680,872	1,094,563
TDA OPERATING GRANT DEFICIT (SURPLUS)	<u>(363,472)</u>	<u>68,708</u>
INCREASE (DECREASE) IN NET ASSETS	1,124,571	(1,477,205)
NET ASSETS, Beginning of year	<u>18,247,725</u>	<u>19,724,930</u>
NET ASSETS, End of year	<u>\$ 19,372,296</u>	<u>\$ 18,247,725</u>

See accompanying notes to financial statements.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
JUNE 30, 2009 AND 2008

<u>STATEMENT OF CASH FLOWS</u>	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passenger fares	\$ 2,566,834	\$ 2,589,551
Cash received from operations- other	193,606	225,555
Cash payments for purchased transportation	(9,533,954)	(9,766,646)
Cash payments to employees for services	(4,113,387)	(3,886,691)
Cash payments to suppliers for goods and services	(4,828,153)	(5,694,545)
Net cash used in operations	<u>(15,715,054)</u>	<u>(16,532,776)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants	14,730,554	16,576,166
FTA - used for operating	1,550,786	-
Operating- other	64,100	2,417
Net cash provided (used in) financing activities	<u>16,345,440</u>	<u>16,578,583</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions received	4,913,120	930,939
FTA - used for operating	(1,550,786)	-
Grants receivable/payable	394,010	(93,635)
Measure C Reserves	391,201	137,377
Purchase of capital assets	(4,280,169)	(501,336)
Net cash provided (used in) capital and related financing activities	<u>(132,624)</u>	<u>473,345</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income received	<u>68,497</u>	<u>133,193</u>
Net Cash Provided by (used in) Investing Activities	<u>68,497</u>	<u>133,193</u>
NET INCREASE (DECREASE) IN CASH EQUIVALENTS	566,259	652,345
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,931,853</u>	<u>1,279,508</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 2,498,112</u>	<u>\$ 1,931,853</u>

See accompanying notes to financial statements

EASTERN CONTRA COSTA TRANSIT AUTHORITY
 STATEMENTS OF CASH FLOWS
 JUNE 30, 2009 AND 2008

<u>STATEMENT OF CASH FLOWS</u>	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$(18,487,085)	\$(19,221,258)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,566,215	2,595,103
Effect of changes in:		
Other receivables	2,607	(38,205)
Maintenance inventories and supplies	-	-
Accounts payable	108,342	(51,883)
Accrued liabilities	(14,978)	30,165
Accrued compensated absences	109,845	153,302
	<u>109,845</u>	<u>153,302</u>
Net cash used in operating activities	<u>\$(15,715,054)</u>	<u>\$(16,532,776)</u>

See accompanying notes to financial statements

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008**

1. ORGANIZATION

The Eastern Contra Costa Transit Authority (Authority), also known as Tri Delta Transit, was created August 3, 1976 under a joint exercise of powers agreement between the cities of Antioch, Pittsburg and Brentwood, and within the unincorporated area of Eastern Contra Costa County for the purpose of meeting the public transportation needs in Eastern Contra Costa County. The Authority is governed by a board of Directors composed of representatives of the member jurisdictions. The joint exercise of powers agreement was amended on April 26, 2000 to include the city of Oakley.

2. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity- The Authority's reporting entity includes all activities of the Authority.

Enterprise Fund - The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public be financed or recovered primarily through user charges.

Basis of accounting - The financial activities of the Authority are accounted for under the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

Cash Equivalents- The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents (see note 3).

Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (see Note 3).

Temporarily Restricted Assets- consists of monies and other resources which are legally restricted (see Notes 8 & 9).

Capital Assets- Major additions and replacements are capitalized. Maintenance, repairs and additions of a minor nature are expensed as incurred. The cost of acquisition and construction of equipment and facilities are recorded in construction in progress until such assets are completed and placed into service, at which time the Authority commences recording depreciation expense.

Depreciation- is calculated on the straight-line method over the following estimated useful lives:

Building and structures	30 years
Transit vehicles	6 -14 years
Shop, office & other equipment & service vehicle	5-10 years

Contracted services - The Authority has contracted with First Transit, Inc., a private transit firm, to provide transportation management and operations services on behalf of the Authority through the year ending June 30, 2011. The costs associated with this contract are recorded as purchased transportation.

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008**

2. SIGNIFICANT ACCOUNTING POLICIES-continued

Insurance- The Authority is insured for premises and operational bodily injury and property damage up to a limit of \$12,100,000. In addition, First Transit, Inc., as per contract (see contracted services above), provides general liability insurance with primary coverage of \$20,000,000.

Operating assistance grants- are recorded as revenue when earned.

Capital contributions- The Authority has grant contracts with the U.S. Department of Transportation through the Federal Transit Administration for certain capital improvements. Federal Transit Administration funds are used to replace and improve the Authority's buses and transit facilities. The Authority also has contracts with the Transportation Development Act of 1971 (TDA) and State Transit Assistance (STA) funds, which are used to match Federal Transit Administration grants or to fund transit improvement projects. Capital funding provided under government grants is considered earned as the allowable expenditures are incurred.

Grants for property and equipment acquisition and facility development and rehabilitation are reported in the statement of revenues, expenses and changes in net assets, after nonoperating revenues and expenses as capital contributions.

Operating revenues and expenses – consists of those revenues that result from ongoing principal operations of the Authority. Operating revenues consists primarily of transit fares. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions.

Net Assets – comprise the various net earnings from operating income, nonoperating revenues, expenses and capital contributions. Net assets are classified in the following three components:

Capital invested – This component of net assets consists of capital assets, net of accumulated depreciation.

Restricted – This component of net assets consists of external constraints imposed by creditor's, grantor's, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restrict the use of net assets.

Unrestricted – this component of net assets consists of net assets that do not meet the definition of "restricted" or "invested capital".

Compensated absences – Accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue to employees.

Retirement plans – The Authority offers two plans to its employees (Note 10).

Measure C grants for operations and for projects funded through the Bus Transit and Coordination Program are recorded as revenue and contributed capital, respectively, as received.

TDA Receivable - represents the deficit of TDA operations grants received by the Authority over the allowed expenditures. Any deficit amounts are payable to the Authority (see Note 5).

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008**

2. SIGNIFICANT ACCOUNTING POLICIES-continued

TDA Payable – represents the surplus of TDA operations grants received by the Authority over the allowed expenditures. Such surpluses must be returned to (see Note 5).

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

Reclassification - The June 30, 2008 financial statements have been reclassified to conform to the June 30, 2009 financial statements presentation.

3. CASH AND INVESTMENTS

At June 30, 2009 and 2008, the Authority's carrying value of cash time and demand deposits was \$2,498,112 and \$1,931,853 respectively with corresponding bank balances of \$4,308,883 and \$3,203,333 respectively. Statutes authorize the Authority to invest in various instruments including, but not limited to, obligations of the U. S. Treasury, Certificates of Deposit, Bankers Acceptances, Repurchase Agreements, and the State Treasurer's Pool. The Authority's investments, carried at cost, at June 30, 2009 of \$169,054 (which consist entirely of Measure C ParaTransit cash reserves invested in the Bank of Agriculture and Commerce and collateralized with securities by the pledging financial institution's agent in the Authority's name).

Custodial credit risk- is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The California Government Code requires California banks and savings and loans associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the Authority's deposits.

4. RESTRICTED INVESTMENTS

The Contra Costa Measure C- ParaTransit Reserve Funds (which includes interest) referred to in note 3 above is maintained per the Contra Costa Transit Authority (CCTA) Cooperative Agreement between the Authority and CCTA. The CCTA agreement requires that the Authority maintains a separate account for Measure C Funds and, the funds (principal and interest) are to be used for approved para-transit expenditures. At June 30, 2009 and 2008, the Authority's balance in the Measure C funds was \$169,054 and \$560,255 respectively.

5. OPERATING ASSISTANCE

The Authority receives allocations of local transportation funds pursuant to the Transportation Development Act of 1971 and State Transit Assistance (STA) funds. These funds are generated within Contra Costa County and are allocated based on annual claims filed by the Authority and approved by MTC. Generally, the maximum annual TDA assistance the Authority can receive is limited to its actual operating costs (excluding depreciation) less fare revenues received and other local operating assistance (including interest income). For the years ended June 30, 2009 and 2008, the maximum TDA operating assistance eligibility was \$10,965,083 and \$10,123,995 respectively. During the year June 30, 2009 the TDA operating funds received were \$11,328,554 resulting in a surplus of 363,472 (see Note 11).

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008**

5. OPERATING ASSISTANCE-continued

Operating assistance for the years ended June 30, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Federal Transit Administration	\$ 1,550,786	\$ -
Transportation Development Act	11,328,554	10,055,289
State Transit Assistance	2,068,887	4,954,214
Measure C	801,279	903,834
RM2 Funds	531,834	531,835
Total	<u>\$ 16,281,340</u>	<u>\$ 16,445,172</u>

6. CAPITAL GRANTS

The Authority has received grants from the Federal Transit Administration (FTA) for the purchase of buses, facility improvements, and supporting equipment. The Authority also receives grants of local transportation funds pursuant to the Transportation Development Act (TDA) of 1971, primarily for: the acquisition of buses and support equipment, purchase of furniture and fixtures, and other equipment.

Expenditures of capital grant funds are allocated based on annual claims filed by the Authority and approved by the MTC. The authority's management believes that the remaining grants available will be approved in full. These grants (excluding Measure C), less the related amortization, are included in contributed capital.

The Authority's capital contributions for the years ended June 30, 2009 and 2008 are as follows:

Capital contributions in June 30, 2008

U.S. Department of Transportation	\$ 258,724
TDA Development Act	59,957
Other	775,882
Total capital contributions	<u>\$ 1,094,563</u>

Capital contributions in June 30, 2009

U.S. Department of Transportation	\$ 4,421,353
TDA Development Act	438,549
Other	371,756
Total capital contributions	<u>\$ 5,231,658</u>

Less: U.S. Department of Transportation

Funds used for operating costs	<u>(1,550,786)</u>
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Total	<u>\$ 3,680,872</u>
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**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008**

7. CAPITAL ASSETS

Capital assets of the Authority at June 30, 2009, consist of the following:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Land	\$ 970,886	\$ 931,922		\$ 1,902,808
Building & improvements	12,021,202	22,320	(57,000)	11,986,522
Transit vehicles	22,519,011	3,217,611	(83,325)	25,653,297
Equipment/service vehicles	3,656,740	370,677	-	4,027,417
Total asset cost	<u>39,167,839</u>	<u>4,542,530</u>	<u>(140,325)</u>	<u>43,570,044</u>
Less: Accumulated depreciation				
Buildings & Improvements	4,292,998	187,720	-	4,480,718
Transit Vehicles	16,072,924	1,962,364	(20,832)	18,014,456
Equipment	2,639,473	416,131	(8,550)	3,047,054
	<u>23,005,395</u>	<u>2,566,215</u>	<u>(29,382)</u>	<u>25,542,228</u>
Net capital assets	<u>\$ 16,162,444</u>	<u>\$ 1,976,315</u>	<u>\$ (110,943)</u>	<u>\$ 18,027,816</u>

8. MEASURE C FUNDS - GRANTS

The Authority has entered into a cooperative agreement with the Contra Costa Transportation Authority pursuant to the Contra Costa County Measure C for improvement of bus transit in Contra Costa County through the Bus Transit Improvement and Coordination Program for the improvement of para-transit service through the Elderly and Handicapped Transit Service Program.

The Authority is to apply funds received under the agreement, and interest accrued thereof, for projects and operations specified by the Contra Costa Transportation Authority and to refund any unexpended funds. The operating grant funds received for FY 09 and FY 08 amounted to \$801,279 and \$903,834 respectively. In addition, \$391,200 of Measure C reserves were used for operating costs for FY2009. The total amount of Measure C reserve funds remaining at June 30, 2009 were \$169,054.

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008**

**9. PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE
ENHANCEMENT ACCOUNT**

The Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA) is one of the programs included in Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act, passed by voters in November 2006. During the fiscal year ended June 30, 2008, the Authority applied for and received \$607,111 for the procurement of eight CARB compliant diesel buses. The funds were not used during the year ended June 30, 2008 and were reported as temporarily restricted assets. The funds were expended during the year ended June 30, 2009 as follows:

Proceeds received:	
PMISEA - FYE 2008	\$ 607,111
Interest earned FYE 2008	<u>2,559</u>
Unexpended funds at June 30, 2008	609,670
Interest earned FYE 2009	6,282
Expenditures incurred:	
Bus purchase FYE 2009	<u>(615,952)</u>
Unexpended funds at June 30, 2009	<u><u>\$ -</u></u>

10. EMPLOYEES' RETIREMENT PLAN

The Authority offers two plans, a 401(a) and a 457(b) plan. The plans are optional. However, in order to participate in the 401(a) plan full-time eligible employees must contribute a minimum of 4% up to a maximum 25% of their eligible compensation subject to certain limitations in the 457(b) plan. The Authority will make contributions ranging from 12% - 15% based upon the employee's years of services provided that the employee participates in the 457(b) plan at the 4%.

11. TDA RECEIVABLE/PAYABLE

For the years ended June 2009 and 2008 the maximum TDA operating assistance eligible was \$10,965,083 and \$10,123,995 respectively. The actual TDA operating funds received for the years ended June 2009 and 2008 were \$11,328,554 and \$10,055,289 respectively. The TDA (Receivable) and Payable at the years ended June 2009 and 2008 were \$(363,471) and \$68,706 respectively and are arrived at as follows:

	<u>2009</u>	<u>2008</u>
TDA operating assistance allowable	\$ 10,965,082	\$ 10,123,997
Actual TDA operating assistance received	<u>(11,328,554)</u>	<u>(10,055,289)</u>
(Payable) Receivable	<u><u>\$ (363,472)</u></u>	<u><u>\$ 68,708</u></u>

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008**

12. COMPENSATED ABSENCES

Full-time permanent employees are granted vacation benefits in varying amounts to specified maximums, depending on the tenure with the Authority. Sick leave accrues to full-time, permanent employees to specified maximums after six months of service. A full-time employee who has been employed by the Authority for a at least twenty years and is fifty-nine years old when retiring, may sell accumulated paid sick hours to the Authority, at their current rate of pay.

The estimated current portion of the liability for vested vacation and sick leave benefits are recorded as expenditure and corresponding liability.

13. POST EMPLOYMENT HEALTH CARE BENEFITS

The Authority provides post-employment health care benefits to certain employees. The Authority recognizes the expenses for such cost on a when paid basis. The benefits are provided to all employees who retire from the Authority on or after attaining age 62 with at least 10 years of service. The Authority will pay 100% of the current Kaiser premium rate for a full-time employee toward any medical plan selected by the qualifying former employee. The benefit will continue until the retired employee reaches the age to qualify for Medicare. There were no postretirement health care benefits paid during the 2009 and 2008 year.

As of June 30, 2009, the Authority had projected the post health care benefit costs would begin in the year ending June 30, 2014.

14. CONCENTRATIONS

The authority receives a substantial amount of its support from a statewide retail sales tax form the Local Transportation Fund and State Transit Assistance Fund created by the TDA. A significant reduction in the level of this support, if this was to occur, may have a significant effect on the operations of the Authority.

15. CONTINGENCIES

The Authority receives funding from the Federal Transit Administration that is subject to review and audit. Such audits could result in a request for reimbursement for expenses disallowed under the terms and conditions of the contracts. It is the opinion of management that no material liabilities will result from such potential audits.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH THE STATUTES, RULES, AND REGULATIONS OF THE CALIFORNIA TRANSPORTATION DEVELOPMENT ACT AND THE ALLOCATION INSTRUCTIONS AND RESOLUTIONS OF THE TRANSPORTATION COMMISSION

The Board of Directors,
Eastern Contra Costa Transit Authority:

We have audited the financial statements of the Eastern Contra Costa Transit Authority (the Authority) as of June 30, 2009 and have issued our report thereon dated December 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 Transportation Development Act and the allocation instructions and resolutions of the Metropolitan Transportation Commission required by section 6667 of the TDA Act. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Based on the results of our tests, with respect to the items tested, the Authority complied in all material respects, with the provisions referred to above. With respect to items not tested, nothing came to our attention that caused us to believe that the Authority had not complied, in all material respects, with those provisions

Also, as part of our audit, we performed tests of compliance to determine whether certain state funds were received and expended in accordance with the applicable bond act and state accounting requirements. The Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA) is one of the programs included in Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act, passed by voters in November 2006.

During the fiscal year ended June 30, 2008, the Authority applied for and received \$607,111 for the procurement of eight CARB compliant diesel buses. As of June 30, 2009 the PTMISEA funds received in FYE 2008 and expended in FYE2009 were verified in the course of our audit as follows:

Proceeds received:	
PMISEA - FYE 2008	\$ 607,111
Interest earned FYE 2008	<u>2,559</u>
Unexpended funds at June 30, 2008	609,670
Interest earned FYE 2009	6,282
Expenditures incurred:	
Bus purchase FYE 2009	<u>(615,952)</u>
Unexpended funds at June 30, 2009	<u><u>\$ -</u></u>

This report is intended for the information of the Board of Directors, Authority management and officials of the applicable grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Clay, Millias & Co., LLP
December 14, 2009

EASTERN CONTRA COSTA TRANSIT AUTHORITY
SCHEDULE OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

Federal Grantor/pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Ident. Number	Federal Expenditures
U.S. Department of Transportation:			
Project # CA-90-Y664	20.507	n/a	\$ 3,651,004
Project # CA-90-Y377	20.507	n/a	28,372
Project # CA-04-0076	20.507	n/a	159,453
Project # CA-03-0797	20.507	n/a	582,524
Total			<u>\$ 4,421,353</u>

NOTE A- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Eastern Contra Costa Transportation Authority, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented may differ from amounts presented, or used in the preparation of, the basic financial statements.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
Schedule of Findings And Questioned Costs
June 30, 2009

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Eastern Contra Costa Transit Authority.
2. No material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Eastern Contra Costa Transit Authority, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal programs for the Eastern Contra Costa Transit Authority expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested included the Federal Transit Capital Grants CFDA# 20.507.
8. The threshold used for distinguishing between Type A and B Programs was \$300,000.
9. Eastern Contra Costa Transit Authority qualified as a low-risk auditee.

FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENTS

NONE

MAJOR FEDERAL AWARDS PROGRAMS AUDIT

NONE

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

NONE

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

The Board of Directors,
Eastern Contra Costa Transit Authority
Antioch, California

We have audited the financial statements of the Eastern Contra Costa Transit Authority (Authority), as of and for the year ended June 30, 2009, and have issued our report thereon dated December 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated December 14, 2009.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clay Millias & Co. LLP

Clay, Millias & Co., LLP

December 14, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors,
Eastern Contra Costa Transit Authority
Antioch, California

Compliance

We have audited the compliance of the Eastern Contra Costa Transit Authority (Authority), with the types of requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Authority's major federal programs are identified in the summary of auditor's results of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, Eastern Contra Costa Transit Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Authority's is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered of the Authority's internal control over compliance with requirements that could have a direct material effect on a major federal program in order to determine our auditing procedures 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 control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the audit committee, management, Metropolitan Transportation Commission, State Controller of California, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clay Millias & Co. LLP

Clay, Millias & Co., LLP

December 14, 2009