



# TRI DELTA TRANSIT

Eastern Contra Costa Transit Authority  
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## APPENDIX A

### Agenda Item 7c

### FY20-21 Independent Auditor's Report

- Basic Financial Statements
  - Single Audit Report
- Reports to the Board of Directors

Board of Directors Meeting

Wednesday December 15, 2021

**EASTERN CONTRA COSTA TRANSIT AUTHORITY  
ANTIOCH, CALIFORNIA**

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

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2021  
WITH COMPARATIVE TOTALS**

**EASTERN CONTRA COSTA TRANSIT AUTHORITY**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2021**  
**WITH COMPARATIVE TOTALS**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Eastern Contra Costa Transit Authority  
Antioch, California

### Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the Eastern Contra Costa Transit Authority (the Authority), as of and for the fiscal year ended June 30, 2021, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic 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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic financial statements.

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

## Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2021, 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.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of changes in the net other postemployment benefits (OPEB) liability and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (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 schedule of changes in the net OPEB liability and related ratios 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.

### *Report on Summarized Comparative Information*

We have previously audited the Authority's June 30, 2020, basic financial statements, and our report dated January 20, 2021, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2020, is consistent in all material respects, with the audited basic financial statements from which it has been derived.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2021, 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

*Brown Armstrong*  
*Accountancy Corporation*

Stockton, California  
December 7, 2021

**EASTERN CONTRA COSTA TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**Introduction**

This discussion and analysis of the Eastern Contra Costa Transit Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for Fiscal Year 2021 (FY21) including comparisons to the prior year. This information should be considered in conjunction with the statements and notes contained in the Financial Section.

**Overview of the Financial Statements**

The Financial Section of this report presents the Authority's financial statements including the basic financial statements and the notes to those financial statements. It also includes the Independent Auditor's Report on those financial statements as well as certain grant activities.

**Basic Financial Statements**

The *Statement of Net Position* presents information about the assets and liabilities, and the difference between them as *net position*. The change in net position over time can indicate whether the Authority's financial position is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Position* indicates how net position has changed during the fiscal year as well as compares operating revenues and operating expenses between the current and prior fiscal year. The operating revenues and expenses shown here are the financial activities related to the Authority's mission of providing public transportation services in Eastern Contra Costa County. The revenues and expenses reported include fares and advertising revenues along with the cost of passenger services, administration and operation of those services, and the depreciation of capital assets. All other revenues and expenses not included within these categories are reported as non-operating revenues and expenses.

The *Statement of Cash Flows* reports the inflow and outflow of cash at the Authority. Such activity is classified into three major components:

- *Cash flows from operating activities* include transactions reported as components of operating income in the statement of revenues, expenses, and changes in net position.
- *Cash flows from noncapital financing activities* include operating grant funding received as well as operating payments from third parties and non-operating items.
- *Cash flows from capital and related financing activities* come from the procurement of capital assets and the proceeds of capital grants.

**Notes to the Basic Financial Statements**

The Notes to Basic Financial Statements immediately following are intended to provide additional information that is essential for the reader to gain a full understanding of the information provided within the financial statements.

**Analysis of the Authority's Overall Financial Position**  
As of June 30, 2021 and 2020 (in thousands)

	2021	2020	2021 to 2020	
			Increase/Decrease Amount	%
Current assets	\$ 10,895	\$ 6,641	\$ 4,254	64.06%
Noncurrent assets	28,529	29,719	(1,190)	-4.00%
<b>Total assets</b>	<b>\$ 39,424</b>	<b>\$ 36,360</b>	<b>\$ 3,064</b>	<b>8.43%</b>
Current liabilities	\$ 8,700	\$ 4,983	\$ 3,717	74.59%
Noncurrent liabilities	1,116	1,243	(127)	-10.22%
<b>Total liabilities</b>	<b>9,816</b>	<b>6,226</b>	<b>3,590</b>	<b>57.66%</b>
<b>Net position</b>	<b>\$ 29,608</b>	<b>\$ 30,134</b>	<b>\$ (526)</b>	<b>-1.75%</b>

The COVID-19 Pandemic continued to affect the Authority throughout FY21. For the first half of the fiscal year, the Authority did not collect any fares and COVID-19 related costs remained high. This was offset by Federal relief funding, which is why there was a significant increase in current assets. This also accounts for the significant increase in current liabilities because it left the Authority with excess Transportation Development Act (TDA) funding as a payable. Current liabilities also increased because Low Carbon Transit Operation Program (LCTOP) funding was reclassified to Grant Advances.

The 1.75% decrease in the Authority's net position in FY21 is due to the items described above.

The 10% decrease in noncurrent liabilities is due to a reduction in the Authority's net other postemployment benefit (OPEB) liability and payments made on the Authority's payable.

Capital Activity

The Authority expended less than \$3 million of available capital funds during FY21.

Revenue Vehicles	\$ 1,005,594
Facilities and Equipment	1,260,630
Field Amenities and Fixtures	147,484
Architectural and Engineering for Park and Ride Lot	234,129
	<u>\$ 2,647,837</u>

Revenue vehicles remain the major component of the Authority's net capital assets and will do so going forward. Facilities expenditures are higher than usual due to the construction of the Oakley Park and Ride lot which will continue into FY22.

Operating Activity

**Comparison to Budget**  
As of June 30, 2021 (in thousands)

	<u>FY21 Actual</u>	<u>FY21 Budget</u>	<u>Variance</u>
Operating Revenues	\$ 1,056	\$ 2,334	\$ (1,278)
Operating Expenses, Excluding Depreciation	23,491	28,203	(4,712)
Nonoperating Revenues	22,434	25,869	(3,435)

**Prior Year Comparison**  
As of June 30, 2021 and 2020 (in thousands)

	<u>FY21 Actual</u>	<u>FY20 Actual</u>	<u>Variance</u>
Operating Revenues	\$ 1,056	\$ 2,069	\$ (1,013)
Operating Expenses, Excluding Depreciation	23,491	23,031	460
Nonoperating Revenues	22,434	21,142	1,292

During FY21, the Authority budgeted for 285 thousand billable service hours and actually provided 191 thousand billable hours of service through an operations contractor. The budget was created under the assumption that service would return to normal following the COVID-19 Pandemic. Instead, the restrictions continued and the Authority operated reduced levels of service throughout the year and only collected fares for half of the fiscal year.

While the Authority anticipated providing 2.3 million passenger trips in FY21, the actual number of passenger trips at 860 thousand fell short of plan. The shortfall was a direct result of over a 50% drop in fixed route and paratransit passengers from pre-pandemic levels. While declining ridership has been an industry wide trend for several years, the significant decrease caused by the shelter-in-place orders set forth in March 2020 due to the coronavirus pandemic continue.

While service was reduced due to a huge decrease in ridership and demand, operating expenses remained normal because of a Guarantee Pay established to avoid layoffs and to maintain the operators once normal service is restored.

Otherwise, there were no other material cost overages in any expense line item during FY21.



KEY PERFORMANCE INDICATORS BY SERVICE PARATRANSIT					
	Budget		ANNUAL COMPARISON		
	June 30, 2021	% Change	Actual June 30, 2020	Actual June 30, 2021	% Change
<b>PASSENGERS</b>					
Total DAR Trips Provided	240,000	38.8%	172,878	105,559	-38.9%
Average Weekday Ridership	893	44.0%	620	369	-40.5%
Average Sat Ridership	185	-7.5%	200	173	-13.5%
Average Sun/Hol Ridership	114	5.6%	108	70	-35.2%
Average Passengers/Hour (weekdays regular paratransit only)	2.8	12.0%	2.5	1.7	-32.0%
<b>CUSTOMER SERVICE</b>					
Ride Refusals/Day	-	0.0%	-	-	0.0%
Customer Complaints	0.300%	63.9%	0.183%	0.110%	-39.9%
On Time Performance	90%	4.7%	86%	97%	12.8%
<b>MAINTENANCE</b>					
Gallons of Fuel Consumed	14,000	-89.2%	129,220	99,246	-23.2%
Miles Between Preventable Accidents	200,000	49.8%	133,545	368,400	175.9%
Miles Between Road Calls	100,000	-89.3%	934,920	123,178	-86.8%
<b>COST RATIOS</b>					
Farebox Recovery Ratio	6.03%	-39.7%	10%	9%	-9.6%
\$/Gal Fuel	\$ 2.00	-35.3%	\$ 3.09	\$ 3.28	6.1%
Operating Cost/Passenger	\$ 26.81	-6.3%	\$ 28.62	\$ 45.82	60.1%
Operating Cost/Revenue Hour	\$ 75.27	-3.3%	\$ 77.84	\$ 98.27	26.2%
Operating Cost/Revenue Mile	\$ 5.39	3.9%	\$ 5.19	\$ 6.82	31.4%

KEY PERFORMANCE INDICATORS BY SERVICE FIXED ROUTE					
	Budget		ANNUAL COMPARISON		
	June 30, 2021	% Change	Actual June 30, 2020	Actual June 30, 2021	% Change
<b>PASSENGERS</b>					
Total FR Trips Provided	2,060,000	49.5%	1,377,647	752,676	-45.4%
Average Weekday Ridership	7,251	50.9%	4,806	2,462	-48.8%
Average Sat Ridership	2,377	43.4%	1,658	1,301	-21.5%
Average Sun/Hol Ridership	1,962	45.3%	1,350	1,106	-18.1%
Average Passengers/Hour	10.3	10.8%	9.3	6.2	-33.3%
<b>CUSTOMER SERVICE</b>					
Customer Complaints	0.300%	757.1%	0.035%	0.040%	14.3%
On Time Performance	85%	-1.2%	86%	89%	3.5%
<b>MAINTENANCE</b>					
Gallons of Fuel Consumed	540,000	3.6%	521,476	445,270	-14.6%
Miles Between Preventable Accidents	100,000	13.3%	88,271	102,538	16.2%
Miles Between Road Calls	50,000	55.2%	32,207	43,298	34.4%
<b>COST RATIOS</b>					
Farebox Recovery Ratio	8%	7.3%	7%	2%	-78.6%
\$/Gal Fuel	\$ 3.00	-7.4%	\$ 3.24	\$ 2.34	-27.8%
Operating Cost/Passenger	\$ 10.57	-21.4%	\$ 13.45	\$ 24.84	84.7%
Operating Cost/Revenue Hour	\$ 109.11	-12.6%	\$ 124.85	\$ 154.76	24.0%
Operating Cost/Revenue Mile	\$ 9.28	-6.2%	\$ 9.89	\$ 12.18	23.2%

### Economic Factors and Next Year's Budget and Rates

The continued uncertainty surrounding the duration of the coronavirus pandemic remains a concern for the Authority. Fare revenues and funding from state and local non-operating revenues continue to be less than expected while operating expenses are increasing.

Rising costs are always problematic when they do not coincide with increased revenues or levels of service. The rapidly rising costs of employee benefits such as health care, the provision of adequate retirement programs, and worker's compensation are one of those costs. This affects not only Authority employees, but the employees of the purchased transportation contract provider as well because it impacts the amounts the Authority must pay for those contracts. The contractor's fixed and variable hourly rate increases each year.

### **Requests for Information**

This financial report was created to provide citizens, taxpayers, as well as the Authority's customers and creditors with a general overview of the Authority's finances. It is designed to demonstrate agency accountability for appropriate use of public funds that the Authority receives. Any questions or requests for additional information can be made to:

The Eastern Contra Costa Transit Authority  
Attn: Chief Financial Officer  
801 Wilbur Avenue  
Antioch, CA 94590  
(925) 754-6622  
[comment@eccta.org](mailto:comment@eccta.org)

Copies of this report are available online: <http://www.trideltatransit.com/public.aspx>.

## **BASIC FINANCIAL STATEMENTS**

**EASTERN CONTRA COSTA TRANSIT AUTHORITY  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2021 (WITH COMPARATIVE TOTALS)**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Current Assets		
Unrestricted assets:		
Cash and equivalents (Note 3)	\$ 7,516,852	\$ 3,615,877
Operating assistance receivable	1,402,450	1,695,951
Capital grants receivable	164,819	-
Accounts receivable	325,465	158,885
Maintenance inventories and supplies, at cost	690,585	725,632
Prepaid expenses (Note 13)	6,148	6,148
Total unrestricted assets	<u>10,106,319</u>	<u>6,202,493</u>
Restricted cash and equivalents (Note 3):		
LCTOP reserves	<u>788,263</u>	<u>438,585</u>
Total restricted assets	<u>788,263</u>	<u>438,585</u>
Total Current Assets	<u>10,894,582</u>	<u>6,641,078</u>
Noncurrent Assets		
Capital assets (Note 4):		
Non-depreciable	3,280,573	2,456,985
Depreciable	<u>25,248,603</u>	<u>27,262,492</u>
Total Noncurrent Assets	<u>28,529,176</u>	<u>29,719,477</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 39,423,758</b></u>	<u><b>\$ 36,360,555</b></u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$ 2,032,056	\$ 1,278,482
Accrued liabilities	452,747	420,222
Due to other governments, TDA payable (Note 8)	5,314,649	2,735,178
Grant advances (Note 9)	834,144	483,384
Note payable - Due in less than one year (Note 12)	<u>66,954</u>	<u>66,289</u>
Total Current Liabilities	<u>8,700,550</u>	<u>4,983,555</u>
Noncurrent Liabilities:		
Net other postemployment benefit liability (Note 11)	66,067	125,962
Note payable - Due in more than one year (Note 12)	<u>1,049,703</u>	<u>1,116,656</u>
Total Noncurrent Liabilities	<u>1,115,770</u>	<u>1,242,618</u>
Total Liabilities	<u>9,816,320</u>	<u>6,226,173</u>
<b>NET POSITION (Note 2G)</b>		
Net investment in capital assets	27,412,519	28,536,532
Restricted for:		
LCTOP operations	788,263	438,585
Unrestricted	<u>1,406,656</u>	<u>1,159,265</u>
Total Net Position	<u>29,607,438</u>	<u>30,134,382</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><b>\$ 39,423,758</b></u>	<u><b>\$ 36,360,555</b></u>

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

**EASTERN CONTRA COSTA TRANSIT AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021 (WITH COMPARATIVE TOTALS)**

	2021	2020
<b>OPERATING REVENUES</b>		
Passenger fares	\$ 717,969	\$ 1,732,236
Other operating income	338,200	336,488
	<b>1,056,169</b>	<b>2,068,724</b>
<b>OPERATING EXPENSES</b>		
Purchased transportation (Note 13)	14,323,074	13,678,003
Materials and supplies	2,489,504	2,810,181
Salaries and benefits	4,828,678	4,516,551
OPEB expense	(41,033)	(177,617)
Services	939,229	927,018
Casualty and liability insurance	546,765	570,758
Utilities	195,285	175,078
Other	197,336	280,147
Depreciation (Note 4)	3,838,138	3,559,060
Fuel hedging losses	-	238,339
Interest expense	11,665	12,356
	<b>27,328,641</b>	<b>26,589,874</b>
<b>OPERATING LOSSES</b>	<b>(26,272,472)</b>	<b>(24,521,150)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State grant revenues	10,295,706	15,362,866
Local grant revenues	4,887,724	4,520,418
Non-transportation revenues	400,618	84,495
Federal grant revenues	6,850,283	1,174,356
	<b>22,434,331</b>	<b>21,142,135</b>
Net Non-Operating Revenues, Before Capital Contributions (Grants)	<b>22,434,331</b>	<b>21,142,135</b>
Capital Contributions (Grants)	3,311,197	10,138
	<b>25,745,528</b>	<b>21,152,273</b>
Net Non-Operating Revenues and Capital Contributions (Grants)	<b>25,745,528</b>	<b>21,152,273</b>
<b>CHANGE IN NET POSITION</b>	<b>(526,944)</b>	<b>(3,368,877)</b>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<b>30,134,382</b>	<b>33,503,259</b>
<b>NET POSITION AT END OF YEAR</b>	<b>\$ 29,607,438</b>	<b>\$ 30,134,382</b>

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

**EASTERN CONTRA COSTA TRANSIT AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021 (WITH COMPARATIVE TOTALS)**

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from passenger fares	\$ 717,969	\$ 1,732,236
Cash received from operations - other	171,620	281,103
Cash payments for purchased transportation	(14,323,074)	(13,678,003)
Payments to and on behalf of employees	(5,361,780)	(5,076,525)
Payments to suppliers for goods and services	(3,044,398)	(4,616,693)
	<u>(21,839,663)</u>	<u>(21,357,882)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Federal grants and reimbursements	6,850,283	1,174,356
State and local operating grants	18,407,162	20,801,236
Other noncapital revenue	400,618	84,495
	<u>25,658,063</u>	<u>22,060,087</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions	3,311,197	10,138
Purchase of capital assets	(2,812,656)	(242,742)
Debt payment on long-term debt	(66,288)	(65,598)
	<u>432,253</u>	<u>(298,202)</u>
Net Increase in Cash and Cash Equivalents	4,250,653	404,003
Cash and Cash Equivalents, Beginning of Year	<u>4,054,462</u>	<u>3,650,459</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,305,115</u>	<u>\$ 4,054,462</u>
Cash and Cash Equivalents, Unrestricted	\$ 7,516,852	\$ 3,615,877
Cash and Cash Equivalents, Restricted	<u>788,263</u>	<u>438,585</u>
Total Cash and Cash Equivalents, End of Year	<u>\$ 8,305,115</u>	<u>\$ 4,054,462</u>

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

**EASTERN CONTRA COSTA TRANSIT AUTHORITY**  
**STATEMENT OF CASH FLOWS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2021 (WITH COMPARATIVE TOTALS)**

	2021	2020
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	\$ (26,272,472)	\$ (24,521,150)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation	3,838,138	3,559,060
Changes in assets and liabilities:		
(Increase) Decrease in Receivables	(166,580)	(55,385)
(Increase) Decrease in Inventory	35,047	(93,476)
(Increase) Decrease in Prepaid Expenses	-	70,319
Increase (Decrease) in Accounts Payable	753,574	(150,417)
Increase (Decrease) in Net OPEB Liability	(59,895)	(229,820)
Increase (Decrease) in Other Liabilities	32,525	62,987
Net Cash Used in Operating Activities	\$ (21,839,663)	\$ (21,357,882)

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

**EASTERN CONTRA COSTA TRANSIT AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 1 – GENERAL**

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 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 recently incorporated City of Oakley.

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies of the Authority, which conform with accounting principles generally accepted in the United States of America applicable to governments in the United States of America.

A. Enterprise Fund Accounting

The Authority is accounted for as an enterprise fund. This fund is a set of self-balancing accounts, which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

B. Basis of Accounting

Basis of accounting refers to *when* revenues and expenses are recognized. The Authority is accounted for using the accrual basis of accounting, under which revenues are recognized when they are earned and expenses are recognized when they are incurred.

*Non-exchange transactions*, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis of accounting, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

C. Basis of Presentation

The Authority's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Authority are charges to customers for farebox revenues. The Authority's *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the Authority. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.



**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Cash Equivalents

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

E. Risk Management

The Authority requires its operations contractor, First Transit, Inc., to provide general liability coverage. First Transit, Inc., provides insurance with primary coverage of \$1,000,000 in aggregate. In addition, the Authority is insured for premises and operational bodily injury and property damage up to a limit of \$13,400,000, with a deductible of \$10,000.

F. Compensated Absences

Full-time permanent employees are granted personal time off (PTO) benefits in varying amounts to specified maximums, depending on their tenure with the Authority. PTO accrues to employees to specified maximums after six months of service. The estimated current portion of the liability for PTO benefits is recorded as an expenditure with a corresponding liability.

G. Net Position

Net Position is the excess of all the Authority's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources. Net Position is divided into three classifications and applies only to Net Position as described below:

*Net Investment in Capital Assets* describes the portion of Net Position which is represented by the current net book value of the Authority's capital assets.

*Restricted* describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Authority cannot unilaterally alter. The Authority's Restricted Net Position is for unexpended funds received from the Low Carbon Transit Operation Program (LCTOP).

*Unrestricted* describes the portion of Net Position which is not restricted to use.

The Authority will apply restricted resources before unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Inventory

Inventory is stated at cost. Inventory held by the Authority is material and supplies that are consumed by the Authority and are not for resale purposes.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

**K. Reclassifications**

Certain amounts in the June 30, 2020 financial statements have been reclassified to conform to the June 30, 2021 presentation.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the Authority's name and places the Authority ahead of general creditors of the institution.

**A. Cash and Cash Equivalents**

The Authority's unrestricted cash consists of time and demand deposits and petty cash held at the Authority's administrative office.

The Authority's restricted assets, which consist of certificates of deposit with Bank of Agriculture and Commerce, are carried at fair value, as required by accounting principles generally accepted in the United States of America. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

Cash and cash equivalents consisted of the following as of June 30, 2021:

Unrestricted cash:	
Deposits in financial institutions	\$ 7,516,246
Cash on hand at Authority	606
Total unrestricted cash and equivalents	<u>7,516,852</u>
Restricted - certificates of deposit:	
LCTOP reserve	<u>788,263</u>
Total restricted cash and equivalents	<u>788,263</u>
Total cash and cash equivalents	<u>\$ 8,305,115</u>

**NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)**

**B. Fair Value Hierarchy**

The Authority categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

In the fiscal year ended June 30, 2021, the Authority had Investments in Money Market accounts of \$5,215,543 and Certificates of Deposit of \$788,263, which are exempt from fair value measurements.

**C. LCTOP Operations**

The LCTOP is one of several programs that are part of the Transit, Affordable Housing, and Sustainable Communities Program established by the California Legislature in 2015 by Senate Bill 862. The LCTOP was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emission and improve mobility, with a priority on serving disadvantaged communities. The LCTOP was passed and adopted by the Authority in January 2016. The Authority is applying these funds to enhance service on Route 201 (Concord, California).

**D. Custodian 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 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 made for deposits: The California Government Code requires that a financial institution secure deposits made by state and local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of pledged securities must equal at least 110% of the total amount deposited by public agencies.

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risk relating to deposits and investments: \$8,223,366 of the Authority's deposits with financial institutions were in excess of the Federal Deposit Insurance Corporation limits and were held in collateralized accounts as of June 30, 2021.

**NOTE 4 – CAPITAL ASSETS**

Capital assets of the Authority consist of land, transit and service vehicles, buildings and improvements, and equipment. Capital assets are recorded at cost and depreciated over their estimated useful lives. The Authority's policy is to capitalize assets when the article of property being purchased has a useful life of more than one year.

Depreciation of capital assets in service is provided using the straight-line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Authority has assigned the useful lives as follows:

Building and improvements	5-30 years
Transit vehicles	4-14 years
Shop office and other equipment	5-10 years

**NOTE 4 – CAPITAL ASSETS (Continued)**

**A. Capital Assets Activity**

Capital assets activity during the fiscal year ended June 30, 2021, is as follows:

	Balance June 30, 2020	Acquisitions	Reclassifications and Dispositions	Balance June 30, 2021
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 2,456,985	\$ -	\$ -	\$ 2,456,985
Construction In Progress	-	823,588	-	823,588
<b>Total Capital Assets Not Being Depreciated</b>	<b>2,456,985</b>	<b>823,588</b>	<b>-</b>	<b>3,280,573</b>
<b>Capital Assets Being Depreciated:</b>				
Buildings and improvements	15,155,863	317,670	-	15,473,533
Transit vehicles	38,212,354	1,005,594	(533,318)	38,684,630
Equipment	4,654,238	500,985	-	5,155,223
<b>Total Capital Assets Being Depreciated</b>	<b>58,022,455</b>	<b>1,824,249</b>	<b>(533,318)</b>	<b>59,313,386</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings and Improvements	9,633,903	378,394	-	10,012,297
Transit vehicles	16,907,271	3,288,779	(533,318)	19,642,732
Equipment	4,218,788	190,965	-	4,409,754
<b>Total Accumulated Depreciation</b>	<b>30,759,963</b>	<b>3,838,138</b>	<b>(533,318)</b>	<b>34,064,783</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>27,262,492</b>	<b>(2,013,889)</b>	<b>-</b>	<b>25,248,603</b>
<b>Total Capital Assets, Net</b>	<b>\$ 29,719,477</b>	<b>\$ (1,190,301)</b>	<b>\$ -</b>	<b>\$ 28,529,176</b>

Depreciation expense was \$3,838,138 as of June 30, 2021.

**B. Capital Contributions**

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

Grants for capital assets acquisition and facility development and rehabilitation are reported in the Statement of Revenues, Expenses, and Changes in Net Position, after non-operating revenues and expenses as capital contributions.

**NOTE 5 – OPERATING GRANTS**

The Authority records operating assistance grants as revenue when earned.

**A. TDA and STA Operating Assistance**

The Authority receives allocations of local transportation funds pursuant to the TDA and STA funds. These funds are generated within Contra Costa 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 (excluding depreciation) less fare revenues received and other local operating assistance (including interest income).

**NOTE 5 – OPERATING GRANTS** (Continued)

A. TDA and STA Operating Assistance (Continued)

For the fiscal year ended June 30, 2021, the maximum TDA operating assistance eligibility was \$7,146,508. During the fiscal year ended June 30, 2021, the TDA operating funds had a receivable of \$0 due to timing of receipt and a payable of \$5,314,649, which represents the surplus of TDA operations grants received by the Authority that have not yet been spent (See Note 8).

B. Inter-Operator Agreements

The Authority receives funding through an arrangement with Bay Area Rapid Transit (BART) for operating assistance applied to certain “feeder bus” services to the Pittsburg/Bay Point BART station. The Authority took over and incorporated such services from BART in 1997 (as detailed in the schedule below).

C. Regional Measure 2 Funds

On March 2, 2004, voters passed Regional Measure 2 (RM2), raising the toll on the seven State-owned toll bridges in the San Francisco Bay Area by \$1.00. This extra dollar is to fund various transportation projects within the region that have been determined to reduce congestion or to make improvements to travel in the toll bridge corridors, as identified in Senate Bill 916 (Chapter 715, Statutes of 2004). Specifically, RM2 establishes the Regional Traffic Relief Plan and identifies specific transit operating assistance and capital projects and programs eligible to receive RM2 funding. The Bay Area Toll Authority (BATA) is responsible for the collection of the bridge tolls and MTC is responsible for administering the RM2 Program. The Authority is an eligible recipient for RM2 funds and received \$227,360 in RM2 funding during the fiscal year ended June 30, 2021. The Authority utilized the RM2 funds as operating assistance on a specific, express bus route per the program’s requirements.

Operating assistance for the fiscal year ended June 30, 2021, is summarized as follows:

Federal Transit Administration	\$ 6,850,283
Transportation Development Act	7,146,508
State Transit Assistance	2,710,524
Inter-Operator Agreements (BART)	3,049,550
Measure J	1,610,814
Regional Measure 2	227,360
LCTOP	<u>438,674</u>
Total Operating Assistance	<u>\$ 22,033,713</u>

**NOTE 6 – CAPITAL GRANTS**

The Authority has received grants from the FTA and grants of local transportation funds pursuant to the TDA for the purchase of buses, facility improvements, furniture and fixtures, and supporting 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 J), less the related amortization, are included in capital contributions.

**NOTE 6 – CAPITAL GRANTS (Continued)**

The Authority's capital contributions for the fiscal year ended June 30, 2021, are as follows:

U.S. Department of Transportation grant awards	\$ 7,722,802
Less: funds used for operating costs	<u>(6,850,283)</u>
Subtotal	872,519
State grants	2,302,222
Other	<u>136,456</u>
Total capital contributions	<u>\$ 3,311,197</u>

**NOTE 7 – MEASURE J**

In November 2004, Contra Costa County voters approved Measure J which provided for the continuation of a County half-cent transportation sales tax for 25 more years beyond the original expiration date of 2009 (Measure C). Measure J funding is administered by the Contra Costa Transportation Authority (CCTA). The Authority records Contra Costa County Measure J grants for operations and for capital projects as revenue and capital contributions, respectively, as received.

The Authority is an eligible recipient of Measure J funds and received \$1,819,086 in Measure J operating assistance during the fiscal year ended June 30, 2021, of which \$1,610,814 was applied to specific fixed route and para-transit bus services per CCTA's approved program. The remaining amount of \$208,272 of Measure J funds for 2021 were "passed through" to the Central Contra Costa Transit Authority (CCCTA) according to an inter-operator agreement that all three agencies entered into to provide Countywide express bus services.

**NOTE 8 – TDA RECEIVABLE AND PAYABLE**

The Authority applies for TDA funds for operating purposes prior to the start of each fiscal year. The application is based on the Authority's annual budget and thus contains an estimate of the Authority's annual operating expenditures and revenues for the next fiscal year. After completion of the annual audit, whereby any unapplied funds or funding shortfalls are determined, the Authority either returns TDA funds in excess of those used during the fiscal year or applies for additional TDA funding for the prior fiscal year to make up the shortfall.

A TDA Operating Receivable represents the amount of TDA operations grants pending to be received by the Authority. As of the fiscal year ended June 30, 2021, the Authority was pending the amount of \$0 from MTC.

A TDA Payable represents the surplus of TDA operations grants received by the Authority that have not yet been spent. Such surpluses must be returned to the County Local Transportation Fund. The amount of TDA payable at year end is a provision that the Authority makes to return such TDA funds. At the end of the fiscal year ended June 30, 2021, the Authority owed the County Local Transportation Fund the amount of \$5,314,649.

**NOTE 9 – GRANT ADVANCES**

The Authority receives allocations from other governmental agencies to fund transit operations and capital purchases. Allocations are considered earned when they are properly spent for operations or capital acquisitions. Allocations received but not earned are recorded as unearned revenues. The Authority had received the following allocations which are considered to be unearned revenue as of June 30, 2021:

LCTOP	\$	788,263
Proterra		42,000
State of Good Repair (SGR)		<u>3,881</u>
Total grant advances	\$	<u>834,144</u>

**NOTE 10 – EMPLOYEE RETIREMENT PLANS**

The Authority offers two retirement plans – a 401(a) and a 457(b) plan. Participation in the plans is optional.

**A. Employees' Retirement Plan**

The Authority offers a 401(a) defined contribution pension plan, administered by the Financial Decision group, through Charles Schwab. All full-time employees are eligible for this voluntary program upon successful completion of his or her probation. In order to participate in this voluntary program, an employee must participate in the 457(b) deferred compensation plan (see Note 10B), and contribute a minimum of 4% of his or her gross salary, up to the federally allowed maximum amount of his or her gross compensation.

The Authority makes contributions to the 401(a) plan for each participant depending on the participant's years of service with the Authority as follows:

Less than 10 years	12% of gross salary
10-20 years	13% of gross salary
20-30 years	14% of gross salary
More than 30 years	15% of gross salary

Any changes to the plan and/or contribution requirements must be approved by the Authority's Board of Directors. During the fiscal year ended June 30, 2021, the Authority contributed \$397,941 to the 401(a) plan on behalf of its participants.

**B. Deferred Compensation Plan**

The Authority's employees may defer a portion of their compensation under an Authority sponsored Deferred Compensation Plan, administered by Ameritas, created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death, or in an emergency as defined by the plan. Employees also have the option make contributions to a 457 Roth plan. With this plan, they will pay taxes upfront when contributions are made to the plan and will have the benefit of tax-free withdrawals when the time comes.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the Authority's property and are not subject to Authority control, they have been excluded from these financial statements.

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

A. General Information about the OPEB Plan

***Plan Description***

The Authority provides postretirement health care benefits at retirement to full time employees who have been an employee for at least 20 years and must be 62 years or older at retirement until they reach the age 65.

***Benefits Provided***

The Authority will pay the entire COBRA Kaiser Health Savings Account (HSA) plan premium for the retired employee and their eligible dependents until the retired employee reaches age 65, at which time they will qualify for Medicare. The Authority will pay the equivalent of the Kaiser HSA plan premium towards another health insurance policy selected by the employee in place of this plan.

***Employees Covered by Benefit Terms***

As of June 30, 2021, the benefit terms covered the following employees:

Retirees and survivors currently receiving benefits	1
Active employees	<u>37</u>
Total	<u><u>38</u></u>

B. Net OPEB Liability

The Authority's net OPEB liability was measured as of June 30, 2021, using the Alternative Measurement Method (AMM). This method is similar to an actuarial valuation, but with simplifications of several assumptions permitted per GASB guidelines.



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

B. Net OPEB Liability (Continued)

***Actuarial Assumptions***

The total OPEB liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2021
Age Adjustment Factor	2.193763
Average Retirement Age	68
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Bond Yield	2.18%
Discount Rate	2.18%
Participants Valued	Only current active employees, retired participants, and covered dependents are valued. No future entrants are considered in this valuation.
Projected Salary Increases	4.00% per year
Mortality	Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years
Healthcare Cost Trend	The cost trend numbers used were developed consistent with the Getzen model promulgated by the Society of Actuaries for use in long-term trend projection. The Affordable Care Act (ACA) excise tax will ultimately affect all plans. Due to the variability of the ACA excise tax plan, healthcare trends could raise an average of 0.5% or more in each year.

***Discount Rate***

The discount rate used to measure the total OPEB liability was 2.18%. For OPEB plans that are not prefunded and are paying for OPEB on a pay-as-you-go basis, the discount rate is based on the 20-year tax exempt municipal bond yield which was 2.18% as of June 30, 2021.

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

B. Net OPEB Liability (Continued)

**Changes in the Net OPEB Liability**

	Increase (Decrease)		
	Total OPEB Liability	Change in Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2020	\$ 125,962	\$ -	\$ 125,962
Changes in the Year:			
Service Cost	-	-	-
Interest	2,541	-	2,541
Effects of Economic/Demographic Gains or Losses	(43,574)	-	(43,574)
Benefit Payments	(18,862)	(18,862)	-
Employer Contributions	-	18,862	(18,862)
Net Changes	(59,895)	-	(59,895)
Balance at June 30, 2021	\$ 66,067	\$ -	\$ 66,067

**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 (1.18%) or one percentage point higher (3.18%), follows:

	1% Decrease 1.18%	Discount Rate 2.18%	1% Increase 3.18%
Net OPEB Liability	\$ 66,390	\$ 66,067	\$ 65,750

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

As of June 30, 2021, the Authority's healthcare cost trend rate baseline was:

	Medical	Pharmacy	Dental	Vision
Year 1	4.90%	5.90%	3.50%	3.00%
Year 2	4.80%	4.80%	3.50%	3.00%
Year 3	4.70%	4.70%	3.00%	3.00%
Year 4	4.70%	4.70%	3.00%	3.00%
Year 5	4.60%	4.60%	3.00%	3.00%
Year 6	4.50%	4.50%	3.00%	3.00%
Year 7	4.40%	4.40%	3.00%	3.00%
Year 8	4.30%	4.30%	3.00%	3.00%
Year 9	4.30%	4.30%	3.00%	3.00%
Year 10+	4.30%	4.30%	3.00%	3.00%

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

B. Net OPEB Liability (Continued)

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

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 or one percentage point higher than current healthcare cost trend rates, follows:

	<u>1% Decrease</u>	<u>Baseline Trend</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 64,969	\$ 66,067	\$ 67,173

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

For the fiscal year ended June 30, 2021, the Authority recognized an OPEB expense of \$16,447. At June 30, 2021, the Authority reported no deferred outflows of resources and deferred inflows of resources related to OPEB as the plan does not hold assets in a trust.

**NOTE 12 – NOTE PAYABLE**

On February 4, 2016, the Authority entered into an agreement with California Energy Resources Conservation and Development Commission (California Energy Resources) for \$1,308,104, with a one percent (1% per annum) interest rate. The project consists of installing roof and parking structures mounted with photovoltaic (PV) panels at the Authority's main office, located in Antioch, California. Principal and interest payments are payable semiannually with the first repayment due on December 22, 2018, and final installment due on December 22, 2036.

The following is a summary of the note payable for the fiscal year ended June 30, 2021:

	<u>Original Issue Amount</u>	<u>Balance June 30, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2021</u>	<u>Due Within One Year</u>
California Energy Resources Loan Agreement	\$ 1,308,104	\$ 1,182,945	\$ -	\$ 66,288	\$ 1,116,657	\$ 66,954
Total long-term debt		\$ 1,182,945	\$ -	\$ 66,288	\$ 1,116,657	\$ 66,954

The annual payment requirements to mature the loan outstanding at June 30, 2021, were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 66,954	\$ 11,000	\$ 77,954
2023	67,625	10,329	77,954
2024	68,277	9,677	77,954
2025	68,987	8,967	77,954
2026	69,679	8,275	77,954
2027-2031	358,994	30,774	389,768
2032-2036	377,359	12,409	389,768
2037	38,782	194	38,976
Total	\$ 1,116,657	\$ 91,625	\$ 1,208,282

#### **NOTE 13 – COMMITMENT AND CONTINGENT LIABILITIES**

The Authority is subject to litigation arising in the normal course of business. In the opinion of the Authority's legal counsel there is no pending litigation which is likely to have a material adverse effect on the financial position of the Authority.

The Authority participates in Federal and State grant programs. These programs have been audited by the Authority's independent auditors in accordance with the provisions of the Uniform Guidance, and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time. The Authority expects such amounts, if any, to be immaterial.

The Authority made a prepayment to Pacific Gas and Electric (PG&E) for a 10-year refundable electric option and will perform the construction services for the project using the loan proceeds. The option payment of \$6,148 for the fiscal year ended June 30, 2021, is reported as a prepaid asset on the Statement of Net Position.

#### **Contractor**

The Authority has an agreement dated May 2, 2016, with First Transit, Inc., a private transit firm, to provide transportation management and operations services on behalf of the Authority through June 30, 2021. Expenses recorded under this contract amounted to \$13,763,553 for fiscal year ended June 30, 2021, and are recorded as purchased transportation. The Authority is also contracted with Transit Network Companies (TNCs) Uber, Lyft, and United Taxi. Purchased Transportation Expense for these three TNCs amounted to \$559,520.

#### **NOTE 14 – SENATE BILL 1 (SB 1) – STATE OF GOOD REPAIR**

The Road Repair and Accountability Act of 2017, SB 1 (Chapter 5, Statutes of 2017), signed by the Governor on April 28, 2017, includes a program that will provide additional revenues for transit infrastructure repair and service improvements. This investment in public transit will be referred to as the State of Good Repair (SGR) program. This program provides funding of approximately \$105 million annually to the State Transit Assistant Account. These funds are to be made available for eligible transit maintenance, rehabilitation, and capital projects.

In the fiscal year ended June 30, 2021, the Authority received SGR funds of \$62,380. As of June 30, 2021, the Authority has a total of \$3,881 unearned SGR revenue comprised of FY19 and FY21 SGR funds for two separate capital projects. One is for the replacement of bus shelters and the other is for the replacement of maintenance software.

#### **NOTE 15 – SUBSEQUENT EVENTS**

Subsequent events were evaluated through December 7, 2021, which is the date the financial statements were available to be issued. There were no subsequent events with a material effect on the financial statements or note disclosures that took place after June 30, 2021. The COVID-19 pandemic outbreak in the United States has caused business disruption through mandated closings of businesses. While the disruption is expected to be temporary, the durations of the closings and the related financial impacts on the Authority remain uncertain and cannot be estimated at this time.

**REQUIRED SUPPLEMENTARY INFORMATION**

**EASTERN CONTRA COSTA TRANSIT AUTHORITY**  
**SCHEDULE OF CHANGES IN THE NET OTHER POSTEMPLOYMENT**  
**BENEFITS (OPEB) LIABILITY AND RELATED RATIOS**  
**JUNE 30, 2021**  
**LAST 10 FISCAL YEARS\***

Measurement Period	<u>June 30, 2021</u>	<u>June 30, 2020</u>
<b>Total OPEB Liability</b>		
Service Cost	\$ -	\$ 355,782
Interest on Total OPEB Liability	2,541	38,398
Effect of Economic/Demographic Gains or Losses	(43,574)	(596,797)
Benefit Payments	<u>(18,862)</u>	<u>(27,203)</u>
Net Change in Total OPEB Liability	(59,895)	(229,820)
Total OPEB Liability - Beginning	<u>125,962</u>	<u>355,782</u>
Total OPEB Liability - Ending	<u>\$ 66,067</u>	<u>\$ 125,962</u>
<b>OPEB Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ 18,862	\$ 27,000
Benefit Payments	<u>(18,862)</u>	<u>(27,000)</u>
Net Change in OPEB Plan Fiduciary Net Position	-	-
OPEB Plan Fiduciary Net Position - Beginning	<u>-</u>	<u>-</u>
OPEB Plan Fiduciary Net Position - Ending	<u>\$ -</u>	<u>\$ -</u>
Net OPEB Liability	<u>\$ 66,067</u>	<u>\$ 125,962</u>
OPEB Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%	0.00%
Covered Payroll	\$ 3,163,263	\$ 2,975,409
Net OPEB Liability as a Percentage of Covered Payroll	2.09%	4.23%

**Notes to Schedule:**

\* When information is available, the required 10 years will be shown. The fiscal year ended June 30, 2020, is the first year of implementation of GASB Statement No. 75 in accordance using the Alternative Measurement Method.

**OTHER REPORT**

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

To the Board of Directors  
Eastern Contra Costa Transit Authority  
Antioch, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Eastern Contra Costa Transit Authority (the Authority) as of and for the fiscal year ended June 30, 2021, and related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 7, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic 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 basic financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 financial statements. Our procedures included the applicable audit procedures contained in §6667 of Title 21 of California Code of Regulations and tests of compliance with the applicable provisions of the Transportation Development Act and the allocation instructions and resolutions of the Metropolitan Transportation Commission. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 communication is not suitable for any other purpose.

This report is intended solely for the information and use of the management, Board of Directors, others within the Authority, and 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; however, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Stockton, California  
December 7, 2021

**EASTERN CONTRA COSTA  
TRANSIT AUTHORITY**

**SINGLE AUDIT REPORT  
(UNIFORM GUIDANCE)**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2021**

**EASTERN CONTRA COSTA TRANSIT AUTHORITY  
SINGLE AUDIT REPORT (UNIFORM GUIDANCE)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

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## REPORT

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

To the Board of Directors  
Eastern Contra Costa Transit Authority  
Antioch, California

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

We have audited the Eastern Contra Costa Transit Authority's (Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have direct and material effect on each of the Authority's major federal programs for the fiscal year ended June 30, 2021. The Authority's major federal programs are identified in the summary of auditor's results 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 of 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 fiscal year ended June 30, 2021.

## 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 the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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.

## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Authority as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated December 7, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the 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.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Stockton, California  
December 7, 2021

**SCHEDULE**

**EASTERN CONTRA COSTA TRANSIT AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Federal Grantor/Office/Pass-Through Grantor/ Program or Cluster Title/Project Name	Federal Assistance Living Number	Pass-Through Entity Identifying Number or Direct Grant Number	Federal Expenditures	Passed- Through To Subrecipients
<b>U.S. Department of Transportation / Federal Transit Administration (FTA) Federal Transit Cluster</b>				
Direct Programs:				
COVID 19 - 5307 Urbanized Area Formula Grants CARES Act of 2020 - Operating Assistance	20.507	CA-2020-074	\$ 6,570,432	\$ -
FY17 Capital & Operating Programs	20.507	CA-2017-164	789,869	-
Total Federal Transit Formula Grants			<u>7,360,301</u>	<u>-</u>
Formula Grants for Rural Areas (Section 5311)				
Direct Programs:				
COVID 19 - CARES Act of 2020 - Operating Assistance	20.509	CA-2020-285	279,851	-
Subtotal Formula Grants for Rural Areas (Section 5311)			<u>279,851</u>	<u>-</u>
<b>Total U.S. Department of Transportation / FTA</b>			<u>7,640,152</u>	<u>-</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 7,640,152</u>	<u>\$ -</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards.



**EASTERN CONTRA COSTA TRANSIT AUTHORITY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

**NOTE 1 – REPORTING ENTITY**

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the Eastern Contra Costa Transit Authority (Authority).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

**NOTE 3 – INDIRECT COST ELECTION**

The Authority has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**EASTERN CONTRA COSTA TRANSIT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

**I. SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

1. Type of auditor's report issued: Unmodified
2. Internal control over financial reporting:
- a. Material weakness identified? \_\_\_ Yes X No
- b. Significant deficiencies identified  
not considered to be material weaknesses? \_\_\_ Yes X No
3. Noncompliance material to financial statements noted? \_\_\_ Yes X No

*Federal Awards*

1. Internal control over major federal programs:
- a. Material weakness identified? \_\_\_ Yes X No
- b. Significant deficiencies identified  
not considered to be material weaknesses? \_\_\_ Yes X No
2. Type of auditor's report issued on compliance  
for major programs: Unmodified
3. Any audit findings disclosed that are required to be  
reported in accordance with the Uniform Guidance? \_\_\_ Yes X No
4. Identification of major programs:
- | <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------|---|
| 20.507              | Federal Transit Cluster                   |
5. Dollar threshold used to distinguish between Type A and  
Type B programs: \$750,000
6. Auditee qualified as low-risk auditee under the Uniform  
Guidance? X Yes \_\_\_ No

**II. FINANCIAL STATEMENT FINDINGS**

None reported.

**III. FEDERAL AWARD FINDINGS AND QUESTION COSTS**

None reported.

**EASTERN CONTRA COSTA TRANSIT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

No findings in the prior fiscal year.

**EASTERN CONTRA COSTA TRANSIT AUTHORITY**

**REPORTS TO THE BOARD  
OF DIRECTORS**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2021**

**EASTERN CONTRA COSTA TRANSIT AUTHORITY**

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**REQUIRED COMMUNICATION AT THE CONCLUSION OF AN  
AUDIT TO THE BOARD OF DIRECTORS IN ACCORDANCE  
WITH PROFESSIONAL STANDARDS (SAS 114)**

To the Board of Directors of  
Eastern Contra Costa Transit Authority  
Antioch, California

We have audited the financial statements of the Eastern Contra Costa Transit Authority (the Authority) as of and for the fiscal year ended June 30, 2021. 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 June 24, 2021. 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 policies used by the Authority are described in Note 2, Summary of Significant Accounting Policies, to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. 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 financial statements were:

- *Estimate of Depreciation:* Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 4 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
- *Estimated Net Other Postemployment Benefits (OPEB) Liability:* Management's estimate of the net OPEB liability is disclosed in Note 11 to the financial statements and is based on management's estimates. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic 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 related to the useful lives of capital assets and depreciation, net OPEB liability, and related deferred inflows of resources and deferred outflows of resources in Notes 2, 4, and 11, respectively, of the financial statements.

The financial statements 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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*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 December 7, 2021.

*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, schedule of changes in the net OPEB liability and related ratios, which are required supplementary information 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 required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.



**Restriction on Use**

This information is intended solely for the information and use of the members of the 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

*Brown Armstrong  
Accountancy Corporation*

Stockton, California  
December 7, 2021

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

To the Board of Directors of  
Eastern Contra Costa Transit Authority  
Antioch, California

In planning and performing our audit of the basic financial statements of the Eastern Contra Costa Transit Authority (the Authority) as of and for the fiscal year ended June 30, 2021, 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 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.

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 consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Included in the Schedule of Other Matters are agreed upon conditions (AUC) and recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiencies.

Management's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them. We will review the status of these recommendations during our next audit engagement. We have already discussed these recommendations with various Authority personnel, and we will be pleased to discuss these in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

**Restriction on Use**

This report is intended solely for the information and use of management, Board of Directors, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Stockton, California  
December 7, 2021

## SCHEDULE OF OTHER MATTERS

### **AUC-2021-01: Journal Entry Review & Approvals**

#### Condition

During our review of journal entries, we noted that journal entries did not have approvals or evidence of review.

#### Criteria

Journal entries should be appropriately reviewed in order to ensure that there are proper controls and segregation of duties in place and to prevent management override of controls.

#### Recommendation

We recommend that all journal entries be reviewed by a separate individual (not the individual creating the entry) in order to prevent posting of errors or inappropriate journal entries and adjustments.

#### Management Response

The Authority will create a Standard Operating Procedure (SOP) for the review and approval of journal entries. The SOP will include a listing of the regular journal entries to be made, who they will be prepared by and who will review/approve them to ensure proper controls and segregation of duties.

### **AUC-2021-02: IT – Terminated Employees Remain Active Users**

#### Condition

During our review of IT controls in fiscal year ending June 30, 2020, we noted that employee profile accounts often remain active after an employee has been terminated. We were unable to perform testing on current year, since there were no new terminations for employees with software access. However, upon inquiring with management, the accounts for terminated users pointed out were corrected, but no procedures were created to prevent this from happening again.

#### Criteria

Terminated employees should have their access to the system revoked upon termination. The IT department or consultant should be immediately notified, and the account should be made inactive.

#### Recommendation

We recommend that the Authority implement an off-boarding procedure or checklist to ensure the Authority revokes access to terminated employees from the system immediately upon termination. We also recommend implementing a periodic review of users' access level, to ensure such levels are appropriate for each employee's responsibilities.

#### Management Response

The Authority may keep terminated employee user accounts active for the purpose of accessing information but the terminated employee is always restricted from accessing these accounts from outside the Authority when terminated. We will consider creating a formal SOP to address off-boarding procedures and periodic review of user's levels.

### **AUC-2021-03: IT – IT Strategic Plan**

#### **Condition**

During our review of IT controls, we noted that the Authority does not currently have a strategic plan outlining its current and future IT projects.

#### **Criteria**

Governments should have an IT strategic plan detailing current and planned technology projects. A well-developed IT strategic plan will help the Authority in budget planning and ensure that the Authority's technology sustains and assists the entity in achieving its long-term goals.

#### **Recommendation**

We recommend that the Authority include an evaluation of IT plans and priorities in their discussion of the budget each year.

#### **Management Response**

The Authority will work with the IT Consultant to include an evaluation of IT plans and priorities in their discussion of the budget each year.

### **AUC-2021-04: Segregations of Duties Over Cash**

#### **Condition**

During the cash management walkthrough, a lack of segregation of duties on the cash received at the main office was noted. While the front desk receives the mail, there is no log or oversight performed separately for checks received via mail before they are given to the employee to prepare the deposit. It was noted one employee opens all payments received via mail, creates the journal entries, takes the physical money deposits to the bank, and perform the monthly reconciliations.

Furthermore, the cash count is performed only by one person. There are discrepancy reports created for the regular route and paratransit, however, variances between the expected fare for regular and paratransit routes and the cash actually received are not investigated.

#### **Criteria**

Segregation of duties is recommended to ensure proper oversight of controls especially those related to cash receipts.

#### **Recommendation**

We recommend the log of cash receipts received is performed by a separate employee other than the employee who performed the deposit. A separate employee then reviews the cash receipts log, reconciliation and journal entry to ensure proper recording. We also recommend a second individual be involved when performing the cash count and that the Authority establish a benchmark to use when reviewing discrepancies between expected and actual cash count variances.

#### **Management Response**

The Authority will review the cash procedures and determine the most feasible way to implement segregation of duties and review of cash reconciliation variances.

**AUC-2021-05: Capitalization Policy**

Condition

During our review of procedures over Capital Assets, we reviewed a tools & equipment inventory listing of expenses which were not being reviewed for eligibility of being capitalized. We noticed the tools & equipment inventory list has not been updated or reviewed consistently and no regular inventory was being performed as the items were expensed.

Criteria

Assets with a life expectancy of more than one year or that will extend the useful life of other equipment should be capitalized and depreciated, to allocate the expense across the years of use and benefit associated with such asset. While the policy in place is appropriate, there does not appear to be any formal procedures implemented to ensure all assets in use are being captured.

Recommendation

We recommend that the Authority create a formal capitalization policy to ensure capitalization of tools and equipment are also included. We also recommend an actual inventory count of capital assets to be performed on a biennial basis to ensure obsolete assets are removed and assets in use are accounted for timely.

Management Response

The Authority will create a formal capitalization policy which will include the process for an actual inventory count of capital assets to be performed on a biennial basis to ensure obsolete assets are removed and assets in use are accounted for timely.

**CURRENT YEAR STATUS OF PRIOR YEAR OTHER MATTERS**

**AUC-2020-01: Journal Entry Review & Approvals**

Condition

During our review of journal entries, we noted that journal entries relating to year-end adjustments did not have approvals or evidence of review.

Criteria

Year-end adjusting journal entries should be appropriately reviewed in order to ensure that there are proper controls and segregation of duties in place and to prevent management override of controls.

Recommendation

We recommend that all adjusting journal entries be reviewed by a separate individual (not the individual creating the entry) in order to prevent posting of errors or inappropriate journal entries and adjustments.

Management Response

The Authority will create a Standard Operating Procedure (SOP) for the review and approval of year-end adjusting journal entries. The SOP will include a listing of the regular year-end adjusting journal entries to be made, who they will be prepared by and who will review/approve them to ensure proper controls and segregation of duties. This will be completed prior to the preparation of the FY21 year-end adjusting journal entries.

Current Year Status

See current recommendation at AUC-2021-01.

## **AUC-2020-02: Wire Transfer Policy**

### Condition

During our testing of wire transfers, we noted that there is not currently an official wire transfer policy in place.

### Criteria

Having formal policies and procedures is generally considered a good practice for governmental entities in order to ensure that specific procedures are followed.

### Recommendation

We recommend that the Authority create and implement a formal wire transfer policy in order to provide clear procedures for staff members and prevent misunderstandings and errors.

### Management Response

The Authority will create and adopt a SOP to prevent errors in wire transfers.

### Current Year Status

Implemented. A new SOP for Wire Transfers has been added to the Finance SOPs.

## **AUC-2020-03: Year-End Financial Close Procedures and Recording of Prior Year Adjustments Proposed by Auditor and Reconciliations**

### Condition

We noted during our walkthrough of financial close procedures there was turnover in management and there were no formal procedures for the year-end financial close. During our review of net position, we noted some June 30, 2019 year-end entries were omitted by the Authority and prior auditor. After initial year-end closing entries are posted for the current year, net position should be analyzed to ensure it reconciles with the prior year-end audited financial statements and additional closing entries are not required prior to providing the general ledger for audit.

### Criteria

Having formal policies and procedures is generally considered a good practice for governmental entities in order to ensure that specific procedures are followed.

### Recommendation

We recommend that the Authority create and implement formal financial close and year-end reconciliation procedures in order to have specific procedures clearly documented for the benefit of staff and management. We recommend performing reconciliations of net position, temporarily restricted, net investment in capital assets and capital contributions to ensure reporting accuracy.

### Management Response

The Authority will create SOPs for the following year-end financial close procedures to ensure we reconcile with the prior year-end audited financials:

- Reconciliation of Net Position
- Reconciliation of Net Investment in Capital Assets
- Reconciliation of Capital Contributions

### Current Year Status

The items above are already reconciled within the following Excel spreadsheets:

- CD Statement Reconciliation
- Depreciation Schedule/Reconciliation to GL
- Funds Ledger (Capital)

### **AUC-2020-04: IT – Terminated Employees Remain Active Users**

#### Condition

During our review of IT controls, we noted that employee profile accounts often remain active after an employee has been terminated.

#### Criteria

Terminated employees should have their access to the system revoked upon termination. The IT department or consultant should be immediately notified, and the account should be made inactive.

#### Recommendation

We recommend that the Authority implement a procedure or checklist to ensure the Authority revokes access to terminated employees from the system immediately upon termination.

#### Management Response

The Authority may keep terminated employee user accounts active for the purpose of accessing information but the terminated employee is always restricted from accessing these accounts from outside the Authority when terminated.

### Current Year Status

See current recommendation at AUC-2021-02.

### **AUC-2020-05: IT – Password Policy**

#### Condition

During our review of IT controls, we noted that there is not currently a requirement for passwords to be periodically changed in the existing password policy.

#### Criteria

In order to ensure protection of sensitive data, employees should be required to periodically change their passwords. Regular password changes can decrease risk of account breaches by unauthorized users.

#### Recommendation

We recommend that the Authority update the existing password policy to require periodic password changes (for example, quarterly or semiannually) and implement the password change requirement in existing computer systems.

#### Management Response

The Authority will review the current password policy and make a recommendation for change.



#### Current Year Status

Implemented. All employees are now required to update the password to login to their workstation every six months.

#### **AUC-2020-06: IT – Contract with IT Consultant**

##### Condition

During our review of IT controls, we noted that there is not currently a formal contract in place with the IT consultant.

##### Criteria

Written contracts for all contractors and third-party-service providers should be in place in order to ensure that both parties are aware of their duties and to define what proper fulfillment of the contract entails.

##### Recommendation

We recommend that the Authority create and sign a formal contract with the IT consultant.

##### Management Response

The Authority will review the IT policy and determine whether it is feasible to go out to bid for an IT contract.

#### Current Year Status

The Authority has determined that it is not feasible to go out to bid for an IT contract.

#### **AUC-2020-07: IT – IT Strategic Plan**

##### Condition

During our review of IT controls, we noted that the Authority does not currently have a strategic plan outlining its current and future IT projects.

##### Criteria

Governments should have an IT strategic plan detailing current and planned technology projects. A well-developed IT strategic plan will ensure that the Authority's technology sustains and assists the entity in achieving its long-term goals.

##### Recommendation

We recommend that the Authority create a formal IT strategic plan.

##### Management Response

The Authority will work with the IT consultant to develop an IT strategic plan.

#### Current Year Status

Due to the size, nature and funding available to our operation, it is not feasible to establish an IT strategic plan. See current recommendation at AUC-2021-03.