

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

BASIC FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

PREPARED BY THE FINANCE DEPARTMENT

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EAST CONTRA COSTA TRANSIT AUTHORITY

BASIC FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying basic financial statements of Eastern Contra Costa Transit Authority (Authority) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Authority as of June 30, 2016 and 2015, and changes in financial position and cash flows for the years then ended in conformity 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 Management's Discussion and Analysis 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016, 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 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.



Pleasant Hill, California
November 28, 2016

Management's Discussion and Analysis

Introduction

This discussion and analysis of the Eastern Contra Costa Transit Authority's financial performance provides an overview of the Authority's financial activities for Fiscal Year 2016 including comparisons to prior fiscal 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 the two as *net position*. The change in net position over time can indicate whether the Authority's financial position is improving or deteriorating.

The *Statements 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 of the Authority 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 of those services, services that have been contracted out and the depreciation of fixed 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 four major components:

- *Cash flows from operating activities* including transactions reported as components of operating income in the statement of revenues, expenses and changes in net position.
- *Cash flows from investing activities* include interest and similar returns on funds invested while held by the Authority.
- *Cash flows from non-capital financing activities* includes 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 Financial Statements

Immediately following the basic financial statements are notes 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 ECCTA's Overall Financial Position

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>%</u>
Assets:				
Current Assets	\$10,055	\$6,384	\$3,671	58%
<u>Net Capital Assets</u>	<u>\$18,248</u>	<u>\$20,696</u>	<u>(\$2,448)</u>	<u>-12%</u>
Total Assets:	\$28,303	\$27,080	\$1,223	5%
Liabilities:				
Current Liabilities	\$ 5,254	\$ 3,058	\$2,196	72%
<u>Non-Current Liabilities</u>	<u>\$ 329</u>	<u>\$ 285</u>	<u>\$ 44</u>	<u>15%</u>
Total Liabilities:	\$ 5,583	\$ 3,343	\$2,340	67%
Net Position:	\$22,720	\$23,737	(\$1,017)	-4%

The Authority's current assets increased substantially from FY15 to FY16 because there were more than \$3M in operating and capital funds receivable at year end FY16. This was due to two factors: The Authority delayed submitting invoices for reimbursement for capital projects until year end in order to be able to close out capital grants at project completion. And because there were issues with the State Controller's office related to appropriation and allocation of statewide transit operating funds such that the Authority had over \$2M in operating assistance receivable at year end. The issues were resolved a few months after fiscal year end 2016 and the SCO released the FY16 operating funds.

The Authority also saw a 62% increase in liabilities at year end 2016 compared to FY15. The material factor in this increase was a \$2.3M increase in accounts payable. This was a result of the Authority accruing a return of over \$2M to the LTF fund at Contra Costa County to be held in reserve for the ECCTA.

The 4% decrease during FY16 in the Authority's net position from the prior year is a result of the combined effect of the items described above.

The Authority has maintained a significant reserve of unallocated state funds by not drawing all such funds in the year they are generated when possible and allowing the excess to carryover as a reserve. Those reserves were heavily depleted during the national economic downturn several years ago and are slowly being rebuilt by the Authority. The accounts payable accrual mentioned above will be returned to the reserve balance outlined below.

ECCTA Year End LTF Balances

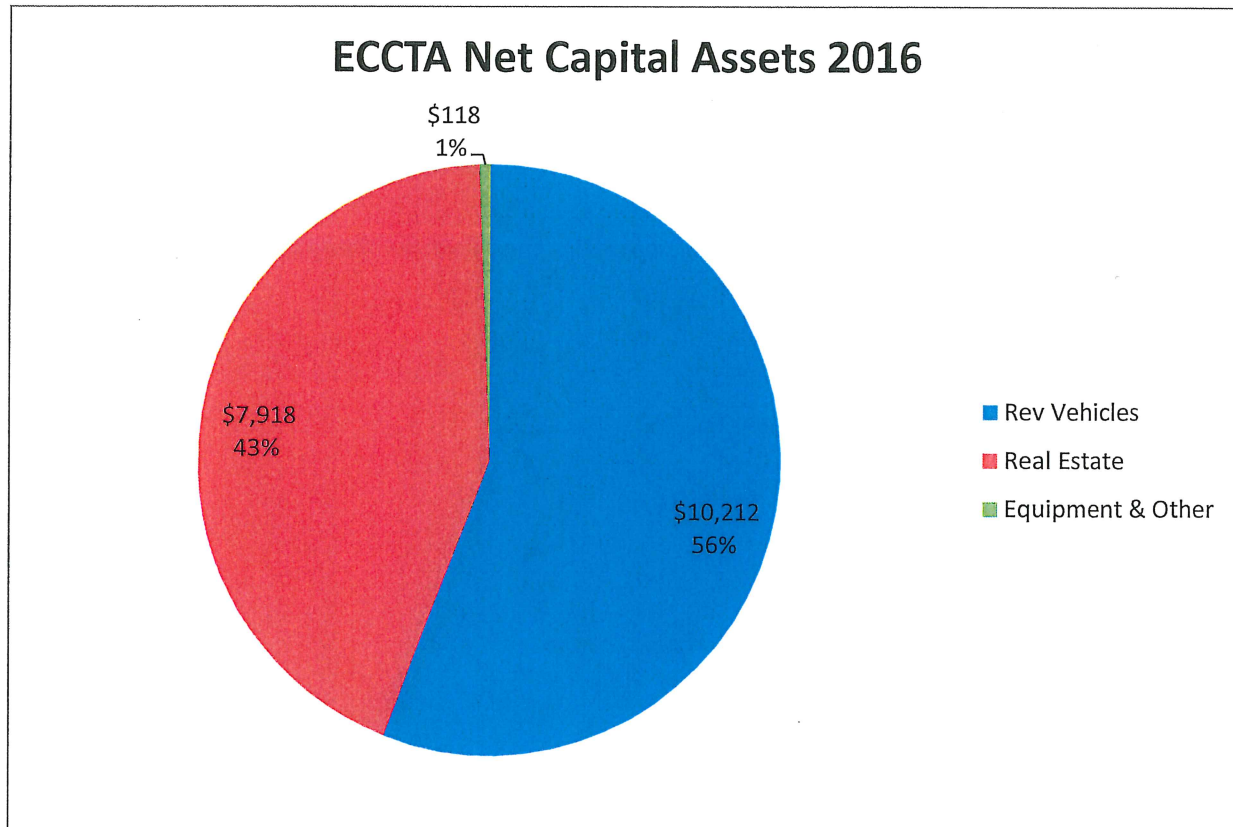
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
TDA Funds	\$818	\$817	\$2,095	\$3,162	\$2,741	\$4,133	\$3,137
STA Funds	<u>0</u>	<u>88</u>	<u>175</u>	<u>32</u>	<u>301</u>	<u>4</u>	<u>1,974</u>
YE Balance:	\$818	\$905	\$2,270	\$3,194	\$3,042	\$4,137	\$5,111

Capital Activity:

The Authority expended \$1.2M of available capital funds during FY16 on various projects:

Revenue Vehicles	\$ 959
Communication & Information Systems	50
Other	<u>182</u>
Total	\$ 1,191

Revenue vehicles remain the major component of the Authority's net capital assets and will do so going forward.



Long Term Debts:

The Authority has only one long term debt. It is a provision for a limited – three year maximum - post employment, health care benefit. The Authority implemented GASB 45 provisions in 2008.

Operating Activity:

Comparison to Budget

	FY16 Actual	FY16 Budget	Variance
Operating Revenues	\$ 3,603	\$ 3,507	\$ 96
Operating Expenses	\$ 19,955	\$ 21,445	\$ 1,490
Non-Operating Revenues	\$ 16,352	\$ 17,938	\$ (1,586)

Prior Year Comparison

	FY16 Actual	FY15 Actual	Difference
Operating Revenues	\$ 3,603	\$ 3,582	\$ 21
Operating Expenses	\$ 19,955	\$ 20,107	\$ 152
Non-Operating Revenues	\$ 16,352	\$ 16,525	\$ (173)

During FY16, the Authority budgeted for and operated about 210 thousand hours of revenue service.

While the Authority anticipated 3M passenger trips in FY16, the actual number provided fell 10% short of the plan at 2.7M.

EASTERN CONTRA COSTA TRANSIT AUTHORITY KEY PERFORMANCE INDICATORS BY SERVICE

	<i>FY16 Budget</i>		<i>Annual Comparison</i>		
	<i>Jun-16</i>	<i>% ▲</i>	<i>Jun-15</i>	<i>Jun-16</i>	<i>% ▲</i>
DIAL-A-RIDE					
PASSENGERS					
Total DAR Trips Provided	140,000	5%	133,769	131,917	-1%
Average Weekday Ridership	506	4%	487	489	0%
Average Sat Ridership	164	7%	153	118	-23%
Average Sun/Hol Ridership	66	5%	63	49	-22%
Average Passengers/Hour (<i>wkdys</i>)	2.2	9%	2.0	2.2	7%
CUSTOMER SERVICE					
Ride Refusals / Day	0.0	0%	0.0	0.0	0%
Customer Complaints	0.103%	0%	0.103%	0.114%	11%
On Time Performance	90%	3%	87%	85%	-3%
MAINTENANCE					
Gallons of Fuel Consumed	144,619	4%	138,528	135,809	-2%
Miles Between Preventable Accidents	200,000	23%	162,293	159,143	-2%
Miles Between Road calls	100,000	0%	139,113	190,963	37%
COST RATIOS					
Farebox Recovery Ratio	10%	0%	10%	10%	0%
\$/Gal Fuel	\$ 3.25	5%	\$ 3.09	\$ 2.59	-16%
Operating Cost/Passenger	\$ 35.23	3%	\$ 34.18	\$ 34.41	1%
Operating Cost/Revenue Hour	\$ 71.60	3%	\$ 69.81	\$ 72.26	4%
Operating Cost/Revenue Mile	\$ 6.01	5%	\$ 5.74	\$ 5.85	2%
FIXED ROUTE					
PASSENGERS					
Total FR Trips Provided	2,826,000	1%	2,806,028	2,574,864	-8%
Average Weekday Ridership	9,949	2%	9,794	8,999	-8%
Average Sat Ridership	3,391	-3%	3,498	3,061	-12%
Average Sun/Hol Ridership	2,695	-3%	2,787	2,501	-10%
Average Passengers/Hour	19.3	1%	19.2	17.8	-7%
CUSTOMER SERVICE					
Customer Complaints	0.009%	0%	0.009%	0.009%	1%
On Time Performance	90%	-2%	92%	92%	0%
MAINTENANCE					
Gallons of Fuel Consumed	594,981	-1%	600,072	606,378	1%
Miles Between Preventable Accidents	100,000	2%	98,066	97,469	-1%
Miles Between Road calls	50,000	20%	41,553	27,690	-33%
COST RATIOS					
Farebox Recovery Ratio	18%	1%	18%	18%	0%
\$/Gal Fuel	\$ 3.00	8%	\$ 2.77	\$ 1.96	-29%
Operating Cost/Passenger	\$ 5.79	5%	\$ 5.54	\$ 5.98	8%
Operating Cost/Revenue Hour	\$ 111.77	5%	\$ 106.36	\$ 106.33	0%
Operating Cost/Revenue Mile	\$ 8.07	6%	\$ 7.62	\$ 7.49	-2%

Material variances from budget during FY16 for the Authority were \$412 thousand savings on salaries and benefits due to leaving positions unfilled and turnover combined with \$837 thousand in materials and supplies with more than half of that being fuel. There was another \$132 thousand savings against budget in purchased transportation costs due to schedule adjustments during the year.

Economic Factors and Next Year's Budgets and Rates

Operating fund sources remain a concern for the Authority. More than 60% of the Authority's operating fund base involve retail sales taxes which ebb and flow with general economic conditions. And, there is little opportunity for other sources of operations funding.

But the Authority has managed, through diligent monitoring of services and costs, combined with judicious utilization of reserve funds, to weather the vagrancies of economic activity.

The Authority faces the common pressures of any business enterprise today; the rising costs of employee benefits, particularly health care and worker's compensation.

At \$2M fuel is 10% of the Authority's annual budget. Fuel is at a historic low right now and energy is a volatile market. This makes it difficult for the Authority to plan operations with certainty of this basic need. The Authority is looking into fuel hedging as a way to better plan fuel costs and not have whip sawing energy prices driving ECCTA's planning from year to 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: CFO
801 Wilbur Avenue
Antioch, CA 94590
(925) 754-6622
comment@eccta.org

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

EASTERN CONTRA COSTA TRANSIT AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets		
Unrestricted assets:		
Cash and equivalents (Note 3)	\$3,365,145	\$3,187,470
Operating assistance receivable	2,272,057	425,283
Capital grants receivable	1,112,261	22,217
Accounts receivable	114,476	93,533
Maintenance inventories and supplies, at cost	742,700	681,935
Total unrestricted assets	7,606,639	4,410,438
Restricted cash and equivalents (Note 3):		
PTMISEA reserves (Note 8)	1,784,567	1,604,912
CTSGP reserves	190,016	190,003
LCTOP reserves	473,681	178,646
Total restricted assets	2,448,264	1,973,561
Total Current Assets	10,054,903	6,383,999
Non-Current Assets		
Capital assets (Note 4):		
Non-depreciable	2,456,985	2,456,985
Depreciable, net of accumulated depreciation	15,790,678	18,238,675
Total Non-Current Assets	18,247,663	20,695,660
Total Assets	28,302,566	27,079,659
LIABILITIES		
Current Liabilities		
Accounts payable	4,911,316	2,679,440
Accrued liabilities	342,411	378,639
Total Current Liabilities	5,253,727	3,058,079
Non-Current Liabilities		
Other Post Employment Benefit Obligation (Note 10C)	329,000	285,000
Total Liabilities	5,582,727	3,343,079
NET POSITION (Note 2G)		
Net investment in capital assets	18,247,663	20,695,660
Restricted for:		
PTMISEA projects	1,784,567	1,604,912
CTSGP projects	190,016	190,003
LCTOP operations	473,681	178,646
Unrestricted	2,023,912	1,067,359
Net Position	\$22,719,839	\$23,736,580

See accompanying notes to basic financial statements

EASTERN CONTRA COSTA TRANSIT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
PROGRAM OPERATING REVENUES		
Passenger fares	\$3,273,431	\$3,246,672
Other operating income	330,066	335,853
Total Program Operating Revenues	3,603,497	3,582,525
PROGRAM OPERATING EXPENSES		
Purchased transportation (Note 12)	11,555,396	11,310,882
Materials and supplies	2,738,513	3,175,222
Salaries and benefits	3,822,009	3,784,585
Services	759,752	796,231
Casualty and liability insurance	468,343	412,446
Utilities	263,098	246,878
Other	348,429	380,803
Depreciation (Note 4)	2,731,419	3,197,098
Total Program Operating Expenses	22,686,959	23,304,145
PROGRAM OPERATING LOSS	(19,083,462)	(19,721,620)
NON-OPERATING REVENUES (EXPENSES)		
State grant revenues	10,811,521	12,526,651
Local grant revenues	4,151,192	3,993,516
Non-transportation revenues	5,435	5,139
Federal Grant Revenues	1,383,895	
Gain (Loss) on sale of capital asset		(784)
Net Non-Operating Revenues, Before Capital Contributions (Grants)	16,352,043	16,524,522
Capital Contributions (Grants)	1,714,678	1,658,605
Net Non-Operating Revenues and Capital Contributions	18,066,721	18,183,127
CHANGE IN NET POSITION	(1,016,741)	(1,538,493)
NET POSITION AT BEGINNING OF YEAR	23,736,580	25,275,073
NET POSITION AT END OF YEAR	\$22,719,839	\$23,736,580

See accompanying notes to basic financial statements

EASTERN CONTRA COSTA TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares	\$3,252,488	\$3,296,071
Cash received from operations - other	330,066	335,853
Cash payments for purchased transportation	(11,555,396)	(11,310,882)
Payments to and on behalf of employees	(3,778,009)	(3,749,585)
Payments to suppliers for goods and services	(2,443,252)	(4,585,500)
	(14,194,103)	(16,014,043)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	5,435	5,139
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal grants and reimbursement	1,383,895	
State operating grants	9,721,477	12,651,606
Local grants	2,304,418	3,947,352
	13,409,790	16,598,958
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions received	1,239,975	160,788
Proceeds from sale of capital assets		17,887
Purchase of capital assets	(283,422)	(721,395)
	956,553	(542,720)
NET CASH FLOWS	177,675	47,334
CASH AND INVESTMENTS AT BEGINNING OF YEAR	3,187,470	3,140,136
CASH AND INVESTMENTS AT END OF YEAR	\$3,365,145	\$3,187,470
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	(\$19,083,462)	(\$19,721,620)
Depreciation	2,731,419	3,197,098
Change in assets and liabilities:		
Other receivables	(20,943)	49,399
Maintenance inventories and supplies	(60,765)	1,010
Accounts payable	2,231,876	445,731
Accrued liabilities	(36,228)	(20,661)
Other post employment benefit obligation	44,000	35,000
	(\$14,194,103)	(\$16,014,043)

See accompanying notes to basic financial statements

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EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015

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, 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 generally accepted accounting principles 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 and deferred outflows, liabilities and deferred inflows, 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, 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 Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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.

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 provides insurance with primary coverage of \$20,000,000 in aggregate. In addition, the Authority is insured for premises and operational bodily injury and property damage up to a limit of \$12,100,000, 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 over all its liabilities and deferred inflows. Net Position are divided into three captions and apply 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 PTMISEA, CTS GP and LCTOP.

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

EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Use of Estimates

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

I. Deferred Inflow/Outflow of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

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 generally accepted accounting principles. 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.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. *New Accounting Pronouncements*

The Authority has implemented the requirements of the following GASB Pronouncements:

GASB Statement No. 72 – *Fair Value Measurement and Application*. The intention of this Statement is to enhance the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. It also enhances fair value application guidance and related disclosures. This statement required modifications to the notes to financial statements.

GASB Statement No. 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement had no impact on the Authority’s financial statements.

GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*. The objective of this Statement is to address for certain external investment pool and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. This statement is effective for the periods beginning after December 15, 2015, or the 2015-2016 fiscal year. This Statement had no impact on the Authority’s financial statements.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015

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 generally accepted accounting principles. 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:

	2016	2015
Unrestricted cash:		
Deposits in financial institutions	\$3,364,444	\$3,186,920
Cash on hand at Authority	701	550
Total unrestricted cash and equivalents	3,365,145	3,187,470
Restricted - certificates of deposit:		
PTMISEA reserve	1,784,567	1,604,912
CTSGP reserve	190,016	190,003
LCTOP reserve	473,681	178,646
Total restricted cash and equivalents	2,448,264	1,973,561
Total Cash and Equivalents	\$5,813,409	\$5,161,031

B. Fair Value Hierarchy

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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.

The Authority only has investments in Money Market accounts of \$3,056,976 and Certificates of Deposit of \$2,448,264, which are exempt from fair market value measurements.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

C. PTMISEA Reserve

The Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA) is one of the programs included in Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act, passed by voters in November 2006 (see Note 8). The Authority is applying these funds to eligible capital expenditures for bus replacements.

D. CTSGP Reserve

The California Transit Security Grant Program (CTSGP) California Transit Assistance Fund is another program included in Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act, passed by voters in November 2006. The Authority is applying these funds to eligible capital expenditures for interoperable communications and physical security enhancement equipment.

E. LCTOP Operations

The Low Carbon Transit Operations Program (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. LCTOP was passed and adopted by the Authority in January 2016. The Authority is applying these funds to enhance service on Route 201 (Concord, CA).

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 all assets when costs exceed \$5,000.

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

EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015

NOTE 4 – CAPITAL ASSETS (Continued)

A. Capital Asset Activity

Capital assets activity during fiscal year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Balance June 30, 2016
Capital assets not being depreciated:			
Land	\$2,456,985		\$2,456,985
Total capital assets not being depreciated	<u>2,456,985</u>		<u>2,456,985</u>
Capital assets being depreciated:			
Buildings and improvements	12,998,495	\$189,050	13,187,545
Transit vehicles	28,931,437	28,570	28,960,007
Equipment	3,672,855	65,802	3,738,657
Total capital assets being depreciated	<u>45,602,787</u>	<u>283,422</u>	<u>45,886,209</u>
Less accumulated depreciation for:			
Buildings and improvements	7,084,650	517,915	7,602,565
Transit vehicles	16,675,898	2,123,503	18,799,401
Equipment	3,603,564	90,001	3,693,565
Total accumulated depreciation	<u>27,364,112</u>	<u>2,731,419</u>	<u>30,095,531</u>
Total depreciable assets	<u>18,238,675</u>	<u>(2,447,997)</u>	<u>15,790,678</u>
Capital assets, net	<u>\$20,695,660</u>	<u>(\$2,447,997)</u>	<u>\$18,247,663</u>

EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015

NOTE 4 – CAPITAL ASSETS (Continued)

Capital assets activity during fiscal year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
Capital assets not being depreciated:				
Land	\$2,456,985			\$2,456,985
Total capital assets not being depreciated	2,456,985			2,456,985
Capital assets being depreciated:				
Buildings and improvements	12,715,138	\$283,357		12,998,495
Transit vehicles	28,827,388	355,002	(\$250,953)	28,931,437
Equipment	3,606,210	83,036	(16,391)	3,672,855
Total capital assets being depreciated	45,148,736	721,395	(267,344)	45,602,787
Less accumulated depreciation for:				
Buildings and improvements	6,509,093	575,557		7,084,650
Transit vehicles	14,842,073	2,067,747	(233,922)	16,675,898
Equipment	3,064,521	553,794	(14,751)	3,603,564
Total accumulated depreciation	24,415,687	3,197,098	(248,673)	27,364,112
Total depreciable assets	20,733,049	(2,475,703)	(18,671)	18,238,675
Capital assets, net	<u>\$23,190,034</u>	<u>(\$2,475,703)</u>	<u>(\$18,671)</u>	<u>\$20,695,660</u>

B. Capital Contributions

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

Grants for 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.

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015**

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 Transportation Development Act of 1971 and State Transit Assistance (STA) funds. These funds are generated within Contra Costa County and are allocated based on annual claims filed by the Authority and approved by 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).

For the years ended June 30, 2016 and 2015, the maximum TDA operating assistance eligibility was \$10,490,522 and \$11,180,477, respectively. During the year ended June 30, 2016, the TDA operating funds received was \$10,464,556 resulting in an underpayment by MTC of \$25,966. The Authority increased the TDA Operating Receivable at June 30, 2016 in the amount of the deficit (see Note 9).

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 SB 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 \$531,835 and \$531,835 in RM2 funding during fiscal years ended June 30, 2016 and 2015, respectively. The Authority utilized the RM2 funds as operating assistance on a specific, express bus route per the program's requirements.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015

NOTE 5 – OPERATING GRANTS (Continued)

Operating assistance for the years ended June 30 are summarized as follows:

	2016	2015
Federal Transit Administration	\$1,383,895	
Transportation Development Act	8,092,592	\$10,886,823
State Transit Assistance	2,659,318	1,639,828
Inter-operator agreements (BART)	2,404,790	2,267,902
Measure J	1,214,567	1,193,779
Regional Measure 2	531,835	531,835
Low Carbon Transit Operations Program (LCTOP)	59,611	
Total	\$16,346,608	\$16,520,167

NOTE 6 - CAPITAL GRANTS

The Authority has received grants from the Federal Transit Administration (FTA) and grants of local transportation funds pursuant to the Transportation Development Act of 1971 (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.

The Authority's capital contributions for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
U.S. Department of Transportation grant awards	\$1,820,444	\$154,656
Less: funds used for operating costs	(1,383,895)	
<i>Sub-total:</i>	436,549	154,656
State grants	164,742	31,954
Other	1,039,355	59,338
<i>Total Capital Contributions</i>	\$1,640,646	\$245,948

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 \$1,344,177 and \$1,314,677 in Measure J operating assistance during fiscal years ended June 30, 2016 and 2015, respectively, of which \$1,214,567 and \$1,193,779, respectively, were applied to specific fixed route and para-transit bus services per CCTA's approved program. The remaining amount of \$19,610 and \$120,898 of Measure J funds for 2016 and 2015, respectively, 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.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015

NOTE 8 – PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT

The Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA) is one of the programs included in Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act, passed by voters in November 2006. During the fiscal year ended June 30, 2010, the Authority applied for and received \$1,802,885 for the procurement of California Air Resource Board (CARB) compliant diesel buses. During the year ended June 30, 2012, the Authority applied for and received \$2,922,016. During the year ended June 30, 2014, the Authority received \$327,019. During the year ended June 30, 2015, the Authority received \$1,277,391. During the year ended June 30, 2016, the Authority received \$178,754.

The activity during the last five fiscal years was as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
PTMISEA beginning balance	\$1,604,912	\$333,372	\$31,909
PTMISEA Funds Received	178,754	1,277,391	327,019
Interest Earned	901	767	265
Total Revenues	<u>1,784,567</u>	<u>1,611,530</u>	<u>359,193</u>
Expenditures incurred:			
Buses			
Shelters		<u>(6,618)</u>	<u>(25,821)</u>
Total Expenditures		<u>(6,618)</u>	<u>(25,821)</u>
Unexpended funds at year end	<u>\$1,784,567</u>	<u>\$1,604,912</u>	<u>\$333,372</u>
	<u>2013</u>	<u>2012</u>	
PTMISEA beginning balance	\$2,953,894	\$924,964	
PTMISEA Funds Received		2,922,016	
Interest Earned	13,911	1,680	
Total Revenues	<u>2,967,805</u>	<u>3,848,660</u>	
Expenditures incurred:			
Buses	(2,935,896)	(894,766)	
Shelters			
Total Expenditures	<u>(2,935,896)</u>	<u>(894,766)</u>	
Unexpended funds at year end	<u>\$31,909</u>	<u>\$2,953,894</u>	

EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015

NOTE 9 – TDA RECEIVABLE/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 during 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 Receivable represents the deficit of TDA operations grants received by the Authority over the allowed expenditures; any deficit amounts are payable to the Authority. A TDA Payable represents the surplus of TDA operations grants received by the Authority over the allowed expenditures. Such surpluses must be returned to the County Local Transportation Fund. The amount of TDA payable or receivable at year end is a provision that the Authority makes to request or return such TDA funds. At the end of fiscal year ended June 30, 2016, the Authority was still owed from MTC the amount of \$25,966 in TDA Operating Funds revenues. As a result, the Authority increased its TDA Operating receivable by the amount of the deficit.

For the years ended June 30, 2016 and 2015, the maximum TDA operating assistance eligible was \$10,490,522 and \$11,180,477, respectively. The actual TDA operating funds received for the years ended June 30, 2016 and 2015 were \$10,464,556 and \$10,857,377 respectively. The TDA Receivable for the years ended June 2016 and 2015, respectively, were \$25,966 and \$323,100, respectively, and were calculated as follows:

	2016	2015
TDA operating assistance allowable	\$10,490,522	\$11,180,477
Actual TDA operating assistance received	(10,464,556)	(10,857,377)
Receivable	\$25,966	\$323,100

NOTE 10 – EMPLOYEE RETIREMENT PLANS

The Authority offers two retirement plans - a 401(a) and a 457(b) plan. The plans are optional. The Authority also offers Other Post Employment Benefits (OPEB).

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 a maximum of 25%, or the federally allowed maximum amount of his or her gross compensation, whichever is less.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015

NOTE 10 – EMPLOYEE RETIREMENT PLANS (Continued)

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 fiscal year ended June 30, 2016, the Authority contributed \$321,797 to the 401(a) plan on behalf of its participants.

B. *Deferred Compensation Plan*

The Authority employees may defer a portion of their compensation under an Authority sponsored Deferred Compensation Plan, administered by ICMA, 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.

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.

C. *Other Post Employment Benefits (OPEB)*

The Authority provides postretirement health care benefits to full time administrative employees who retire directly from the Authority after attaining the age of 62 with at least 20 years of service. As of June 30, 2016, there were no participants receiving these health care benefits. The Authority does not anticipate paying any OPEB until fiscal year ending June 30, 2017.

The Authority will pay the entire COBRA Kaiser Health Savings Account (HSA) plan premium for the retired employee and their eligible dependents until the 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.

Under the provisions of Governmental Accounting Standards Board Statement Number 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the Authority has elected to use an alternative method in calculating its OPEB liability, which is recorded as a noncurrent liability in the Statement of Net Position. The Authority is on a pay-as-you-go funding policy, and uses the following assumptions in calculating the liability on an annual basis: current COBRA Kaiser HSA rate, 10% annual inflation factor, and .5% investment rate of return.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015

NOTE 11 - 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 Federal Single Audit Act, as amended, 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.

On February 4, 2016, the Authority entered into an agreement with California Energy Resources Conservation and Development Commission for \$1,355,000, 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 East Contra Costa Transit Authority main office, located in Antioch, California. Principal and interest payments are payable semiannually in the amount of \$39,648 with the first repayment due on December 22, 2017 and final installment due on June 22, 2036. The Authority has not received the loan amount as of the fiscal year ended June 30, 2016.

NOTE 12 - MAJOR CONTRACTOR

The Authority has an agreement dated July 30, 2011 with First Transit, Inc., a private transit firm, to provide transportation management and operations services on behalf of the Authority through June 30, 2016. On May 2, 2016, the contract was extended through June 30, 2020. Expenses recorded under this contract amounted to \$11,555,396 and \$11,310,882 for fiscal years ended June 30, 2016 and 2015, respectively, and are recorded as purchased transportation.

**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***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Eastern Contra Costa Transit Authority (Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 28, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

Authority's Response to Findings

The Authority's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated November 28, 2016, which is an integral part of our audits and should be read in conjunction with this report. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Maze & Associates

Pleasant Hill, California
November 28, 2016

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE WITH THE RULES AND REGULATIONS OF THE
PUBLIC TRANSPORTATION MODERNIZATION
IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA)**

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

We have audited the statement of revenues and expenditures of the Eastern Contra Costa Transit Authority Public Transportation Modernization, Improvement and Service Enhancement Account Projects, a program of the Eastern Contra Costa Transit Authority, California, (the Authority) in accordance with general accepted auditing standards in the United States of America as of and for the year ended June 30, 2016, and have issued our report thereon dated November 28, 2016.

In connection with our audit, we have read and performed the applicable audit procedures contained in the *Public Transportation Modernization, Improvement and Service Enhancement Account Guideline* (Guideline) adopted by the California of Department of Transportation.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

The Authority's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated November 28, 2016, which is an integral part of our audits and should be read in conjunction with this report. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Pleasant Hill, California
November 28, 2016