

**EASTERN CONTRA COSTA
TRANSIT AUTHORITY**

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

Years Ended June 30, 2011 and 2010

EASTERN CONTRA COSTA TRANSIT AUTHORITY

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Eastern Contra Costa Transit Authority (Authority), also known as Tri Delta Transit, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2011 and 2010 and the changes in its financial position and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2011, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Procedures* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, listed on pages 2 through 5, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting. 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.

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



Clay, Millias & Co., LLP
September 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011 AND 2010

Introduction

The following discussion and analysis of the financial performance and activity of the Eastern Contra Costa Transit Authority (ECCTA or the Authority) is management's analysis of the financial statements of as presented in this annual report. This discussion has been prepared by management and should be read in conjunction with the financial statements and their corresponding footnotes, which follow this section.

Background

The Eastern Contra Costa Transit Authority (ECCTA), operating as Tri Delta Transit, was formed in 1976 as a Joint Powers Agency (JPA) by the cities of Antioch, Brentwood and Pittsburg and Contra Costa County. The JPA was created in recognition of the need for local bus service to complement the system of BART Express buses which began serving Eastern Contra Costa County in 1975. The 225 square mile area served included the unincorporated county areas known as Shore Acres, Bay Point, Oakley, Bethel Island, Discovery Bay, and Byron.

The Metropolitan Transportation Commission (MTC) provided demonstration funding to support the first two years of ECCTA administrative and contract operating expenses. ECCTA was subsequently certified as an eligible claimant of Transportation Development Act (TDA) funds for the East County sub-regional area.

On April 26, 2000, the JPA was modified to recognize the newly incorporated, City of Oakley as a full member.

Fixed route service was initiated in July 1977 as a result of an agreement with AC Transit to provide local bus service. Under this agreement, AC Transit owned, operated, and maintained all vehicles in fixed route service.

ECCTA added paratransit service, also known as Dial-a-Ride, in January 1979 to serve senior and disabled residents of Eastern Contra Costa County under a service contract with Community Transit Services, (CTS), a private service provider. Dial-a-Ride was expanded to serve all residents of rural East County in 1981. In July 1991, the Dial-a-Ride service was once again limited to seniors and disabled persons. The Dial-a-Ride service has always been provided using ECCTA owned vehicles and ECCTA owned or leased facilities.

ECCTA is governed by an eleven-member Board of Directors supported by a professional staff. The Board includes two representatives from each JPA member jurisdiction and one at-large member appointed by the other ten board members.

ECCTA has grown into a twenty one route scheduled bus system including several commuter and express services to locations outside of East County. And ECCTA operates a complimentary paratransit system.

ECCTA owns a fleet of ninety nine buses and paratransit vans, contracting with First Transit for operational services in all modes. The management, oversight of the service contract, planning, and service marketing is provided by transit professionals employed by the Authority.

The Financial Statements

ECCTA's financial statements include the following:

- The *Statements of Net Assets* summarizes ECCTA's assets and liabilities at fiscal year-end FY11 and FY10. Net assets are displayed in three components respectively; capital invested, restricted net assets and unrestricted net assets.
- The *Statements of Revenues, Expenses, and Changes in Net Assets* present information to show changes in ECCTA's assets during the fiscal year. The Statements categorize revenues and expenses as either operating or non-operating, based upon the definitions provided by GASB Statements No. 33 and No. 34.
- The *Statements of Cash Flows* are presented using the direct method and include a reconciliation of operating cash flows to operating loss.
- The *Notes to Financial Statements* are provided to help the reader form a more comprehensive assessment of ECCTA's financial condition. The information further explains specific line-items within the financial statements and information related to the overall presentation. The notes also detail how the valuations for certain accounts have been represented within the financial statements.

Statements of Net Assets

(\$000s)

	<u>2011</u>	<u>2010</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Current Assets	\$ 5,069	\$ 5,680	\$ (611)	-11%
Capital Assets	<u>16,575</u>	<u>17,364</u>	<u>(789)</u>	<u>-5%</u>
Total Assets	<u>\$ 21,644</u>	<u>\$ 23,044</u>	<u>\$ (1,400)</u>	<u>-6%</u>
Current Liabilities	<u>2,694</u>	<u>2,840</u>	<u>(146)</u>	<u>-5%</u>
Total Liabilities	<u>\$ 2,694</u>	<u>\$ 2,840</u>	<u>\$ (146)</u>	<u>-5%</u>
Net Assets				
Capital Invested	21,834	19,877	1,957	10%
Unrestricted	(3,839)	(878)	(2,961)	337%
Temporarily Restricted	<u>954</u>	<u>1,205</u>	<u>(251)</u>	<u>-21%</u>
Total Net Assets	<u>\$ 18,949</u>	<u>\$ 20,204</u>	<u>\$ (1,255)</u>	<u>-6%</u>

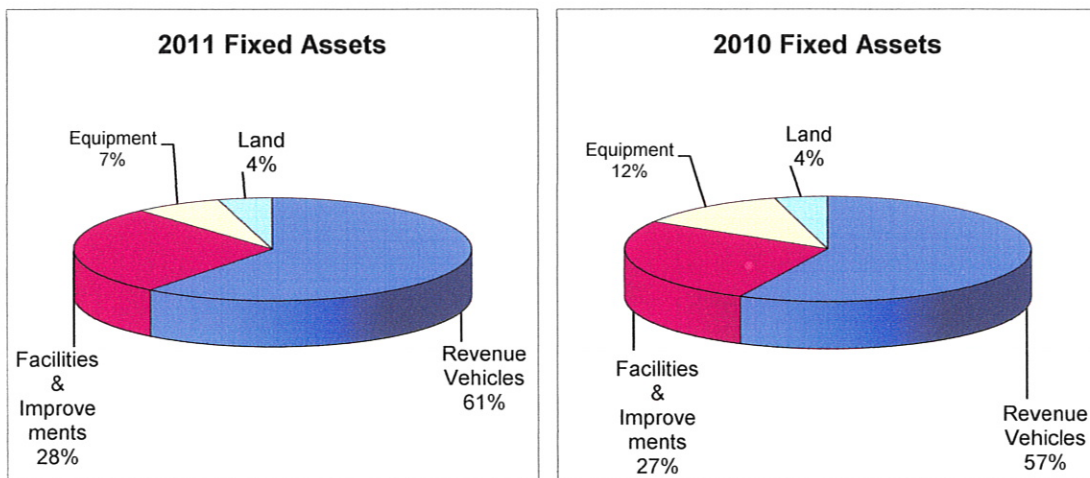
- Current assets decreased by 11% (\$1.4M) from FY10 to FY11. A \$2.2M decrease in cash on hand combined with a \$0.8M decrease in net fixed assets was offset by a \$1.5M increase in receivables.
- The increase in receivables was primarily due to an accrual of \$1.6M in TDA funds offsetting an operating loss for the year. This TDA accrual was made against the existing TDA reserve held in the Local Transportation Fund.
- The \$0.8M decrease in net capital assets was the result of the \$3M FY11 depreciation provision offset by \$2.2M in additions to capital assets.

Statements of Net Capital Assets

(\$000s)

	<u>2011</u>	<u>2010</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Revenue Vehicles	\$ 26,855	\$ 25,910	\$ 945	4%
Facilities & Improvements	12,441	12,062	379	3%
Equipment	3,156	5,500	(2,344)	-43%
Land	1,944	1,921	23	1%
Accumulated Depreciation	<u>(27,821)</u>	<u>(28,029)</u>	<u>208</u>	<u>-1%</u>
Total Net Capital Assets	<u>\$ 16,575</u>	<u>\$ 17,364</u>	<u>\$ 1,153</u>	<u>7%</u>

- Additions to capital assets during FY11 were \$2.2M. The largest single project amount, more than \$750 thousand, was expended on procurement and installation of CARB required diesel emission control equipment for the buses.
- Disposal of two Dial a Ride vans resulted in an \$82 thousand deletion in capital assets.
- The FY11 depreciation provision of \$3M was offset by the write off of fully depreciated assets and the associated accumulated depreciation (net book value = \$0) from the Authority's books.



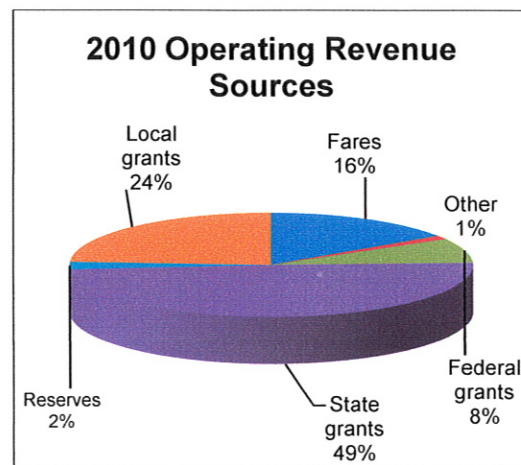
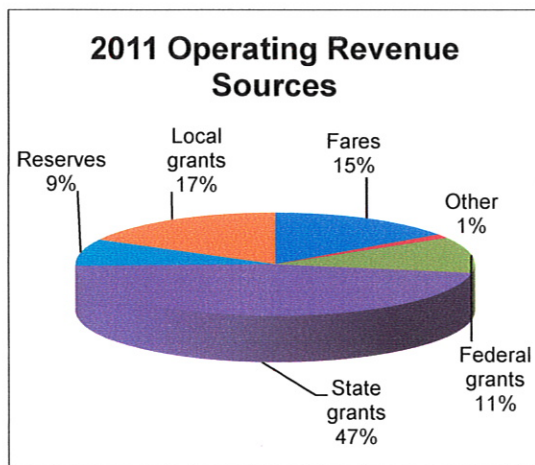
- Revenue vehicles remain the largest component of ECCTA's capital assets with facilities and improvements next.
- Capital funding programmed for future fiscal years is sufficient for continued replacement of revenue vehicles as necessary. Estimated future capital funds for other projects are very limited. This may inhibit the Authority's ability to prosecute other capital replacement or expansion projects.
- Additional capital fund sources must be identified for ECCTA to develop and construct park and ride lots on land that has been acquired with federal funds as part of a larger, neighborhood park and ride lot program designed to enhance local, fixed route services and better serve future eBART stations.

Statements of Revenue, Expenses, and Change in Net Assets (\$000s)

	<u>2011</u>	<u>2010</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Operating Revenues	\$ 3,166	\$ 3,015	\$ 151	5%
Non-Operating Revenues	16,268	5,297	971	6%
Capital Grant Contributions	<u>1,706</u>	<u>3,318</u>	<u>(1,612)</u>	<u>-49%</u>
Operating Expenses	<u>(22,395)</u>	<u>(20,798)</u>	<u>(1,597)</u>	<u>8%</u>
Increase/(Decrease) in Net Assets	<u>\$ (1,255)</u>	<u>\$ 832</u>	<u>\$ (2,087)</u>	<u>251%</u>

Statement of Operating Revenues (\$000s)

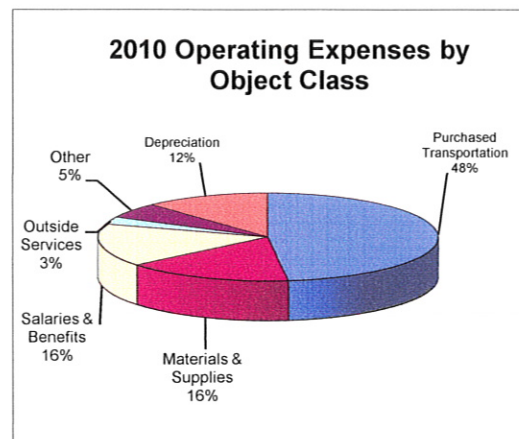
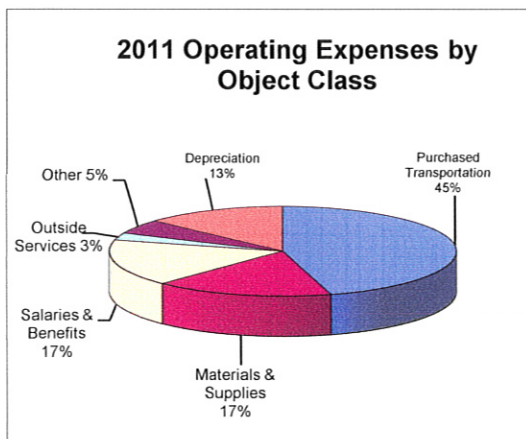
	<u>2011</u>	<u>2010</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Fares	\$ 2,954	\$ 2,841	\$ 113	4%
BART DR Services	133	116	17	15%
Advertising	<u>79</u>	<u>58</u>	<u>21</u>	<u>36%</u>
Operating Revenues	<u>\$ 3,166</u>	<u>\$ 3,015</u>	<u>\$ 151</u>	<u>5%</u>



- TDA reserves made up substantially more of FY11 operating revenues than they did in FY10.
- \$1.2M in planned federal operating revenue was deferred to ECCTA's FY12 due to logistical issues with congressional appropriations. ECCTA accrued an equal amount of TDA funds from the Authority's reserve to replace these federal funds.

Operating Expenses By Object Class (\$000s)

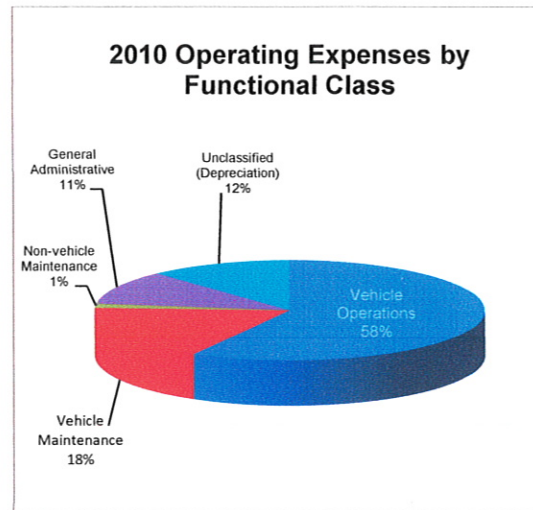
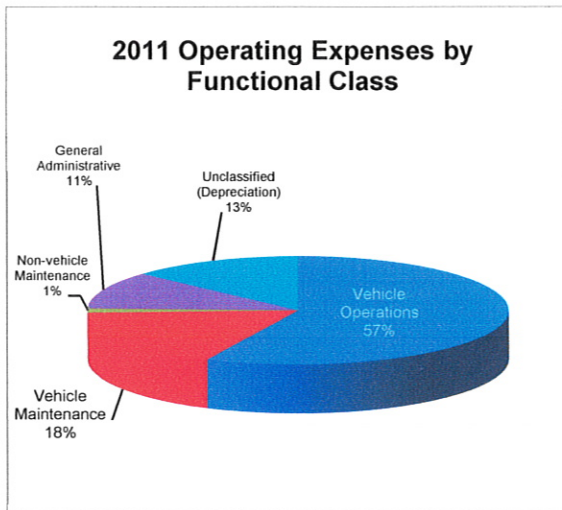
		<u>2011</u>	<u>2010</u>	<u>Increase/(Decrease)</u>	
				<u>Amount</u>	<u>%</u>
Purchased Transportation	\$	10,203	\$ 9,994	\$ 209	2%
Materials & Supplies		3,719	3,309	410	12%
Salaries & Benefits		3,754	3,269	485	15%
Outside Services		584	572	12	2%
Other		1,174	1,167	7	1%
Depreciation		2,961	2,487	474	19%
Operating Expenses	\$	<u>22,395</u>	<u>20,798</u>	<u>1,597</u>	<u>8%</u>



- Total FY11 operating expenses were 8% higher than FY10 operating expenses while FY11 operating and non-operating revenues increased by only 6%.
- FY11 actual operating expenses exceeded the FY11 budgeted operating expenses by \$400 thousand for which an accrual against the TDA reserve was required.
- Continued increases in fringe benefit costs are a major factor in increasing operating expenses. Escalating health care costs and compensated absences as the ECCTA workforce's tenure increases account for 75% of the fringe benefit cost increases from FY10 to FY11.
- Substantive increases in material and supply costs contribute the second largest increase in operating costs after salaries & benefits. Fuel cost increases account for virtually all of the material & supply cost increases for the last several years.
- Depreciation, although an operating cost, is funded through capital sources via asset replacements purchased with capital funds.

Operating Expenses By Functional Class (S000s)

		<u>2011</u>	<u>2010</u>	<u>Increase/(Decrease)</u>	
				<u>Amount</u>	<u>%</u>
Vehicle Operations	\$	12,774	\$ 12,102	\$ 672	6%
Vehicle Maintenance		3,880	3,651	229	6%
Non-vehicle Maintenance		269	279	(10)	-4%
General Administrative		2,511	2,279	232	10%
Unclassified (Depreciation)		<u>2,961</u>	<u>2,487</u>	<u>474</u>	<u>19%</u>
Operating Expenses	\$	<u>22,395</u>	<u>20,798</u>	<u>1,597</u>	<u>8%</u>



- There is less operating revenue predicted to be available for FY12 vs. FY11 and FY10. The FY12 budget utilizes the remaining TDA reserve funds of \$1.9M.
- ECCTA staff is studying operating expense reductions that would bring expenses in line with anticipated revenues and rebuild TDA reserves over several years. The authority plans to reestablish a TDA reserve equal to the current year's actual generation for use in arrears the following year.

Contacting ECCTA's Financial Management

This financial report is designed to provide ECCTA's Board of Directors, management, legislative and oversight agencies, as well as patrons with an overview of the authority's finances and to demonstrate its accountability for funds received.

For additional information about this report, please contact Tom Harais, Chief Financial Officer, 801 Wilbur Avenue, Antioch, CA 94509, (925) 754-6622.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
 STATEMENTS OF NET ASSETS
 JUNE 30, 2011 AND 2010

	2011	2010
<u>ASSETS</u>		
CURRENT ASSETS:		
Unrestricted assets:		
Cash and investments	\$ 1,441,155	\$ 3,355,625
Operating receivable	1,898,332	235,907
Grant revenue receivable	10,000	66,160
Other receivables	97,908	156,944
Maintenance inventories and supplies- cost	667,318	660,253
Total unrestricted net assets	<u>4,114,713</u>	<u>4,474,889</u>
Restricted assets:		
PTMISEA reserves	924,964	1,087,792
CTSGP reserves	29,214	47,502
Measure C reserves	-	69,683
Total unrestricted net assets	<u>954,178</u>	<u>1,204,977</u>
Total current assets	<u>5,068,891</u>	<u>5,679,866</u>
NONCURRENT ASSETS:		
Capital assets not being depreciated	1,943,960	1,920,808
Capital assets being depreciated, net	14,630,889	15,443,504
Total Noncurrent Assets	<u>16,574,849</u>	<u>17,364,312</u>
TOTAL ASSETS	<u>\$ 21,643,740</u>	<u>\$ 23,044,178</u>
<u>LIABILITIES:</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,185,710	\$ 1,980,293
Accrued liabilities	508,655	859,738
Other payables	125	150
Total current liabilities	<u>2,694,490</u>	<u>2,840,181</u>
NET ASSETS:		
Capital invested	21,834,038	19,877,163
Unrestricted	(3,838,966)	(878,143)
Temporarily restricted net assets	954,178	1,204,977
Total Net Assets	<u>18,949,250</u>	<u>20,203,997</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,643,740</u>	<u>\$ 23,044,178</u>

See accompanying notes to financial statements.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:		
Passenger fares	\$ 2,954,173	\$ 2,841,014
Other operating income	212,003	173,556
Total Operating Revenues	<u>3,166,176</u>	<u>3,014,570</u>
OPERATING EXPENSES:		
Purchased transportation	10,203,474	9,993,425
Materials and supplies	3,719,062	3,308,793
Salaries and benefits	3,753,729	3,269,314
Services	584,380	571,856
Casualty and liability insurance	520,453	480,152
Utilities	187,366	180,995
Other	465,751	505,947
Depreciation	2,960,821	2,487,213
Total Operating expenses	<u>22,395,036</u>	<u>20,797,695</u>
OPERATING LOSS	(19,228,860)	(17,783,125)
NON-OPERATING REVENUES:		
Federal grant revenues	2,182,039	1,400,000
State grant revenues	10,716,948	9,443,990
Local grant revenues	3,338,400	4,423,542
Non-transportation revenues	30,652	29,333
Total Nonoperating Revenues	<u>16,268,039</u>	<u>15,296,865</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TDA OPERATING GRANT DEFICIT (SURPLUS)	(2,960,821)	(2,486,260)
CAPITAL CONTRIBUTIONS	<u>1,706,074</u>	<u>3,317,961</u>
INCREASE (DECREASE) IN NET ASSETS	(1,254,747)	831,701
NET ASSETS, Beginning of year	20,203,997	19,372,296
NET ASSETS, End of year	<u>\$ 18,949,250</u>	<u>\$ 20,203,997</u>

See accompanying notes to financial statements.

EASTERN CONTRA COSTA TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
JUNE 30, 2011 AND 2010

<u>STATEMENT OF CASH FLOWS</u>	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passenger fares	\$ 3,013,209	\$ 2,733,152
Cash received from operations- other	212,003	173,556
Cash payments for purchased transportation	(10,195,955)	(9,936,510)
Cash payments to employees for services	(4,104,837)	(3,729,660)
Cash payments to suppliers for goods and services	(5,272,049)	(3,797,169)
Net cash used in operations	<u>(16,347,629)</u>	<u>(14,556,631)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State operating grants	9,106,996	9,254,629
FTA grants	1,911,232	1,400,000
Local grants	3,297,754	4,423,542
Other	30,652	928,681
Net cash provided (used in) financing activities	<u>14,346,634</u>	<u>16,006,852</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions received	2,007,085	2,238,193
Restricted reserves	250,799	(1,035,923)
Purchase of capital assets	(2,171,359)	(1,823,709)
Net cash provided (used in) capital and related financing activities	<u>86,525</u>	<u>(621,439)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income received	<u>-</u>	<u>28,731</u>
Net Cash Provided by (used in) Investing Activities	<u>-</u>	<u>28,731</u>
NET INCREASE (DECREASE) IN CASH EQUIVALENTS	(1,914,470)	857,513
CASH AND CASH EQUIVALENTS, Beginning of year	<u>3,355,625</u>	<u>2,498,112</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,441,155</u>	<u>\$ 3,355,625</u>

See accompanying notes to financial statements

EASTERN CONTRA COSTA TRANSIT AUTHORITY
 STATEMENTS OF CASH FLOWS
 JUNE 30, 2011 AND 2010

<u>STATEMENT OF CASH FLOWS</u>	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (19,228,860)	\$(17,783,125)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,960,821	2,487,213
Effect of changes in:		
Other receivables	59,036	(107,862)
Accounts payable	205,417	780,978
Accrued liabilities	(344,043)	66,165
	<u> </u>	<u> </u>
Net cash used in operating activities	<u>\$ (16,347,629)</u>	<u>\$(14,556,631)</u>

See accompanying notes to financial statements

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010**

1. ORGANIZATION

The Eastern Contra Costa Transit Authority (Authority), also known as Tri Delta Transit, was created August 3, 1976 under a joint exercise of powers agreement between the cities of Antioch, Pittsburg, 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.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Temporarily Restricted Assets- consist of monies and other resources where the use is restricted (see Notes 4).

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

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

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

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010**

2. SIGNIFICANT ACCOUNTING POLICIES-continued

Contracted services - The Authority has contracted with First Transit, Inc., a private transit firm, to provide transportation management and operations services on behalf of the Authority through the year ending June 30, 2016. The costs associated with this contract are recorded as purchased transportation.

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

Operating assistance grants- are recorded as revenue when earned.

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

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

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

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

Capital invested – This component of net assets consists of accumulated capital grants received.

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

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

Compensated absences – Accumulated personal time off is recorded as an expense and liability as the benefit accrues to employees.

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

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010**

2. SIGNIFICANT ACCOUNTING POLICIES-continued

Contra Costa County Measure J Grants for operations and for capital projects are recorded as revenue and contributed capital, respectively, as received.

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

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 (see Note 5).

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

3. CASH AND INVESTMENTS

At June 30, 2011 and 2010, the Authority's carrying value of cash time and demand deposits was \$1,441,155 and \$3,355,625 respectively with corresponding bank balances of \$1,618,592 and \$3,540,636 respectively. Statutes authorize the Authority to invest in various instruments including, but not limited to, obligations of the U. S. Treasury, Certificates of Deposit, Bankers Acceptances, Repurchase Agreements, and the State Treasurer's Pool. The Authority's investments, carried at cost, at June 30, 2011 of \$954,178 consist entirely of restricted assets (see Note 4) and are invested in the Bank of Agriculture and Commerce and collateralized with securities by the pledging financial institution's agent in the Authority's name).

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

4. RESTRICTED INVESTMENTS

PTMISEA - The Public Transportation, Modernization, Improvement and Service Enhancement Account 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 9). The Authority is applying these funds to eligible capital expenditures for bus replacements. The balance at June 30, 2011 was \$924,964.

CTSGP – The California Transit Security Grant Program 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 (Note 9). The authority is applying these funds to eligible capital expenditures for interoperable communications and physical security enhancement equipment. The balance at June 30, 2011 was \$29,214.

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010**

4. RESTRICTED INVESTMENTS-continued

Measure C - The Contra Costa transportation sales tax (Measure C) - Para-transit Reserve Fund is maintained per the Contra Costa Transit Authority (CCTA) Cooperative Agreement between the Authority and CCTA. The CCTA agreement requires that the Authority maintains a separate account for Measure C Funds and, the funds (principal and interest) are to be used for approved para-transit expenditures. The balance at June 30, 2011 was \$-0-.

5. OPERATING ASSISTANCE

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 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, 2011 and 2010, the maximum TDA operating assistance eligibility was \$8,410,905 and \$8,693,009 respectively. During the year June 30, 2011 the TDA operating funds received were \$6,789,124 resulting in a deficit of \$1,621,780 (see Note 11).

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).

RM2 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 Regional Measure 2 program. The Authority is an eligible recipient for RM2 funds and received \$531,835 in RM2 funding during fiscal year 2011. 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 FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010**

5. OPERATING ASSISTANCE-continued

Operating assistance for the years ended June 30, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Federal Transit Administration	\$ 2,182,039	\$ 1,400,000
Transportation Development Act	8,410,904	8,693,009
State Transit Assistance	2,306,044	750,981
Inter-operator agreements (BART)	2,003,794	3,109,229
Measure J - (Note 8)	802,771	782,478
RM2 Funds	531,835	531,835
Total	<u>\$ 16,237,387</u>	<u>\$ 15,267,532</u>

6. CAPITAL GRANTS

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

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

The Authority's capital contributions for the years ended June 30, 2011 and 2010 are as follows:

Capital contributions in June 30, 2010

U.S. Department of Transportation	\$ 3,131,392
TDA Development Act	246,223
Other	20,381
Total capital contributions	\$ 3,397,996
Less: U.S. Department of Transportation	
Funds used for operating costs	(1,400,000)
Total	<u>\$ 1,997,996</u>

Capital contributions in June 30, 2011

U.S. Department of Transportation	\$ 3,403,732
TDA Development Act	368,405
Other	90,020
Total capital contributions	\$ 3,862,157
Less: U.S. Department of Transportation	
Funds used for operating costs	(1,911,232)
Total	<u>\$ 1,950,925</u>

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010**

7. CAPITAL ASSETS

Capital assets of the Authority at June 30, 2011, consist of the following:

	Balance July 1, 2010	Additions	Disposals\ Retirements	Balance June 30, 2011
Land	\$ 1,920,808	\$ 23,152	\$ -	\$ 1,943,960
Building & Improvements	12,061,664	378,841	-	12,440,505
Transit Vehicles	25,910,421	1,026,048	(81,906)	26,854,563
Equipment/service vehicles	5,500,860	743,317	(3,087,747)	3,156,430
Total Asset Cost	<u>45,393,753</u>	<u>2,171,358</u>	<u>(3,169,653)</u>	<u>44,395,458</u>
Less: accumulated depreciation				
Buildings & improvements	\$ 4,999,104	\$ 443,252	\$ -	\$ 5,442,356
Transit vehicles	19,236,369	1,975,861	(81,906)	21,130,324
Equipment	3,793,968	541,708	(3,087,747)	1,247,929
	<u>28,029,441</u>	<u>2,960,821</u>	<u>(3,169,653)</u>	<u>27,820,609</u>
Net Capital Assets	<u>\$ 17,364,312</u>	<u>\$ (789,463)</u>	<u>\$ -</u>	<u>\$ 16,574,849</u>

8. MEASURE C/J FUNDS

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

The Authority is to apply funds received under the agreement, and interest accrued thereof, for projects and operations specified by the Contra Costa Transportation Authority and to refund any unexpended funds. Measure C has expired and the remaining reserves of \$69,683 were expended during FY2011.

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 is an eligible recipient of Measure J funds and received \$890,119 in Measure J operating assistance during fiscal year 2011, \$802,731 of which was applied to specific fixed route and para-transit bus services per CCTA's approved program. The remaining \$87,348 of Measure J funds that the Authority received 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 FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010**

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

The Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA) is one of the programs included in Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act, passed by voters in November 2006. During the fiscal year ended June 30, 2010, the Authority applied for and received \$1,802,885 for the procurement of CARB compliant diesel buses. The activity during the year ended June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
PTMISEA beginning balance	\$ 1,087,792	\$ 1,082,885
Interest earned	<u>5,814</u>	<u>4,907</u>
	1,093,606	1,087,792
Expenditures incurred:		
Shelters	<u>(168,642)</u>	<u>-</u>
Unexpended funds at year end	<u>\$ 924,964</u>	<u>\$ 1,087,792</u>

Of the \$1,082,885 in PTMISEA funds received during FYE 2010, \$882,885 will be matched with federal and other funds to procure replacement buses in the normal rotation of revenue vehicle replacement in the near future. The remaining \$200,000 are part of the MTC Administered Lifeline project and has been matched with local funds to purchase and install bus shelters as part of the authority's Bus Shelters and Amenities for Communities of Concern project.

10. EMPLOYEES' RETIREMENT PLAN

The Authority offers two plans, a 401(a) and a 457(b) plan. The plans are optional. However, in order to participate in the 401(a) plan full-time eligible employees must contribute a minimum of 4% up to a maximum 25% of their eligible compensation subject to certain limitations in the 457(b) plan. The Authority will make contributions ranging from 12% - 17% based upon the employee's years of services and classification, provided that the employee participates in the 457(b).

11. 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. The amount of TDA payable or receivable at year end is a the provision that the Authority makes to request or return such TDA funds. At the end of fiscal year 2011, the Authority has encountered a shortfall of \$1,621,780 in revenues that the Authority is eligible to claim as additional TDA funds.

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010**

11. TDA RECEIVABLE/PAYABLE-continued

For the years ended June 2011 and 2010 the maximum TDA operating assistance eligible was \$8,410,905 and \$8,693,009 respectively. The actual TDA operating funds received for the years ended June 2011 and 2010 were \$6,789,125 and \$8,273,135 respectively. The TDA Receivable and (Payable) at the years ended June 2011 and 2010 were \$1,621,780 and \$419,874 respectively and are arrived at as follows:

	<u>2011</u>	<u>2010</u>
TDA operating assistance allowable	\$ 8,410,905	\$ 8,693,009
Actual TDA operating assistance received	(6,789,125)	(8,273,135)
(Payable) Receivable	<u>\$ 1,621,780</u>	<u>\$ 419,874</u>

12. 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.

13. POST EMPLOYMENT HEALTH CARE BENEFITS

The Authority provides post-employment health care benefits to certain administrative employees. The Authority accrues the liability for future post-employment benefits under the guidelines of GASB Statement No. 45. The benefits are provided to all employees who retire from the Authority on or after attaining age 62 with at least 10 years of service. The Authority will pay 100% of the current Kaiser premium rate for a full-time employee toward any medical plan selected by the qualifying former employee. The benefit will continue until the retired employee reaches the age to qualify for Medicare. There were no postretirement health care benefits paid during the 2011 and 2010 year.

As of June 30, 2011, the Authority estimated that post health care benefit costs would begin, at the earliest, in the year ending June 30, 2017.

14. CONCENTRATIONS

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

In addition, the authority also received a significant amount of funding (\$5,118,120) from the federally created American Recovery and Reinvestment Act (ARRA) over the past two years. This was a special one-time only funding and is not anticipated to be re-enacted or replaced. The ARRA funds (\$2,717,664) were expended during FY 2011.

**EASTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010**

15. CONTINGENCIES

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

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

The Board of Directors,
Eastern Contra Costa Transit Authority:

We have audited the financial statements of the Eastern Contra Costa Transit Authority (the Authority) as of June 30, 2011 and have issued our report thereon dated September 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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

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 CARB compliant diesel buses. The activity during the year ended June 30, 2011 and 2010 are as follows:

	2011	2010
PTMISEA beginning balance	\$ 1,087,792	\$ 1,082,885
Interest earned	5,814	4,907
	<u>1,093,606</u>	<u>1,087,792</u>
Expenditures incurred:		
Shelters	<u>(168,642)</u>	<u>-</u>
Unexpended funds at year end	<u>\$ 924,964</u>	<u>\$ 1,087,792</u>

Of the \$1,082,885 in PTMISEA funds received during FYE 2010, \$882,885 will be matched with federal and other funds to procure replacement buses in the normal rotation of revenue vehicle replacement in the near future. The remaining \$200,000 are part of the MTC Administered Lifeline project and has been matched with local funds to purchase and install bus shelters as part of the authority's Bus Shelters and Amenities for Communities of Concern project.

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



Clay, Millias & Co., LLP
September 29, 2011

EASTERN CONTRA COSTA TRANSIT AUTHORITY
SCHEDULE OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Ident. Number	Federal Expenditures
U.S. Department of Transportation:			
Project # CA-90-Y664	20.507	n/a	\$ 171,026
Project # CA-90-Y377	20.507	n/a	449,899
Project # CA-04-0076	20.507	n/a	65,143
Subtotal			<u>686,068</u>
American Recovery and Reinvestment Act Funds:			
Project # CA-96-X055	20.507	n/a	<u>2,717,164</u>
Total			<u><u>\$ 3,403,232</u></u>

NOTE A- BASIS OF PRESENTATION

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

EASTERN CONTRA COSTA TRANSIT AUTHORITY
Schedule of Findings And Questioned Costs
June 30, 2011

SUMMARY OF AUDITOR'S RESULTS

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

FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENTS

NONE

MAJOR FEDERAL AWARDS PROGRAMS AUDIT

NONE

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

NONE

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

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

We have audited the financial statements of the Eastern Contra Costa Transit Authority (Authority), as of and for the year ended June 30, 2011, and have issued our report thereon dated September 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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 combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

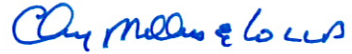
A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than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

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

Compliance and Other Matters

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

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



Clay, Millias & Co., LLP
September 29, 2011

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

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

Compliance

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) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The Authority's major federal programs are identified in the summary of auditor's results of the accompanying schedule of findings and questioned costs. Compliance with the requirements referred to above is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, Eastern Contra Costa Transit Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2011.


Internal Control Over Compliance

The management of the Authority's is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered of the Authority's internal control over compliance with requirements that could have a direct material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for 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 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 is internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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

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

A handwritten signature in blue ink, appearing to read "Clay Millias & Co.", is positioned above the printed name of the firm.

Clay, Millias & Co., LLP
September 29, 2011