

AGENDA

ITEM #

2.2



**WESTERN CONTRA COSTA
TRANSIT AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

**WESTERN CONTRA COSTA TRANSIT AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2018**

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**WESTERN CONTRA COSTA TRANSIT AUTHORITY
YEAR ENDED JUNE 30, 2018**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Western Contra Costa Transit Authority:

Report on Financial Statements

I have audited the accompanying basic financial statements of the Western Contra Costa Transit Authority (Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Authority as of June 30, 2018 and changes in financial position and cash flows for the year 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated August 30, 2018, on my consideration of the Authority's internal control over financial reporting and on my 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 my 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.

Carathimas & Associates

Carathimas & Associates, Certified Public Accountant

August 30, 2018

**WESTERN CONTRA COSTA TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018**

INTRODUCTION

The purpose of Management's Discussion and Analysis (MD&A) is to provide an objective and easily understandable analysis of the Western Contra Costa Transit Authority's (Authority's) financial activities and financial status based on currently known facts, conditions, or decisions as of June 30, 2018.

FINANCIAL STATEMENTS

The Authority's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). The Authority is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are tracked separately and are depreciated over their useful lives. Certain net assets are restricted for the reserve requirements specified under the terms of the Certificates of Participation financing.

The basic financial information regarding the Authority's performance, financial position, and financial status for fiscal years 2018 and 2017 is presented in tabular form in the following two sections. The "Financial Position" table summarizes the major categories of the Authority's assets, liabilities, and total net position for fiscal years 2018 and 2017. The "Financial Operations" table presents a more detailed breakdown of operating and non-operating revenues and expenses.

FINANCIAL POSITION SUMMARY

Total net position may serve over time as a useful indicator of the Authority's financial position. The Authority's assets exceeded liabilities by about \$11,133,500 at June 30, 2018, a decrease of \$624,900 from June 30, 2017.

A condensed summary of the Authority's statement of net position at June 30, 2018 and 2017 is shown below:

Summary of Net Position

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
ASSETS:		
Current Assets	\$ 5,627,171	\$ 5,702,993
Capital Assets (Net of Accumulated Depreciation)	11,550,732	12,701,698
Certificates of Participation Issuance Costs	-	48,859
Total Assets	<u>17,177,903</u>	<u>18,453,550</u>
Deferred Outflows of Resources	<u>230,326</u>	<u>365,782</u>
LIABILITIES:		
Current Liabilities	4,831,964	4,989,743
Deferred Capital Funds	795,207	680,727
Long-term Portion of Certificates of Participation	-	590,000
Net Pension Liability	537,394	523,652
Total Liabilities	<u>6,164,565</u>	<u>6,784,122</u>
Deferred Inflows of Resources	<u>110,201</u>	<u>276,895</u>
NET POSITION:		
Net Investment in Capital Assets	11,550,732	12,054,807
Restricted for Debt Service	-	138,273
Unrestricted	<u>(417,269)</u>	<u>(434,765)</u>
Total Net Position	<u>\$ 11,133,463</u>	<u>\$ 11,758,315</u>

The largest portion of the Authority's net position represents its investment in capital assets (e.g. land, buses, buildings, improvements, and equipment). The Authority uses these capital assets to provide services to its passengers and employees; consequently these assets are not available for future spending. Capital assets, net of accumulated depreciation, decreased by about \$1,151,000 during the year ended June 30, 2018 because capital assets purchased was less than depreciation expense of \$1,992,400. Capital assets purchased decreased from \$1,138,900 in 2017 to \$841,500 in 2018. Since funding for capital acquisition comes largely from Federal Transit Administration (FTA) sources outside of the Authority's operating budget, the Authority's change in net position value will typically increase dramatically in years new or replacement vehicles are acquired, and decline at a relatively steady rate in years the Authority acquires no capital.

The net pension liability of \$537,394 is recognized at June 30, 2018, along with the related deferred outflows and inflows of resources, per GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The unrestricted net position of \$(417,269) represents the unfunded pension liability as of June 30, 2018.

The \$504,100 decrease in net investment in capital assets is largely due to the \$1,151,000 decrease in capital assets, mentioned above, less the debt payment of \$690,000 in 2018.

FINANCIAL OPERATIONS SUMMARY

A condensed summary of the Authority's revenues, expenses, and changes in net position for the years ended June 30, 2018 and 2017 is shown below:

Summary of Revenues, Expenses, and Changes in Net Position

	<u>FY 2018</u>	<u>FY 2017</u>
Operating Revenues	\$ 2,337,862	\$ 2,244,159
Operating Expenses:		
Operations	7,914,495	7,151,540
General and Administrative	991,397	1,128,274
Maintenance - Vehicles	1,463,538	1,417,375
Maintenance - Other	193,636	206,317
Depreciation and Amortization	2,041,307	1,891,976
Total Operating Expenses	<u>12,604,373</u>	<u>11,795,482</u>
Non-Operating Revenues (Expenses):		
Interest Income	11,808	1,665
Interest Expense	(33,032)	(40,865)
Other Non-Operating Revenue	-	29,940
Operating Assistance from Governmental Agencies	8,230,892	7,483,220
Capital Contributions	1,431,991	1,276,574
Total Non-Operating Revenues	<u>9,641,659</u>	<u>8,750,534</u>
Change in Net Position	(624,852)	(800,789)
Total Net Position - Beginning	<u>11,758,315</u>	<u>12,559,104</u>
Total Net Position - Ending	<u>\$ 11,133,463</u>	<u>\$ 11,758,315</u>

During the year ended June 30, 2018, operating revenues increased approximately \$93,700, due to increases in fare box receipts. Total operating expenses, not including depreciation and amortization expenses, increased by \$659,600. The majority of this resulted from increases of \$335,900 in purchased transportation, \$349,100 in fuel costs, and \$49,600 in insurance; offset by a decrease of \$162,000 in GASB 68 pension expense. The growth in purchased transportation expenses was due to minor service expansions during the year, along with an amendment to the Authority's agreement with MV Transportation linked to increases in MV's wage scale. This adjustment reflects the tightening labor market throughout the San Francisco Bay Area.

Depreciation and amortization increased by \$149,300, mostly due to a full year depreciation for 10 vehicles purchased last year, for a total increase of \$808,900 in operating expenses, including depreciation and amortization.

Operating assistance for the year increased about \$747,700, mostly due to funds acquired to offset increased purchased transportation and fuel expenses. Capital contributions available to the Authority increased by about \$155,400 in fiscal year 2018. This is due to this year's slightly larger capital program and the corresponding change in Federal and State capital funding.

CAPITAL ACQUISITIONS

During 2018, the Authority purchased an expansion commuter coach, a new Automatic Vehicle Location system, and other capital items for the Lynx system with \$413,100 of prior year TDA, LCTOP, FTA and Prop 1B Security funds. Office equipment and facility upgrades accounted for \$72,200 in capital asset additions, which were funded by prior year TDA capital contributions. The Authority initiated a major project to replace its bus wash equipment during FY 2018, and expended \$356,200 of prior year TDA, FTA and Property 1B Security funds during the year. The overall cost of the project is estimated at \$1.5 million, though final costs will not be known until a construction contract is awarded in the second quarter of FY 2019.

DEBT ADMINISTRATION

On May 1, 1998, proceeds from the issuance of \$5.33 million of Certificates of Participation were used to purchase 11 buses and facility improvements to accommodate the BART service expansion. As provided for in the agreement, BART has provided the funds for the payment obligations.

The outstanding liability under the Certificates of Participation (COP) of \$690,000 was retired during the year with prior year TDA capital funds of \$452,750, STA Revenue funds of \$100,000 from BART, and funds remaining in the COP reserve account.

CURRENT FACTORS

While all sources of revenues available to the Authority are subject to year-to-year fluctuations in response to changes in regional, state and national economic performance, the Authority has no ability to control and little ability to predict such fluctuations. There are several other factors, however, also largely outside the Authority's control that may dramatically affect the long term financial condition of the Authority.

The Authority is scheduled to replace approximately one fifth of its fixed route vehicle fleet over the next 3 years. The Federal government has historically covered 80% of the replacement cost of the vehicles, while stipulating that the remaining 20% match must be funded from local sources. While the new administration has expressed a general interest in infrastructure investments, it is unclear whether there will be sufficient support for sustaining transit funding at current levels.

The State of California transportation infrastructure bond program (Proposition 1B), which was a significant source of capital local match funding, has reached its sunset date. The Proposition 1B revenue, which in past years had provided much of the local match requirement for these vehicles, will be exhausted by the time the vehicles are purchased. If the Federal contribution toward the capital purchases falls below 80%, the local funding needed will be even larger.

To cover the replacement needs alone, the Authority will need to assemble approximately \$1.4 million in local capital funding to satisfy the local match requirement on the Federal assets, and to cover other capital needs for which there will be no Federal support. Historically, the San Francisco region has made toll bridge revenues available for local match purposes, however toll bridge revenue in recent years has been insufficient to completely match the Federal funds. Toll bridge revenues and other local funds are projected to be insufficient to cover the full \$1.4 million. The Authority will likely need to use its own Transportation Development Act funding to complete the purchases, thereby reducing the revenue available to fund ongoing operating costs.

Several recently enacted transportation funding packages may help to partially offset this loss of Proposition 1B support. A small amount of capital funding for transit was included in a new transportation measure, Senate Bill 1 (SB1), which was signed into law in April, 2017, however Proposition 6, which has qualified for California's November 2018 ballot, proposes to repeal SB1. If approved by the voters, Proposition 6 would remove all of the new capital funding, and an additional \$250,000 to \$300,000 in annual operating support that the Authority now receives through SB1.

In June, 2018, voters approved Regional Measure 3, which will raise bridge tolls on Bay Area bridges by up to \$3. A small portion of the additional toll revenue will be directed to public transit for capital and operating needs, though it is unclear how much the Authority will be eligible to receive. A taxpayer group has filed a lawsuit attempting to invalidate Regional Measure 3, though the courts have yet to rule on the suit.

In Contra Costa County, a measure that was on the November, 2016 ballot that would have imposed an additional ½ cent sales tax for transportation purposes for a 30-year period failed to achieve the required 2/3 affirmative vote. There are discussions of reviving this measure in a future election cycle.

California's landmark Cap and Trade legislation may have a significant positive influence on the Authority's funding situation in upcoming years. The amount of funding available through the Cap and Trade program is dependent on actual proceeds from the auction of carbon allowances. In recent auction cycles, revenues have been trending upwards. Because the Legislature may make changes to the way the funding is appropriated among a variety of qualifying uses including public transit, it will be difficult to predict what level of funding the Authority may expect in future years of the program.

WESTERN CONTRA COSTA TRANSIT AUTHORITY
STATEMENT OF NET POSITION
June 30, 2018

ASSETS

Current Assets:

Cash	\$ 2,869,536
Accounts Receivable	334,194
Grants Receivable	2,382,146
Prepaid Expenses	41,295
Total Current Assets	5,627,171

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	11,550,732
Total Non-Current Assets	11,550,732

Total Assets

17,177,903

Deferred Outflows of Resources:

Total Deferred Outflows of Resources	230,326
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	1,061,445
Deferred Operating Funds	938,500
Payable to Metropolitan Transportation Commission	2,832,019
Total Current Liabilities	4,831,964

Non-Current Liabilities:

Deferred Capital Funds	795,207
Net Pension Liability	537,394
Total Non-Current Liabilities	1,332,601

Total Liabilities

6,164,565

Deferred Inflows of Resources:

Total Deferred Inflows of Resources	110,201
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NET POSITION

Net Investment in Capital Assets	11,550,732
Unrestricted	(417,269)

Total Net Position

\$11,133,463

See accompanying notes to financial statements.

WESTERN CONTRA COSTA TRANSIT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2018

OPERATING REVENUES	
Passenger Fares	\$ 2,291,732
Advertising Revenues	46,130
Total Operating Revenues	<u>2,337,862</u>
OPERATING EXPENSES	
Operations	7,914,495
General and Administrative	991,397
Maintenance - Vehicles	1,463,538
Maintenance - Other	193,636
Depreciation	1,992,448
Amortization	48,859
Total Operating Expenses	<u>12,604,373</u>
Operating Loss	(10,266,511)
NON-OPERATING REVENUES (EXPENSES)	
Interest Revenue	11,808
Interest Expense	(33,032)
Operating Assistance:	
Bay Area Rapid Transit District	2,612,283
Transportation Development Act	1,876,430
State Transit Assistance	650,151
Low Carbon Transit Operations Program	75,000
Regional Measure 2	1,064,747
Measure J	1,553,916
Federal Transit Administration	398,365
Net Non-Operating Revenues	<u>8,209,668</u>
Loss Before Capital Contributions	(2,056,843)
CAPITAL CONTRIBUTIONS	<u>1,431,991</u>
Change in Net Position	(624,852)
Net Position, July 1, 2017	<u>11,758,315</u>
Net Position, June 30, 2018	<u><u>\$ 11,133,463</u></u>

See accompanying notes to financial statements.

WESTERN CONTRA COSTA TRANSIT AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from passengers	\$ 2,239,299
Payments to employees for services	(1,151,776)
Payments to suppliers for goods and services	(9,353,582)
Receipts from advertisers	46,130
Cash Used by Operating Activities	<u>(8,219,929)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>14,291</u>
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CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Operating assistance received	<u>7,696,448</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payment of certificate of participation principal	(690,000)
Payment of interest	(38,782)
Purchase of capital assets	(678,172)
Capital grants received	649,109
Cash Received (Used) by Capital and Related Financing Activities	<u>(757,845)</u>

Increase (decrease) in cash	(1,267,035)
Cash, July 1, 2017	4,136,571
Cash, June 30, 2018	<u>\$ 2,869,536</u>

Reconciliation of Cash Flows from Operating

Activities to Operating Loss:

Cash used by operating activities	\$ (8,219,929)
Depreciation and amortization	(2,041,307)
Increase (decrease) in accounts receivable	123,164
Increase (decrease) in prepaid expenses	5,664
Increase (decrease) in deferred outflows of resources - pensions	(135,456)
Decrease (increase) in accounts payable and accrued liabilities	(151,599)
Decrease (increase) in net pension liabilities	(13,742)
Decrease (increase) in deferred inflows of resources - pensions	166,694
Operating loss	<u>\$ (10,266,511)</u>

See accompanying notes to financial statements.

WESTERN CONTRA COSTA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – ORGANIZATION

The Western Contra Costa Transit Authority (Authority) was organized as a separate legal entity in August 1977 by a Joint Exercise of Powers Agreement between Contra Costa County, City of Pinole and City of Hercules. The Authority is governed by a seven-member Board of Directors. Three board members are appointed by the County’s Board of Supervisors and two each are from the city councils of Hercules and Pinole.

The Authority provides fixed route and “dial-a-ride” public transit services throughout Western Contra Costa County. WestCAT, a service of the Authority, provides local, express, and regional service to the cities of Pinole and Hercules and the unincorporated communities of Montalvin Manor, Tara Hills, Bayview, Rodeo, Crockett, and Port Costa. The agency operates eight local fixed routes, and three express routes to BART. In addition, the agency operates three weekday only regional bus routes – service between Martinez and El Cerrito del Norte BART station, between Hercules and San Francisco, and from Hercules to Contra Costa College.

The Authority’s operations are funded primarily through Transportation Development Act (TDA) Article 4 funds, and State Transit Assistance funds. The Authority also receives TDA Article 4.5 funding to provide transportation for seniors and disabled passengers. The Authority has contracted with an independent contractor, MV Transportation, for most operating activities.

The Authority has an agreement with the Bay Area Rapid Transit District (BART) whereby the Authority operates express bus service in the Interstate 80 corridor of western Contra Costa County to and from BART. The agreement requires BART to provide sufficient funding annually, through the Metropolitan Transportation Commission (MTC), to cover the annual operating and capital costs of the service.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liability is incurred, regardless of the timing of the related cash flows.

The accounts of the Authority are organized on the basis of an enterprise fund. Its activities are accounted for with a set of self-balancing accounts that comprise the Authority’s assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities: (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; (ii) that are required by laws or regulations that the activity’s cost of providing services, including capital costs (such as depreciation or debt service) be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Authority are charges to passengers for transportation services provided. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash Equivalents

For purposes of the statement of cash flows, the Authority's deposits in the Local Agency Investment Fund (LAIF) are, in substance, demand deposits and are therefore considered cash equivalents. Restricted investments are not considered a cash equivalent.

Accumulated Vacation and Sick Leave

By Authority policy, employees can carry from five to ten days of vacation benefits, depending on the years of service. The Authority has accrued \$26,928 for this liability at June 30, 2018.

Sick leave benefits are accumulated up to 30 days for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of the Authority since payment of such benefits is not probable. Sick leave benefits are recorded as expenses in the period that sick leave is taken.

Capital Assets

Capital assets are accounted for on the historical cost basis. Depreciation is recorded on a straight-line basis over five to sixteen years for equipment and vehicles, and over 31.5 years for facilities. The Authority capitalizes all capital assets acquired with capital contributions.

Operating Assistance

Grants are reported as non-operating revenue as soon as all eligibility requirements have been met.

Net Position

Net Position is reported in the following categories:

- Net Investment in Capital Assets – This category groups all capital assets into one category. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted net position are available, unrestricted resources are used only after the restricted resources are depleted.
- Unrestricted Net Position – This category represents net position of the Authority, not restricted for any project or other purpose.

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 disclosures 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.

NOTE 3 – CASH AND INVESTMENTS

Cash and investments at June 30, 2018 consisted of the following:

Cash in bank and on hand	\$ 1,506,475
Cash with Local Agency Investment Fund	<u>1,363,061</u>
Total cash and investments	<u>\$ 2,869,536</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation. The remainder of these cash deposits are entirely collateralized by the bank holding the deposit. California law requires banks to pledge government securities with a market value of 110% of the deposit as collateral for all public agency deposits. This collateral remains with the institution, but is considered to be held in the Authority’s name and places the Authority ahead of general creditors of the bank.

The Authority invests cash in the Local Agency Investment Fund. The pooled funds are carried at cost, which approximates market value. Investment earnings, gains and losses are proportionately shared by all participants in the pool.

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 acquired with capital contributions.

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 - 31.5 years
Transit Vehicles	5-16 years
Shop, office and other equipment	5-10 years

	<i>Balance June 30, 2017</i>	<i>Additions</i>	<i>Retirements</i>	<i>Depreciation</i>	<i>Balance June 30, 2018</i>
Facilities (at cost)	\$ 6,463,200	\$ 402,411	\$ (4,570)		\$ 6,861,041
Transportation Equipment (at cost)	21,527,413	413,097			21,940,510
Other Equipment (at cost)	487,720	25,974	(44,583)		469,111
Total Capital Assets	28,478,333	841,482	(49,153)		29,270,662
Less Accumulated Depreciation	(15,776,635)		49,153	\$ (1,992,448)	(17,719,930)
Net Capital Assets	<u>\$ 12,701,698</u>	<u>\$ 841,482</u>	<u>\$ -</u>	<u>\$ (1,992,448)</u>	<u>\$ 11,550,732</u>

NOTE 5 – OPERATING AND CAPITAL ASSISTANCE

Bay Area Rapid Transit District – Operating funds from BART consist of \$2,352,865 in State Transit Assistance (STA) funds and \$259,418 in Transportation Development Act funds. Another \$135,276 in STA funds was received from BART for capital purposes.

Transportation Development Act – The Transportation Development Act (TDA) creates in each California local jurisdiction a Local Transportation Fund that is funded by $\frac{1}{4}$ cent from the 7.25 percent retail sales tax collected statewide. The California Board of Equalization returns these funds to the local jurisdiction according to the amount of sales taxes collected in that jurisdiction. TDA funds are allocated to the Authority from Contra Costa County to meet, in part, the Authority's operating requirements. The allocation is based on population within the Authority's service area.

State Transit Assistance – State Transit Assistance (Proposition 111) funds are allocated to the Authority based on the portion of the Authority's qualifying revenues as a portion of qualifying revenues statewide and the population of the areas that the Authority serves. The qualifying revenues are property taxes, Measure J funds and other funds generated at the local level, excluding state or federal subsidies.

Regional Measure 2 –Regional Measure 2 (RM2) raised 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.

Measure J - The Authority has entered into an agreement with the Contra Costa Transportation Authority pursuant to Contra Costa County Measure J for improvement of bus transit and para-transit services. The Authority must apply funds received under the agreement, including any interest earned thereon, for the specific routes, services, or capital acquisitions approved annually by Contra Costa Transportation Authority.

Federal Transit Administration – The Authority received 5307 funds as operating assistance to help support the Authority's paratransit services and Lifeline service, and capital assistance for vehicles and bus wash.

Proposition 1B – The Authority spent \$22,194 in FY18 for the AVL system and bus wash. It was spent from prior year deferred capital of \$17,063 and from an additional \$102,191 received in FY18 from the California Transit Security Grant Program – California Transit Assistance Fund (CTSGP-CTAF). The remaining unspent amount of \$97,076 is in deferred capital at the end of FY18, including \$16 in interest for FY18.

The Authority had no expenditures in FY18 from the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). PTMISEA now totals \$614,673 in deferred capital, which includes the prior year amount of \$607,287 plus \$7,386 in interest for FY18.

Low Carbon Transit Operations Program – The Authority spent \$75,000 of prior year funds of \$130,172 for the route 11 expansion in FY18, which leaves \$55,172 in deferred operating funds. An additional \$33,143 was spent for the purchase and installation of AVL equipment from this year's capital grant of \$60,224, leaving \$27,081 in deferred capital funds.

NOTE 6 - PAYABLE TO METROPOLITAN TRANSPORTATION COMMISSION

TDA regulations require the Authority to return excess operating revenues over operating costs, as defined in section 6634 of the California Code of Regulations, to MTC. The payable to MTC at June 30, 2018 was composed of such excess revenues for fiscal years 2016, 2017 and 2018 for a total of \$2,832,019. Such refundable is reported as a reduction of TDA revenues.

NOTE 7 - INSURANCE/JOINT POWERS AGREEMENT

The Authority secures vehicular, property damage, Employment Risk Management Authority and general liability coverage of up to \$100,000 per incident through its bus operations contractor. Coverage above this amount up to \$25 million per incident is secured through the Authority's participation in the California Transit Insurance Pool (CalTIP), a Joint Powers Authority. Losses over \$25 million per incident are uninsured. CalTIP was formed May 1987 to provide to its members comprehensive and economical insurance for public liability, property and other risks. CalTIP is governed by a board consisting of a representative from each of the 35 member agencies. CalTIP is independent of influence by the member agencies beyond the representation on the governing board. There has been no reduction in the Authority's insurance coverage from the prior year, and no settlement amounts have exceeded insurance coverage for the last three years.

The Authority pays a premium commensurate with the level of coverage requested. Member agencies share surpluses and deficits proportionately to their participation in the CalTIP. During the year ended June 30, 2018, the Authority paid \$354,521 to CalTIP.

Financial information of CalTIP as of and for the year ended April 30, 2017 (the most recent available) was as follows:

Total Assets	\$ <u>29,754,341</u>
Total Liabilities	\$ <u>21,321,678</u>
Net Position	\$ <u>8,432,663</u>
Total Revenues	\$ <u>13,617,339</u>
Total Expenses	\$ <u>11,020,349</u>

NOTE 8 - RETIREMENT PLAN / DEFERRED COMPENSATION PLAN

The Authority participates in the CalPERS Public Agency Cost-Sharing Multi-Employer Defined Benefit Pension Plan for administrative employees. CalPERS has provided a GASB 68 Accounting Valuation Report for the measurement date of June 30, 2017 upon which the following information has been derived. This report is a publically available valuation report that can be obtained at CalPERS' website under Forms and Publications. For purposes of this report the following timeframes are used.

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 to June 30, 2017

Since GASB 68 allows a measurement date of up to 12 months before the employer’s fiscal year-end, the report can be used and is used for the fiscal year ending June 30, 2018.

Section 20814(c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. The total plan contributions are determined through the CalPERS’ annual valuation process. For public agency cost-sharing plans covered by either the miscellaneous or safety risk pools, the Plan’s actuarially determined rate is based on the estimated amount necessary to pay the Plan’s allocated share of the risk pool’s costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2017, the active employee rate for those hired before 2013 is 7% of annual pay; and for those hired after 2012, the employee rate is 6.25%. The Authority’s employer’s contribution rate for those hired before 2013 is 8.377% of annual payroll, plus the employer unfunded accrued liability (UAL) contribution amount of \$12,504; and for those hired after 2012, the employer’s contribution rate is 6.555%. In addition to post-retirement benefits the Plan provides for sick leave credits and pre-retirement death benefits. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2017 Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of this report, which can be obtained at CalPERS’ website under Forms and Publications.

The June 30, 2017 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS’ Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The discount rate used to measure the total pension liability was 7.15 percent and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. It was determined by applying stress testing on various other plans and found to be adequate by CalPERS. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return are developed for each major asset class. The plan’s proportionate share of risk pool pension expense is developed as the sum of the related proportionate shares of various components of the aggregate pension expense. Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

At the start of the measurement period (July 1, 2016) the net pension liability for the plan was \$523,652 and for the measurement period ended June 30, 2017 the Authority’s proportionate share of the Plan’s pension expense is \$132,290.

Deferred outflows of resources as of June 30, 2017 are as follows:

Changes of Assumptions	\$ 113,473
Net difference Between Projected and Actual Earnings on Pension Plan Investments	27,781
Contributions Subsequent to Measurement Date	<u>89,072</u>

**Deferred Outflows of Resources for the
Period ended June 30, 2017** **\$ 230,326**

Deferred inflows of resources as of June 30, 2017 are as follows:

Differences between Expected and Actual Experience	\$ (13,194)
Changes in Proportion	(95,028)
Difference in Actual versus Projected Contributions	<u>(1,979)</u>

**Deferred Inflows of Resources for the
Period ended June 30, 2017** **\$ (110,201)**

Supplementary Information	As of <u>June 30, 2017</u>
Plan's Proportion of the Net Pension Liability	.01363%
Plan's Proportionate Share of the Net Pension Liability	\$ 537,394
Plan's Covered-Employee Payroll	\$ 863,582
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	62.23%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	81.75%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 91,051
Actuarially Determined Contribution	\$ 81,063
Contributions Made	<u>(81,063)</u>
Contribution Deficiency (Excess)	\$ -
Covered-Employee Payroll	\$ 863,582
Contributions as a Percentage of Covered-Employee Payroll	9.39%

For employees hired before 2013, employees will pay 7% for employees' contribution. Employees hired after January 1, 2013 will be required to pay at least fifty percent (50%) of the total normal costs for their CalPERS defined benefit plan, which was 6.25% for the fiscal year 2017.

For employees hired before May 1, 2007 the Authority contributes 1% of all employees' salaries to International City Managers Association (ICMA), an agent multiple-employer public employee benefit system that administers deferred compensation plans for participating public entities within the State of California. For new hires, the Authority contributes 7% of their salaries to ICMA for the first 1,000 hours of employment, after which, the employees are enrolled in CalPERS. There were no new employees hired during the fiscal year 2018.

The Authority's payroll for employees covered by CalPERS for the year ended June 30, 2018 was \$891,011. The Authority contributed \$89,072 to CalPERS, which includes the employer UAL contribution amount of \$17,484, and \$4,994 to ICMA, for a total of \$94,066.

All full time and regular part time Authority employees are eligible to participate in ICMA. Employees are allowed to defer a percentage of their salary into the plan. Employees determine how their account balance is invested within a certain array of investment options. Benefits vest immediately. Upon retirement, the employees can select from various payout options.

NOTE 9 – CERTIFICATES OF PARTICIPATION

As part of the Authority's agreement with BART as described in Note 1, it issued \$5,330,000 of Certificates of Participation in May 1998, bearing interest at 4.9% per annum, to finance acquisition of eleven full-sized transit coaches, and necessary facility improvements to accommodate the expansion of service. The agreement assigned responsibility to BART for debt service payments for the twelve-year useful life of the transit coaches. The annual level of funding from BART required by the agreement is sufficient to cover annual debt service payment for the vehicles and the facility expansion.

The outstanding debt of \$690,000 was retired during the fiscal year with prior year TDA funds of \$452,750, STA Revenue funds of \$100,000 from BART, and funds remaining in the reserve account.

NOTE 10 – CONCENTRATIONS

The Authority receives a significant amount of its support from funding administered by the State of California, including sales tax revenues from the Local Transportation Fund and diesel tax proceeds through the State Transit Assistance (STA) program. The STA program is also the source of payments made to the Authority by the BART system. 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.

NOTE 11 – 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.

NOTE 12 – SUBSEQUENT EVENTS

These financial statements considered subsequent events through August 30, 2018 the date the financial statements were available to be issued. The Authority's management has evaluated events and transactions subsequent to June 30, 2018 for potential recognition or disclosure in the financial statements. The Authority did not have any subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2018. Subsequent events have been evaluated through August 30, 2018 the date the financial statements became available to be issued. The entity has not evaluated subsequent events after August 30, 2018.

**INDEPENDENT AUDITOR'S 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***

To the Board of Directors
Western Contra Costa Transit Authority:

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Western Contra Costa County Transit District, the Authority, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 30, 2018.

Internal Control Over Financial Reporting

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

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

My 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 material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 of material misstatement, I 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, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards or State grant program requirements.

Purpose of this Report

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

Carathimas & Associates
Carathimas & Associates, Certified Public Accountant
August 30, 2018

INDEPENDENT AUDITOR'S 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 TRANSPORTATION DEVELOPMENT ACT AND OTHER STATE PROGRAM GUIDELINES

To the Board of Directors
Western Contra Costa Transit Authority

I 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 statements of Western Contra Costa Transit Authority (Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued my report thereon dated August 30, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, I 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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters (including State grant programs)

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, I 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. My 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 (TDA) 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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, the TDA, and State grant programs in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carathimas & Associates

Carathimas & Associates, Certified Public Accountant

August 30, 2018

WESTERN CONTRA COSTA TRANSIT AUTHORITY
SCHEDULE OF REFUNDABLE TO METROPOLITAN TRANSPORTATION COMMISSION
Year Ended June 30, 2018

OPERATING REVENUES	
Passenger Fares	\$ 2,291,732
Advertising Revenue	<u>46,130</u>
Total Operating Revenues	2,337,862
OPERATING EXPENSES	
Operations	7,914,495
General and Administrative	1,008,893
Maintenance – Vehicles	1,463,538
Maintenance – Other	<u>193,636</u>
Total Operating Expenses	<u>10,580,562</u>
Operating Loss	<u>(8,242,700)</u>
NON-OPERATING REVENUES	
Interest Income	11,808
Operating Assistance and Grants From Governmental Agencies:	
Bay Area Rapid Transit District	2,612,283
Transportation Development Act	2,841,790
State Transit Assistance	650,151
Low Carbon Transit Operations Program	75,000
Regional Measure 2	1,064,747
Measure J	1,553,916
Federal Transit Administration	<u>398,365</u>
Total Non-Operating Revenues	<u>9,208,060</u>
Refundable to Metropolitan Transportation Commission	<u>\$ 965,360</u>