

**CONTRA COSTA  
TRANSPORTATION AUTHORITY  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2011**

CONTRA COSTA TRANSPORTATION AUTHORITY  
Annual Financial Report  
For the Year Ended June 30, 2011

*Table of Contents*

	<u>Page</u>
<b><i>Independent Auditor's Report</i></b> .....	1
<b><i>Management's Discussion and Analysis (Required Supplementary Information – Unaudited)</i></b> .....	3
<b><i>Basic Financial Statements:</i></b>	
Government-wide Financial Statements:	
Statement of Net Assets.....	20
Statement of Activities .....	21
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	24
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	25
Statement of Revenues, Expenditures, and Changes in Fund Balances .....	26
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	27
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:	
Measure J General Fund .....	28
Measure J Local Streets and Roads Special Revenue Fund .....	29
Measure C Special Revenue Fund .....	30
Notes to Basic Financial Statements .....	31

CONTRA COSTA TRANSPORTATION AUTHORITY  
Annual Financial Report  
For the Year Ended June 30, 2011

*Table of Contents – Continued*

***Supplemental Information:***

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:

    Measure J Debt Service Funds ..... 58

Combining Financial Statements – Other Governmental Funds:

    Combining Balance Sheet ..... 60

    Combining Statement of Revenues, Expenditures, and Changes in Fund Balances ..... 61

    Sales Tax Revenues – Last Ten Fiscal Years ..... 62

***Single Audit Compliance Section:***

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* ..... 63

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 ..... 65

Schedule of Expenditures of Federal Awards ..... 67

Notes to the Schedule of Expenditures of Federal Awards ..... 68

Schedule of Findings and Questioned Costs ..... 69

Summary Schedule of Prior Year Audit Findings ..... 74

To the Authority Board  
Contra Costa Transportation Authority  
Walnut Creek, California

### **Independent Auditor's Report**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Contra Costa Transportation Authority (Authority), as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2011, and the respective changes in financial position thereof, and the respective budgetary comparisons for the Measure J General Fund, the Measure J Local Streets and Roads Special Revenue Fund, and the Measure C Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, as of June 30, 2011, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The combining financial statements, schedule of sales tax revenues, and schedule of expenditures of federal awards are presented for purposes of additional analysis and as required by OMB Circular A-133 and are not a required part of the financial statements. The combining financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The schedule of sales tax revenues has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Macias Gini & Connell LLP*

Walnut Creek, California  
November 22, 2011

## CONTRA COSTA TRANSPORTATION AUTHORITY

### Management Discussion and Analysis

For the Year Ended June 30, 2011

Contra Costa Transportation Authority's ("Authority") Management Discussion and Analysis (MD&A) provides to the Authority Board, Administration & Projects Committee (which serves as the Authority's Audit Committee), interested parties and the public in general a readable summary and analysis of the financial performance for the fiscal year ended June 30, 2011. The MD&A should be read in conjunction with the Basic Financial Statements.

#### **Summary of Financial Highlights for the Fiscal Year Ended June 30, 2011**

- ❖ The Authority-wide Financial Statements, the Statement of Net Assets and the Statement of Activities, show that assets exceeded the liabilities of the Authority by \$15.969 million as of June 30, 2011. The increase is due to restating beginning net assets to properly account for the interest rate swap as required in GASB 53.
- ❖ The Authority does have an unrestricted deficit of \$199.187 million as of June 30, 2011. A major factor to consider when reviewing the Statement of Net Assets is that the Authority does not hold or retain title for the projects it constructs. The Authority enters into debt financing, which is used to accelerate projects for the benefit of Contra Costa residents and taxpayers. The reporting of this debt, without having a corresponding asset, results in a negative net asset position.
- ❖ No corresponding asset exists on the Authority's ledger for long-term debt. Other agencies, such as Caltrans, BART, Contra Costa County, or the cities within Contra Costa, hold title to the transportation assets built or improved by Measure C and Measure J financing. As of June 30, 2011, Measure C and Measure J had spent \$771.800 million on transportation infrastructure improvements within Contra Costa, on assets that are owned by and shown on the financial statements of other public agencies. An additional \$356.004 million to date has been expended by the Authority for Measure C and J programs (i.e. Local Street Maintenance and Improvement, Commute Alternatives, Bus Transit, and Paratransit).
- ❖ On September 30, 2010, the Authority issued \$200.990 million in Sales Tax Revenue Bonds (2010 Limited Tax Bonds), Series 2010. The purpose of the 2010 Limited Tax Bonds is to retire the 2009 Sales Tax Revenue Bond Anticipation Notes and finance costs associated with Measure J transportation projects. The 2010 Limited Tax Bonds have a mandatory tender date of October 1, 2013, at which time they will be extended or refunded to no later than March 1, 2034.
- ❖ The Authority was required to implement GASB Statement No. 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions that enhance the usefulness of fund balance information by providing clearer fund balance classifications. GASB 54 is based primarily on the extent to which fund balance for a government agency is bound to observe constraints imposed upon the use of the resources reported in governmental funds. For the Authority, the funds are restricted for the programs and projects permissible by the Measure C and Measure J Expenditure Plans. Also, since the revenues for the Local Street and Roads, Paratransit and Commute Alternatives Special Revenue Funds are restricted for those specific purposes they are now shown as sales tax revenues rather than transfers in as shown in the past.

- ❖ Total assets amount to \$253.134 million, consisting primarily of cash and investments amounting to \$227.976 million, receivables due from others amounting to \$22.407 million, net Other Post Employment Benefits (OPEB) amounting to \$0.844 million (see Note 9), and capital assets (net of depreciation) amounting to \$0.948 million. Total assets increased by \$6.171 million from the prior year, due to higher intergovernmental receivables related to Regional Measure 2 reimbursements for project costs.
- ❖ Deferred outflow of resources amounts to \$26.099 million to reflect an effective hedge and offsets the swap liability at the fair value of the swap at June 30, 2011.
- ❖ Liabilities totaled \$263.264 million, consisting of accounts payable, accrued employee benefits, derivative instrument and long term debt. Liabilities increased \$6.718 million due to higher accounts payables of \$11.861 million offset by the fair value of the interest rate swap, which decreased \$7.513 million to \$26.099 million.
- ❖ Sales tax revenues of \$65.061 million were received for the fiscal year ended June 30, 2011, an increase of \$3.534 million (5.7%) from the prior year as the economy improved. Retail sales continue to improve in the county but the economy still face high unemployment and minimal new construction. Sales tax revenues accounted for 75.6% of all revenues, \$86.011 million, received by the Authority.
- ❖ Total expenses including interest on long-term debt were \$94.071 million. In fiscal year June 30, 2011, expenses on Programs and Projects amounted to \$26.437 million and \$52.468 million, respectively.
- ❖ The Authority's net assets decreased \$8.060 million during the fiscal year ended June 30, 2011. The changes are due to increased project costs of \$16.147 million related to State Route 4 and Caldecott Tunnel, and offset by grant reimbursements of \$7.556 million.

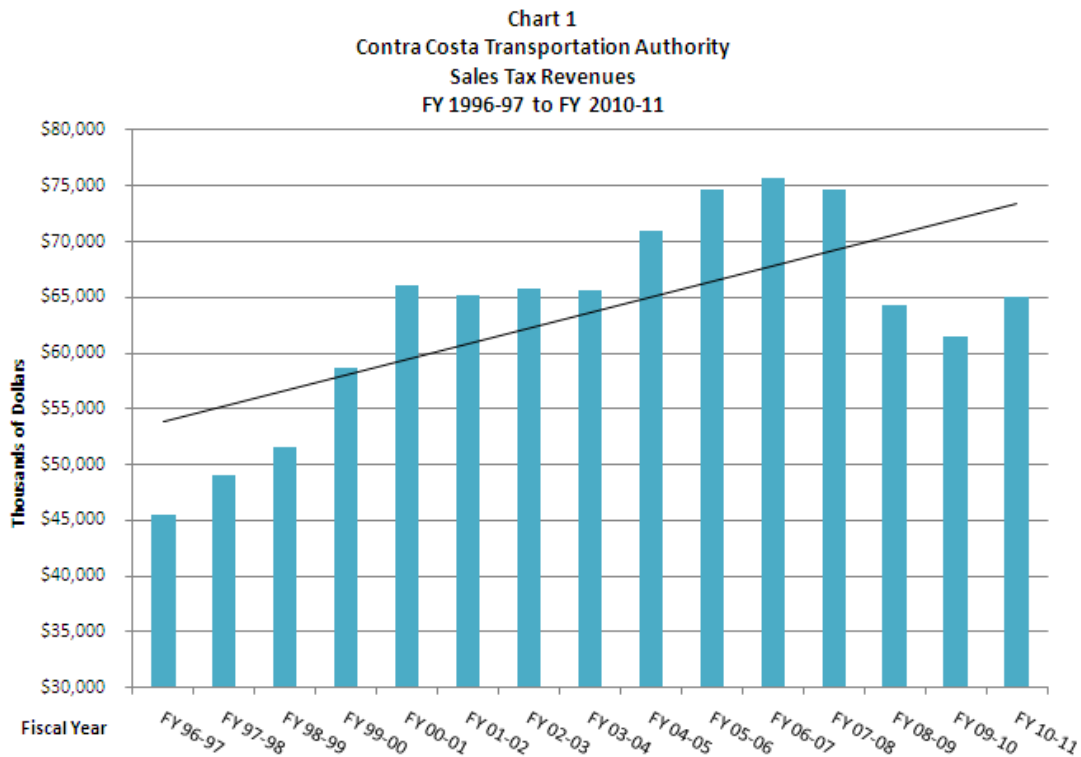
### **Background and Supporting Information**

**Organization.** The Contra Costa Transportation Authority (“Authority”) is a government special district established under Division 19 of the California Public Utilities Code Section 180000 et seq., pursuant to Contra Costa Ordinance 88-01 (as amended by Ordinance 06-02). The Authority became effective in its current role following a ballot referendum approved by the voters of Contra Costa County on November 8, 1988. The referendum, Measure C, established a county-wide half-percent sales tax imposed effective April 1, 1989 remaining in effect through March 31, 2009. The Authority is responsible for carrying out the provisions of Measure C, the Expenditure Plan and the Growth Management Plan. On November 2, 2004, the voters in Contra Costa approved Measure J, extending the county-wide half-percent sales tax from April 1, 2009 (the end of the term of Measure C) through March 31, 2034. The Authority is also responsible for carrying out the provisions of Measure J, the Expenditure Plan and the Growth Management Plan.

The Authority is governed by a Board of 11 members. Board Members are elected representatives of the County Board of Supervisors (2), local elected representatives from the cities of each of four subregional transportation areas (2 from each subregion), and one elected representative of the Contra Costa County Conference of Mayors (1).

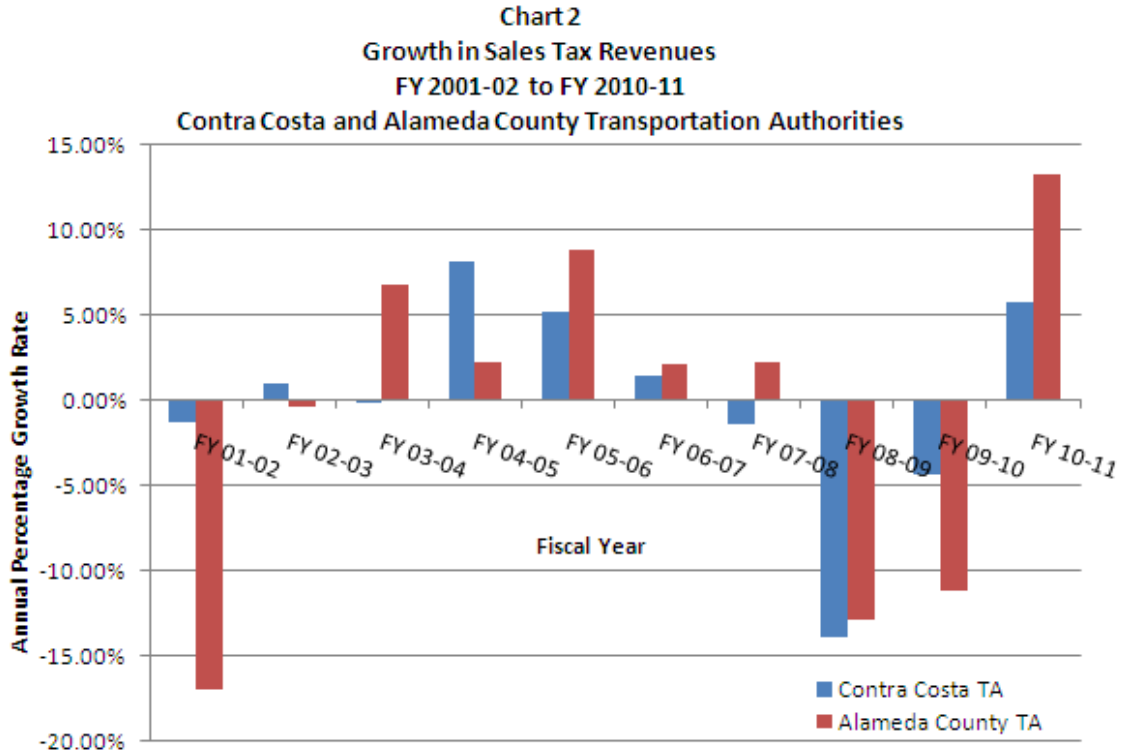
**Sales Tax Revenues.** The Authority relies primarily on the county-wide half-cent sales tax revenues for carrying out the provisions of Measure C and Measure J. Sales tax revenues in the fiscal year ended June 30, 2011 were \$65.061 million, which represents 75.6% of all of the revenues received by the Authority. This is an increase of \$3.534 million or 5.7% from the sales tax revenues received in Fiscal Year 2009-10. In general, certain sectors continue to improve moderately including department stores and restaurants and new auto sales. Service stations revenues increased \$0.9 million and 14.0% from the prior year with rising gas prices in the first half of 2011. Construction sectors continue to decline but at a smaller pace of (3.6%) after seeing double digit declines in the previous two fiscal years due to the economic conditions of high unemployment and minimal investment in new housing. The next few charts provide an analysis of sales tax revenues and economic indicators in Contra Costa County.

Chart 1 shows the annual sales tax revenues received from Fiscal Year 1996-97 through Fiscal Year 2010-11.



Source: Authority audited financial statements

**Economic Base for Sales Tax Revenues.** The economic base in Contra Costa is somewhat different than the sales tax base in adjacent Bay Area counties. Chart 2 illustrates the different growth rates in sales tax revenues in Contra Costa and Alameda counties over the past several years. The chart clearly shows the effect of the recession on sales tax revenues in both counties.



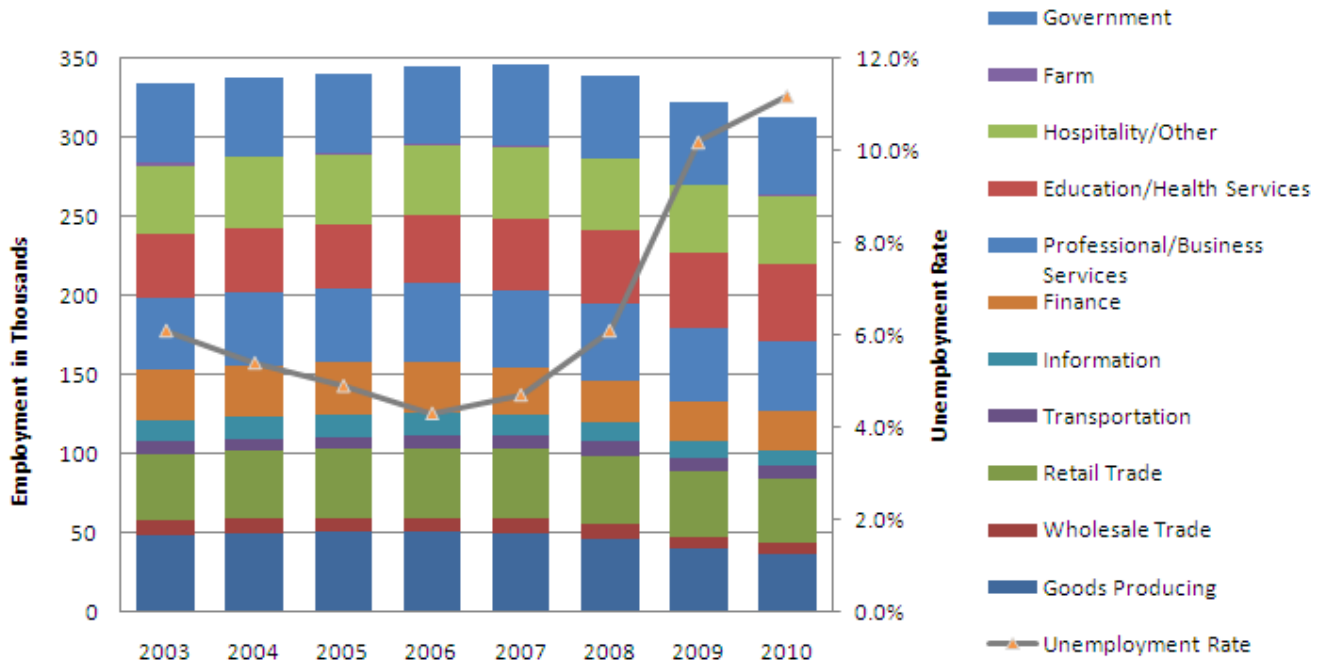
Source: Authority audited financial statements and Alameda County Transportation Authority

**Components of Taxable Transactions.** Consumption-based retail sales are a dominant portion of the sales tax revenues that the Authority receives. For Contra Costa, retail sales are 71% of total taxable transactions in 2009 (most recent data available) and continue to be the source of the majority of the Authority’s sales tax revenue. In comparison, Alameda County’s retail sales as a percentage of total taxable transaction represent 62% of sales tax revenue in 2009.

The county economy appears to be improving as revenues increased in the following sectors: department stores, new auto sales, and service stations. The negative impact on sales tax revenue continues to be in construction sectors of sales tax revenue as these areas are impacted by high unemployment, high volume of homes for sale and minimal need for new home construction. During the fiscal year ended June 30, 2011, sales tax receipts from retail and new auto sales increased \$0.355 million (2.9%) and \$0.372 million (6.8%), respectively, as consumer spending increased. Service station revenues increased \$0.919 million (14.3%) due to a combination of demand and price at the pump. Construction sectors continue to decline but at a slower pace, down by \$0.279 million (3.6%) from the prior year, in comparison to double digit declines in the previous two fiscal years.

**Employment.** Chart 3 shows the employment diversity in the county as of December 2010 (most recent data available). Unemployment remains high in the county and is at 11.2% in December 2010 compared to 10.2% in December 2009. The region continues to see declines in construction related jobs as the housing market has been saturated with foreclosed homes and developers are delaying or pulling out of residential projects. Local and county government agencies continue to shed jobs to balance budgets with reduced revenues from taxes and funding from the state.

**CHART 3  
Contra Costa County  
Employees Classified by Job Sector  
& Unemployment Rate  
2003 to 2010**



Source: State of California – Employment Development Department

## **Overview of the Financial Statements**

The Authority's Financial Statements are organized in three parts:

1. The Management Discussion and Analysis,
2. The Basic Financial Statements, which include the Authority-wide and the Fund financial statements along with the Notes to these financial statements, and
3. Combining Statements for Non-major Governmental Funds

### *Authority-wide Financial Statements*

The Authority-wide financial statements are designed to provide a longer-term view of the Authority's financial position, using a full accrual accounting method similar to the model used in the private sector. A main difference for the Authority, as compared to other government entities, concerns the impacts of the volume of outstanding debt and the absence of Authority title to the transportation infrastructure assets constructed with that debt.

- The Statement of Net Assets provides a broader overview of the long-term assets and liabilities of the agency. The principal owed on the bonds issued by the Authority, over all of the years the principal is to be repaid, is reported in the current year statements as an unpaid liability.
- The Statement of Net Assets includes an element showing the value of depreciated capital equipment and infrastructure. For the Authority, this is a small number, since other agencies hold title to the transportation projects that the Authority funds.
- The resultant negative unrestricted net asset position is the result of the Authority borrowing to construct projects on behalf of Contra Costa residents and taxpayers, transportation infrastructure assets that are owned by other public agencies.

Table 1 compares features of the government-wide financial statements and the traditional governmental fund accounting financial statements.

**Table 1**

Comparison of Qualities of the Government-Wide Financial Statements  
 Compared to Financial Statements Prepared Under Traditional Governmental Fund Accounting

Quality	Government-Wide Financial Statements	Governmental Fund Accounting Financial Statements
Scope	Entire agency	Activities of the agency that are not proprietary or fiduciary
Required Statements	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of Activities</li> </ul> (government-wide)	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balance</li> <li>• Budgetary Comparison Statement</li> </ul> (for each individual fund)
Basis of Accounting, Measurement Focus	<ul style="list-style-type: none"> <li>• Full accrual accounting,</li> <li>• Economic resources focus</li> </ul>	<ul style="list-style-type: none"> <li>• Modified accrual accounting,</li> <li>• Focus on current financial resources</li> </ul>

The **Statement of Net Assets** summarizes the Authority’s assets and liabilities, with the difference reported as net assets. The Statement of Net Assets is designed to provide information about the financial position of the Authority as a whole, including all of its capital assets and long-term liabilities, on a full accrual basis of accounting similar to the accounting model used by private sector firms. Table 2 summarizes the net assets of governmental activities for the fiscal years ended June 30, 2011, June 30, 2010, and June 30, 2009.

Table 2  
**Statement of Net Assets**  
(In Thousands)  
Governmental Activities  
For the Fiscal Year Ended:

	June 30, 2011	June 30, 2010	June 30, 2009
<b>ASSETS</b>			
Cash and investments	\$ 125,855	\$ 109,399	\$ 115,123
Restricted cash and investments	102,121	120,477	
Receivables	22,407	15,658	10,342
Net OPEB asset	844	873	912
Capital assets	948	556	408
Deferred charges	959	-	-
Total assets	<u>253,134</u>	<u>246,963</u>	<u>126,785</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Fair value of hedging derivatives	<u>26,099</u>	<u>33,612</u>	<u>29,100</u>
<b>LIABILITIES</b>			
Long-term debt	200,990	200,000	-
Other liabilities	<u>62,274</u>	<u>56,546</u>	<u>120,601</u>
Total liabilities	<u>263,264</u>	<u>256,546</u>	<u>120,601</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	948	556	408
Total restricted net assets	214,208	142,031	81,586
Unrestricted net assets (deficit)	<u>(199,187)</u>	<u>(118,558)</u>	<u>(46,710)</u>
Total net assets (deficit)	<u>\$ 15,969</u>	<u>\$ 24,029</u>	<u>\$ 35,284</u>

**Cash and investments** at June 30, 2011 consists of investments in the State Local Agency Investment Fund of \$114.362 million, Federal Agency securities of \$33.291 million, U.S. Treasury Notes of \$31.068 million, California Asset Management Program of \$27.205 million, Corporate Notes of \$6.438 million, Money Market Mutual Funds of \$3.255 million, Commercial Paper of \$3.000 million, Certificates of Deposit of \$1.001 million, and cash in the bank of \$8.356 million. (For additional details of the composition and categorization of cash and investments please see Note 3.)

**Capital assets.** As of June 30, 2011, the total capital asset value was \$0.948 million. This includes \$0.415 million in office leasehold improvements, \$0.374 million in office equipment (including computers and furniture) and \$0.415 million for the financial system, minus accumulated depreciation of \$0.048 million for leasehold improvements, \$0.066 million for office equipment and \$0.142 million for financial system. Though working on a number of large

transportation projects during the year, the Authority holds title to none of these capital assets. (For additional information please see Note 5.)

**Deferred outflows.** The hedging derivative amounted to \$26.099 million to reflect an effective hedge and offsets the swap liability at the fair value of the swap at June 30, 2011 (For additional information please see Note 7).

**Long-term debt.** The Authority issued \$200.990 million in 2010 Limited Tax Bonds to finance transportation projects and retire the 2009 Notes. (For additional information please see Note 7).

**Other liabilities** totaled \$62.274 million, consisting of accounts payable, accrued employee benefits, deposit payable and derivative instrument liability. The Authority recorded the value of the interest rate swap at June 30, 2011 of \$26.099 million, which improved from the prior year by \$7.513 million. (For additional information please see Note 7).

The **Statement of Activities** presents information showing how the Authority's net assets have changed during the fiscal year. The Authority-wide financial statements give a report on the main functions of the Authority. The statement shows that these functions are principally supported by sales tax revenues, discussed in detail in a prior section of the MD&A.

Expenditures are categorized by the main Authority functions. These functions primarily include transportation projects, programs, and debt service. Revenues restricted to funding of specific Authority functions are considered program revenues. All other revenues are classified as general revenues, which may be used to finance all Authority functions. Sales tax revenues are included in the general revenues category, along with interest earnings on investments. Table 3 is the Statement of Activities, or the change in net assets of governmental activities, for the fiscal years ended June 30, 2011, June 30, 2010, and June 30, 2009.

Table 3  
**Statement of Activities**  
(In Thousands)  
Governmental Activities  
For the Fiscal Year Ended:

	June 30, 2011	June 30, 2010	June 30, 2009
<b>Revenues</b>			
General revenues			
Sales taxes	\$ 65,061	\$ 61,527	\$ 64,322
Other general revenues	1,731	1,564	2,380
Program revenues			
Operating grants and contributions	3,298	4,315	14,946
Capital grants	15,921	10,051	2,300
Total revenues	<u>\$ 86,011</u>	<u>\$ 77,457</u>	<u>\$ 83,948</u>
<b>Expenses</b>			
Administration	1,533	1,560	1,597
Project management	659	697	859
Programs	26,437	25,975	18,579
Transportation projects	52,468	36,321	41,009
Regional planning	1,487	1,131	883
Congestion management	1,426	1,278	986
Transportation demand management	1,509	1,935	1,285
Transportation planning land use solutions	275	133	191
Debt service interest and related fees	8,277	19,682	888
Total expenses	<u>\$ 94,071</u>	<u>\$ 88,712</u>	<u>\$ 66,277</u>
Change in Net Assets	(8,060)	(11,255)	17,671
Net Asset – Beginning (A)	<u>24,029</u>	<u>35,284</u>	<u>17,613</u>
Net Asset - (Deficit) Ending	<u><u>\$ 15,969</u></u>	<u><u>\$ 24,029</u></u>	<u><u>\$ 35,284</u></u>

(A) Restated June 30, 2009 & June 30, 2010 Net Assets balance to properly reflect GASB 53 for interest rate swap agreement for \$33.612 million and \$29.100 million, respectively.

The **Statement of Activities** provides information about the Authority's revenues and expenses on the full accrual basis, with an emphasis on measuring the net revenues or expenses for each of the Authority's main activities. The Statement explains the change in net assets for a given year. All of the Authority's activities are governmental type activities.

**Sales tax revenues** are the largest revenue source amounting to \$65.061 million, up 5.7% from \$61.527 million for the preceding year. Sales tax revenues are general revenues, available to all Authority purposes as defined in the Measure C and Measure J Expenditure Plans, and represent 69.6% of all Authority revenues for the year ended June 30, 2011. Investment earnings and other miscellaneous revenues are also general revenues.

**Investment income** was \$1.674 million for the year ended June 30, 2011, which was a \$0.131 million or 8.5% increase over the year ended June 30, 2010. The Authority's cash and securities are invested in separate portfolios depending upon the objectives of the assets being managed. The \$227.976 million of cash and securities included \$102.121 million of bond proceeds from the 2010 Sales Tax Revenue Bonds for Measure J projects. As such, the investment objective is to maintain daily liquidity as needed to pay construction and construction related expenditures for project delivery. Another separate portfolio included \$74.798 million of individual securities, such as U.S. Treasury Notes, Federal Agency Securities and other securities permitted by State law and the Authority's adopted Investment Policy. This portfolio is actively managed by PFM Asset Management, the Authority's independent investment advisor. The annualized total return for the year ended June 30, 2011, was 1.5%. Total return is an industry standard method of measuring performance that includes income, realized and unrealized gains and losses. The total return of 1.5% was an increase 0.13% over the Authority's performance benchmark (Bank of America/Merrill Lynch 1 to 3 Year U.S. Treasury Index). The balance of the cash and securities included \$39.247 million invested in the State Local Agency Investment Fund (LAIF) and \$11.611 million of cash in the Authority's checking and custody accounts.

**Program revenues** represent \$19.219 million or about 20.5% of total revenues, increased \$4.853 million from last year. Capital grant revenues of \$15.921 million, which included reimbursement from Regional Measure 2 (RM2) for \$14.276 million for State Route 4 East project and \$1.157 million for the Caldecott Tunnel Fourth Bore. Over the last several fiscal years the Caldecott Tunnel and State Route 4 projects received the majority of the grant reimbursements. The funding sources will vary as the Authority is reimbursed for different phases of the projects from design to construction, or draws on grants that have an earlier sunset date.

**Expenses**, including depreciation, are classified by function. A brief description of activity within each function is as follows:

- The **Administration** function includes tasks and costs related to the overall operation and management of the Authority. Office expenses including rents and leases, office supplies, and equipment, and general service contracts are also charged to the Administration category. Administration expense was \$1.533 million for fiscal year ended June 30, 2011 which is a decrease of 1.7% from the prior year. Administrative salaries and benefits are 0.74% of sales tax revenues in the year ended June 30, 2011, less than the 1% administrative limitation policy.

- **Project management** includes tasks and costs related to the oversight of Measure C and Measure J projects. Measure C projects include the widening of State Route 4 East, Rail Extension to Eastern Contra Costa, Regional Commuterway, and proposed improvements such as Norris Canyon along the I-680 corridor. Measure J projects include the State Route 4 East Widening, Capital Corridor Rail Station Improvements, East County Corridor and engineering work and bid support services on the Caldecott Tunnel 4<sup>th</sup> Bore project. Project management for fiscal year ended June 30, 2011 was \$0.659 million which is a decrease of \$0.038 million as staff costs were shifted to congestion management for eligible State Planning, Programming and Monitoring grant funds.
- **Programs** established in Measure C include expenses related to Local Street Maintenance and Improvement, Bus Transit, Paratransit, and Commute Alternatives. Measure J included these programs and created new ones to improve or expand needs in Contra Costa County. Express bus is a countywide program to transport commuters to and from residential areas to transit and employment centers. Measure J includes subregional programs to provide funds to certain regions of the county for Additional Local Street and Maintenance, Bus Transit Enhancements, Additional Paratransit, Safe Transportation for Children and Ferry Service.

Overall program expenditures increased from the prior year from \$25.975 million to \$26.437 million. The increase is due to sales tax revenues improving over the prior year, which provides additional revenues to the various programs.

- **Transportation Projects** expenses include annual project expenses, right-of-way costs, construction contract costs, engineering design and management contract costs, and attorney's fees for Measure C and Measure J projects as authorized in the Strategic Plans. Transportation Project expenses are further categorized by Highways and Arterials, Transit, and Trail projects. Project costs of \$52.468 million for the year ended June 30, 2011, which was \$16.147 million more than the project costs for the year ended June 30, 2010. Project costs are discussed in detail at the fund level.
- The **Regional Planning** function includes tasks and costs related to implementation of the Growth Management Plan. This function also includes regional transportation planning activities, and the development and maintenance of the county-wide travel demand models. Regional Planning costs were \$1.487 million for the year ended June 30, 2011, which increased \$0.356 million from the prior year as activity continues on the 2010 Decennial Model update and county election costs associated with the Vehicle Registration Fee initiative (Measure O).
- **Congestion Management** includes activities related to the mandated Congestion Management Plan (CMP), such as monitoring of compliance with established standards. The cost of assisting local jurisdictions with funding applications for state and federal funds is also charged to this organizational unit. Congestion Management costs are \$1.426 million and increased \$0.148 million from the prior year as salary costs increased due to reallocations, which are reimbursable from State Planning, Programming and Monitoring (PPM) grant funds.
- **Transportation Demand Management** spent \$1.509 million for ridesharing and the implementation of other trip reduction strategies such as the carpool and vanpool incentive programs and the guaranteed ride home program.

- **Transportation Planning Land Use Solutions** is a program that provides funding to assist local jurisdictions in developing long-range plans for Transportation Oriented Development projects. The program is funded by MTC through CMAQ/STP funds. Expenditures for this program were \$0.275 million and primarily for contributions of \$0.098 million to develop a master plan for the Pittsburg/Bay Point Bart station and \$0.137 million for technical support services for development of the sustainable congestion strategy.
- **Debt Service** is another category of expenses. Since the Statement of Activities is on a full accrual basis, only interest costs and related fees are shown in the statements. The principal repayment is not shown as an expenditure line item. On September 30, 2010, the Authority issued \$200.990 million in 2010 Bonds to repay the 2009 Notes and project funding. As of June 30, 2011, the Authority incurred interest expense and bond amortization costs of \$8.277 million. The decrease in debt service costs of \$11.405 million from the prior year is primarily related to the termination of \$100 million notional amount from the interest rate swap agreement related to the bonds.

The **Change in Net Assets** figure is the revenues minus the expenses. During the year ended June 30, 2011, the Authority realized a decrease in Net Assets of \$8.060 million. The changes are due to increased project costs related to State Route 4 and Caldecott Tunnel, and offset by grant reimbursements.

#### *Fund Financial Statements*

**Governmental Funds.** The Authority's General Ledger is maintained on a standard government fund accounting, modified accrual basis. This basis is required to ensure compliance with finance-related legal standards. The perspective of fund-based financial statements is narrower than Authority-wide statements, with a focus on spendable assets and short-term liabilities rather than on cash flows in future years. The focus of these fund statements is now on major funds. Measure J is the operating fund for the Authority and is the General Fund. Measure C is a Special Revenue Fund to track remaining projects and planning activities. The General Fund is always a major fund. The Measure C Special Revenue Fund, Measure C and J Streets and Roads Special Revenue Funds and the 2009 and 2010 Measure J Debt Service Funds are also Major Funds. Budget comparison statements are also presented for the General Fund and the major Special Revenue Funds. Discussion of the Major Fund Statements is as follows:

#### Measure J Fund General Fund

General Fund's ending **fund balance** was \$40.025 million as of June 30, 2011, which represents an increase of \$15.079 million for the year. The increase is due to transfers from the 2009 and 2010 Measure J Debt Service Funds to reimburse project costs.

**Sales tax revenues** received in the year ended June 30, 2011 were \$14.114 million below the final budget of \$62.200 million. The Authority implemented GASB 54, which requires the sales tax revenues for the Local Streets and Maintenance, Paratransit and Commute Alternatives Special Revenue Funds to be shown in those funds and not as transfers, which was historically done. The sales tax revenues amounted to \$16.975 million in those funds, which reduced revenue in the Measure J Fund. Overall, Measure J saw an increase in sales tax receipts this fiscal year, which is discussed in detail at the beginning of this MD&A.

**Grant revenues** were \$6.977 million in federal, state and local grant funds, which is below budget by \$11.499 million due to Regional Measure 2 (RM2) funds of \$6.489 million for State Route 4 East Widening right-of-way purchases not yet incurred. Also, \$2.852 million of RM2 funds were requested for reimbursement but not received during the accrual period and shown as deferred revenue. Expenditures need to be incurred prior to submittal for reimbursement.

**Transportation Project** expenditures at June 30, 2011 were \$34.763 million and increased from the prior year as State Route 4 and Caldecott Tunnel continue to progress. Projects are categorized under Capital Improvement Projects, Countywide Capital and Maintenance Projects and Subregional Projects. The following are the main project costs for the fiscal year:

- i. The State Route 4 East Widening project spent \$20.895 million on right-of-way, construction management and design costs.
- ii. Caldecott Tunnel Fourth Bore spent \$8.563 million on construction management and support services.
- iii. Richmond Parkway spent \$2.462 million on design of the Marina Bay Parkway Grade Separation.
- iv. I-80 Carpool Lane Extension spent \$1.668 million on design.

Transportation Projects were \$14.621 million under budget for the year ended June 30, 2011. The following are the larger variances for the fiscal year:

- i. eBART was under budget by \$1.793 million because construction of the platforms started later than anticipated.
- ii. SR4 East Widening was under budget by \$1.426 million for right-of-way costs.
- iii. East County Corridor was under budget by \$1.350 million due to Vasco Road Improvements and Sand Creek Road projects, which started later than anticipated.
- iv. I-680 Carpool Lane Gap Closure was under budget by \$1.152 million because construction for the I-680 South Bound Carpool Lane Extension (restripe) and Norris Canyon environmental work started later than anticipated.
- v. Transportation for Livable Communities category was under budget by \$3.305 million as the guidelines for this program were being finalized.

### Measure J Streets and Roads Fund

Historically transfers were made from the General Fund to the Streets and Roads Fund, but with the implementation of GASB54 this is now shown as sales tax revenues which also explains the budget variance. Sales tax revenues allocable to local jurisdictions amounted to \$13.071 million in the fiscal year ended June 30, 2011. This amount is held in cash and expected to be distributed in the following fiscal year upon the anniversary date of the approval of the growth management checklist. Countywide disbursements of \$11.711 million are based on 18% total sales tax. The other \$1.360 million is allocated based on 2.09% of total sales tax for Southwest County, West County and Central County.

### Measure C Special Revenue Fund

Measure C Special Revenue Fund ending **fund balance** was \$59.904 million as of June 30, 2011, which represents a decrease of \$16.835 million for the year. Measure C concluded receiving sales tax revenues on March 31, 2009. There are still ongoing project and planning costs that will continue over the next several fiscal years. The fund balance will naturally decrease as Measure C projects and planning activities are completed.

**Grant revenues** were \$0.788 million in federal, state and local grant funds, which is under budget by \$4.651 million. The Authority requested \$7.196 million of Regional Measure 2 funds for reimbursement related to State Route 4 but the amount was not received during the accrual period and therefore shown as deferred revenue.

**Transportation Project** expenditures are categorized into a) highways and arterials; b) transit; and c) trails projects. Project expenditures in the year ended June 30, 2011 of \$17.705 million an increase from the prior year as Route 4 project continues. The following are the major project costs for the fiscal year ended June 30, 2011:

- i. Route 4 East and Contra Costa Regional Commuterway spent \$14.057 million on SR4 (e) Widening Project for the Loveridge to Somersville segment for right-of-way services, construction management, and construction on the UPPR Team Track Facility.
- ii. BART Parking spent \$1.786 million on construction of the Richmond Village BART Parking Structure.

Transportation Projects were \$1.848 million under budget for the year ended June 30, 2011. Following are the reasons for the budget variance:

- i. Route 4 East was over budget by \$2.615 million for project costs related to mainline construction and right-of-way occurring earlier in the summer of 2011 than expected. As stated earlier, these costs were reimbursed by Regional Measure 2.
- ii. BART Parking was under budget by \$3.498 million for the Richmond Transit Village, which was rebudgeted for the following fiscal year

### Measure J Debt Service Funds

On September 30, 2010, the Authority issued \$200.990 million in Sales Tax Revenue Bonds (2010 Limited Tax Bonds), Series 2010. The purpose of the 2010 Limited Tax Bonds was to retire the 2009 Notes and finance costs associated with Measure J transportation projects. The 2010 Limited Tax Bonds have a mandatory tender date of October 1, 2013, at which time they will be extended or refunded to no later than March 1, 2034.

On September 18, 2009, the Authority issued \$200.000 million 2009 Notes to finance the costs associated with project costs, retire the outstanding Commercial Paper and reduce the interest rate swap. During the year ended June 30, 2011, the Authority paid off the 2009 Notes outstanding principal of \$200.000 million with the issuance of the 2010 Limited Tax Bonds.

### *Notes to the Basic Financial Statements*

The notes provide additional information that is important to a full understanding of the data provided in the Authority-wide and the traditional fund-based, financial statements. These are contained in the attached reports.

### *Authority's Outlook*

The Authority continues to look for ways to further projects and programs by maximizing Measure J sales revenues forecasted to be 25% less over its twenty five year life to \$1.501 billion (in 2004 dollars). The Authority worked closely with its regional transportation planning committees and other stakeholders to prioritize projects and programs to update the Measure J Strategic Plan with current revenue projections approved July 20, 2011. One of the key elements was the Authority gave flexibility to each region of the County to decide which projects and programs would be affected by the reduced revenue. Another key was to get as many projects ready to take advantage of the lower constructions bid environment to offset the reduced revenues.

The result of the work done by the Authority and the regional transportation planning committees kept projects moving forward. The tunneling work continues on the Caldecott Tunnel 4<sup>th</sup> Bore and expected to break through by the end of the calendar year. The State Route 4 widening construction continues on Somersville Road (Segment 1) and Contra Loma/G Street (Segment 2). Also, due to lower construction bids on State Route 4, work can be started on State Route 4 Bypass Sand Creek Interchange. eBART work continues on the transfer platform and facilities in the median. These projects will reduce congestion and commute time throughout the county. Measure J continues to fund programs such as Bus Transit, Paratransit, Express Bus, Safe Transportation for Children and Commute Alternatives.

### Requests for Information

This financial report is designed to provide a general overview of the finances of the Authority. Questions concerning information provided in this report, or any requests for additional financial information, should be addressed to Randall Carlton of the Contra Costa Transportation Authority, 2999 Oak Road, Suite 100, Walnut Creek, CA 94597.

## CONTRA COSTA TRANSPORTATION AUTHORITY

### STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets reports the difference between the Authority's total assets and the Authority's total liabilities, including all the Authority's capital assets and all its long-term debt. The Statement of Net Assets presents information similar to the traditional balance sheet format, but presents it in a way that focuses the reader on the composition of the Authority's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the Authority's Governmental Activities in a single column. The Authority's Governmental Activities include the activities of its all of its governmental funds, capital assets and debt.

The Statement of Activities reports increases and decreases in the Authority's net assets. It is also prepared on the full accrual basis, which means it includes all the Authority's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund Financial Statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the Authority's expenses listed by program. Program revenues—that is, revenues that are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each program. The Authority's general revenues are then listed in the Governmental Activities column, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

These financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**  
**(In thousands)**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments (Note 3)	\$ 125,855
Restricted cash and investments (Note 3)	102,121
Receivables:	
Sales tax	10,746
Interest	273
Intergovernmental	11,388
Net OPEB asset (Note 9)	844
Capital assets, net of accumulated depreciation (Note 5)	948
Deferred charges	959
<b>TOTAL ASSETS</b>	<u>253,134</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Accumulated decrease in fair value of hedging derivative (Note 7)	<u>26,099</u>
 <b>LIABILITIES</b>	
Accounts payable	34,415
Accrued employee benefits	454
Deposits payable (Note 6)	1,306
Interest rate swap agreement (Note 7)	26,099
Long-term liabilities:	
Sales tax revenue bonds, due in more than one year (Note 7)	<u>200,990</u>
<b>TOTAL LIABILITIES</b>	<u>263,264</u>
 <b>NET ASSETS (DEFICIT) (Note 12)</b>	
Invested in capital assets	948
Restricted for:	
Transportation projects and programs	214,208
Unrestricted deficit	<u>(199,187)</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 15,969</u>

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
**(In thousands)**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>
		<b>Operating Grants and Contributions</b>	<b>Capital Grants</b>	
Governmental Activities:				
Administration	\$ 1,533	\$ -	\$ -	\$ (1,533)
Project management	659	-	-	(659)
Programs	26,437	70	-	(26,367)
Transportation projects	52,468	32	15,921	(36,515)
Regional planning	1,487	-	-	(1,487)
Congestion management	1,426	1,749	-	323
Transportation demand management	1,509	1,335	-	(174)
Transportation planning land use solutions	275	112	-	(163)
Interest and related fees	8,277	-	-	(8,277)
<b>Total governmental activities</b>	<b>\$ 94,071</b>	<b>\$ 3,298</b>	<b>\$ 15,921</b>	<b>(74,852)</b>
General Revenues:				
Sales taxes				65,061
Investment income				1,674
Miscellaneous				57
<b>Total general revenues</b>				<b>66,792</b>
Change in net assets				(8,060)
Net deficit at beginning of year, as previously reported				(9,583)
Restatement to correct the reporting of the interest rate swap hedging transaction (Note 1 I.)				33,612
Net assets at beginning of year, as restated				24,029
Net assets at end of year				<b>\$ 15,969</b>

See accompanying notes to the financial statements.

This Page Intentionally Left Blank

## **FUND FINANCIAL STATEMENTS**

The Fund Financial Statements are presented by individual major funds, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

### **MAJOR GOVERNMENTAL FUNDS**

The funds described below were determined to be Major Funds by the Authority for fiscal year 2011. Individual non-major funds may be found in the Combining Financial Statements section.

#### **MEASURE J GENERAL FUND**

The *General Fund* is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund. All intergovernmental revenue is recorded in the General Fund, except for those restricted funds required to be recorded in the major Measure C Special Revenue Funds and the non-major Special Revenue Funds. The Authority also transfers sales tax revenues to Debt Service Funds, on a monthly basis, to cover interest and principal coming due. General Fund expenditures include salaries and benefits of the Authority's staff. Salaries and benefits for administration are limited by Measure J (as defined) to one percent of the sales tax revenue on an annual basis.

#### **MEASURE J LOCAL STREETS AND ROADS SPECIAL REVENUE FUND**

This Fund is used by the Authority to account for the accumulation of resources required to be allocated to local cities and the County for local transportation improvements, including streets and roads. Monies are disbursed to the local agencies upon compliance with certain provisions included in Measure J. Under the provisions of Measure J and policies adopted by the Authority, 18% of net sales tax revenues are to be used for local street maintenance and improvements. An additional 2.09% of net sales tax revenue is allocated to Central County, West County, and Southwest County.

#### **MEASURE C SPECIAL REVENUE FUND**

Prior to April 1, 2009 when Measure J became effective, there was Measure C, a County-wide half-percent sales tax to fund transportation programs and projects. The Authority is responsible for carrying out the provisions of Measure C. The Measure C Fund was established to record financial activities associated with the projects and programs in the Measure C expenditure plan.

#### **MEASURE C LOCAL STREETS AND ROADS SPECIAL REVENUE FUND**

This Fund is used by the Authority to account for the accumulation of resources required to be allocated to local cities and the County for local transportation improvements, including streets and roads. Monies are disbursed to the local agencies upon compliance with certain provisions included in Measure C. Under the provisions of Measure C and policies adopted by the Authority, 18% of net sales tax revenues are to be used for local street maintenance and improvements.

#### **2009 MEASURE J DEBT SERVICE FUND**

This fund accounts for resources used to service the Authority's 2009 Sales Tax Revenue Notes.

#### **2010 MEASURE J DEBT SERVICE FUND**

This fund accounts for resources used to service the Authority's 2010 Sales Tax Revenue Bonds.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**JUNE 30, 2011**  
**(In thousands)**

	2009							Total Governmental Funds
	Measure J General Fund	Measure J Local Streets and Roads Fund	Measure C Fund	Measure C Local Streets and Roads Fund	Measure J Debt Service Fund	2010 Measure J Debt Service Fund	Other Governmental Funds	
<b>ASSETS</b>								
Cash and investments (Note 3)	\$ 45,292	\$ 13,935	\$ 63,610	\$ -	\$ -	\$ 45	\$ 2,973	\$ 125,855
Restricted cash and investments (Note 3)	-	-	-	-	-	102,121	-	102,121
Receivables:								
Sales tax	7,942	2,159	-	-	-	-	645	10,746
Interest	45	-	139	-	-	89	-	273
Intergovernmental	3,919	57	7,328	14	-	-	70	11,388
Total Assets	<u>\$ 57,198</u>	<u>\$ 16,151</u>	<u>\$ 71,076</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 102,255</u>	<u>\$ 3,688</u>	<u>\$ 250,383</u>
<b>LIABILITIES</b>								
Accounts payable	\$ 12,561	\$ 16,151	\$ 3,977	\$ 14	\$ -	\$ 1,413	\$ 299	\$ 34,415
Accrued employee benefits	454	-	-	-	-	-	-	454
Deferred revenue	2,852	-	7,196	-	-	-	-	10,048
Deposits payable (Note 6)	1,306	-	-	-	-	-	-	1,306
Total Liabilities	<u>17,173</u>	<u>16,151</u>	<u>11,173</u>	<u>14</u>	<u>-</u>	<u>1,413</u>	<u>299</u>	<u>46,223</u>
<b>FUND BALANCES (Note 12)</b>								
Restricted:								
Air quality	-	-	-	-	-	-	812	812
Carpool/commute alternatives	-	-	-	-	-	-	441	441
Transportation projects	21,956	-	58,572	-	-	100,842	-	181,370
Paratransit program	-	-	-	-	-	-	2,136	2,136
Additional paratransit program	907	-	-	-	-	-	-	907
Safe transportation for children	1,310	-	-	-	-	-	-	1,310
Ferry service	3,165	-	-	-	-	-	-	3,165
Bus transit and improvements	143	-	-	-	-	-	-	143
Express bus	123	-	-	-	-	-	-	123
Subregional bus transit	96	-	-	-	-	-	-	96
Transportation for livable communities projects (TLC)	6,850	-	-	-	-	-	-	6,850
Additional TLC	563	-	-	-	-	-	-	563
Pedestrian, bicycle and trail facilities	2,110	-	-	-	-	-	-	2,110
Additional pedestrian, bicycle and trail facilities	56	-	-	-	-	-	-	56
Subregional transportation needs	2,153	-	-	-	-	-	-	2,153
Planning and facilities	358	-	1,332	-	-	-	-	1,690
Administration	235	-	-	-	-	-	-	235
Total Fund Balances	<u>40,025</u>	<u>-</u>	<u>59,904</u>	<u>-</u>	<u>-</u>	<u>100,842</u>	<u>3,389</u>	<u>204,160</u>
Total Liabilities and Fund Balances	<u>\$ 57,198</u>	<u>\$ 16,151</u>	<u>\$ 71,076</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 102,255</u>	<u>\$ 3,688</u>	<u>\$ 250,383</u>

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**  
**(In thousands)**

Fund balances - total governmental funds \$ 204,160

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds (Note 5). 948

Bond issuance costs are expended in the governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for the purposes of the governmental activities on the statement of net assets. 959

Net OPEB asset is recognized in the statement of net assets as an asset; however, it is not considered a financial resource and, therefore, is not reported on the balance sheet of governmental funds (Note 9). 844

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the governmental funds. 10,048

Long-term liabilities, including the sales tax bonds payable and its related hedging derivative, are not due and payable in the current period and, therefore, are not reported in the governmental funds (Note 7):

Sales tax revenue bonds	\$	(200,990)	
Fair value of interest rate swap agreement		(26,099)	
Accumulated decrease in fair value of hedging derivative		26,099	
Subtotal		(200,990)	(200,990)

Net assets of governmental activities \$ 15,969

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(In thousands)

	Measure J General Fund	Measure J Local Streets and Roads Fund	Measure C Fund	Measure C Local Streets and Roads Fund	2009 Measure J Debt Service Fund	2010 Measure J Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>								
Sales tax	\$ 48,086	\$ 13,071	\$ -	\$ -	\$ -	\$ -	\$ 3,904	\$ 65,061
Investment income	522	-	639	-	89	393	31	1,674
Federal Demo (SR4 East)	-	-	414	-	-	-	-	414
Federal Surface Transportation Program (CMA)	558	-	228	-	-	-	-	786
Federal Surface Transportation Program (T-Plus)	112	-	-	-	-	-	-	112
Federal Demo (I-80 Carpool Lane Extension)	24	-	-	-	-	-	-	24
Federal Congestion Mitigation (CMAQ)	-	-	-	-	-	-	70	70
State Planning, Programming and Monitoring (PPM)	898	-	-	-	-	-	-	898
Regional Measure 2 (SR4 East Widening)	4,228	-	-	-	-	-	-	4,228
Regional Measure 2 (I-680 Study)	-	-	32	-	-	-	-	32
Regional Measure 2 (Caldecott Tunnel Fourth Bore)	1,157	-	-	-	-	-	-	1,157
State Motor Vehicle Registration Surcharge (TFCA)	-	-	-	-	-	-	1,335	1,335
Contributions from CMA member agencies	-	-	63	-	-	-	-	63
Delta Diablo Contributions (SR4 East)	-	-	(78)	-	-	-	-	(78)
Rental Income & Escrow Earnings (SR4 East)	-	-	129	-	-	-	-	129
Miscellaneous revenue	57	-	-	-	-	-	-	57
<b>Total Revenues</b>	<b>55,642</b>	<b>13,071</b>	<b>1,427</b>	<b>-</b>	<b>89</b>	<b>393</b>	<b>5,340</b>	<b>75,962</b>
<b>Expenditures</b>								
<b>Current expenditures:</b>								
<b>Administration:</b>								
Salaries and employee benefits	484	-	-	-	-	-	-	484
Services, supplies & capital outlay	1,411	-	-	-	-	-	-	1,411
<b>Project Management:</b>								
Salaries and employee benefits	650	-	-	-	-	-	-	650
Services, supplies & capital outlay	9	-	-	-	-	-	-	9
<b>Programs:</b>								
Commute alternatives	-	-	-	-	-	-	538	538
Additional paratransit	408	-	-	-	-	-	-	408
Bus transit enhancements	2,225	-	-	-	-	-	-	2,225
Paratransit	-	-	-	-	-	-	2,246	2,246
Express bus program	2,625	-	-	-	-	-	-	2,625
Bus transit and improvement program	3,047	-	-	-	-	-	-	3,047
Safe transportation for children	2,277	-	-	-	-	-	-	2,277
Local street and maintenance	-	11,711	-	-	-	-	-	11,711
Subregional local street and maintenance	-	1,360	-	-	-	-	-	1,360
<b>Transportation Projects:</b>								
Highways and arterials	-	-	6,582	-	-	-	-	6,582
Transit	-	-	11,123	-	-	-	-	11,123
Capital improvement projects	34,037	-	-	-	-	-	-	34,037
Countywide capital and maintenance projects	69	-	-	-	-	-	-	69
Subregional projects	657	-	-	-	-	-	-	657
<b>Regional Planning:</b>								
Salaries and employee benefits	394	-	-	-	-	-	-	394
Services, supplies & capital outlay	153	-	395	-	-	-	-	548
Contributions to other agencies	545	-	-	-	-	-	-	545
<b>Congestion Management:</b>								
Salaries and employee benefits	1,302	-	-	-	-	-	-	1,302
Services, supplies & capital outlay	72	-	52	-	-	-	-	124
<b>Transportation Demand Management:</b>								
Salaries and employee benefits	-	-	67	-	-	-	-	67
Contributions to other agencies	-	-	1,442	-	-	-	-	1,442
<b>Transportation Planning Land Use Solutions:</b>								
Salaries and employee benefits	33	-	-	-	-	-	-	33
Services, supplies & capital outlay	137	-	105	-	-	-	-	242
<b>Debt service:</b>								
Note principal	-	-	-	-	200,000	-	-	200,000
Interest and related fees	-	-	-	-	953	7,289	-	8,242
Issuance costs	-	-	-	-	-	994	-	994
<b>Total Expenditures</b>	<b>50,535</b>	<b>13,071</b>	<b>19,766</b>	<b>-</b>	<b>200,953</b>	<b>8,283</b>	<b>2,784</b>	<b>295,392</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,107	-	(18,339)	-	(200,864)	(7,890)	2,556	(219,430)
<b>Other Financing Sources (Uses)</b>								
Bond proceeds	-	-	-	-	-	200,990	-	200,990
Transfer in (Note 4)	19,522	-	1,509	-	85,504	6,719	5	113,259
Transfer out (Note 4)	(9,550)	-	(5)	-	(3,218)	(98,977)	(1,509)	(113,259)
<b>Total Other Financing Sources (Uses)</b>	<b>9,972</b>	<b>-</b>	<b>1,504</b>	<b>-</b>	<b>82,286</b>	<b>108,732</b>	<b>(1,504)</b>	<b>200,990</b>
Net Change in Fund Balances	15,079	-	(16,835)	-	(118,578)	100,842	1,052	(18,440)
Fund Balances - Beginning	24,946	-	76,739	-	118,578	-	2,337	222,600
Fund Balances - Ending	\$ 40,025	\$ -	\$ 59,904	\$ -	\$ -	\$ 100,842	\$ 3,389	\$ 204,160

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(In thousands)

Net change in fund balances - total governmental funds \$ (18,440)

Amounts reported for governmental activities in the statement of activities are different because:

Capital assets cost is allocated over their estimated useful lives and reported as depreciation expense in the current period.

Capital asset acquisition	\$	626	
Retirement of capital assets		(31)	
Depreciation		(203)	
Subtotal			392

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This represents the change in the deferred amounts during the current period. 10,048

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. These transactions, however, have no effect on net assets. The governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of 2010 Sales Tax Revenue Bonds	\$	(200,990)	
Bond issuance costs		994	
Amortization of bond issuance costs		(35)	
Retirement of 2009 Sales Tax Revenue Notes		200,000	
Subtotal			(31)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in Net OPEB asset			(29)
--------------------------	--	--	------

Change in net assets of governmental activities \$ (8,060)

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**MEASURE J GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(In thousands)

	Budget			Variance with Budget - Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Sales tax	\$ 62,200	\$ 62,200	\$ 48,086	\$ (14,114)
Investment income	96	278	522	244
Federal Surface Transportation Program (CMA)	870	870	558	(312)
Federal Surface Transportation Program (T-Plus)	556	200	112	(88)
Federal Demo (I-80 Carpool Lane Extension)	120	120	24	(96)
State Planning, Programming and Monitoring (PPM)	769	837	898	61
Regional Measure 2 (SR4 East Widening)	15,990	13,569	4,228	(9,341)
Regional Measure 2 (Caldecott Tunnel Fourth Bore)	4,670	2,756	1,157	(1,599)
Contributions from CMA member agencies	124	124	-	(124)
Miscellaneous revenue	-	57	57	-
<b>Total Revenues</b>	85,395	81,011	55,642	(25,369)
<b>Expenditures</b>				
Current expenditures:				
Administration:				
Salaries and employee benefits	600	584	484	100
Services, supplies & capital outlay	1,511	1,736	1,411	325
Contributions to other agencies	1	1	-	1
Project Management:				
Salaries and employee benefits	993	758	650	108
Services, supplies & capital outlay	7	10	9	1
Programs:				
Additional paratransit	715	715	408	307
Bus transit enhancements	2,555	2,077	2,225	(148)
Express bus program	2,625	2,625	2,625	-
Bus transit and improvement program	3,047	3,047	3,047	-
Ferry service	1,400	1,400	-	1,400
Safe transportation for children	2,787	2,787	2,277	510
Transportation Projects:				
Capital improvement projects	70,454	41,476	34,037	7,439
Countywide capital and maintenance projects	6,225	4,023	69	3,954
Subregional projects	9,425	3,885	657	3,228
Regional Planning:				
Salaries and employee benefits	498	466	394	72
Services, supplies & capital outlay	461	371	153	218
Contributions to other agencies	-	545	545	-
Congestion Management:				
Salaries and employee benefits	1,198	1,429	1,302	127
Services, supplies & capital outlay	565	541	72	469
Transportation Planning Land Use Solutions:				
Salaries and employee benefits	157	157	33	124
Services, supplies & capital outlay	-	145	137	8
Contributions to other agencies	100	-	-	-
<b>Total Expenditures</b>	105,324	68,778	50,535	18,243
Excess (Deficiency) of Revenues Over (Under) Expenditures	(19,929)	12,233	5,107	(43,612)
<b>Other Financing Sources (Uses)</b>				
Transfer in	61,468	28,429	19,522	(8,907)
Transfer out	(28,164)	(24,378)	(9,550)	(14,828)
<b>Total Other Financing Sources (Uses)</b>	33,304	4,051	9,972	(23,735)
<b>Net Change in Fund Balance</b>	\$ 13,375	\$ 16,284	\$ 15,079	\$ (67,348)
Fund Balance - Beginning			24,946	
Fund Balance - Ending			\$ 40,025	

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**MEASURE J LOCAL STREETS AND ROADS SPECIAL REVENUE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
**(In thousands)**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Sales tax	\$ -	\$ -	\$ 13,071	\$ 13,071
Total Revenues	<u>-</u>	<u>-</u>	<u>13,071</u>	<u>13,071</u>
<b>Expenditures</b>				
Current expenditures:				
Programs:				
Local street and maintenance	11,196	11,196	11,711	(515)
Subregional local street and maintenance	1,300	1,300	1,360	(60)
Total Expenditures	<u>12,496</u>	<u>12,496</u>	<u>13,071</u>	<u>(575)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(12,496)</u>	<u>(12,496)</u>	<u>-</u>	<u>12,496</u>
<b>Other Financing Sources</b>				
Transfer in	12,496	12,496	-	(12,496)
Total Other Financing Sources	<u>12,496</u>	<u>12,496</u>	<u>-</u>	<u>(12,496)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund Balance - Beginning			<u>-</u>	
Fund Balance - Ending			<u>\$ -</u>	

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**MEASURE C SPECIAL REVENUE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(In thousands)

	Budget		Actual	Variance with Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Investment income	\$ 398	\$ 505	\$ 639	\$ 134
Federal Demo (SR4 East)	-	414	414	-
Federal Surface Transportation Program (CMA)	-	-	228	228
Regional Measure 2 (SR4 East)	9,655	4,600	-	(4,600)
Regional Measure 2 (I-680 Study)	-	-	32	32
Contributions from CMA member agencies	-	-	63	63
Delta Diablo Contributions (SR4 East)	54	-	(78)	(78)
Rental Income & Escrow Earnings (SR4 East)	155	425	129	(296)
Miscellaneous revenue	1	1	-	(1)
<b>Total Revenues</b>	10,263	5,945	1,427	(4,518)
<b>Expenditures</b>				
Current expenditures:				
Transportation Projects:				
Highways and arterials	12,913	4,435	6,582	(2,147)
Transit	9,941	15,118	11,123	3,995
Regional Planning:				
Services, supplies & capital outlay	1,590	430	395	35
Congestion Management:				
Services, supplies & capital outlay	-	126	52	74
Transportation Demand Management:				
Salaries and employee benefits	72	72	67	5
Contributions to other agencies	1,218	1,218	1,442	(224)
Transportation Planning Land Use Solutions:				
Contributions to other agencies	300	300	105	195
<b>Total Expenditures</b>	26,034	21,699	19,766	1,933
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(15,771)	(15,754)	(18,339)	(6,451)
<b>Other Financing Sources (Uses)</b>				
Transfer in	1,291	1,291	1,509	218
Transfer out	(4)	(4)	(5)	(1)
<b>Total Other Financing Sources (Uses)</b>	1,287	1,287	1,504	217
<b>Net Change in Fund Balance</b>	\$ (14,484)	\$ (14,467)	(16,835)	\$ (6,234)
Fund Balance - Beginning			76,739	
Fund Balance - Ending			\$ 59,904	

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES**

**A. *Reporting Entity***

The Contra Costa Transportation Authority (the Authority) was established in 1988 when Contra Costa voters passed a 20-year, one-half of one percent (½%) sales tax for specified transportation purposes. In 2004, the voters of Contra Costa extended the one-half of one percent countywide transportation sales tax through 2034.

Measure C, passed in November 1988, officially authorized the imposition of the ½% countywide sales tax, the proceeds of which are principally reserved for highway improvements, local transportation improvements, transit funding, growth management, and regional planning purposes in the County. The Measure C ½% sales tax commenced April 1, 1989 and expired on March 31, 2009. The Measure J ½% sales tax began April 1, 2009 and will remain in effect until March 31, 2034.

The sales tax revenues received by the Authority under Measure C and Measure J after deducting certain administrative costs, are to be spent for programs as set forth in the respective expenditure plans. All revenues, including interest and other revenues, not designated by Measure C or Measure J for a specific purpose (see Sales Taxes discussion below) are to be spent on capital projects set forth in the expenditure plans. The Authority may, under certain circumstances, amend the original expenditure plans.

The Authority has been designated by the cities in Contra Costa County and the County (collectively, the Members) as the Congestion Management Agency (CMA) for the County pursuant to provisions of Senate Constitutional Amendment 1, approved by the voters of the State in June 1990, thereby being charged with the statutory obligation to carry out congestion management responsibilities for Contra Costa County. In 1992, the Authority amended Measure C by ordinance to permit expenditures associated with the CMA to be eligible General Fund expenditures under Measure C, as defined in the expenditure plan. Measure J authorizes these expenditures in the original expenditure plan. The CMA Members are required to reimburse the Authority for expenditures as approved by the Board.

The Authority has also been designated by the CMA Members to be the recipient of funds generated from the motor vehicle registrations surcharge collected by the Bay Area Air Quality Management District (the Air Quality District) for programs to reduce air pollution from motor vehicles. The Authority anticipates that all expenditures incurred for the Air Quality District program will be reimbursed by the Air Quality District.

The basic financial statements of the Authority include all of its financial activities. The Authority is the sole independent entity responsible for receiving and allocating funds necessary to complete the programs and is governed by an eleven-member board comprised of representatives who are elected officials from the County and local cities.

The financial statements and accounting policies of the Authority conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***B. Sales Taxes***

The Authority recognizes taxpayer-assessed revenues such as Sales Taxes, net of estimated refunds, in the accounting period in which they become susceptible to accrual, which means when the revenues become both measurable and available to finance expenditures of the current fiscal period in the governmental fund financial statements. In the government-wide financial statements, Sales Taxes are recognized on the accrual basis in the period the underlying sales exchange transaction occurs.

Sales tax receivables represent sales tax receipts in the two months subsequent to the Authority's fiscal year-end relating to the prior year's sales activity. The Authority has contracted with the California State Board of Equalization for collection and distribution of the ½% sales tax. The Board of Equalization receives an administrative fee for providing this service. The Authority records sales tax revenues net of such fees in the General Fund, major fund Measure J Local Streets and Roads Fund, and non-major funds Measure J Paratransit and Measure J Commute Alternatives.

Under the provisions of Measure J and policies adopted by the Authority, portions of net sales taxes are required to be expended on certain programs and activities. Measure J includes programs that were successful under Measure C and added additional programs to improve or expand transit needs in Contra Costa County. Local Street and Maintenance, Bus Transit, Paratransit, and Commute Alternatives (formerly Carpool/Vanpool) continued on. Additional programs such as Express Bus, Safe Transportation for Children and Ferry Service were developed to address transportation needs countywide and specific regions within it.

Specifically, 20.09% of net sales tax revenues are to be used for local street maintenance and improvements and 1% is to be used for commute alternative programs, including carpools, vanpools and transit, and 5% for transportation services for seniors and people with disabilities. These programs are accounted for in the Streets and Roads Special Revenue Fund, Commute Alternatives Special Revenue Fund, and Paratransit Special Revenue Fund, respectively.

In addition, bus services (5%) provide bus transit operators funding and alleviate traffic congestion and improve regional or local mobility. Express bus (4.3%) is a countywide program to transport commuters to and from residential areas to transit and employment centers. Subregional programs were created to address the diverse transportation needs in each subregion of the County. The following programs are allocated to subregions based on the Measure J expenditure plan: Bus Transit Enhancements (3.16%), Additional Paratransit (1.2%), Safe Transportation for Children (4.545%) and Ferry Service (2.25%). These programs are accounted for in the General Fund and any fund balances remaining at year-end are reported in the General Fund as Restricted for Bus Transit and Improvements, Restricted for Express Bus, Restricted for Subregional Bus Transit, Restricted for Additional Paratransit, Restricted for Safe Transportation for Children, and Restricted for Ferry Service, respectively.

The Authority transfers sales tax revenues to Debt Service Funds, on a monthly basis, to cover interest and principal expenditures.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basis of Presentation**

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

These standards require that the financial statements described below be presented.

**Government-wide Statements:** The Statement of Net Assets and the Statement of Activities display information about the primary government (the Authority). Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) grants and contributions that are restricted to meeting the operational needs of a particular program and (b) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Authority's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining funds are aggregated and reported as non-major funds.

**D. Major Funds**

The Authority's major governmental funds are required to be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to ten percent of the totals for all funds. The General Fund is always a major fund. The Authority is required to treat the Measure J Streets and Roads Special Revenue Funds, and the Measure J Debt Service Funds as major funds. In prior years, the Measure C Streets and Roads Special Revenue Fund qualified for reporting as a major fund. The Authority has elected to continue to report the fund as a major fund for continuity and to provide financial information related to the close-out of the Measure C program.

**MEASURE J GENERAL FUND** - The *General Fund* is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund. All intergovernmental revenue is recorded in the General Fund, except for those restricted funds required to be recorded in Special Revenue Funds. The Authority transfers sales tax revenues to the Debt Service Funds, on a monthly basis, to cover interest and principal coming due. General Fund expenditures include salaries and benefits of the Authority's staff.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Salaries and benefits for administration are limited by Measure J (as defined) to one percent of the sales tax revenue on an annual basis.

**MEASURE J LOCAL STREETS AND ROADS SPECIAL REVENUE FUND** – This Fund is used by the Authority to account for the accumulation of resources required to be allocated to local cities and the County for local transportation improvements, including streets and roads. Monies are disbursed to the local agencies upon compliance with certain provisions included in Measure J. Under the provisions of Measure J and policies adopted by the Authority, 18% of net sales tax revenues are to be used for local street maintenance and improvements. An additional 2.09% of net sales tax revenues is allocated to Central County, West County, and Southwest County.

**MEASURE C SPECIAL REVENUE FUND** – Prior to April 1, 2009 when Measure J became effective, there was Measure C, a County-wide half-percent sales tax to fund transportation programs and projects. The Authority is responsible for carrying out the provisions of Measure C. The Measure C Fund was established to record financial activities associated with the projects and programs in the Measure C expenditure plan.

**MEASURE C LOCAL STREETS AND ROADS SPECIAL REVENUE FUND** – This Fund is used by the Authority to account for the accumulation of resources required to be allocated to local cities and the County for local transportation improvements, including streets and roads. Monies are disbursed to the local agencies upon compliance with certain provisions included in Measure C.

**2009 MEASURE J DEBT SERVICE FUND** – This fund accounts for resources used to service the Authority’s Sales Tax Revenue Notes, Series 2009.

**2010 MEASURE J DEBT SERVICE FUND** – This fund accounts for resources used to service the Authority’s Sales Tax Revenue Bonds, Series 2010.

**NON-MAJOR FUNDS**

The Authority has other governmental funds discussed below, which were determined to be non-major funds and are presented in the Supplemental Section of this report. These non-major *special revenue funds* are used by the Authority to account for the accumulation and expenditures of restricted resources. These Special Revenue Funds include:

- *Measure J Paratransit Special Revenue Fund* – accounts for the portion of sales tax to be used to transport seniors and people with disabilities.
- *Measure J Commute Alternatives Special Revenue Fund* – accounts for the portion of sales taxes to be used for commuter alternative programs, including carpools, vanpools and park and ride lots.
- *Measure C Carpool, Vanpool Special Revenue Fund* - accounts for the portion of sales taxes to be used for commuter alternative programs, including carpools, vanpools and park and ride lots.
- *Air Quality Special Revenue Fund* - accounts for funds received from the Air Quality District to be used for programs to reduce air pollution from motor vehicles. Resources are transferred to the Measure C Special Revenue Fund as expended.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***E. Basis of Accounting***

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Authority considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

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

The Authority may fund projects with a combination of cost-reimbursement grants, bond proceeds, advances, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance expenditures. The Authority's strategy is to first apply restricted resources to such activities, followed by general revenues if necessary.

***F. Return of Funds from Local Agencies***

Return of funds from local agencies represents amounts determined to be owed to the Authority based on final reconciliation of project costs, or as a result of Measure C or J compliance audits commissioned by the Authority. There were no returns of funds from local agencies during the year ended June 30, 2011.

***G. Compensated Absences***

Compensated absences comprise unpaid vacation and sick leave, which is accrued as earned. The Authority's liability for compensated absences is recorded in the Authority's General Fund.

***H. Fund Balance***

In fiscal year 2011, the Authority implemented Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 outlines the requirement to report the fund balance for governmental funds in specific classifications (nonspendable, restricted, committed, assigned and unassigned), which create a hierarchy primarily based on the extent to which the Authority is bound to the constraints on the specific purposes for which funds can be spent. The Authority can only spend sales tax revenues as approved by the voters in the Measure C and Measure J Expenditure Plans, grants in accordance with

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

the terms of the grants, and bond proceeds in accordance with the terms of the bond agreement, therefore the Authority only has restricted fund balance at June 30, 2011.

***I. Restatement of Beginning Net Assets of Governmental Activities***

The Authority has restated its beginning net assets of Governmental Activities in the amount of \$33.6 million to correct the accounting treatment of the interest rate swap hedging transaction. The Authority has reevaluated the interest rate swap as of June 30, 2010 in relation to the expected issuance of the 2010 Sales Tax Revenue Bonds, and determined that the interest rate swap should have been considered an effective hedge. An effective hedge should report the changes in fair value as deferred inflows or outflows on the statement of net assets, rather than flow the changes through the statement of activities. A detailed discussion and disclosures on the interest rate swap can be found in Note 7.

***J. Use of Management Estimates***

The preparation of the 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

***J. Rounding***

All amounts included on the basic financial statements, combining statements, footnotes and schedules are presented to the nearest thousands in accordance with the Authority's policy.

***K. New Fund***

During fiscal year ended June 30, 2011, the Authority opened the 2010 Measure J Debt Service Fund.

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING**

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements. The Measure J Local Streets and Roads Special Revenue Fund, however, may exceed the budgetary expenditures as long as the amounts owed to the Cities and the County are based on the expenditure plan:

1. The Executive Director or his or her designee submits a proposed operating budget to the Authority Board for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to adoption of the final budget, public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted by the Authority Board.
4. All budget adjustments must be approved by the Authority Board. Expenditures may not legally exceed the levels as specified in the budget control resolution.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)**

Overages in any particular budget expenditures category (organizational unit) must receive an approved budget change adjustment by the Authority for the following conditions: for capital project expenditures, if expenditures are expected to exceed the budget by \$10 thousand or five percent, whichever is greater; for all other expenditures, if expenditures are projected to exceed the budget for the budgetary category by \$5 thousand or five percent, whichever is greater.

The Authority has also adopted a Strategic Plan, which determines availability of funds for projects and is used as a guide for project appropriations. The plan is normally updated every two to three years, and is used in the development of the annual budget. The Authority maintains a financial system for budgetary and financial control. The Authority issued the 2008 Measure C Strategic Plan and the 2011 Measure J Strategic Plan in October 2008 and July 2011, respectively.

***Excess of Expenditures over Appropriations***

During fiscal 2011, the following funds had expenditures in excess of budget, as follows (in thousands):

Fund	Excess of Expenditures Over Appropriations
<b>Measure J General Fund</b>	
Program:	
Bus transit enhancements	\$ 148
<b>Measure J Local Streets and Roads Special Revenue Fund</b>	
Programs:	
Local street and maintenance	515
Subregional local street and maintenance	60
<b>Measure C Special Revenue Fund</b>	
Transportation Projects:	
Highways and arterials - Route 4 East	2,147
Transportation Demand Management:	
Contributions to other agencies	224

The funds had sufficient resources to finance these expenditures.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 3 – CASH AND INVESTMENTS**

The Authority pools cash from all sources and funds except cash and investments held by fiscal agents so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time. Each fund’s portion of the pool is displayed on the combined balance sheet as “Cash and investments;” however, all resources are restricted as to their use.

The Authority records investment transactions on the trade date. Investments are reported at fair value. Fair value is defined as the amount that the Authority could reasonably expect to receive for an investment in a current sale between a willing buyer and seller, and is generally measured by quoted market prices. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year. Investment income is allocated among funds on the basis of year-end fund balances in these funds. Investment income from cash and investments with trustees is credited directly to the related fund.

**A. Carrying Amount at Fair Value**

Cash and investments are carried at fair value and are categorized as follows at June 30, 2011 (in thousands):

	Available for Operations	Held by Fiscal Agents	Total
U.S. Treasury Notes	\$ 31,068	\$ -	\$ 31,068
Federal Agency Securities	33,291	-	33,291
Corporate Notes	6,438	-	6,438
Commercial Paper	3,000	-	3,000
Negotiable Certificates of Deposit	1,001	-	1,001
Money Market Mutual Funds	3,255	-	3,255
Local Agency Investment Fund	39,247	75,115	114,362
California Asset Management Program	199	27,006	27,205
Total Investments	117,499	102,121	219,620
Cash in Bank	8,356	-	8,356
Total Cash and Investments	<u>\$ 125,855</u>	<u>\$ 102,121</u>	<u>\$ 227,976</u>

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

***B. Authorized Investments by the Authority***

The Authority has contracted with Public Financial Management to serve as the Authority's investment advisor. The Authority has adopted a written Investment Policy, which is more restrictive than State law as to terms of maturity, credit quality and type of investment. The Authority's Investment Policy and the California Government Code allow the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the Authority. The following also identifies certain provisions of the Authority's Investment Policy and California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Agency Obligations (A)	5 years	N/A	None	None
Repurchase Agreements	90 days	N/A	None	None
Reverse Repurchase Agreements (requires Authority approval)	92 days	N/A	20 % of the base value	None
State of California Obligations	5 years	Highest 2 rating categories	None	None
CA Local Agency Obligations	5 years	Highest 2 rating categories	None	None
Bankers Acceptances	180 days	Highest rating categories	40%	Greater of 10% of portfolio or \$1 million
Commercial Paper	270 days	A1	20%	Greater of 10% of portfolio or \$1 million
Medium Term Corporate Notes	5 years	AA	30%	Greater of 10% of portfolio or \$1 million
Mortgage Pass-Through Securities	5 years	AA	10%	None
Insured or Collateralized Bank Deposits	N/A	N/A	None	None
Negotiable Certificates of Deposit	5 years	AA	30%	Greater of 10% of portfolio or \$1 million
California Local Agency Investment Fund	Upon Demand	N/A	\$50,000,000 per account	\$50,000,000 per account
Contra Costa County Treasurer's Pool	Demand	N/A	None	None
California Asset Management Program	N/A	N/A	None	None
Money Market Mutual Funds	N/A	Highest rating categories	15%	5%
Insured Savings Account or Money Market Account	N/A	N/A	None	None

(A) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC)

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

**C. Investments Authorized by Debt Agreements**

The Authority must maintain required amounts of cash and investments with fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds. The California Government Code requires these funds to be invested in accordance with Authority ordinance, bond indentures or State statute. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Allowed	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Agency Obligations (A)	5 years	N/A	None	None
Repurchase Agreements	90 days	N/A	None	None
Reverse Repurchase Agreements (requires Authority approval)	92 days	N/A	20 % of the base value	None
State of California Obligations	5 years	Highest 2 rating categories	None	None
CA Local Agency Obligations	5 years	Highest 2 rating categories	None	None
Bankers Acceptances	180 days	Highest rating categories	40%	Greater of 10% of portfolio or \$1 million
Commercial Paper	270 days	A1	20%	Greater of 10% of portfolio or \$1 million
Medium Term Corporate Notes	5 years	AA	30%	Greater of 10% of portfolio or \$1 million
Mortgage Pass-Through Securities	5 years	AA	10%	None
Collateralized Bank Deposits	N/A	N/A	None	None
Negotiable Certificates of Deposit	5 years	AA	30%	Greater of 10% of portfolio or \$1 million
California Local Agency Investment Fund	Upon Demand	N/A	\$50,000,000 per account	\$50,000,000 per account
Contra Costa County Treasurer's Pool	Demand	N/A	None	None
California Asset Management Program	N/A	N/A	None	None
Money Market Mutual Funds	N/A	Highest rating categories	15%	5%
Insured Savings Account or Money Market Account	N/A	N/A	None	None

(A) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC)

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

**D. Custodial Credit Risk**

**Deposits** – 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 Authority does not have a policy for custodial credit risk on deposits. As of June 30, 2011, the carrying amount of the Authority’s deposits was \$8.36 million and the bank balance was \$8.64 million. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, \$250 thousand was covered by federal depository insurance and \$8.39 million was collateralized by the pledging financial institutions as required by Section 53652 of the California Governmental Code.

Under the California Government Code, Section 53652, the market value of the pledged securities must equal at least 110 percent of the Authority’s deposits, with the exception of mortgage-backed securities, which must equal at least 150 percent.

**Investments** – For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy regarding custodial credit risk on investments. As of June 30, 2011, the Authority’s investments are not exposed to custodial credit risk.

**E. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the Authority’s investments to market interest rate fluctuations is provided by the following table that shows the distribution to the Authority’s investments by maturity (in thousands):

Investment Type	Less than 1 year	One to Five Years	Total
U.S. Treasury Notes	\$ 9,954	\$ 21,114	\$ 31,068
Federal Agency Securities	-	33,291	33,291
Corporate Notes	-	6,438	6,438
Commercial Paper	3,000	-	3,000
Negotiable Certificates of Deposit	1,001	-	1,001
Money Market Mutual Funds *	3,255	-	3,255
Local Agency Investment Fund *	114,362	-	114,362
California Asset Management Program *	27,205	-	27,205
Total Investments	\$ 158,777	\$ 60,843	219,620
Cash in Bank			8,356
Total Cash and Investments			\$ 227,976

\* - Maturity is based on weighted-average maturity of the investment.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

**F. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2011 for each investment type (in thousands) as provided by Standard and Poor's investment rating system:

Investment Type	AAA	AA/AA+	A-1+	A+	Total
Federal Agency Securities	\$ 33,291	\$ -	\$ -	\$ -	\$ 33,291
Corporate Notes	3,300	2,104	-	1,034	6,438
Commercial Paper	-	-	3,000	-	3,000
Negotiable Certificates of Deposit	-	-	1,001	-	1,001
Money Market Mutual Funds	3,255	-	-	-	3,255
California Asset Management Program	27,205	-	-	-	27,205
<b>Totals</b>	<b>\$ 67,051</b>	<b>\$ 2,104</b>	<b>\$ 4,001</b>	<b>\$ 1,034</b>	<b>74,190</b>
<i>Not rated:</i>					
Local Agency Investment Fund					114,362
<i>Exempt from rating requirement:</i>					
U.S. Treasury Notes					31,068
<b>Total Investments</b>					<b>219,620</b>
Cash in Bank					8,356
<b>Total Cash and Investments</b>					<b>\$ 227,976</b>

In August 2011, Standard & Poor's lowered its long-term credit rating from AAA to AA+ on debt of the U.S. government, U.S. government-sponsored enterprises, and public debt issues that have credit enhancement guarantees by U.S. government sponsored enterprises. These credit downgrades relate to the credit risk associated with the Authority's investments in the U.S. Treasury notes and federal agency securities, which amounts to \$31.07 million and \$33.29 million, respectively.

**G. Concentration of Credit Risk**

Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools that represent 5% or more of total Authority-wide investments are as follows at June 30, 2011 (in thousands):

Issuer	Investment Type	Reported Amount
Federal National Mortgage Association	Federal Agency Securities	\$ 15,225

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

***H. Local Authority Investment Fund (LAIF), California Asset Management Program (CAMP), and Money Market Investments***

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. The total amount invested by all public agencies in LAIF at that date is approximately \$23.98 billion. LAIF is part of the Pooled Money Investment Account (PMIA) with a total portfolio of approximately \$66.35 billion. Of that amount, 94.99% is invested in non-derivative financial products and 5.01% in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members, as designated by State statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the Agency's position in the pool. At June 30, 2011, these investments have an average maturity of 237 days.

The Authority is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its Participants to invest certain proceeds of debt issues and surplus funds. The Pool's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The Authority reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2011, the fair value approximated is the Authority's cost.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 4 – INTERFUND TRANSACTIONS**

**A. Transfers Between Funds**

With Board approval, as required under Measure C and Measure J or under the terms of the Authority’s debt issues, resources are transferred from one Authority fund to another. Interfund transfers for the year ended June 30, 2011 were as follows (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Purpose	Amount Transferred
Measure J General Fund	2010 Measure J Debt Service Fund	(A)	\$ 16,304
Measure J General Fund	2009 Measure J Debt Service Fund	(A)	3,218
Measure C Fund	Nonmajor Governmental Funds	(B)	1,509
2009 Measure J Debt Service Fund	2010 Measure J Debt Service Fund	(C)	82,673
2009 Measure J Debt Service Fund	Measure J General Fund	(D)	2,831
2010 Measure J Debt Service Fund	Measure J General Fund	(D)	6,719
Nonmajor Governmental Funds	Measure C Fund	(E)	5
	Total		<u>\$ 113,259</u>

Purposes of Transfers:

- (A) Transfer bond proceeds to Measure J for project costs.
- (B) Transfer Air Quality resources to fund programs to reduce air pollution from motor vehicles.
- (C) Transfer 2010 bond proceeds to retire 2009 bonds.
- (D) Transfer sales tax revenues for debt service.
- (E) Transfer sales tax revenues for Paratransit and Carpool/Commuter Alternative programs.

**NOTE 5 – CAPITAL ASSETS**

**A. Capital Assets Contributed to Other Entities**

The Authority is required to exclude from its financial statements assets contributed to and maintained by other governments or organizations. The Authority has constructed a variety of capital projects consisting of streets and road and other transportation infrastructure projects, which upon completion were “contributed” to its Members, the State, or other governments responsible for their maintenance and care. Since those other agencies maintain the contributed capital assets, the cost of those assets has been excluded from the accompanying financial statements. This concept is followed regardless of whether infrastructure is financed with revenues or long-term debt. As of June 30, 2011, through Measures C and J, the Authority has spent \$771.8 million on infrastructure capital asset projects since the Authority’s inception.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 5 – CAPITAL ASSETS (Continued)**

**B. Authority Capital Assets**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. The Authority defines capital assets as equipment, financial systems and leasehold improvements with an individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Capital assets with limited useful lives are required to be depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation 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 a useful life of three to five years for Office Equipment, seven years for Furniture, five years for the Financial System and sixteen years for Leasehold Improvements.

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. Contributions are required to be accounted for as revenues at the time the capital assets are contributed.

The Authority's capital assets comprise the following at June 30, 2011 (in thousands):

	Balance at June 30, 2010	Additions	Retirements	Balance at June 30, 2011
Cost:				
Office Equipment	\$ 218	\$ 92	\$ (139)	\$ 171
Furniture	6	206	(9)	203
Financial System	409	6	-	415
Leasehold Improvements	175	322	(82)	415
Subtotal	<u>808</u>	<u>626</u>	<u>(230)</u>	<u>1,204</u>
Accumulated Depreciation:				
Office Equipment	(119)	(65)	139	(45)
Furniture	-	(30)	9	(21)
Financial System	(60)	(82)	-	(142)
Leasehold Improvements	(73)	(26)	51	(48)
Subtotal	<u>(252)</u>	<u>(203)</u>	<u>199</u>	<u>(256)</u>
Capital Assets, net of accumulated depreciation	<u>\$ 556</u>	<u>\$ 423</u>	<u>\$ (31)</u>	<u>\$ 948</u>

**NOTE 6 - DEPOSITS PAYABLE**

Deposit is from the City of Antioch for the Hillcrest Overcrossing (Segment 3B) project. At June 30, 2011 the deposit amount was \$1.3 million.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 7 - LONG-TERM DEBT**

**A. Changes in Long-Term Obligations**

The Authority issued the debt summarized below to finance infrastructure capital assets contributed to other governments (See Note 5A) (in thousands).

	Balance at June 30, 2010	Additions	Retirements	Balance at June 30, 2011	Current Portion
2009 Sales Tax Revenue Notes	\$ 200,000	\$ -	\$ (200,000)	\$ -	\$ -
2010 Sales Tax Revenue Bonds	-	200,990	-	200,990	-
Total Long term debt	<u>\$ 200,000</u>	<u>\$ 200,990</u>	<u>\$ (200,000)</u>	<u>\$ 200,990</u>	<u>\$ -</u>

On September 30, 2010, the Authority issued \$201 million in Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2010 (the “2010 Bonds”). Proceeds of the 2010 Bonds were used to currently refund the Sales Tax Revenue Notes (Limited Tax Notes), Series 2009 (the “2009 Notes”) with an outstanding principal balance of \$200 million, which were issued to finance the costs of certain transportation facility and service improvements within the County, including highway improvements, and public transit improvements. There was no gain or loss on the current refunding, as the reacquisition price of the 2010 Bonds was equal to the carrying value of the 2009 Notes.

The 2010 Bonds will bear interest at an Indexed Floating Rate, as provided in the Indenture, unless and until the interest rate period for the 2010 Bonds is converted to a different interest rate period, as provided in the Indenture. During the Initial Indexed Floating Rate Period, the Indexed Floating Rate will be equal to the SIFMA Municipal Swap Index plus the Applicable Spread, which initially is set at 0.75%. The applicable spread could change if the Authority’s bond rating were to change, which could rise to 3.0% if the rating falls to A- or if it falls to BBB+ or below, to the maximum rate as defined in the Indenture, which could be as high as 8% or the Indexed Floating Rate plus 7.0%, whichever is higher. At June 30, 2011, the SIFMA Municipal Swap Index Rate was 0.24%, which was used to calculate the future interest payments. Variable rate interest payments are made on a monthly basis commencing on November 1, 2010 from sales tax and swap revenue.

Although the 2010 Bonds mature on March 1, 2034, the Initial Indexed Floating Rate Period will end on October 1, 2013 (the “Special Mandatory Tender Date”), or upon earlier conversion to another Rate Period, as provided in the Indenture. If any portion of the 2010 Bonds is not paid or successfully remarketed on such Special Mandatory Tender Date, then the 2010 Bonds are subject to a mandatory redemption at a Redemption Price equal to the principal amount thereof, plus accrued interest. The principal would be due and payable quarterly in eleven (11) equal principal installments, payable commencing on the date that is 180 days following the Special Mandatory Tender Date so that the 2010 Bonds are repaid in full within three (3) years from such date unless extended with the consent of the Bondholder Representative. During this repayment period the applicable interest rate on the 2010 Bonds shall be the higher of 8% or the Indexed Floating Rate plus and not to exceed 7%. On or before the Special Mandatory Tender Date, the Authority intends to provide a Conversion Notice to the Bondholder Representative to exercise its option to remarket the 2010 Bonds or otherwise refinance with a subsequent bond transaction.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 7 - LONG-TERM DEBT (Continued)**

The 2010 Bonds are limited obligations of the Authority payable solely from and secured solely by a pledge of Sales Tax Revenues collected from Measure J. The Measure J Sales Tax will expire on March 31, 2034. The 2010 Bonds are not secured by a debt service reserve fund, nor is there any liquidity facility providing liquidity for the 2010 Bonds. The total projected Measure J Sales Tax revenue, as reported in the 2011 Measure J Strategic Plan, is expected to approximate \$2.45 billion, which is sufficient to repay the estimated debt service, including net interest rate swap settlements, of \$342.4 million on the 2010 Bonds. The Measure J Sales Tax revenue recognized during the year was \$65.1 million, whereas debt service, including net interest rate swap settlements, on the 2010 Bonds was \$7.3 million.

**B. Annual Future Payments**

The following table presents the Authority's aggregate annual amount of principal and interest payments required to amortize the outstanding debt as of June 30, 2011 (in thousands):

<b>Year ending June 30:</b>	<b>Governmental Activities</b>	
	<b>Principal</b>	<b>Interest *</b>
2012	\$ -	\$ 1,989
2013	-	1,989
2014	-	1,989
2015	-	1,989
2016	-	1,989
2017-2021	-	9,949
2022-2026	20,090	9,939
2027-2031	106,765	5,856
2032-2034	74,135	1,486
	<u>\$ 200,990</u>	<u>\$ 37,175</u>

\* Interest payments in the table above are based on the indexed floating rate defined in the Indenture of the 2010 Bonds, which was 0.99% at June 30, 2011.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 7 - LONG-TERM DEBT (Continued)**

**C. Swap Commitment**

In fiscal year 2005, in order to protect itself against rising interest costs on the expected issuance of bonds, the Authority entered into forward commitment interest rate swap agreements with Bank of America, N.A. and Merrill Lynch Capital Services, Inc. (Counterparties). An interest rate swap is a contractual agreement whereby the parties agree to exchange cash flows over a certain period of time. Beginning on September 23, 2009, the Authority was to pay a fixed rate of 3.653% to the Counterparties, and the Counterparties would pay a floating rate to the Authority. The floating rate is expected to approximately equal the floating rate which the Authority will pay to the holders of its floating rate bonds, to be issued in 2009. Including anticipated ongoing fees associated with the floating rate bonds, the synthetic fixed rate which the Authority will pay is considered a very favorable rate in comparison with long-term interest rates.

On September 18, 2009, the Authority partially terminated \$100 million of an existing \$150 million floating-to-fixed swap with Merrill Lynch Capital Services, Inc. (Merrill Lynch) and simultaneously novated the remaining \$50 million notional amount to Bank of America, N.A. ("BofA"), who acquired Merrill Lynch. The partial termination resulted in an amended a \$200 million floating-to-fixed swap with BofA, which relates to the Series 2010 Sales Tax Revenue Bonds. A summary of the terms of the interest rate swap agreement is presented below:

Term	Counterparty Bank of America
Notional amount	\$200 million
Effective date	September 23, 2009
Interest rate swap:	
Basis of interest payments due from Authority:	
Fixed rate on notional amount	3.6574%
Basis of interest receipts due from Counterparty:	
Floating rate on notional amount	
% of 1 month LIBOR (London Interbank Offered Rate)	63.50%
Additional basis points	29 (0.29%)
Termination date (maturity date)	March 1, 2034
Fair value loss at June 30, 2011	\$26.1 million
Credit rating	Aa3/A+/A+

During 2004, Standard & Poor's introduced Debt Derivative Profile (DDP) scoring to provide a simple measure of the complexities of municipal debt-related derivatives by translating that exposure into an easily understandable measurement of risk and to enhance the transparency of municipal derivative structures. Scores range from a low risk score of 1 to a high risk score of 5. Although many factors are considered, scores primarily indicate an issuer's potential financial loss from debt derivatives, including swaps, due to early termination resulting from changes in credit worthiness or market conditions. During fiscal 2005-2006, Standard & Poor's rated the Authority's Swap agreements an overall score of 1, the lowest risk score possible.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 7 - LONG-TERM DEBT (Continued)**

Risks associated with the interest rate swap agreement and the 2010 Bonds as of June 30, 2011 are summarized and discussed below:

*Basis Risk* – The Authority is exposed to basis risk as the hedging derivative instrument uses LIBOR as the basis of interest rate receipts from the Counterparty, while the Authority uses the SIFMA Municipal Swap Index as the basis of interest payments on the 2010 Bonds. The risk is that the receipts from the Counterparty may not correspond to or may be insufficient to cover the floating rate payments due on the Bonds.

*Tax Risk* - Tax risk results from uncertainty in future income tax law leading to a mismatch between the interest rate paid on the Authority's underlying Bonds and the rate received on the Swap agreements that could be caused by a reduction in, or *elimination* of, the benefits of tax-exempt debt.

As of June 30, 2011, the fair value loss of the hedging derivative instrument, which is in favor of the Counterparty, was \$26.1 million. The change in fair value represents an increase of \$7.5 million from the fair value loss of \$33.6 million reported in the prior fiscal year. The fair value loss represents the maximum loss that would be recognized at the reporting date if the counterparty failed to perform as contracted. The Authority has accounted for the change in fair value of the hedging derivative instrument as a decrease to the accumulated deferred outflows of resources on the statement of net assets.

*Credit (Counterparty) Risk* – This is the risk that Counterparties could fail to make payments as specified under the Swap agreements.

This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the interest rate swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the interest rate swap.

Depending on the fair value, the Authority could be further exposed to interest rate risk if the Counterparty defaults or if the interest rate swap agreement is terminated. Under the terms of the Credit Support Annex (CSA), the posting of collateral by a counterparty is a function of the credit rating of the counterparty and threshold value. No collateral was required to be pledged by the Counterparty at June 30, 2011.

Conversely, as of June 30, 2011 the collateralization provisions for the 2010 Bonds are bilateral and require the Authority to pledge collateral for the fair value of the interest rate swap agreement should that fair value and credit ratings of the Authority fall below applicable thresholds. No collateral was required to be pledged by the Authority at June 30, 2011.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 7 - LONG TERM DEBT (Continued)**

*Termination Risk* – The Authority or Counterparty may terminate the interest rate swap agreement if the other party fails to perform under the terms of the agreement. If the interest rate swap agreement is terminated, the associated portion of the 2010 Bonds would no longer be hedged to a fixed rate. If at the time of termination the interest rate swap agreement has a negative fair value, the Authority would be liable to the Counterparty for a termination payment equal to its fair value.

*Rollover Risk* – Rollover risk is the risk that the interest rate swap associated with 2010 Bonds matures or may be terminated prior to the maturity of the associated debt. If the interest rate swap terminates, the Authority will be re-exposed to the risks being hedged by the interest rate swap. The interest rate swap associated with the 2010 Bonds terminates on March 1, 2034, the same date of the final maturity on the 2010 Bonds.

*Swap payments and associated debt.* Using the rates as of June 30, 2011, debt service requirements for the Authority's outstanding 2010 Bonds and interest rate swap payments are as follows (in thousands):

Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2012	\$ -	\$ 1,989	\$ 6,226	\$ 8,215
2013	-	1,989	6,226	8,215
2014	-	1,989	6,226	8,215
2015	-	1,989	6,226	8,215
2016	-	1,989	6,226	8,215
2017 - 2021	-	9,949	31,127	41,076
2022 - 2026	20,090	9,939	28,016	58,045
2027 - 2031	106,765	5,856	11,481	124,102
2032 - 2034	74,135	1,486	2,485	78,106
	<u>\$ 200,990</u>	<u>\$ 37,175</u>	<u>\$ 104,239</u>	<u>\$ 342,404</u>

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 8 – PENSION PLAN**

All Authority employees are eligible to participate in a pension plan offered by the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined-benefit pension plan, which acts as a common investment and administrative agent for its participating member employers. CalPERS provides retirement and disability retirement benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. The Authority's employees participate in the CalPERS Miscellaneous Employee "2% at 55" Plan. Benefit provisions under the Plan are established by State statute and Authority resolution. Benefits are based on years of credited service, equal to one year of full-time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS; and the Authority must contribute the amounts specified by CalPERS. The Plan's provisions and benefits in effect at June 30, 2011 are summarized as follows:

	Miscellaneous
Benefit vesting schedule	5 years service
Benefit payments	Monthly for life
Retirement age	50
Monthly benefit factors, as a % of annual salary	1.426 % - 2.418%
Required employee contribution rate	7%
Required employer contribution rate	11.626%

Audited annual financial statements and six year trend information are available from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

**Funding Policy and Actuarial Assumptions**

CalPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the Authority's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the Authority must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The Authority uses the actuarially determined percentages of payroll to calculate and pay contributions to CalPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CalPERS, for the last three fiscal years were as follows (in thousands):

CalPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.0%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling fifteen-year period.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 8 – PENSION PLAN (Continued)**

As required by State law, effective July 1, 2005, the Authority was required by CalPERS to join a new State-wide pool for smaller agencies. One of the conditions of entry to the pool was that the Authority true-up any unfunded liabilities in the former Plan, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CalPERS. The Authority satisfied its unfunded liability of \$550 thousand by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 10 years.

***Miscellaneous Plan (in thousands):***

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
2009	\$ 240	100%	\$ -
2010	243	100%	-
2011	240	100%	-

The Authority passed a resolution requiring it to pay employee contributions as well as its own. The contributions made on behalf of the employees were \$144 thousand for the current year.

**NOTE 9 – OTHER POST EMPLOYMENT HEALTH CARE BENEFITS**

By Board resolution, the Authority provides certain health care benefits for retired employees under third-party insurance plans. Employees become eligible to retire and receive healthcare benefits upon reaching the age of 50 and 5 years of service or being converted to disability, retiring directly from the Authority, and continue participating in Public Employees' Medical and Hospital Care Act (PEMHCA) after retirement. The Authority pays monthly health insurance premiums up to \$540, \$1,081, \$1,405 for a retiree, couple, and family, respectively. As of June 30, 2011, five retirees receiving benefits and seven participants were eligible to receive benefits.

**Funding Policy and Actuarial Assumptions**

The annual required contribution (ARC) was determined as part of a January 1, 2009 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Authority and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Authority and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 9 – OTHER POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)**

are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The Authority’s OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a fixed 20 year amortization period.

In accordance with the Authority’s budget, the annual required contribution (ARC) is to be funded throughout the year as a percentage of payroll. The Authority participates in the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administrated by CalPERS, and is managed by an appointed board not under the control of Authority. This Trust is not considered a component unit by the Authority and has been excluded from these financial statements. CalPERS issues a publicly available financial report that includes financial statements of the CERBT and required supplementary information. That report may be obtained from the California Public Employees’ Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

The actuarial assumptions used to calculate the ARC for the current fiscal year and used to calculate the funded status of the Plan at June 30, 2011 are as follows:

<b>Description</b>	<b>Method/Assumption</b>	
Valuation date	January 1, 2009	June 30, 2011
Actuarial cost method	Entry age normal cost method	
Amortization method for actuarial accrued liabilities	Level percentage of payroll	
Average remaining period	18.5 years as of valuation date	16 years as of valuation date
Actuarial asset valuation method	15 Year Smoothed Market	
Investment rate of return	7.75% per annum, net of administrative expenses	7.25% per annum, net of administrative expense
Inflation	3.00% per year	
Payroll Growth	3.25% per year	
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation groth of 3.00% and an annual production growth of 0.25%	
Projected medical trend rate	As of FY 2010, rate starts at 9.1 - 10.1% annually and declines over the next 7 years to 4.5%.	As of FY 2013, rate starts at 9% - 9.4% annually and declines over the next 8 years to 5%.

**Funding Progress and Funded Status**

Generally accepted accounting principles permits contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2011, the Authority contributed the ARC amounting to \$133 thousand to the Plan, which represented 6.5% of

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 9 – OTHER POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)**

the \$2.04 million of covered payroll. The Authority also contributed additional funds to CERBT representing funds accumulated in prior years in the Authority’s Internal Service Fund. As a result, the Authority has recorded the Net OPEB Asset, representing the difference between the ARC, the amortization of the Net OPEB Asset and actual contributions, as presented below (in thousands):

Annual required contribution (ARC)	\$	(133)
Interest on net OPEB Asset		68
Adjustment to annual required contribution		(97)
Annual OPEB cost		(162)
Contributions made:		
Contributions to CERBT		133
Change in Net OPEB Asset		(29)
Net OPEB Asset at June 30, 2010		873
<b>Net OPEB Asset at June 30, 2011</b>	<b>\$</b>	<b>844</b>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated January 1, 2009, amounted to \$1.5 million and was partially funded since assets have been transferred into CERBT. The Authority’s prior year contributions, the current year annual required contribution, along with investment income net of current year premiums resulted in assets with CERBT of \$1.6 million as of June 30, 2011, which partially reduced the unfunded actuarial accrued liability.

The Plan’s annual required contributions and actual contributions for fiscal years ended June 30, 2009, 2010 and 2011 are set forth below (in thousands):

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Costs Contributed	Net OPEB (Asset)
6/30/2009	\$ 340	\$ 150	44%	\$ (912)
6/30/2010	164	125	76%	(873)
6/30/2011	162	133	82%	(844)

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 9 – OTHER POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)**

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented below (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ration (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(B-A)/C]
1/1/2007	\$ -	\$ 1,130	\$ 1,130	0.0%	\$ 1,534	73.7%
1/1/2009	984	1,500	516	65.6%	2,042	25.3%
6/30/2011	1,524	2,433	909	62.6%	2,039	44.6%

**NOTE 10 - DEFERRED COMPENSATION PLAN**

Authority employees may voluntarily defer a portion of their compensation under Authority-sponsored Deferred Compensation Plans created in accordance with Internal Revenue Code Section 457. The Executive Director also currently receives a 457 Plan contribution as part of his compensation agreement. For staff, the Authority will contribute matching amounts for years of service. Under these 457 Plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plans.

The Authority has no liability for any losses which may be incurred by the Plans and does not participate in any gains, but it does have the duty of due care that would be required of an ordinary prudent investor. The Authority has contracts with CalPERS and with Lincoln Financial Group to manage and invest the assets of the Plans. These administrators pool the assets of the Plans with those of other participants and do not make separate investments for the Authority. Plan assets are subject to agreements which incorporated changes in the laws governing deferred compensation plan assets and are held by a trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under this plan are not the Authority's property and are not subject to claims by general creditors of the Authority, they have been excluded from these financial statements.

**NOTE 11 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Authority manages and finances these risks by purchasing commercial insurance and has a \$1 thousand deductible for general and special property liability with limits of \$10 million and \$350 million, respectively. For automobile, the Authority has a \$1 thousand deductible with a limit of \$10 million. The Authority's deductible for crime is \$10 thousand, with a limit of \$1 million. The Authority has no deductible for workers compensation with a \$1 million limit. There have been no significant reductions in insurance coverage from the previous year, nor have settled claims exceeded the Authority's commercial insurance coverages in any of the past three years.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 11 – RISK MANAGEMENT (Continued)**

As of June 30, 2011, the Authority had no material claims outstanding for general liability or for workers' compensation cases.

**NOTE 12 – NET ASSETS AND FUND BALANCES**

Net Assets is measured on the full accrual basis, while Fund Balance is measured on the modified accrual basis.

**A. Net Assets**

Net Assets is the excess of all the Authority assets over all its liabilities. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

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

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions, which the Authority cannot unilaterally alter. These principally include assets restricted to fund construction commitments and debt service requirements.

*Unrestricted* describes the portion of Net Assets which is not restricted to use. As of June 30, 2011, the Authority had an unrestricted net deficit amounting to \$199.2 million. This net deficit is a result of capital projects, which are contributed or transferred to other governments upon completion since those entities are responsible for maintaining them. Authority management has estimated that since Measure C's inception, and subsequently Measure J's, the Authority has constructed \$771.8 million in capital assets. These assets are reflected on other governments' financial statements in accordance with generally accepted accounting principles.

**B. Fund Balances**

In fiscal year 2011, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 outlines the requirement to report the fund balance for governmental funds in the specific classifications (nonspendable, restricted, committed, assigned and unassigned), which create a hierarchy primarily based on the extent to which the Authority is bound to the constraints on the specific purposes for which funds can be spent. The Authority only has restricted fund balance at June 30, 2011 as it is bound by the Measure C and Measure J Expenditure Plans approved by voters.

Fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

**CONTRA COSTA TRANSPORTATION AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

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

The Authority receives federal and State grant funds. The amounts, if any, of the Authority's grant expenditures which may be disallowed upon audit by the granting agencies cannot be determined at this time, although the Authority expects any such amounts to be immaterial.

The Authority has various contracts with private consulting companies and cooperative agreements with governmental entities. As of June 30, 2011, the Authority had outstanding commitments approximating \$406 million. In addition to the above, the Authority has a remaining programming commitment of approximately \$9.1 million to the San Francisco Bay Area Rapid Transit District (BART) system related to the State Highway Route 4 widening project.

In July 2009, the Authority agreed to a memorandum of understanding with Contra Costa County to loan up to \$8 million for Vasco Road safety improvements to secure \$10 million of American Recovery and Reinvestment Act funds. The funds would be repaid from the County's share of Measure J 18% local streets and roads funds or State of California Proposition 1B bonds. The Authority would charge interest based on the actual County Pooled Investment Earnings Account rate in effect for the period of the loan. The loan would be repaid for amounts owed plus interest by June 30, 2014. As of June 30, 2011, there has been no request by the County for these funds as the project appears fully funded without loans from the Authority.

The Authority leases its office facility and certain office equipment under operating lease agreements. During the year ended June 30, 2011, lease expenditures approximated \$295 thousand. A schedule of future minimum lease payments on noncancelable operating leases follows (in thousands):

Year Ending June 30:		
2012	\$	295
2013		308
2014		322
2015		335
2016		349
Thereafter		3,885
	\$	<u>5,494</u>

**CONTRA COSTA TRANSPORTATION AUTHORITY  
MEASURE J DEBT SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011  
(In thousands)**

	2009 Measure J Bonds			
	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Investment income	\$ 149	\$ 90	\$ 89	\$ (1)
Total Revenues	149	90	89	(1)
<b>Expenditures</b>				
Debt service:				
Note principal	200,000	200,000	200,000	-
Interest and related fees	3,000	950	953	(3)
Issuance costs	-	-	-	-
Total Expenditures	203,000	200,950	200,953	(3)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(202,851)	(200,860)	(200,864)	(4)
<b>Other Financing Sources (Uses)</b>				
Transfer in	203,000	83,601	85,504	1,903
Transfer out	(6,000)	(3,218)	(3,218)	-
Bond proceeds	-	-	-	-
Total Other Financing Sources (Uses)	197,000	80,383	82,286	1,903
Net Change in Fund Balances	\$ (5,851)	\$ (120,477)	(118,578)	\$ 1,899
Fund Balance - Beginning			118,578	
Fund Balance - Ending			\$ -	

**CONTRA COSTA TRANSPORTATION AUTHORITY  
MEASURE J DEBT SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011  
(In thousands)**

2010 Measure J Bonds				Total Debt Service Funds			
Budget				Budget			
Original	Final	Actual	Variance with Final Budget - Positive (Negative)	Original	Final	Actual	Variance with Final Budget - Positive (Negative)
\$ 448	\$ 210	\$ 393	\$ 183	\$ 597	\$ 300	\$ 482	\$ 182
448	210	393	183	597	300	482	182
1,630	-	-	-	201,630	200,000	200,000	-
7,306	7,200	7,289	(89)	10,306	8,150	8,242	(92)
920	1,107	994	113	920	1,107	994	113
9,856	8,307	8,283	24	212,856	209,257	209,236	21
(9,408)	(8,097)	(7,890)	159	(212,259)	(208,957)	(208,754)	162
8,936	7,200	6,719	(481)	211,936	90,801	92,223	1,423
(255,468)	(107,862)	(98,977)	8,885	(261,468)	(111,080)	(102,195)	8,885
220,920	200,990	200,990	-	220,920	200,990	200,990	-
(25,612)	100,328	108,732	8,404	171,388	180,711	191,018	10,308
\$ (35,020)	\$ 92,231	100,842	\$ 8,563	\$ (40,871)	\$ (28,246)	(17,736)	\$ 10,469
		-				118,578	
		\$ 100,842				\$ 100,842	

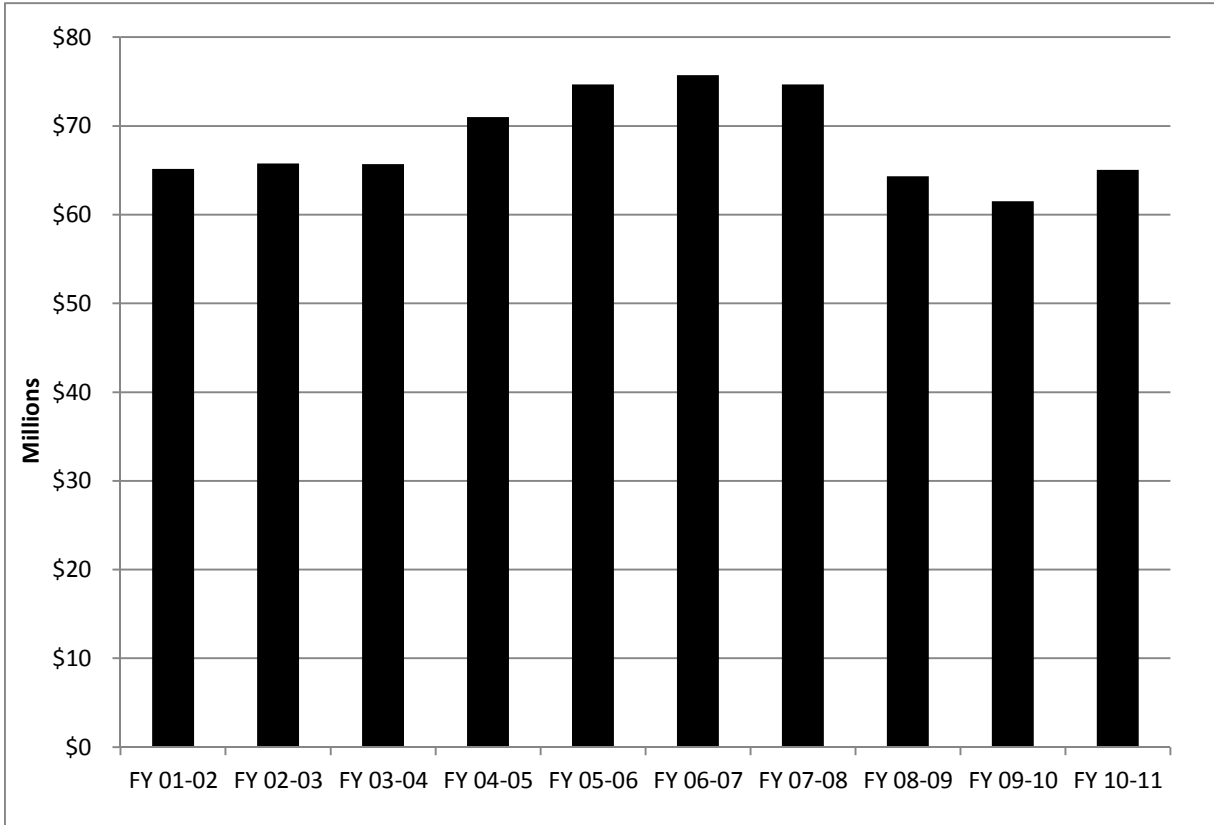
**CONTRA COSTA TRANSPORTATION AUTHORITY  
OTHER GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2011  
(In thousands)**

	<b>Measure J Paratransit</b>	<b>Measure J Commute Alternatives</b>	<b>Measure C Carpool, Vanpool</b>	<b>Air Quality</b>	<b>Total Non-Major Special Revenue Funds</b>
<b>Assets</b>					
Cash in bank	\$ 1,814	\$ 347	\$ -	\$ 812	\$ 2,973
Receivables:					
Sales tax	542	103	-	-	645
Intergovernmental	-	70	-	-	70
<b>Total Assets</b>	<b>\$ 2,356</b>	<b>\$ 520</b>	<b>\$ -</b>	<b>\$ 812</b>	<b>\$ 3,688</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 220	\$ 79	\$ -	\$ -	\$ 299
<b>Total Liabilities</b>	<b>220</b>	<b>79</b>	<b>-</b>	<b>-</b>	<b>299</b>
<b>Fund Balances</b>					
<b>Restricted:</b>					
Air quality	-	-	-	812	812
Carpool/commute alternatives	-	441	-	-	441
Paratransit program	2,136	-	-	-	2,136
<b>Total Fund Balances</b>	<b>2,136</b>	<b>441</b>	<b>-</b>	<b>812</b>	<b>3,389</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,356</b>	<b>\$ 520</b>	<b>\$ -</b>	<b>\$ 812</b>	<b>\$ 3,688</b>

**CONTRA COSTA TRANSPORTATION AUTHORITY  
OTHER GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011  
(In thousands)**

	Measure J Paratransit	Measure J Commute Alternatives	Measure C Carpool, Vanpool	Air Quality	Total Non-Major Special Revenue Funds
<b>Revenues</b>					
Sales tax	\$ 3,253	\$ 651	\$ -	\$ -	\$ 3,904
Investment income	22	-	-	9	31
Federal Congestion Mitigation (CMAQ)	-	70	-	-	70
State Motor Vehicle Registration Surcharge (TFCA)	-	-	-	1,335	1,335
<b>Total Revenues</b>	<b>3,275</b>	<b>721</b>	<b>-</b>	<b>1,344</b>	<b>5,340</b>
<b>Expenditures</b>					
Current expenditures:					
Programs:					
Commuter alternatives	-	538	-	-	538
Paratransit	2,246	-	-	-	2,246
<b>Total Expenditures</b>	<b>2,246</b>	<b>538</b>	<b>-</b>	<b>-</b>	<b>2,784</b>
<b>Excess of Revenues Over Expenditures</b>	<b>1,029</b>	<b>183</b>	<b>-</b>	<b>1,344</b>	<b>2,556</b>
<b>Other Financing Sources (Uses)</b>					
Transfer in	-	-	5	-	5
Transfer out	-	-	-	(1,509)	(1,509)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>(1,509)</b>	<b>(1,504)</b>
<b>Net Change in Fund Balances</b>	<b>1,029</b>	<b>183</b>	<b>5</b>	<b>(165)</b>	<b>1,052</b>
Fund Balances - Beginning	1,107	258	(5)	977	2,337
<b>Fund Balances - Ending</b>	<b>\$ 2,136</b>	<b>\$ 441</b>	<b>\$ -</b>	<b>\$ 812</b>	<b>\$ 3,389</b>

**CONTRA COSTA TRANSPORTATION AUTHORITY  
SALES TAX REVENUES  
LAST TEN FISCAL YEARS**



Fiscal Year (FY)	Sales Tax	Annual Growth
FY 01-02	\$65,167,742	-1.33%
FY 02-03	\$65,782,060	0.94%
FY 03-04	\$65,683,521	-0.15%
FY 04-05	\$71,014,103	8.12%
FY 05-06	\$74,676,194	5.16%
FY 06-07	\$75,738,245	1.42%
FY 07-08	\$74,679,537	-1.40%
FY 08-09	\$64,321,868	-13.87%
FY 09-10	\$61,527,225	-4.34%
FY 10-11	\$65,060,205	5.74%

(A) Measure C concluded on March 31, 2009 and Measure J began on April 1, 2009. For Fiscal Year 08-09 Measure C and Measure J received \$50.2 million and \$14.1 million, respectively.

To the Authority Board  
Contra Costa Transportation Authority  
Walnut Creek, California

**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***

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Contra Costa Transportation Authority (Authority), as of and for the year ended June 30, 2011, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated November 22, 2011. Our report contained an explanatory paragraph describing the Authority’s implementation of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions* effective June 30, 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***

Management of the Authority is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-01 and 2011-02 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-03 through 2011-06 to be significant deficiencies.

***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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Macias Gini & Connell LLP*

Walnut Creek, California

November 22, 2011

To the Authority Board  
Contra Costa Transportation Authority  
Walnut Creek, California

**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**

***Compliance***

We have audited Contra Costa Transportation Authority’s (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2011. The Authority’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program 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 the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority’s compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

***Internal Control Over Compliance***

The management of the Authority 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 the Authority’s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

*Macias Gini & Connell LLP*

Walnut Creek, California  
November 22, 2011

**CONTRA COSTA TRANSPORTATION AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

<b>Program Description</b>	<b>Federal CFDA Number</b>	<b>Identifying Pass through Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Transportation, Federal Highway Administration</b>			
<b>Highway Planning and Construction</b>			
<i>Passed through the Metropolitan Transportation Commission</i>			
Surface Transportation Program Congestion Management and Planning	20.205	Not Assigned	\$ 898,949
<i>Congestion Mitigation and Air Quality Program</i>			
Regional Rideshare Program (RRP)	20.205	Not Assigned	69,994
<i>Passed through the State of California, Department of Transportation</i>			
SAFETEA-LU High Priority Projects (DEMO) Funds			
I-80 Interchange at Central Ave PA&ED	20.205	HPLUL-6072 (005)	<u>49,960</u>
<b>Total U.S. Department of Transportation</b>			<u>1,018,903</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 1,018,903</u></u>

See accompanying notes to the schedule of expenditures of federal awards.

**CONTRA COSTA TRANSPORTATION AUTHORITY**

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2011

**NOTE 1 - GENERAL**

The schedule of expenditures of federal awards (the Schedule) presents the activity of all federal award programs of the Contra Costa Transportation Authority (the Authority), California. Federal awards passed through from other governmental agencies are included in the Schedule.

**NOTE 2 – BASIS OF ACCOUNTING**

The Schedule is presented using the modified accrual basis of accounting.

**NOTE 3 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the Schedule agree to or can be reconciled with the amounts reported in the related federal financial reports.

**NOTE 4-SUBRECIPIENTS**

Of the federal expenditures presented in the Schedule, the Authority provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
20.205	Highway Planning and Construction Grant	\$69,994

**CONTRA COSTA TRANSPORTATION AUTHORITY**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2011

**Section I Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued on the basic financial statements of the Authority: Unqualified

Internal control over financial reporting:

◆ Material weakness(es) identified? Yes

◆ Significant deficiencies identified that are not considered to be material weaknesses? Yes

Noncompliance material to the financial statements noted? No

***Federal Awards***

Internal control over major programs:

◆ Material weakness(es) identified? No

◆ Significant deficiencies identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? No

Identification of major programs:

Federal Catalog Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee? No

# CONTRA COSTA TRANSPORTATION AUTHORITY

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2011

### Section II Financial Statement Findings

#### Item # 2011-01 Material Weakness

##### Controls over Revenue Recognition for the Period of Availability

The Authority currently has post-closing procedures that include a review of outstanding receivables at year-end to determine whether they meet the Authority's policies for revenue recognition. For the year ended June 30, 2011, this procedure was not effective for certain receivables that were not collected within the period of availability, defined as 60 days. Accordingly, current year revenue and the associated increase in fund balance were overstated by these receivables.

Normally, the Authority collects its outstanding receivables on a timely basis and, therefore, deferring revenues for not meeting the period of availability is not a routine occurrence. Due to delay in payments of various program billings, there was approximately \$10.1 million in outstanding receivables that were not reimbursed within 60 days of year-end. The Authority agreed with the proposed adjustment and deferred \$10.1 million in the governmental funds at June 30, 2011.

We recommend the Authority review its post-closing procedures and update the internal controls over revenue recognition to address the identified deficiency for evaluation of period of availability.

#### Management Response:

Staff concurs with the finding and will review timing of grant reimbursements for proper revenue recognition. The \$10.1 million related to Regional Measure 2 State Route 4 project filed for reimbursement and not received within the 60 days. The Authority received \$2.8 million of those funds in October. The remaining grant funds are outstanding due to the Metropolitan Transportation Commission's request for additional clarification concerning Caltrans and BART project coding. The Authority should receive these funds soon.

#### Item # 2011-02 Material Weakness

##### Implementation of GASB 53 (Derivatives)

The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), during the fiscal year ended June 30, 2010. When applying the criteria in GASB 53, the Authority came to the conclusion that the interest rate swap agreement was an investment derivative instrument, which is the default classification of a derivative when the hedging aspects of the instrument are determined not to be effective.

Upon further review of the facts and circumstances of the interest rate swap agreement, after bringing to auditors' attention, using the criteria of GASB 53, it was determined that the interest rate swap was an effective hedge. The primary criteria used in making this determination are the facts that 1) the 2010 Bonds met the GASB 53 definition for being an "expected transaction", and thus a hedgeable item; 2) it was determined to be effective in reducing the interest rate risk, using the synthetic instrument method; and 3) the amendment of the interest rate swap in September 2009 was only a partial termination, reducing the notional amount from \$300 million to \$200 million.

We recommend the Authority comply with the provisions of GASB 53 and annually evaluate the hedging derivative instrument to ensure the proper ongoing accounting and reporting requirements for derivatives, which is a complicated and technical area of governmental accounting.

## CONTRA COSTA TRANSPORTATION AUTHORITY

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2011

#### Section II Financial Statement Findings (Continued)

##### Management Response:

Staff concurs with the finding and will review the hedging derivative instrument with the assistance of our debt advisor PFM.

##### Item # 2011-03 Significant Deficiency

##### A Comprehensive Disaster Recovery Plan Has Not Been Fully Tested

General computer controls should ensure that plans have been developed and documented to provide contingency for unforeseeable events, including the recovery of operational and financial data in the event of disaster. While the Authority has contracted with Endsight for backup services, a full disaster recovery test has not been performed, nor has an acceptable return to operations timeframe been established. The lack of tested assurance places the Authority at an increased risk of loss of financial data in the event of a disaster. Additionally, contingency and business continuity planning cannot be fully conducted without a defined return to operations timeframe.

We recommend the Authority work with Endsight to establish a reasonable return to operations timeframe and also conduct a disaster recovery test of the Authority's financial applications and data. Based upon the results and findings of the testing, the disaster recovery plan and return to operations timeframe should be updated as necessary.

##### Management Response:

Concur with recommendation. Authority's backup/recovery plan is multi-facet, including disk imaging (Acronis Disk Imaging) for complete imaging of all critical drives, offsite backups (Asigra) transmitted via the internet to a data center in Milpitas, and shadow copies retained onsite NAS device (Tera Station). Restoration of systems will vary depending on the level of damage incurred. Recovery from a complete loss to replace and restore all servers could range from 7 to 10 days, subject to inventory and delivery constraints. A lesser degree failure, such as a complete loss of a data array, could be restored in 2 to 3 days. Restoration of corrupted or loss system or data files can be restored within hours from the NAS device. Finally, Authority has required Endsight to perform an annual Data Integrity Review Test to evaluate the effectiveness of Authority backup/recovery procedures. The results of these tests will be documented in the annual IT Strategic Review.

##### Item # 2011-04 Significant Deficiency

##### IT Assets Are Exposed to an Active Water-Based Fire Suppression System

General computer controls should ensure that IT assets are adequately protected from physical and environmental hazards. The Authority's server room, however, still has an active water-based fire suppression system. This places the IT assets at increased risk of damage should the system be activated or should a pipe rupture.

The Authority should research the feasibility of implementing a dry fire suppression system in the server room. Alternately, the active water-based system could be replaced by a dry-pipe system. If it is determined that the system could be implemented, the Authority should budget for the replacement of the active water-based system. Should the system replacement be deemed infeasible, alternative mitigating controls should be implemented, such as the installation of high temperature sprinkler heads and the implementation of a tested disaster recovery plan with a reasonable return to operations timeframe.

**CONTRA COSTA TRANSPORTATION AUTHORITY**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2011

**Section II Financial Statement Findings (Continued)**

**Management Response:**

Partially concur with recommendation. This matter was discussed with building management. The options for a dry suppression system are cost prohibitive. As an alternative, CCTA will relocate the NAS device to a different location to prevent damage caused by an activated sprinkler head in the server room. The NAS device has complete images of the servers.

**Item # 2011-05 Significant Deficiency**

**Network and Application Password Management Can Be Improved**

General computer controls should ensure that only authorized personnel can access an agency's network and financial applications. While the Authority has updated their password policy as the result of an IT strategy review, the network expiration period is not aligned with industry best practices. Additionally, the password requirements for access to the Logos application do not adhere to best practices for password length, complexity, expiration period, and account lockout threshold. This places the Authority at increased risk of unauthorized activity within the network and financial application. The table below shows the Authority's network and applications settings and industry best practices.

<b>Account Setting</b>	<b>Authority Network Password Requirements</b>	<b>Logos Password Requirements</b>	<b>Best Practices</b>
<b>Password Length</b>	8 characters	3-8 characters	7-9 characters
<b>Expiration Period</b>	120 days	365 days	30-60 days
<b>Account Lockout Threshold</b>	5 invalid logon attempts will lock the account	Not enforced	3-5 invalid logon attempts will lock the account.
<b>Strong Passwords Required</b>	Yes	Not enforced	Yes

We recommend the Authority update the network and application (where possible) password requirements settings to more closely adhere to best practices in password management.

**Management Response:**

Partially concur with recommendation. The best practices described above have all been implemented. Logos passwords however have been set to expire at 120 days, same as network passwords.

**Item # 2011-06 Significant Deficiency**

**Financial Application User Accounts and Roles Are Not Periodically Reviewed**

Controls to ensure application user accounts are configured with appropriate authorization roles help agencies ensure that the electronic financial system is enforcing a proper segregation of duties. While the Authority has implemented authorization roles within the Logos application, they are not periodically reviewed and tested to ensure user authorization roles up to date and continue to electronically enforce a segregation of duties. Without this assurance, the Authority is at increased risk of fraud, waste and abuse resulting from inappropriate activity within the financial application.

**CONTRA COSTA TRANSPORTATION AUTHORITY**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2011

**Section II Financial Statement Findings (Continued)**

We recommend the Authority develop and implement formal written policies and procedures to ensure that user accounts and roles within the financial applications are periodically reviewed and tested to ensure the user accounts are up-to-date and enforce a proper segregation of duties.

**Management Response:**

Concur with recommendation. On July 25, 2011, user permissions and process access controls were reviewed and adjusted accordingly. This review will be performed annually hereafter or as employee turnover occurs or responsibilities change.

**Section III Federal Award Findings and Questioned Costs**

No matters were reported

**CONTRA COSTA TRANSPORTATION AUTHORITY**

Summary Schedule of Prior Year Audit Findings

For the Year Ended June 30, 2010

**Federal Award Findings**

There were no audit findings nor questioned costs for the year ended June 30, 2010.