

RIVERSIDE TRANSIT AGENCY  
1825 Third Street  
Riverside, CA 92507

November 16, 2006

TO: BOARD OF DIRECTORS  
THRU: <sup>J</sup>Larry Rubio, Chief Executive Officer  
FROM: <sup>CF</sup>Craig Fajnor, Chief Financial Officer  
SUBJECT: Fiscal Year 2005/2006 Financial Audit Results

Summary: The accounting firm of Brown Armstrong Paulden McCown Starbuck Thornburgh and Keeter (Brown Armstrong) performed the Agency's fiscal year 2005/2006 financial audit. Attached for review and approval are the Basic Financial Statements and Single Audit Report for the year ended June 30, 2006.

The fiscal year 2005/2006 annual audit yielded the following results:

- The Agency received an unqualified opinion, which means that the Agency's accounting and financial reporting were consistent with Generally Accepted Accounting Principles (GAAP)
- The auditors noted no reportable conditions relating to instances of disagreements with management, as well as no material errors, irregularities, or possible illegal acts
- The auditors noted no matters involving the Agency's internal control over financial reporting and its operations that were considered material weaknesses. They also noted no reportable conditions.
- The Agency was in compliance with Public Utilities Code Section 99270.1 – Compliance with required farebox ratio. The predetermined minimum farebox ratio for fiscal year 2005/2006 is 17.73 percent. The actual farebox ratio achieved is 19.34 percent, resulting in a favorable variance of over 1.61 percent.

Committee Recommendation:

This item was discussed at the Board Budget and Administration Committee meeting of November 1, 2006. The Committee members unanimously approved and recommended this item to the full Board of Directors for their consideration.

Recommendation:

Approve the receipt of the Riverside Transit Agency's Fiscal Year 2005/2006 Audited Financial Statements and Single Audit Reports as submitted as final documents.

**RIVERSIDE TRANSIT AGENCY  
RIVERSIDE, CALIFORNIA**

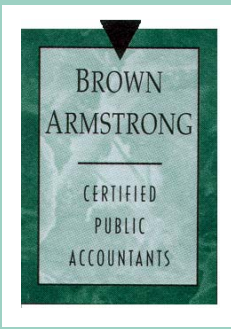
**BASIC FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2006 AND 2005**

**RIVERSIDE TRANSIT AGENCY  
RIVERSIDE, CALIFORNIA  
JUNE 30, 2006 AND 2005**

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets.....	10
Statement of Activities and Changes in Net Assets .....	11
Statement of Cash Flows .....	12
Notes to the Basic Financial Statements.....	14
Required Supplementary Information.....	30



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To the Board of Directors  
of the Riverside Transit Agency  
Riverside, California

We have audited the accompanying basic financial statements of the Riverside Transit Agency (RTA), as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These basic financial statements are the responsibility of the RTA's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the RTA as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006 on our consideration of the RTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Management's Discussion and Analysis and Required Supplementary Information, as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "S. A. Paulden", written in a cursive style.

Bakersfield, California  
August 25, 2006

**RIVERSIDE TRANSIT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006**

As management of the Riverside Transit Agency (RTA or the Agency), we offer readers of the RTA's basic financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2006.

**FINANCIAL HIGHLIGHTS**

- The assets of the RTA exceeded its liabilities at the close of the fiscal year by \$38,058,979 (net assets). Of this amount, \$30,619,461 consists of Net Assets invested in Capital, Net of Related Debt; Restricted Net Assets of \$1,931,520; and Unrestricted Net Assets of \$5,507,998.
- Farebox revenues increased 19% over fiscal year 2005 to \$7,145,886, despite a drop in overall system-wide ridership of 7%. This was due to the 25% increase in fares adopted in April 2005.
- RTA received non-farebox revenue of \$1,000,000 for settlement of a contractual dispute with MV Transportation.
- Operating expenses (excluding depreciation) increased 8 percent to \$41,489,354, primarily due to renewal of the Memorandum of Understanding (MOU) with our union employees, as well as increases in employee benefits, worker's compensation, purchased transportation, consulting services, and fuel.
- RTA's Capital assets (before the application of accumulated depreciation) have decreased \$944,021. Capital additions totaled \$8,220,692, offset by retirements of \$2,464,147. All capital procurements are funded by federal, state, and local grants. Procurements included additional revenue vehicles for Dial-A-Ride services, additional non-revenue support vehicles for operations and maintenance personnel, the Compressed Natural Gas (CNG) fueling station at RTA's Riverside facility, Oracle 11i system upgrade, and facility improvements.
- Reduced \$1,585,000 of Debt Service principal on Demand Bond refinance program that was executed in February 2003.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the RTA's basic financial statements. The RTA accounts for expenses in only one fund (Enterprise Fund); therefore, the basic financial statements do not reflect the activities of multiple funds.

RTA's basic financial statements consist of the Statement of Net Assets, Statement of Activities and Changes in Net Assets, and Statement of Cash Flows.

The Statement of Net Assets presents information on all of the RTA's assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Agency's financial position.

The Statement of Activities and Changes in Net Assets provides information regarding the revenues generated and received (passenger fares and grants) and the expenses incurred in which to generate the revenues. The difference between the revenues and expenses represent the Change in Net Assets, or profitability as reflected by the amount of net income generated for the fiscal year.

The Statement of Cash Flows presents information on the Agency's cash receipts/payments and net changes in cash (and cash equivalents) from operating, capital/capital-related financing, non-capital financing, and investing activities and decisions during the fiscal year.

The Agency's basic financial statements are shown on pages 10 – 13 of this report.

Accompanying the basic financial statements are Notes to the Basic Financial Statements. These notes provide supplemental information on significant accounting policies, cash and investments, governmental subsidies, inventory, capital assets, long-term debt, deferred revenues, and other significant events in other areas which resulted in the financial performance reflected in those statements.

Notes to the Basic Financial Statements are shown on pages 14 – 27 of this report.

## FINANCIAL STATEMENT ANALYSIS

### STATEMENT OF NET ASSETS

As stated earlier, increases or decreases in net assets over time may serve as a useful indicator of the Agency's financial position. A summary of the Statement of Net Assets during the fiscal year is shown below. The focus is on Net Assets (Note 1):

	<u>FY2006</u>	<u>FY2005</u>
Capital Assets, Net	\$ 44,659,461	\$ 45,603,482
All Other Assets	<u>19,306,765</u>	<u>15,927,129</u>
Total Assets	<u>63,966,226</u>	<u>61,530,611</u>
Current Liabilities	13,477,247	12,693,492
Long - Term Liabilities	<u>12,430,000</u>	<u>14,040,000</u>
Total Liabilities	<u>25,907,247</u>	<u>26,733,492</u>
Net Assets	<u>\$ 38,058,979</u>	<u>\$ 34,797,119</u>
Net Assets (Note 1):		
Investment in Capital Assets	\$ 30,619,461	\$ 29,978,482
Restricted	1,931,520	1,931,046
Unrestricted	<u>5,507,998</u>	<u>2,887,591</u>
Total Net Assets	<u>\$ 38,058,979</u>	<u>\$ 34,797,119</u>

In fiscal year 2006, 80% of RTA's Net Assets reflect its investment in Capital Assets (e.g., buses, support vehicles, passenger facilities/structures, and peripheral equipment for operations, maintenance, and administrative support). The Agency uses these capital assets to provide transportation service to the surrounding communities, as well as maintain the necessary service infrastructure. All of RTA's capital assets were procured with federal, state, and local funds. The capitalization threshold for rolling stock (bus equipment, tires, materials) is one-half of one percent of the average value of the bus fleet. In fiscal year 2006 this value was \$1,102. A threshold was also established for all other items that cost \$400 or more and have a useful life of more than one year.

RTA's net assets increased \$3,261,860 (9 percent) in fiscal year 2006. This is mainly attributed to an increase in the balance of Unrestricted Net Assets. During preparation of the fiscal year 2002 Short Range Transit Plan (SRTP), a forecast of carryover operating funds was submitted to the Riverside County Transportation Commission (RCTC). Actual fiscal year 2002 carryover was less than forecasted. RTA staff worked closely with RCTC staff to recover this prior year funding shortfall.

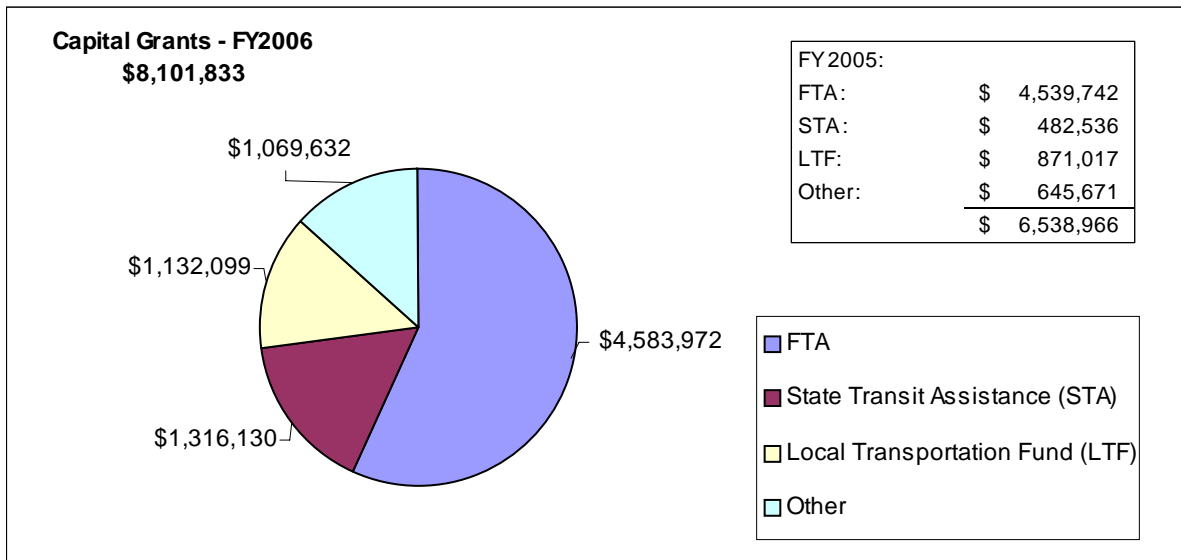
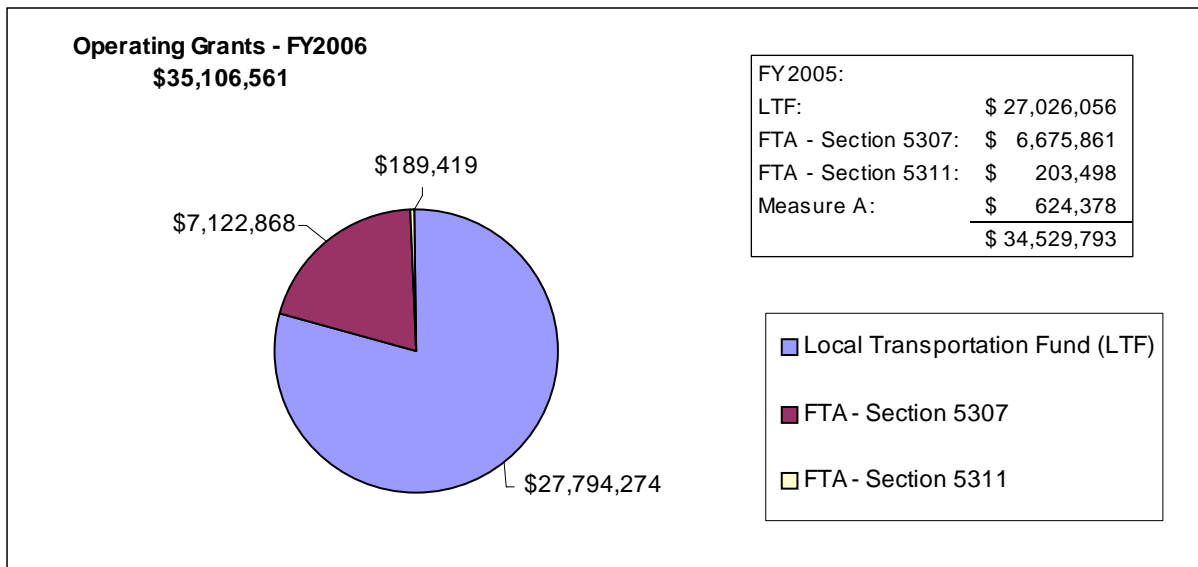
## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

The Statement of Activities and Changes in Net Assets provides information regarding RTA's profitability. The table below reflects a summary of RTA's profitability during the fiscal year.

	FY2006	FY2005
Revenues		
Passenger Fares	\$ 7,145,886	\$ 6,004,812
Operating Grants	35,106,561	34,529,793
Capital Grants	8,101,833	6,538,966
Interest and Other Revenue	1,584,978	(263,090)
Total Revenues	<u>51,939,258</u>	<u>46,810,481</u>
Expenses		
Salaries and Benefits	20,200,370	18,741,060
Purchased Transportation	12,488,413	11,869,940
Materials and Supplies	3,914,529	3,441,227
Services	1,989,060	1,688,068
Casualty and Liability	1,317,944	1,557,953
Utilities/Taxes/Interest/Misc. Other	2,036,338	1,756,239
Subtotal Expenses Before Depreciation	<u>41,946,654</u>	<u>39,054,487</u>
Depreciation/Amortization	<u>6,730,744</u>	<u>6,428,895</u>
Total Expenses Including Depreciation	<u>48,677,398</u>	<u>45,483,382</u>
Change In Net Assets	3,261,860	1,327,099
Net Assets:		
Beginning of Year	<u>34,797,119</u>	<u>33,470,020</u>
End of Year	<u>\$ 38,058,979</u>	<u>\$ 34,797,119</u>

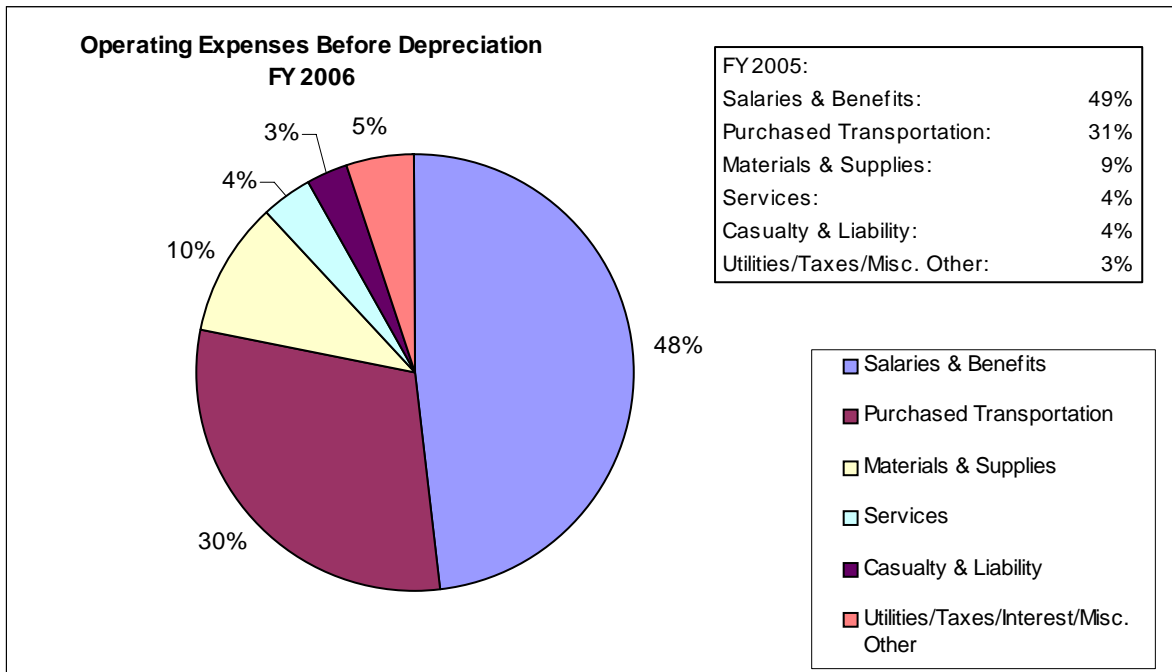
**Revenues.** Passenger fares represent 14 percent of the total fiscal year 2006 operating revenue needed to provide the necessary service and support. Passenger Fares for Directly Operated/Contracted Fixed Route, Contracted Dial-A-Ride, and ADA increased \$1,141,074 from fiscal year 2005. This increase (19%) is attributed to a full-year impact of the board-approved fare increase (25%) that was implemented in April 2005. Operating Grants (68 percent of total fiscal year revenue) increased by \$576,768 and is primarily attributed to receipt of Federal Transit Administration (FTA) Operating Assistance for preventative maintenance and capital cost of contracting expenses. Capital Grants (16 percent of total revenue) increased by \$1,562,867 mainly due to the completion of the CNG fueling station at the Riverside facility. Interest and Other Revenue represents the remaining 3 percent of the total fiscal year 2006 revenue. Two-thirds of this other revenue is the settlement with MV Transportation and the remaining one-third is comprised of investment interest income and lease and advertising revenue.

The combined amount of Operating and Capital Grants reflect \$43,208,394 (84 percent of total revenue). These funds come from a variety of specific funding sources. Each funding source is guided by government regulations regarding type and use of funds. A breakdown of specific Operating and Capital Grant dollar amounts by funding source for fiscal year 2006 is shown below, accompanied by fiscal year 2005 amounts for comparison purposes:



**Expenses.** Adopted RTA policies, procedures, and business processes are used as management tools to control expenses and attain goals and objectives. These controllable Operating expenses consist of cost elements that exclude depreciation. For purposes of this analysis, Operating Expenses Before Depreciation will be discussed.

- Operating expenses totaled \$41,489,354 in fiscal year 2006, increasing from \$38,565,612 in fiscal year 2005 (an 8 percent increase). This is attributed to increases in labor, employee benefits, consultant services, fuel and purchased transportation. Increases in labor and benefits are primarily attributed to the settlement and renewal of the MOU with the agency's union. Workers' compensation expenses increased 37 percent from the previous year due to aggressive claim closeout. However, the Agency experienced its second consecutive year of No Lost Workdays, and its initiatives on safety resulted in improved actuarial results and lower liability reserves set aside for individual workers' compensation claims. As stated earlier, no claim resulted in a lost work day in the 2006 period. A breakdown of Expenses excluding Depreciation (as a percent of \$41,489,354) is shown below, accompanied by fiscal year 2005 percentages for comparison purposes:



Depreciation and amortization expense increased \$301,849 for the fiscal year due to the increased depreciation for revenue vehicles, non-revenue vehicles, facility improvements and other assets.

### BUDGETARY HIGHLIGHTS

Annual Operating/Capital budgets and plans are used as a management tool to monitor Revenue and Expenses and evaluate operating performance at any given time period. The RTA Board of Directors approves these items prior to implementation. The original budget total of \$50,810,116 was amended in both November 2005 and February 2006 to allocate an additional \$1,107,173 of Local Transportation Funds for CNG fuel and a land use study. RTA finished fiscal year 2006 with operating expenses, net of depreciation and interest expenses, \$2,081,235 under budget.

### CAPITAL ASSETS

RTA's investment in Capital Assets (net of accumulated depreciation) as of June 30, 2006, amounted to \$44,659,461. This investment in capital assets includes land, buildings, fleet, communication/farebox systems, machinery/equipment, and passenger facilities. All assets have been purchased with federal, state, or local grants awarded to the Agency. From a net of accumulated depreciation standpoint, there was a decrease of 2 percent in the RTA's investment in capital assets. It reflects net additions of \$1,520,262 and net retirements of (\$2,464,147), resulting in a net decrease of \$944,021.

Significant Capital Asset Activity during fiscal year 2006 included the following:

- Completion of the CNG fueling station at the Riverside site
- Purchase of 39 Paratransit Vans for Dial-A-Ride (DAR) services
- Purchase of 9 support vehicles for agency operations personnel
- Purchase of 5 service trucks for agency maintenance personnel
- Improvement of bus shelters and bus stop amenities
- Oracle 11i upgrade and Projects & Grants module implementation
- Parking lot improvements – Riverside and Hemet facilities
- Office furniture & equipment – Riverside Facility
- Retirement of 2 super buses, 10 support vehicles, and a Xerox copier

To gain an understanding of capital asset additions and retirements at a historical cost relationship, an analysis of capital asset activity before accumulated depreciation is shown in the schedule below:

	Balance July 1, 2005	Additions	Retirements	Reclasses	Balance June 30, 2006
Land	\$ 2,546,389	\$ -	\$ -	\$ -	\$ 2,546,389
Buildings	11,521,854	1,134,612	(1,380)	-	12,655,086
Vehicles	53,048,461	2,047,086	(981,519)	-	54,114,028
Equipment	11,929,205	2,411,059	(254,691)	-	14,085,573
Construction in Progress	2,001,308	2,627,935	-	(2,425,498)	2,203,745
→ Total Capital Assets	81,047,217	8,220,692	(1,237,590)	(2,425,498)	85,604,821
Less Accumulated Depreciation	(35,443,735)	(6,700,566)	1,198,941	-	(40,945,360)
Total Assets, Net of Depreciation	<u>\$45,603,482</u>	<u>\$ 1,520,126</u>	<u>\$ (38,649)</u>	<u>\$ (2,425,498)</u>	<u>\$44,659,461</u>

Total capital asset additions total \$8,220,692. The retirement of the 2 super buses, 10 support vehicles, and other assets reflects a decrease of \$1,237,590, resulting in a capital asset decrease of \$944,021. Additional detail on RTA's Capital Asset activity for the year is shown in Note 5 of the Notes to the Basic Financial Statements on pages 22 – 23 of this report.

## DEBT ADMINISTRATION

In February 2003, the RTA executed an agreement with the California Transit Finance Corporation (CTFC) in order to provide funds for the defeasance and redemption of a portion of the outstanding principal amount of the California Transit Variable Rate Demand Bonds, Series 1997 for 57 forty-foot transit buses and related equipment. This was executed in an effort to reduce Agency risk and take advantage of low current market interest rates. The outstanding principal amount is \$14,040,000. Principal and interest installments have been paid per the contractual payment schedule.

Additional information on this transaction, as well as related financial schedules can be found in Note 6 of the Notes to the Basic Financial Statements, pages 23 – 24 of this report.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

These significant factors were considered as budget assumptions when preparing RTA's budget for fiscal year 2007:

- Demand for transit services will grow at a moderate rate over the next several years due to fuel prices and traffic congestion
- Bus service plans must be sensitive to fiscal funding constraints and revenue projections
- Innovative routes and other types of bus service must be developed to show viable public transportation options for the regional commuter
- Expansion and enhancements to existing service levels are top priority in order to grow ridership and maintain productivity
- Sensitivity and monitoring of fuel prices and other consumables needed to provide service
- Sensitivity to increases in employee wages, health care benefits, workers' compensation, and pension benefits
- Utilization of professional consultants that will enhance future operations in the area of route planning and scheduling as well as productivity improvement
- Compliance with GASB 43 and 45 with respect to the Agency's retiree medical plan

The approved budget for fiscal year 2007 totals \$51,401,813, a 1 percent increase over the fiscal year 2006 budget. Operating expenses, net of depreciation and interest expenses, are budgeted at \$43,665,697 and capital expenditures are budgeted at \$7,742,116. The agency anticipates a 4 percent increase in fare revenue over fiscal year 2006 to a budgeted amount of \$7,447,919.

RTA relies on Operating and Capital Grants for 86 percent of its total revenue. These funds come from a variety of specific funding sources. Each funding source is guided by government regulations regarding type and use of funds. A component of RTA Operating Grants is local operating assistance, which is comprised of Local Transportation Funds (LTF) and State Transportation Assistance (STA) funds. TDA and Public Utilities Code (PUC) provisions govern the use of these funds.

One such provision is conformance to a predetermined Farebox Recovery Ratio (Fare Revenue / Operating Expenses) set by the Riverside County Transportation Commission (RCTC) and CalTrans. The fiscal year 2007 predetermined ratio is 17.65 percent. RTA's Board of Director's approved the fiscal year 2007 projected farebox recovery ratio of 18.13 percent, resulting in a favorable variance of 0.5 percent. RTA anticipates being in conformance with the Farebox Recovery Ratio provision.

Additional information on TDA conformance is found in Note 11 of the Notes to the Basic Financial Statements, page 27 of this report.

RTA expects to experience increased demand for its Directly Operated and Contracted service. The board adopted a fiscal year 2007 operating budget considers a moderate 3 percent increase in ridership. However, the agency is projecting a nominal 1 percent decrease in Revenue Service Hours and 3 percent decrease in Revenue Service Miles. These reductions are a direct result of mandatory compliance with the RCTC Productivity Improvement Plan (PIP) which aims to increase ridership while maintaining fiscal responsibility. Projected revenues are sufficient to support the service given funding projections developed for the period.

Because of cost volatility for fuel and other operating expenses such as worker's compensation, as well as any potential changes in projected farebox revenues, staff may revisit service levels to verify that the proposed service can be sustained in the future. Further, if additional capital expenditures are necessary for strategic purposes, staff will develop a fiscal year 2007 midyear budget revision to present to the board for consideration

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the RTA's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Riverside Transit Agency, P.O. Box 59968, Riverside, California, 92507.

## **BASIC FINANCIAL STATEMENTS**

**RIVERSIDE TRANSIT AGENCY  
STATEMENT OF NET ASSETS  
JUNE 30, 2006 AND 2005**

<b>ASSETS</b>	2006	2005
<b>CURRENT ASSETS:</b>		
Cash, cash equivalents, and investments (Note 2)	\$ 11,464,978	\$ 11,127,235
Accounts receivable	202,840	301,948
Due from other governmental agencies (Note 3)	3,445,565	1,315,118
Interest receivable	127,572	73,914
Inventories (Note 4)	871,451	818,945
Prepaid expenses	1,083,645	149,552
<b>Total Current Assets</b>	<b>17,196,051</b>	<b>13,786,712</b>
<b>NONCURRENT ASSETS:</b>		
Restricted assets for debt service:		
Cash and investments held by fiscal agent (Note 2)	1,931,520	1,931,046
Capital assets, net (Note 5)	44,659,461	45,603,482
Financing costs and other assets, net	179,194	209,371
<b>Total Noncurrent Assets</b>	<b>46,770,175</b>	<b>47,743,899</b>
<b>Total Assets</b>	<b>\$ 63,966,226</b>	<b>\$ 61,530,611</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 3,689,009	\$ 1,793,227
Accrued payroll and related taxes	275,115	265,728
Interest payable	112,344	120,269
Compensated absences	750,769	623,066
Claims payable (Note 8)	4,155,534	4,153,902
Current portion of capital lease obligations (Note 6)	1,610,000	1,585,000
Deferred revenue (Note 7)	2,884,476	4,152,300
<b>Total Current Liabilities</b>	<b>13,477,247</b>	<b>12,693,492</b>
<b>LONG-TERM DEBT:</b>		
Capital lease obligations (Note 6)	12,430,000	14,040,000
<b>Total Liabilities</b>	<b>25,907,247</b>	<b>26,733,492</b>
<b>EQUITY</b>		
<b>RETAINED EARNINGS:</b>		
Investment in capital assets, net of related debt	30,619,461	29,978,482
Restricted for debt service	1,931,520	1,931,046
Unrestricted	5,507,998	2,887,591
<b>Total Net Assets</b>	<b>\$ 38,058,979</b>	<b>\$ 34,797,119</b>

See accompanying notes to the basic financial statements.

**RIVERSIDE TRANSIT AGENCY  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
<b>OPERATING REVENUES:</b>		
Passenger fares	\$ 7,145,886	\$ 6,004,812
<b>OPERATING EXPENSES:</b>		
Salaries	12,699,912	12,160,076
Employee benefits	7,500,458	6,580,984
Purchased transportation	12,488,413	11,869,940
Other materials and supplies	1,794,791	1,567,254
Services	1,989,060	1,688,068
Fuel and lubricants	2,119,738	1,873,973
Casualty and liability costs	1,317,944	1,557,953
Miscellaneous expenses	844,590	658,342
Utilities	688,800	574,428
Taxes	45,648	34,594
Depreciation and amortization:		
Depreciation - property and equipment	6,700,566	6,385,533
Amortization - financing costs and capital support	30,178	43,362
Total depreciation and amortization	6,730,744	6,428,895
<b>Total Operating Expenses</b>	48,220,098	44,994,507
<b>OPERATING LOSS</b>	(41,074,212)	(38,989,695)
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Operating grants:		
Local Transportation Fund	27,794,274	27,026,056
Federal Transit Administration - Section 5307	7,122,868	6,675,861
Federal Transit Administration - Section 5311	189,419	203,498
Measure A - operating grants	-	624,378
Total operating grants	35,106,561	34,529,793
Capital grants:		
Federal Transit Administration grants	4,583,972	4,539,742
State Transit Assistance grants	1,316,130	482,536
Local Transportation Fund	1,132,099	871,017
Other	1,069,632	645,671
Total capital grants	8,101,833	6,538,966
Interest income	444,913	263,187
Interest expense	(457,300)	(488,875)
Gain/(Loss) on sale of operator property	1,501	(628,125)
Other	1,138,564	101,848
<b>Nonoperating Revenues, net</b>	44,336,072	40,316,794
<b>Change in Net Assets</b>	3,261,860	1,327,099
<b>NET ASSETS:</b>		
Beginning of year	34,797,119	33,470,020
End of year	\$ 38,058,979	\$ 34,797,119

See accompanying notes to the basic financial statements.

**RIVERSIDE TRANSIT AGENCY  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from passengers	\$ 7,244,994	\$ 5,932,838
Cash payments to suppliers for operations	(20,061,649)	(23,629,777)
Cash payments for general and administrative expenses	(21,194,261)	(19,098,300)
<b>Net Cash Used by Operating Activities</b>	<b>(34,010,916)</b>	<b>(36,795,239)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Operating grants received	33,047,819	40,008,502
Other noncapital financing	1,138,564	101,848
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>34,186,383</b>	<b>40,110,350</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital grants received	7,576,764	6,123,808
Payment of long-term debt	(1,585,000)	(1,560,000)
Payments on the acquisition of capital assets	(5,795,194)	(4,206,329)
Proceeds from sale of property and equipment	40,150	50,434
Interest payments	(465,225)	(496,675)
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b>(228,505)</b>	<b>(88,762)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	391,255	194,773
<b>Net Increase in Cash, Cash Equivalents and Investments</b>	<b>338,217</b>	<b>3,421,122</b>
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS:</b>		
Beginning balance	13,058,281	9,637,159
Ending balance	<b>\$ 13,396,498</b>	<b>\$ 13,058,281</b>
<b>FINANCIAL STATEMENT PRESENTATION:</b>		
Cash, cash equivalents and investments	\$ 11,464,978	\$ 11,127,235
Restricted cash and investments held by fiscal agent	1,931,520	1,931,046
<b>Total Cash, Cash Equivalents and Investments</b>	<b>\$ 13,396,498</b>	<b>\$ 13,058,281</b>

See accompanying notes to the basic financial statements.

**RIVERSIDE TRANSIT AGENCY  
STATEMENT OF CASH FLOWS (Continued)  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (41,074,212)	\$ (38,989,695)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	6,730,744	6,428,895
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	99,108	(71,974)
Decrease in inventories	(52,506)	496
(Increase) decrease in prepaid expenses	(934,093)	54,490
	5,843,253	6,411,907
Increase (decrease) in accounts payable and accrued expenses	1,895,782	(1,082,099)
Increase (decrease) in accrued payroll and related taxes	9,386	(162,982)
Increase in compensated absences	127,703	23,819
Increase (decrease) in claims payable	1,632	(218,077)
Increase (decrease) in deferred revenue applicable to operations	(814,460)	(2,778,112)
	1,220,043	(4,217,451)
<b>Net Cash Used by Operating Activities</b>	<b>\$ (34,010,916)</b>	<b>\$ (36,795,239)</b>

See accompanying notes to the basic financial statements.

**RIVERSIDE TRANSIT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Riverside Transit Agency (RTA) are in conformity with accounting principles generally accepted in the United States of America applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The following is a summary of the significant accounting policies:

**A. *Financial Reporting Entity***

The RTA was established in March 1977 as a Joint Powers Agency (JPA) under authority of Title I, Division 7, Chapter 5, as amended by the Government Code of the State of California. By joint exercise of their common power, the County of Riverside and the fourteen cities of Western Riverside County created the RTA to serve as a separate public transportation agency. Members of the JPA reserve the right to provide transportation services within their respective jurisdictions, while the RTA serves as a unifying umbrella agency, coordinating transportation services throughout Western Riverside County. The RTA owns, maintains, and operates (directly or through contracts with other operators) the public transit system of Western Riverside County.

The RTA is a special purpose government with no component units and is eligible for funding under Section 99200 et. seq. of the California Public Utilities Code.

**B. *Basic Financial Statements***

The basic financial statements (i.e., Statement of Net Assets, the Statement of Activities and Changes in Net Assets, and the Statement of Cash Flows) report information on all of the enterprise activities of the RTA. These basic financial statements are presented in accordance with Government Accounting Standards Board (GASB) No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments* and related standards; No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and No. 38, *Certain Financial Statement Note Disclosures*. The standards provide for significant changes in terminology; recognition of contributions in the Statement of Activities and Changes in Net Assets; inclusion of a Management's Discussion and Analysis as supplementary information; and other changes.

**C. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The basic financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Activities and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to some limitations. The RTA has elected not to follow subsequent private-sector guidance.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation** (Continued)

The RTA distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing transportation services. The principal operating revenues of the RTA are charges to passengers for transportation services (passenger fares). Operating expenses include the cost of services, general and administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Activities and Changes in Net Assets.

When both restricted and unrestricted resources are available for use, it is the RTA's policy to use restricted resources for the purposes intended, then unrestricted resources as they are needed.

**D. Cash and Cash Equivalents**

The RTA's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**E. Investments**

All investments are stated at fair value, except for money market investments that have a remaining maturity of less than one year when purchased, are stated at amortized cost. Money market investments are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and Agency obligations. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income, including changes in fair value, is included in nonoperating revenues.

**F. Restricted Assets**

Restricted assets represent allocations of cash and certain assets to redeem debt.

**G. Inventories**

Inventory of parts is stated at the lower of cost (moving average) or market.

**H. Capital Assets**

Capital assets are stated at cost, net of accumulated depreciation, except for the portions acquired by contribution, which are recorded at fair value at the time received. The Agency did not receive any donated capital assets during fiscal years 2006 and 2005. The capitalization threshold for any equipment, tires, tubes, and materials of rolling stock is one-half of one percent of the average value of the fleet. For the fiscal years 2006 and 2005, this value was determined to be \$1,102 and \$1,180, respectively. All other items costing \$400 or more and having an estimated life of more than one year have also been capitalized. The Federal Transit Administration (FTA) excludes the bus tire lease from this requirement as it is depreciated over a twelve-month period. Depreciation is based on the estimated useful lives of the assets, which range from 1 to 30 years, using the straight-line method.

The cost of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized.

The estimated useful lives of capital assets are as follows:

Buildings and improvements	25 – 30 years
Transit coaches (30' to 40' vehicles)	10 – 12 years
Transit coaches (less than 30' vehicles)	7 years
Paratransit vans and support vehicles	4 years
Furniture and equipment	3 – 5 years
Bus tires	1 year

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### ***I. Bond Premiums, Discount, and Issuance Costs***

Premiums, discounts and costs of issuance on debt issues are amortized to interest expense over the respective lives of the debt using the straight-line method.

### ***J. Claims and Judgments***

An estimated loss has been recorded, net of insurance coverage, and inclusive of an estimate for incurred but unreported claims, when it is probable that a claim liability has been incurred and the amount of the loss can be reasonably estimated.

### ***K. Compensated Absences***

Administrative full-time employees annually accrue up to 240 hours of vacation and 40 hours of floating holidays, while administrative part-time employees accrue up to 96 hours of vacation only per year. Vacation and floating holidays must be taken the year in which they are earned and will not be carried over from year to year or paid-out unless approved by the Chief Executive Officer. A full-time employee shall earn 96 hours of sick leave per year but may not accumulate more than 720 hours of sick leave during his or her term of employment. Employees electing such a payment option will be paid on the first paycheck in July and the first paycheck in December.

Union employees annually accrue up to 240 hours of vacation, 64 hours of floating holidays and 96 hours of sick leave. Sick leave pay-outs to represented employees are issued in the same manner as noted above, with the exception that union employees must have 48 hours in bank time, provided they meet the requirements stipulated in Article 37 of the Memorandum of Understanding or they may accrue sick leave time up to a maximum of 1,040 hours.

### ***L. Net Assets***

In the statement of net assets, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

### ***M. Use of Estimates***

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

### ***N. Government Grants***

Grants for operating assistance, the acquisition of equipment or other capital outlay are not formally recognized in the accounts until the grant becomes a valid receivable as a result of the RTA's complying with appropriate grant requirements.

Operating assistance grants are included in nonoperating revenues in the year in which the grant is applicable and the related reimbursable expenditure is incurred.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**N. Government Grants** (Continued)

As required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, capital contributions beginning in fiscal 2001 are reported as nonoperating revenues in the statement of revenues, expenses and changes in retained earnings. Assets acquired with restricted capital grant funds are included in capital assets. Beginning fiscal year 1999, federal operating revenues were replaced by allowing capitalization and subsequent reimbursements of percentage of eligible maintenance operating expenses as defined by the Federal Transit Administration. These proceeds are recorded as nonoperating revenues.

Grants received in excess of allowable expenditures are recorded as deferred revenues.

**O. Budget**

The RTA's fiscal policies establish the framework for the management and control of the RTA's resources to ensure that the RTA remains fiscally sound. The RTA's goals and policies, which are approved by the Board of Directors, determine where and how the RTA resources should be dedicated. For this reason, the RTA's goals, objectives, short and long-range planning and performance analyses are incorporated into the budget development process.

It is the policy of the RTA that the Board of Directors approves an annual budget prior to the beginning of each fiscal year. The budget is developed generally using the accrual basis of accounting. All annual appropriations lapse at the fiscal year-end.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments as of June 30, 2006 and 2005 are classified in the accompanying financial statements as follows:

	2006	2005
Statement of Net Assets:		
Cash and investments	\$ 11,464,978	\$ 11,127,235
Cash and investments held by trustee	1,931,520	1,931,046
Total cash and investments	<u>\$ 13,396,498</u>	<u>\$ 13,058,281</u>

Cash and investments as of June 30, 2006 and 2005 consist of the following:

	2006	2005
Cash on hand	\$ 1,500	\$ 1,500
Deposits with financial institutions	(1,536,522)	947,716
Investments	14,931,520	12,109,065
Total cash and investments	<u>\$ 13,396,498</u>	<u>\$ 13,058,281</u>

**NOTE 2 – CASH AND INVESTMENTS** (Continued)

**Investments Authorized by the California Government Code and the Entity’s Investment Policy**

The table below identifies the **investment types** that are authorized for the Entity by the California Government Code (or the Entity’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Entity’s investment policy, where more restrictive) that address **interest rate risk, credit risk, and concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Entity, rather than the general provisions of the California Government Code or the Entity’s investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of *Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	2 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
California Arbitrage Management (CAMP) Pool	N/A	**	None

\* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

\*\* Funds deposited in this category are limited to the remaining Certificates of Participation (COP) proceeds and interest earned to pay the debt service on the 57 replacement busses purchased in 2001/2002.

**Investments Authorized by Debt Agreements**

Investment of debt proceeds held by trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Entity’s investment policy. The table below identifies the **investment types** that are authorized for investments held by trustee. The table also identifies certain provisions of these debt agreements that address **interest rate risk, credit risk, and concentration of credit risk**.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
Investment Contracts	30 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker’s Acceptances	30 days	40%	30%
Commercial Paper	270 days	25%	10%
Unsecured Certificates of Deposit	30 days	30%	None
Repurchase Agreements	1 year	None	None
Medium-Term Notes	5 years	30%	None
Money Market Funds	N/A	20%	10%

**NOTE 2 – CASH AND INVESTMENTS** (Continued)

**Disclosures Relating to 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. One of the ways that the Entity manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Entity’s investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Entity’s investments by maturity:

Investment Type	Remaining Maturity (in Months)			
	12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
State Investment Pool	\$ 13,000,000	\$ 13,000,000	\$ -	\$ -
Held by trustee:				
Money market funds	39,520	39,520	-	-
Investment contracts	1,892,000	-	-	1,892,000
<b>Total</b>	<b>\$ 14,931,520</b>	<b>\$ 13,039,520</b>	<b>\$ -</b>	<b>\$ 1,892,000</b>

**Disclosures Relating to Credit Risk**

Generally, 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 minimum rating required by (where applicable) the California Government Code, the Entity’s investment policy, or debt agreements, and the actual rating as of year end for each investment type. The column marked “exempt from disclosure” identifies those investment types for which GASB No. 40 does not require disclosure as to credit risk:

Investment Type		Minimum Legal Rating	Rating as of Year End	
			Aa	Not Rated
State Investment Pool	\$ 13,000,000	N/A	\$ -	\$ 13,000,000
Held by trustee:				
Money market funds	39,520	A	39,520	-
Investment contracts	1,892,000	N/A	-	1,892,000
<b>Total</b>	<b>\$ 14,931,520</b>		<b>\$ 39,520</b>	<b>\$ 14,892,000</b>

**NOTE 2 – CASH AND INVESTMENTS** (Continued)

**Concentration of Credit Risk**

The investment policy of the Entity contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of **total Entity investments** are as follows.

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FHLMC	Federal agency securities	\$1,892,000

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Entity's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investment, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure RTA deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**Investment in State Investment Pool**

The Entity is a voluntary 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 fair value of the Entity's investment in this pool is reported in the accompanying financial statements at amounts based upon the Entity's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

### **NOTE 3 – DUE FROM OTHER GOVERNMENTAL AGENCIES**

Amounts due from other governmental agencies consisted of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Federal (FTA):		
Operating	\$ -	\$ 203,498
Capital	264,672	879,112
State (STA):		
Capital	237,440	41,120
Local (LTF):		
Operating	2,028,699	-
Capital	-	125,063
Other		
Capital		
SCAG	619,769	-
MSRC/SCAQMD	14,011	-
Other government	-	18,892
Operating		
DOT - Cal Trans	189,419	-
Metrolink	19,793	1,592
OCTA - Orange County Transportation Authority	40,206	12,486
SCAG	6,120	4,576
Superior Court of California	25,436	-
RCTC - Riverside County Transportation Commission	-	28,171
Department of Energy	-	608
Total	<u>\$ 3,445,565</u>	<u>\$ 1,315,118</u>

#### **Federal**

Under provisions of the Federal Transportation Administration (FTA), funds are available to the RTA for maintenance costs; transportation planning; and the acquisition, construction, improvement and maintenance of transit facilities, transit vehicles and equipment.

#### **State**

Under provisions of a 1979 amendment to the Transportation Development Act of 1971 (TDA), State of California's appropriations through the State Transit Assistance Fund are available for capital projects of a public transportation system. To qualify for operating funds, a transit operator must meet one of the efficiency standards under TDA Section 00314.6.

#### **Local**

The State of California Local Transportation Fund (LTF) monies under the TDA, as amended, are available for transit operations and development. The Riverside County Transportation Commission (RCTC) administers these funds on behalf of the County of Riverside. Funds are apportioned to eligible transit operators based on the percentage of the County's population that lies within each operator's service area.

**NOTE 4 – INVENTORIES**

Inventories consisted of the following as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Parts	\$ 833,642	\$ 784,390
Fuel	18,503	12,030
Oil	19,306	22,525
Total	<u>\$ 871,451</u>	<u>\$ 818,945</u>

**NOTE 5 – CAPITAL ASSETS**

Capital assets of the RTA for the years ended June 30, 2006 and 2005 consisted of the following:

June 30, 2006

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2006</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 2,546,389	\$ -	\$ -	\$ 2,546,389
Construction in progress	2,001,308	2,627,935	(2,425,498)	2,203,745
Total Capital Assets, Not Being Depreciated	<u>4,547,697</u>	<u>2,627,935</u>	<u>(2,425,498)</u>	<u>4,750,134</u>
Capital Assets, Being Depreciated:				
Buildings	11,521,854	1,134,612	(1,380)	12,655,086
Vehicles:				
Bus	46,602,804	-	(586,077)	46,016,727
Van and minibuses	5,438,801	1,747,419	(319,838)	6,866,382
Support vehicles	1,006,856	299,667	(75,604)	1,230,919
Equipment:				
Bus accessories and electronics	2,529,797	212,468	(194,258)	2,548,007
Bus stop amenities	2,104,821	15,330	-	2,120,151
Communication equipment	398,789	-	-	398,789
Computers	3,333,134	778,237	-	4,111,371
Furniture and office equipment	895,841	102,848	(60,433)	938,256
Capitalized parts/assembly	313,051	279,848	-	592,899
Support services equipment	2,353,772	1,022,328	-	3,376,100
Total Capital Assets, Being Depreciated	<u>76,499,520</u>	<u>5,592,757</u>	<u>(1,237,590)</u>	<u>80,854,687</u>
Less Accumulated Depreciation	<u>(35,443,735)</u>	<u>(6,700,566)</u>	<u>1,198,941</u>	<u>(40,945,360)</u>
Total Capital Assets, Being Depreciated, Net	<u>41,055,785</u>	<u>(1,107,809)</u>	<u>(38,649)</u>	<u>39,909,327</u>
Total Capital Assets, Net	<u>\$ 45,603,482</u>	<u>\$ 1,520,126</u>	<u>\$ (2,464,147)</u>	<u>\$ 44,659,461</u>

Depreciation expense for the year ended June 30, 2006 was \$6,700,566.

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

June 30, 2005

	Balance July 1, 2004	Additions	Retirements	Reclassifications/ Adjustments	June 30, 2005
<b>Capital Assets, Not Being Depreciated:</b>					
Land	\$ 2,546,389	\$ -	\$ -	\$ -	\$ 2,546,389
Construction in progress	376,252	1,685,723	(60,667)	-	2,001,308
<b>Total Capital Assets, Not Being Depreciated</b>	<b>2,922,641</b>	<b>1,685,723</b>	<b>(60,667)</b>	<b>-</b>	<b>4,547,697</b>
<b>Capital Assets, Being Depreciated:</b>					
Buildings	10,895,299	82,533	-	544,022	11,521,854
<b>Vehicles:</b>					
Bus	52,255,426	1,036,414	(6,689,036)	-	46,602,804
Van and minibuses	4,843,486	693,720	(98,405)	-	5,438,801
Support vehicles	1,050,596	-	(43,740)	-	1,006,856
<b>Equipment:</b>					
Bus accessories and electronics	2,436,238	194,259	(148,484)	47,784	2,529,797
Bus stop amenities	2,561,761	87,082	-	(544,022)	2,104,821
Communication equipment	388,999	9,790	-	-	398,789
Computers	3,228,511	105,009	(386)	-	3,333,134
Furniture and office equipment	864,526	93,649	(62,334)	-	895,841
Capitalized parts/assembly	88,576	231,780	(7,305)	-	313,051
Support services equipment	2,369,381	32,175	-	(47,784)	2,353,772
<b>Total Capital Assets, Being Depreciated</b>	<b>80,982,799</b>	<b>2,566,411</b>	<b>(7,049,690)</b>	<b>-</b>	<b>76,499,520</b>
<b>Less Accumulated Depreciation</b>	<b>(35,462,455)</b>	<b>(6,385,533)</b>	<b>6,404,253</b>	<b>-</b>	<b>(35,443,735)</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>45,520,344</b>	<b>(3,819,122)</b>	<b>(645,437)</b>	<b>-</b>	<b>41,055,785</b>
<b>Total Capital Assets, Net</b>	<b>\$ 48,442,985</b>	<b>\$(2,133,399)</b>	<b>\$ (706,104)</b>	<b>\$ -</b>	<b>\$ 45,603,482</b>

Depreciation expense for the year ended June 30, 2005 was \$6,385,533.

Changes in capital assets by funding source for the years ended June 30, 2006 and 2005 are as follows:

	Federal Funds	State Funds	TDA Funds	Measure A	Financed Assets	Operator and Other	Donated Capital	Total
July 1, 2004	\$41,004,071	\$12,031,923	\$11,676,706	\$1,678,990	\$15,990,885	\$1,224,949	\$297,916	\$83,905,440
Additions	1,935,675	135,876	397,256	-	-	97,604	-	2,566,411
Reclassification	4,104,405	708,065	319,083	(3,755)	(5,040,687)	(50,013)	(37,100)	(2)
Work in progress	615,427	139,107	223,234	-	-	647,290	-	1,625,058
Deletions	(3,517,474)	(60,958)	(3,221,554)	(232,227)	-	(17,477)	-	(7,049,690)
July 1, 2005	44,142,104	12,954,013	9,394,725	1,443,008	10,950,198	1,902,353	260,816	81,047,217
Additions	3,331,569	1,143,468	889,957	-	-	227,764	-	5,592,758
Reclassification	1,640,180	162,756	245,908	-	(2,050,225)	-	-	(1,381)
Work in progress	161,950	40,487	-	-	-	-	-	202,437
Deletions	(521,177)	(53,505)	(31,153)	(44,298)	-	(586,077)	-	(1,236,210)
June 30, 2006	<u>\$48,754,626</u>	<u>\$14,247,219</u>	<u>\$10,499,437</u>	<u>\$1,398,710</u>	<u>\$ 8,899,973</u>	<u>\$1,544,040</u>	<u>\$260,816</u>	<u>\$85,604,821</u>

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

During 1997, the Orange County Transportation Authority contributed three superbuses valued at \$879,116 in lieu of payment of future operating expenses related to jointly operated intercounty transit route. These superbuses are reflected in operator and other property.

**NOTE 6 – LONG-TERM DEBT**

The following is a schedule of changes in long-term debt for the fiscal year ended June 30, 2006:

Description	Balance			Balance June 30, 2006	Classification	
	July 1, 2005	Additions	Deletions		Current	Long-Term
Certificates of Participation	\$15,625,000	\$ -	\$1,585,000	\$ 14,040,000	\$1,610,000	\$ 12,430,000
Total	<u>\$15,625,000</u>	<u>\$ -</u>	<u>\$1,585,000</u>	<u>\$ 14,040,000</u>	<u>\$1,610,000</u>	<u>\$ 12,430,000</u>

The following is a schedule of changes in long-term debt for the fiscal year ended June 30, 2005:

Description	Balance			Balance June 30, 2005	Classification	
	July 1, 2004	Additions	Deletions		Current	Long-Term
Certificates of Participation	\$17,185,000	\$ -	\$1,560,000	\$ 15,625,000	\$1,585,000	\$ 14,040,000
Total	<u>\$17,185,000</u>	<u>\$ -</u>	<u>\$1,560,000</u>	<u>\$ 15,625,000</u>	<u>\$1,585,000</u>	<u>\$ 14,040,000</u>

**Refunding Certificates of Participation**

In February 2003, the RTA executed an agreement with the CTFC in order to provide funds for the defeasance and redemption of a portion of the outstanding principal amount of the California Transit Variable Rate Demand Bonds, Series 1997 (California Transit Variable Rate Finance Program) ("Prior Bonds") and to pay certain costs associated with the sale and delivery of the Refunding Certificates. In February 2003, CTFC disbursed \$18,920,000 to the RTA under a capital lease agreement to provide refunding of a prior bond issuance to the RTA for its purchase of 57 forty-foot transit buses and related equipment. The RTA's sole liability under the lease agreement is to the CTFC and is not obligated to the owners of the demand bonds in the event of default by the CTFC. Under the terms of the capital lease agreement, the RTA's lease payments have been pledged by the CTFC for the repayment of the demand bonds. Federal, state and local capital funds, in addition to revenues received from the operation of the RTA, have been pledged as support for the RTA's net lease payments to the CTFC.

**NOTE 6 – LONG-TERM DEBT** (Continued)

The lease agreement requires annual principal and interest payments beginning October 2003 through October 2013. The RTA's minimum principal and approximate interest payments under the Program for each of the next five fiscal years and thereafter are summarized as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 1,610,000	\$ 433,275	\$ 2,043,275
2008	1,635,000	398,781	2,033,781
2009	1,675,000	357,356	2,032,356
2010	1,715,000	308,600	2,023,600
2011	1,755,000	252,163	2,007,163
2012-2014	5,650,000	341,925	5,991,925
Total	14,040,000	<u>\$ 2,092,100</u>	<u>\$ 16,132,100</u>
Less: current portion	<u>(1,610,000)</u>		
Long-term debt	<u>\$ 12,430,000</u>		

**NOTE 7 – DEFERRED REVENUES**

Deferred revenues represent excess operating and excess capital assistance. Changes in deferred revenues for the year ended June 30, 2006 for operating assistance are as follows:

	FTA	TDA / LTF	Total
Operating Assistance:			
Excess operating funds at July 1, 2004	\$ -	\$ 4,300,000	\$ 4,300,000
Allocations received	-	24,247,944	24,247,944
Funds available	-	28,547,944	28,547,944
Less: eligible costs	-	(27,026,056)	(27,026,056)
Excess operating funds at July 1, 2005	-	1,521,888	1,521,888
Allocations received	7,178,804	26,979,814	34,158,618
Funds available	7,178,804	28,501,702	35,680,506
Less: eligible costs	(7,178,804)	(27,794,274)	(34,973,078)
Excess Operating Funds at June 30, 2006	<u>\$ -</u>	<u>\$ 707,428</u>	<u>\$ 707,428</u>

**NOTE 7 – DEFERRED REVENUES** (Continued)

Changes in deferred revenues for the years ended June 30, 2006 and 2005 for capital assistance are as follows:

	<u>Total</u>
Capital Assistance:	
Excess capital funds at July 1, 2004	\$ 2,490,562
Allocations received	<u>6,746,663</u>
Total available	9,237,225
Less: capital purchases	(2,372,151)
Less: other	<u>(4,234,661)</u>
Excess capital funds at July 1, 2005	2,630,412
Allocations received	<u>8,393,515</u>
Total available	11,023,927
Less: capital purchases	(5,380,291)
Less: other	<u>(3,466,588)</u>
Excess Capital Funds at June 30, 2006	<u>\$ 2,177,048</u>

**NOTE 8 – LIABILITY INSURANCE**

The RTA is a participant in the California Transit Insurance Pool (CalTIP) formed under a joint power agreement for the purpose of providing general and auto liability insurance for the member agencies. The RTA's self-insured retention is \$25,000 per claim and total coverage limit is \$20,000,000.

The RTA is self-insured for workers' compensation claims. Liabilities under this program are accrued and charged to expense when the claims are reasonably determinable and when the existence of the RTA's liability is probable. Liabilities include an amount for claims that have been incurred but not reported. For the year ended June 30, 2006, the RTA's self-insured retention is \$500,000, per accident/per employee and total coverage is at the state statutory level.









