Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
6	1/10/11	Open	Action	1/03/11

Subject: Review the FY2010 Comprehensive Annual Financial Report (CAFR), Reports Compliance Control and the Management Letter

ISSUE

Whether to Receive and File the Comprehensive Annual Financial Report (CAFR), Reports on Compliance and Internal Controls as required by OMB Circular A-133 and the Transportation Development Act, and the Management Letter for the Fiscal Year ended June 30, 2010.

RECOMMENDED ACTION

Motion: Receive and File the FY2010 Comprehensive Annual Financial Report (CAFR), Reports on Compliance Control as Required by OMB A-133 and the Transportation Development Act, and Management Letter for Fiscal Year 2010.

FISCAL IMPACT

None

DISCUSSION

Each fiscal year, the District prepares a Comprehensive Annual Financial Report (CAFR), and Reports on Compliance and Internal Control as required by OMB Circular A-133 and the Transportation Development Act. In addition, annually the District receives a Report to the Board of Directors which summarizes the yearly audit process and discusses any opportunities for strengthening internal controls and operating efficiencies as well an update on prior year management letter recommendations.

For the Year ended June 30, 2010, the District received an unqualified (clean) opinion on the CAFR and OMB Circular A-133 reports from its auditors, Gilbert Associates, Inc. Moreover, no material weaknesses involving the District's financial reporting or internal control processes were identified, however two significant deficiencies were identified. The first finding related to the payroll data entry process for the bus and rail payroll employees. During testing, the auditors found two cases in which employees were overpaid in total by 1 hour and 24 minutes. The second finding relates to the procurement process and the compliance regulations surrounding verification of a contractor's status. Management has reviewed its internal controls and determined that additional steps can be taken to improve the controls related to both areas (see Attachment 5 for further information regarding the condition and response).

Financial Results Summary:

The CAFR presentation and classifications are intended to provide a picture of the District's year-end financial position as well as the results of operations. Overall, and as reflected in the Financial Section of the CAFR (see Attachment 1 – Statement of Revenue and Expenses), the District realized an operating loss of ($5.0) million as of June 30, 2010. This figure includes ($4.3) million from operations and ($700) thousand in contributions received in support of the District's

Approved: Presented:

FINAL 1/3/10

General Manager/CEO Director, Finance and Treasury

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
6	1/10/11	Open	Action	1/03/11

Subject:	Review the FY2010 Comprehensive Annual Financial Report (CAFR), Reports Compliance Control and the Management Letter

Capital Program. For additional analysis, refer to the Management Discussion and Analysis (MD&A) section found within the CAFR document.

Summary

The CAFR presentation differs from the District's operating and capital budgets in that the CAFR combines both operating and capital activities. As such, Attachment 1 is provided to show the District's operating and capital funds separately. As of June 30, 2010, the District's operating results were as follows: $30.9 million in fare revenues, $166.2 million in Operating Expenses, $96.1 million in Non-Operating Revenues (Expenses).

Budget to Actual Summary (Attachment 2)

Budget to actual highlights include net favorable (unfavorable) variances in: operating revenues of ($9.3) million, operating expenses of $9.2 million, and non-operating revenues (expenses) of ($500) thousand.

Operating Revenues

The District's FY 2010 total operating revenue and contracted services revenues totaled $35.4 million. The net unfavorable operating revenues variance of ($9.3) million was primarily due to a shortfall in expected fare revenue which may be attributed to changes in customer buying patterns resulting from State furloughs, less than projected ridership, and a rise in unemployment in the State and Sacramento Region.

Operating Expenses

Operating expenses totaled $131.5 million, a favorable variance of $9.2 million from the adopted budget of $140.8 million. The net favorable operating expense variance can mainly be attributed to savings from the successful resolution of public liability, property damage, and workers' compensation claims at a lower rate than originally anticipated, other cost containment efforts, offset by an unfavorable labor variance as a result of 2 of the 5 bargaining groups not approving labor agreements which included labor cost savings measures.

Non-Operating Revenues (Expenses)

The net unfavorable non-operating revenue (expense) variance of ($500) thousand can be attributed to a reduction in the anticipated revenues related to the CNG rebate and Federal 5307 funds offset by an increase in STA revenues.

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
6	1/10/11	Open	Action	1/03/11

Subject:	Review the FY2010 Comprehensive Annual Financial Report (CAFR), Reports Compliance Control and the Management Letter

Operating Results

The District concluded the year with an operating loss of $4.3 million. This loss does not take into account the prior years operating carryover reserve of $5.8 million. After accounting for the one time carry over reserve, the District ended the year with a $1.5 million positive result, which will be included as a positive carryover balance in the upcoming budget reconciliation of FY 2011. Although the year ended positive, after accounting for the one time carry over reserve, the District originally forecasted closing the year with a $12.1 Million dollar loss. This projected loss was based on the assumption that the STA lawsuit settlement revenues would not be recognized until FY 2011 and that there would not be significant savings from the actuarially determined self insurance liability calculations. Since RT was able to recognize approximately $5 million in STA funds during FY 2010 and experienced a (one-time) self insurance expense reduction of $8 million, the District was able to balance the year with more positive results.

The following documents (Attachments 1-5) are submitted to the Board for receipt and filing:

- Fiscal Year 2010 Revenue and Expense per Funding Designations – Attachment 1
- Fiscal Year 2010 Statement of Revenue and Expenses – Attachment 2
- The Comprehensive Annual Financial Report (CAFR) – Attachment 3
- OMB Circular A-133 and Transportation Development Act (TDA) – Attachment 4
- Report to the Board of Directors – Attachment 5

ATTACHMENT 1

Fiscal year 2010
Statement of Revenues and Expenses
Per Funding Designation

Statement of Revenues and Expenses	FY 2010 Funding Designation: Operations	Capital Improvement Program	Total
OPERATING REVENUES (Fares)	**$ 30,863,701**	**$ -**	**$ 30,863,701**
OPERATING EXPENSES			
Labor and Fringe Benefits	91,203,130		91,203,130
Professional and Other Services	22,915,248	1,881,949	24,797,197
Spare Parts and Supplies	9,127,637	1,916,155	11,043,792
Utilities	5,530,888		5,530,888
Casualty and Liability Costs	2,286,204		2,286,204
Depreciation and Amortization		30,870,183	30,870,183
Indirect Costs Allocated to Capital Programs	(862,964)		(862,964)
Other	1,351,985	50,000	1,401,985
Total Operating Expenses	**131,552,128**	**34,718,287**	**166,270,415**
Loss from Operations	**(100,688,427)**	**(34,718,287)**	**(135,406,714)**
NON-OPERATING REVENUES (EXPENSES)			
Operating Assistance			
State and Local	58,134,639		58,134,639
Federal	30,913,817	3,637,886	34,551,703
Investment Income	6,430,453	8,052	6,438,505
Interest Expense	(6,422,262)	(369,799)	(6,792,061)
Pass Through to Subrecipients	-	(3,637,885)	(3,637,885)
Contract Services	4,598,650		4,598,650
Other	2,705,571	52,641	2,758,212
Total Non-operating Revenues (Expense)	**96,360,868**	**(309,105)**	**96,051,763**
Income (Loss) Before Capital Contributions	**(4,327,559)**	**(35,027,392)**	**(39,354,951)**
Capital Contributions			
State and Local		29,380,939	29,380,939
Federal		4,955,453	4,955,453
Net Loss	**$ (4,327,559)**	**$ (691,000)**	**$ (5,018,559)**
Summary			
Operating Revenue	$ 30,863,701		$ 30,863,701
Non Operating Revenue	96,360,868	$ 34,027,287	130,388,155
Total Revenue	127,224,569	34,027,287	161,251,856
Operating Expense	131,552,128	34,718,287	166,270,415
Net Loss	(4,327,559)	$ (691,000)	$ (5,018,559)
Carryover Prior Fiscal Years	5,883,428		
Remaining Carryover	$ 1,555,869		

Fiscal Year 2010
Statement of Revenues and Expenses
Operating Budget to Actual Expenses

Statement of Revenues and Expenses	FY 2010 Budget to Actual Expenses Approved Budget	Adjusted Operating Results	Variance (Unfavorable)/ Favorable	Percent Variance
OPERATING REVENUES				
Fares	**$ 41,000,448**	**$ 30,863,701**	**$ (10,136,747)**	**-24.7%**
Contracted Services	**3,772,544**	**4,598,650**	**826,106**	**21.9%**
Subtotal	**44,772,992**	**35,462,351**	**(9,310,641)**	**-20.8%**
OPERATING EXPENSES				
Labor and Fringe Benefits	89,865,860	91,203,130	(1,337,270)	-1.5%
Professional and Other Services	23,393,867	22,915,248	478,619	2.0%
Spare Parts and Supplies	9,161,625	9,127,637	33,988	0.4%
Utilities	5,574,200	5,530,888	43,312	0.8%
Casualty and Liability Costs	10,363,118	2,286,204	8,076,914	77.9%
Depreciation and Amortization	-	-	-	
Indirect Costs Allocated to Capital Programs	-	(862,964)	862,964	N/A
Other	2,440,430	1,351,985	1,088,445	44.6%
Total Operating Expenses	**140,799,100**	**131,552,128**	**9,246,972**	**6.6%**
(Loss) Income from Operations	**(96,026,108)**	**(96,089,777)**	**(63,669)**	**0.1%**
NON-OPERATING REVENUES (EXPENSES)				
Operating Assistance				
State and Local	56,393,978	58,134,639	1,740,661	3.1%
Federal	31,715,575	30,913,817	(801,758)	-2.5%
Investment Income/Expense	550,000	8,191	(541,809)	-98.5%
Advertising	1,314,000	995,552	(318,448)	-24.2%
Commercial Income/Other	2,281,792	1,710,019	(571,773)	-25.1%
Total Non-operating Revenues (Exp)	**92,255,345**	**91,762,218**	**(493,127)**	**-0.5%**
BUDGETED FY10 Carryover	**3,770,763**	**-**	**3,770,763**	
Net Loss	**$ -**	**$ (4,327,559)**		

Summary

Operating Revenue	$ 44,772,992	$ 35,462,351
Non Operating Revenue	92,255,345	91,762,218
Total Operating and Non Operating Revenues	137,028,337	127,224,569
Budgeted FY10 Carryover	3,770,763	-
Total Funds Available for FY10	140,799,100	127,224,569
Operating Expense	140,799,100	131,552,128
FY 10 Net Loss	$ -	$ (4,327,559)

Attachment 3

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Sacramento Regional Transit District for the Fiscal Years Ended
June 30, 2010 and 2009

TABLE OF CONTENTS

December 20, 2010

To the Board of Directors and Citizens Served by Sacramento Regional Transit District:

Sacramento Regional Transit District ("the District") is required to undergo an annual audit in conformity with the provisions of the Single Audit Act and U.S. Office of Management and Budget Circular A-133 as it pertains to audits of state and local governments. State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards* issued by the Comptroller of the United States. Pursuant to that requirement, the District hereby issues the Comprehensive Annual Financial Report (CAFR) of the District for the fiscal years ended June 30, 2010 and 2009.

This report consists of management's representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the District annually commissions an independent audit of its account records, consistent with the Sacramento Regional Transit District Board of Directors' (Board) fiduciary duty to preserve and protect District assets and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The District's financial statements have been audited by Gilbert Associates, Inc., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the District's financial statements for the fiscal years ended June 30, 2010 and 2009, are free of material misstatement. The independent audit involved 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; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there are no material weaknesses to report and that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal years ended June 30, 2010 and 2009, are fairly presented in conformity with GAAP.

The independent audit of the financial statements of the District was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements but also on internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the District's separately-issued Single Audit Reports.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the independent auditor's report of Gilbert Associates, Inc.

Profile of the District

The District began operation on April 1, 1973, with the acquisition of the Sacramento Transit Authority. The District is the largest public transportation provider in the Sacramento Valley, serving a metropolitan population of over 1.4 million with a service area of 418 square miles. In 1971, California legislation allocated sales tax money for local and statewide transit service and created the organizational framework for the District pursuant to the Sacramento Regional Transit District Act.

An eleven-member Board is responsible for governing the District. The Board is comprised of four members of the Sacramento City Council, three members of the Sacramento County Board of Supervisors, one member of the Rancho Cordova City Council, one member of the Citrus Heights City Council, one member of the Folsom City Council and one member of the Elk Grove City Council. The Board of Directors is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the District's General Manager/Chief Executive Officer (GM/CEO) and Chief Legal Counsel. The District's GM/CEO is responsible for carrying out the policies and ordinances of the Board for overseeing the day-to-day operations of the District, and for appointing the heads of the various divisions.

The District provides bus and light rail service 365 days a year. Annual ridership has steadily increased on both the bus and light rail system; from 14 million passengers in 1987, when light rail operations began, to 33 million passengers in fiscal year ended June 30, 2010. The District's entire bus and light rail system is accessible to the disabled community. Additionally, through a contract with Paratransit Inc., the District provides origin-to-destination transportation service for Sacramento area residents unable to use fixed-route service. This special service has increased 100 percent from its 1993 inception.

The annual budget serves as the foundation for the District's financial planning and control. The budget is a financial plan for one fiscal year of operating and capital investments. The plan matches revenues with the service expenses and project cost expenses based on policies set by the District's Board. The budget process follows three basic steps that help provide continuity in decision making: 1) assess current conditions and needs and develop goals, objectives, policies and plans; 2) prioritize projects and develop a work program, and 3) implement those plans and policies and prepare to evaluate their effectiveness and shortcomings. All division executive heads of the District are required to submit requests for appropriation to the GM/CEO by the last business day of January each year. The District's GM/CEO uses these requests as the starting point for developing a proposed budget. The

District's GM/CEO then presents this proposed budget to the Board for a sixty-day public review period beginning in April. Following the review period, the District is required to hold public hearings on the proposed budget and to adopt a final budget no later than June 30, the close of the District's fiscal year. The budget is prepared by fund (operating or capital) and department (e.g., safety) or by capital project. Division heads may make transfers of appropriations within a department or between departments within a division. Transfers of appropriations between divisions, however require the special approval of the GM/CEO. Any changes to total appropriations occurring after Board adoption of the budget for a fiscal year requires the approval of the Board.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates.

Local Economy The District operates within the greater Sacramento area. The region, which includes six counties (El Dorado, Placer, Sacramento, Sutter, Yolo and Yuba), has varied state governmental services and a light industrial base. The annual unemployment rate for the Sacramento area in 2010 was 12.7 percent, up from 11.1 percent in 2009. The Sacramento area's annual unemployment rate is forecast to remain at in the 12 to 13 percent range before improving in 2011. The unemployment rate is expected to remain above 10 percent until the end of 2013.

A significant portion of the District's operating assistance is derived from sales tax revenues. Taxable sales from all outlets in the Sacramento area have declined annually from their 2006 peak. Taxable sales fell 18% in the Sacramento Region in 2010 compared to 2009. It is estimated that taxable sales in 2011 will be flat as compared to 2010 levels.

Residential construction, as measured by building permits, has declined steadily since 2005. New home construction, often considered the base for economic recovery, is expected to increase in 2011, but will remain at its second lowest level in fifty years. Over the next two years, multi family starts are projected to bounce back to near pre-recession levels while single family construction lags as long as existing home prices remain below construction costs.

The Sacramento area's economy is expected to struggle over the next two years as new-home construction remains sluggish and the loss of state and local government jobs will continue to put pressure on the unemployment rate.

TransitAction Plan The TransitAction Plan is the District's vision for the next 25 years. Since the District's last Transit Master Plan was produced in 1993, the Sacramento region has seen significant population growth with an expanding low density land use form. With population and employment locations becoming even more dispersed, it has become even more difficult for the District to provide affordable, effective transit service.

In response to continued sprawl and large forecast increases in population, employment and households as well as an aging population in the Sacramento region over the next 30-50 years, the Sacramento Area Council of Governments (SACOG) has produced a land use *Blueprint* for the future of the region. The Blueprint is based on "smart growth" principles with a focus on high quality, higher density, mixed use neighborhoods, which are designed with a greater emphasis on walking, cycling and transit use. These livable communities will be designed with "complete streets" so that there is less reliance on the private car providing for a more sustainable future.

The 2008 spike in gas prices and the 2009 recession have highlighted that economic conditions have a considerable impact on where people live and work and how they travel as evidenced by record levels of transit ridership recorded last year. Gas prices are likely to increase in the long term and congestion is expected to only get worse with population growth. The District already provides a vital service to the region but there is now a need for a comprehensive incremental change in the quality, coverage and frequency of transit, making it a real transportation choice that is clean, convenient, reliable, efficient and affordable.

Over the past twenty years, the District has continued to invest in transit infrastructure and services. The Light Rail system, opened in 1987, has continued to expand and bus services have been modernized with a fleet of natural gas-powered vehicles. Despite these improvements, Transit services continue to capture only a small part of the travel market in the region. High car ownership levels and cheap gas have contributed to the "transit challenge."

The TransitAction Plan includes the following transit network and supporting services:

- Major investments in capital projects (transit network expansion and improvements to stations/stops access)
- New multi-functional transfer centers that will provide easy and convenient interchange between modes and services
- Major investments in operations to provide a comprehensive network with high-frequency services and longer operating hours
- Expanded fleet size
- Improvements to information, ticketing, stops and stations, wayfinding, as well as further funding for safety and security

Balanced Funding Concepts While the District has extensive plans for future expansion and improvement of light rail and bus services, it faces significant capital replacement and infrastructure maintenance needs for its existing bus and light rail systems. As a result, it is increasingly important to ensure the availability of financial resources to maintain existing levels of service and to fund capital and operating expenditures related to proposed expansion and service improvements. The 25-year vision balances high-priority needs with potential funding. There are three major sources of funding:

- Locally controlled federal and state funding sources (funding given to local governments and agencies to spend on their priority projects)
- Federal discretionary funding sources (designated by the federal government for a specific project)
- Locally raised money (from county sales tax, downtown parking revenues, airport passenger charges and development fees)

Recent economic activity has had a negative impact on the national, state and local economies, affecting funding for transportation. Local funding has been affected by a slowdown in housing construction, and a reduction in consumer and governmental spending. Most of the federal and state revenues that the District receives are generated by the federal highway trust fund and the state transportation account, rather than general funds. These sources have been relatively stable in the past; however, the state budget transferred a significant portion of public transportation funding to the general fund and eliminated the State Transit Assistance program. This revenue reduction along with the decrease in sales taxes caused the District to implement the following policies and programs in the fiscal year ended June 30, 2010:

- Reduce bus and light rail service by 21 percent, effective June 20, 2010
- Initiated a strategic three-phase employee layoff plan. The first two phases occurred in April and June 2010 (the approximate number of employee reductions of all three phases will be 200)
- Hiring and salary freeze
- Extended employee furlough policy
- Increase fares for bus and light rail, effective September 2009
- Park-Pay-and-Ride Program
- Other miscellaneous expense reduction efforts

The District has specific and continuing Securities and Exchange Commission (SEC) disclosure requirements (Rule 15c2-12) in connection with the California Transit Finance Corporation Farebox Revenue Certificates of Participation, 2003 Series-C. The required continuing disclosure items and their locations within the CAFR are presented on page 66.

The District maintains a combined retirement plan Pension Trust fund for the District's union employees, which accounts for the retirement fund of the members of ATU and IBEW. In addition, the District maintains the retirement plan Pension Trust fund for the District's salaried employees. Each year, an independent actuary engaged by the respective Retirement Boards calculates the amount of the annual contribution that the District must make to the Trusts to ensure that each retirement plan will be able to fully meet its obligations to retired employees on a timely basis. The District fully funds each year's annual required contribution to the Trusts as determined by the actuary through the budget process.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2009 and 2008. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state or local government financial reports. This was the 10th consecutive year that the District has received this award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of several departments and the tireless efforts of the finance department staff. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report, with special thanks to Brent Bernegger, CPA, Director of Finance/Treasury; Paul Selenis, Accounting Manager; Jeff Cheng, CPA, Accountant II; Nadia Mokhov, Senior Financial Analyst; and LaDonna Lee, Senior Administrative Assistant.

Respectfully Submitted,

Michael R. Wiley
General Manager/CEO

Dee Brookshire
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Sacramento Regional Transit District, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Sacramento Regional Transit District

Board of Directors

Steve Miller, City of Citrus Heights, **Chair**
Don Nottoli, County of Sacramento, **Vice Chair**
Steve Cohn, City of Sacramento
Roger Dickinson, County of Sacramento
Lauren Hammond, City of Sacramento
Pat Hume, City of Elk Grove
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Ray Tretheway, City of Sacramento

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Steven Detrick, City of Elk Grove
Jeff Slowey, City of Citrus Heights
Robert McGarvey, City of Rancho Cordova

General Manager/CEO

Michael R. Wiley

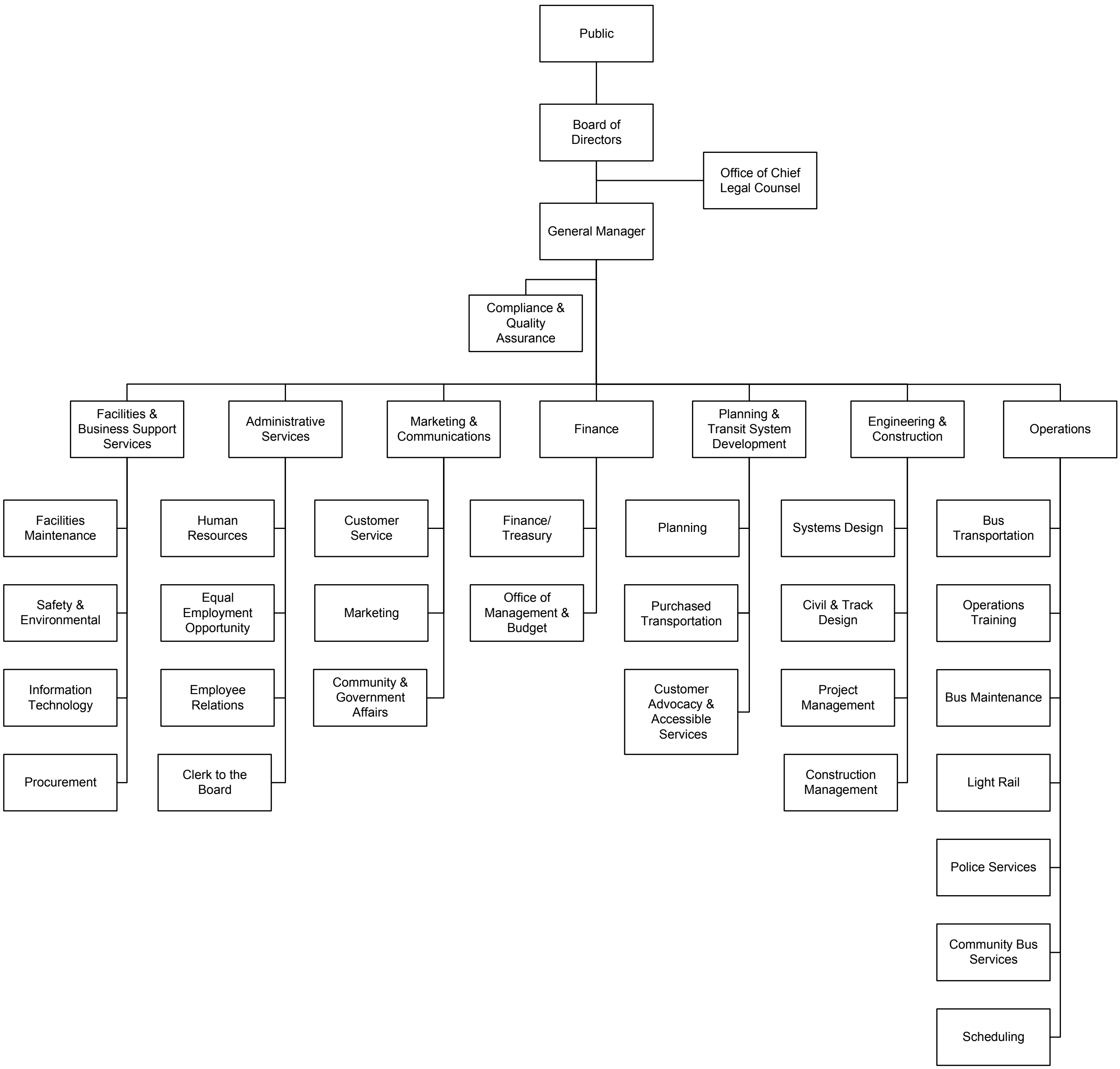
Chief Legal Counsel

Bruce A. Behrens

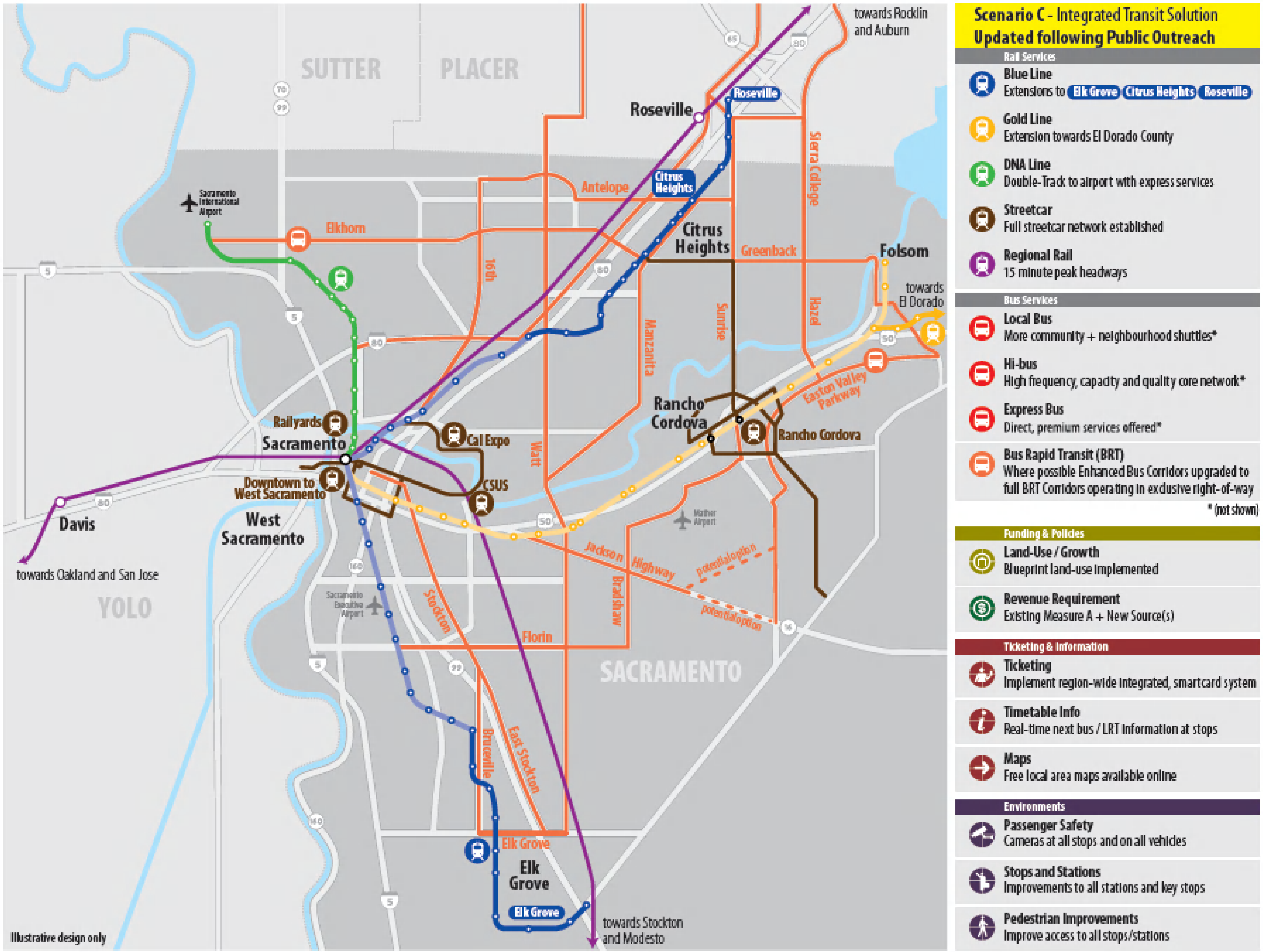
Executive Management Team

Dan M. Bailey, Chief Administrative Officer/EEO Officer
Dee Brookshire, Chief Financial Officer
Rosemary Covington, Assistant General Manager, Planning & Transit Systems
Mark Lonergan, Chief Operating Officer
Alane Masui, Assistant General Manager, Marketing
Michael A. Mattos, Chief of Facilities & Business Support Services
Diane Nakano, Assistant General Manager, Engineering

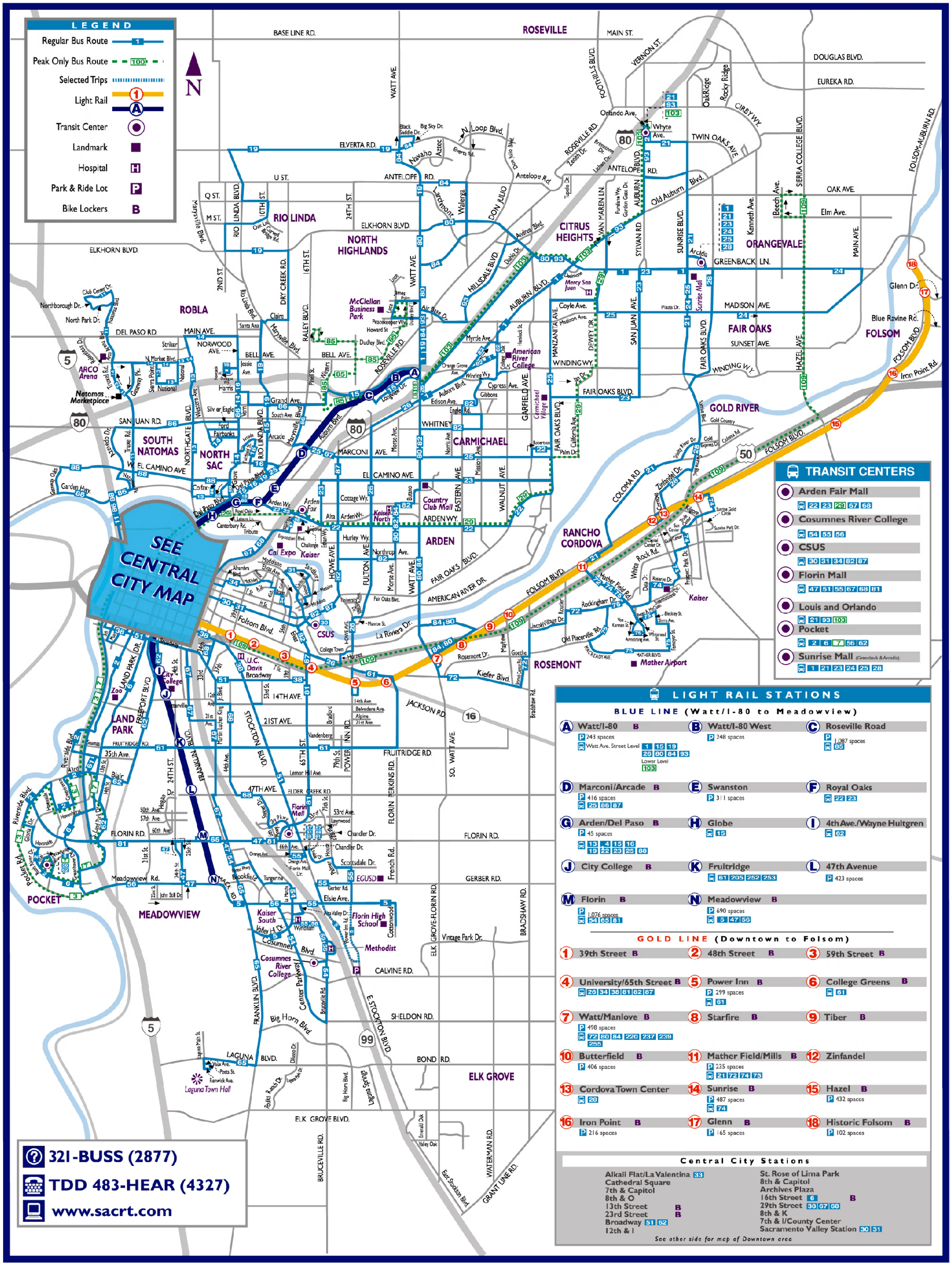
SACRAMENTO REGIONAL TRANSIT DISTRICT
ORGANIZATIONAL CHART
FISCAL YEAR ENDED JUNE 30, 2010



2035 TRANSIT MASTER PLAN EXPANSION MAP



SACRAMENTO REGIONAL TRANSIT SERVICE AREA MAP



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Sacramento Regional Transit District
Sacramento, California

Members of the Board of Directors
Sacramento Area Council of Governments
Sacramento, California

We have audited the accompanying financial statements of the business-type activities and the pension trust funds of the Sacramento Regional Transit District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the District as of June 30, 2009 were audited by other auditors, whose report dated December 2, 2009, expressed an unqualified opinion on those financial statements.

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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the pension trust funds of the Sacramento Regional Transit District, as of June 30, 2010, and the respective changes in financial position and, where applicable, the cash flows thereof for the year 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 December 15, 2010, on our consideration of the District'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 the 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.

The Management's Discussion and Analysis and the Schedules of Funding Progress as listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining fiduciary fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The 2010 combining fiduciary fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC
Sacramento, California

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the Sacramento Regional Transit District (District), we offer the readers of the District's financial statements this narrative overview and analysis of the financial activities for the District for the fiscal years ended June 30, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the transmittal letter and financial statements which are included in this report.

Financial Highlights

- The assets of the District exceeded its liabilities at June 30, 2010 and 2009 by $770,051,975 and $775,070,534 (net assets), respectively. Of this amount, $1,840,943 and $2,580,209, respectively is restricted for capital projects, $770,303,653 and $771,044,618 is invested in capital assets, net of related debt, and $(2,092,621) and $1,445,707 respectively is unrestricted.

- The District's total net assets decreased for the year ended June 30, 2010 by 0.6 percent, or $5,018,559, compared to the year ended June 30, 2009. The District's total net assets increased for the year ended June 30, 2009 by 2.4 percent, or $18,433,393, compared to the fiscal year ended June 30, 2008. The decrease in fiscal year 2010 is a result of an operating loss. The significant increase for fiscal year 2009 was attributed to capital contributions as the District is in the process of expanding its light rail system**.**

- The District's total liabilities decreased by $61,852,752 and $41,215,715 during the fiscal years ended June 30, 2010 and 2009 respectively. The net decrease of $61,852,752 in fiscal year 2010 is due primarily to scheduled principal debt payments, payments on the line of credit, imputed interest accrued on the District's Lease/Leaseback transactions, and favorable actuarial adjustments to the District's self-insurance program. The net decrease of $41,215,715 in fiscal year 2009 was due primarily to scheduled principal debt payments, draws on the line of credit, premium amortization and imputed interest accrued on the District's Lease/Leaseback transactions.

- During the fiscal year ended June 30, 2010, fare revenue decreased by 5.2 percent as a result of a decrease in ridership stemming from cuts to bus service. The fare revenue decrease due to ridership was partially mitigated by a fare increase effective September 2009. Other non-operating revenue declined by 9.8 percent due primarily to the decline in local operating support, specifically Measure A sales tax and Transportation Development Act funds. During the fiscal year ended June 30, 2009, fare revenue increased by 9.1 percent as a result of the District's fare increase effective January 1, 2009, while other non-operating revenue declined by 5.4 percent due primarily to the decline in local operating support including: Measure A sales tax and Transportation Development Act Funds . This decline in local operating support was partially mitigated by the receipt of $8 million in Federal American Recovery and Reinvestment Act stimulus funding.

- Total operating costs decreased by 5.9 percent and 3.1 percent, respectively, for the fiscal years ended June 30, 2010 and 2009. The decrease in operating costs for the fiscal year ending June 30, 2010 can be attributed primarily to declines in the District's Public Liability/Property Damage and Workers' Compensation costs, Compressed Natural Gas (CNG), and services including: Paratransit, security and consulting related to the District's Transit Master Plan. These declines were partially mitigated by a reduction in indirect costs charged to the capital program The decrease in operating costs for the fiscal year ending June 30, 2009 can be attributed to a decline in the District's Public Liability/Property Damage and Workers' Compensation costs as a result of the successful resolution of claims at a lower rate than originally anticipated and actual incurred losses increasing at a lower amount than expected as well as the District's implementation of its Indirect Cost Allocation Plan.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of the financial statements and the notes to the financial statements.

Basic Financial statements – The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statements of net assets present information on all the District's assets and liabilities, with the difference between the two being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The statements of revenues, expenses and changes in net assets presents information showing how the District's net assets changed during the fiscal years ended June 30, 2010 and 2009. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs (such as the receipt of goods and services or submittal of claims for capital and operating revenue) regardless of the timing of related cash flows. In other words, the District reports expenses and revenues on an accrual basis rather than a cash basis. Since the District's primary function is to provide transportation services to the region's citizens and recover costs through user fees and charges, the financial statements include business-type activities. The District serves in a fiduciary capacity for the pension trust funds. The fiduciary fund statements are presented on an accrual basis and are included in these financial statements. The resources of the fiduciary funds are not available to support District programs.

The notes to the financial statements provide additional information that is essential to a full understanding of the financial data provided in the financial statements.

Statistical Section – In addition to the basic financial statements this report also includes a statistical section of selected financial information over a 10-year period when available.

Analysis of the Financial Statements

The financial statements provide both short-term and long-term information about the District's overall financial condition. This analysis addresses the financial statements of the District as a whole.

As noted earlier, net assets may serve as a useful indicator of a government's financial position over time. In the case of the District, assets exceeded liabilities by $770,051,975 and $775,070,534 at June 30, 2010 and 2009, respectively.

The vast majority of the District's total net assets reflect investment in capital assets, less any related debt and unused proceeds used to acquire those assets still outstanding. These capital assets are used to provide bus and light rail services to the greater Sacramento area. Consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, resources are needed to repay this debt and must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. The decrease in net assets is due primarily to the District's operating loss for the fiscal year ended June 30, 2010.

A portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. Examples include grant funds advanced to the District for specified purposes by other related governmental agencies.

Sacramento Regional Transit District Net Assets

	June 30, 2010	June 30, 2009	June 30, 2008
Capital Assets	$ 778,764,512	$ 780,144,304	$ 763,048,331
Current and Other Assets	188,629,825	254,121,344	293,999,639
Total Assets	967,394,337	1,034,265,648	1,057,047,970
Current Liabilities	99,431,559	106,895,387	97,848,634
Non-Current Liabilities	97,910,803	152,299,727	202,562,195
Total Liabilities	197,342,362	259,195,114	300,410,829
Net Assets:			
Invested in Capital Assets, Net of Related Debt	770,303,653	771,044,618	752,242,824
Restricted for Capital Projects	1,840,943	2,580,209	1,699,248
Unrestricted	(2,092,621)	1,445,707	2,695,069
Total Net Assets	$ 770,051,975	$ 775,070,534	$ 756,637,141

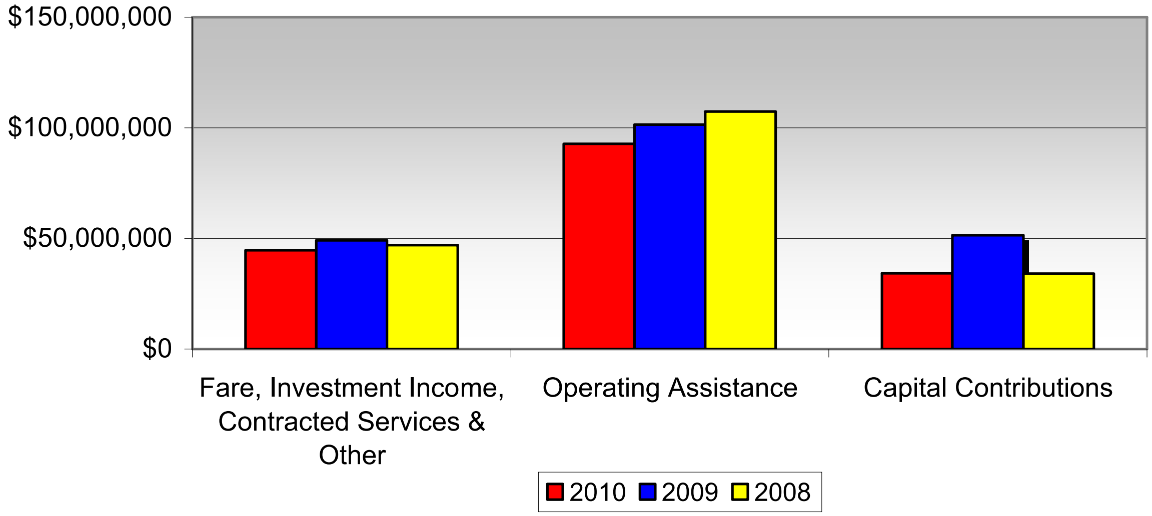
Sacramento Regional Transit District Changes in Net Assets

	June 30, 2010	June 30, 2009	Percent Change
Operating Revenues:			
Fares	$ 30,863,701	$ 32,571,459	(5.2%)
Non-Operating Revenues:			
Operating Assistance	92,686,342	101,512,541	(8.7%)
Investment Income	6,438,505	8,910,839	(27.7%)
Other Revenue	7,356,862	7,615,899	(3.4%)
Total Revenue	137,345,410	150,610,738	(8.8%)
Operating and Non-Operating Expenses:			
Labor & Fringe Benefits	91,203,130	91,580,300	(0.4%)
Professional & Other Services	24,797,197	26,584,306	(6.7%)
Spare Parts & Supplies	11,043,792	12,950,141	(14.7%)
Utilities	5,530,888	5,544,739	(0.2%)
Casualty & Liability Costs	2,286,204	7,104,114	(67.8%)
Depreciation & Amortization	30,870,183	30,698,602	0.6%
Other	1,401,986	1,680,016	(16.5%)
Indirect Costs Allocated to Capital Programs	(862,965)	(2,171,760)	(60.3%)
Interest Expense	6,792,061	9,154,035	(25.8%)
Pass through to Subrecipients	3,637,885	478,468	660.3%
Total Operating and Non-Operating Expenses:	176,700,361	183,602,961	(3.8%)
Loss Before Capital Contributions	(39,354,951)	(32,992,223)	19.3%
Capital Contributions:			
State and Local	29,380,939	42,441,018	(30.8%)
Federal	4,955,453	8,984,598	(44.8%)
(Decrease) Increase in Net Assets	(5,018,559)	18,433,393	(127.2%)
Net Assets, July 1	775,070,534	756,637,141	2.4%
Net Assets, June 30	$ 770,051,975	$ 775,070,534	(0.6%)

Sacramento Regional Transit District Changes in Net Assets

	June 30, 2009	June 30, 2008	Percent Change
Operating Revenues:			
Fares	$ 32,571,459	$ 29,865,810	9.1%
Non-Operating Revenues:			
Operating Assistance	101,512,541	107,361,901	(5.4%)
Investment Income	8,910,839	8,145,081	9.4%
Other Revenue	7,615,899	9,068,306	(16.0%)
Total Revenue	150,610,738	154,441,098	(2.5%)
Operating and Non-Operating Expenses:			
Labor & Fringe Benefits	91,580,300	93,779,919	(2.3%)
Professional & Other Services	26,584,306	26,504,694	0.3%
Spare Parts & Supplies	12,950,141	12,187,760	6.3%
Utilities	5,544,739	5,550,144	(0.1%)
Casualty & Liability Costs	7,104,114	11,159,479	(36.3%)
Depreciation & Amortization	30,698,602	28,445,407	7.9%
Other	1,680,016	1,896,171	(11.4%)
Indirect Costs Allocated to Capital Programs	(2,171,760)	-	N/A
Interest Expense	9,154,035	7,951,190	15.1%
Pass through to Subrecipients	478,468	1,377,945	(65.3%)
Total Operating and Non-Operating Expenses:	183,602,961	188,852,709	(2.8%)
Loss Before Capital Contributions	(32,992,223)	(34,411,611)	(4.1%)
Capital Contributions:			
State and Local	42,441,018	29,606,239	43.4%
Federal	8,984,598	4,575,184	96.4%
Increase (Decrease) in Net Assets	18,433,393	(230,188)	(8108.0%)
Net Assets, July 1 (as restated)	756,637,141	756,867,329	(0.0%)
Net Assets, June 30	$ 775,070,534	$ 756,637,141	2.4%

REVENUES BY SOURCE



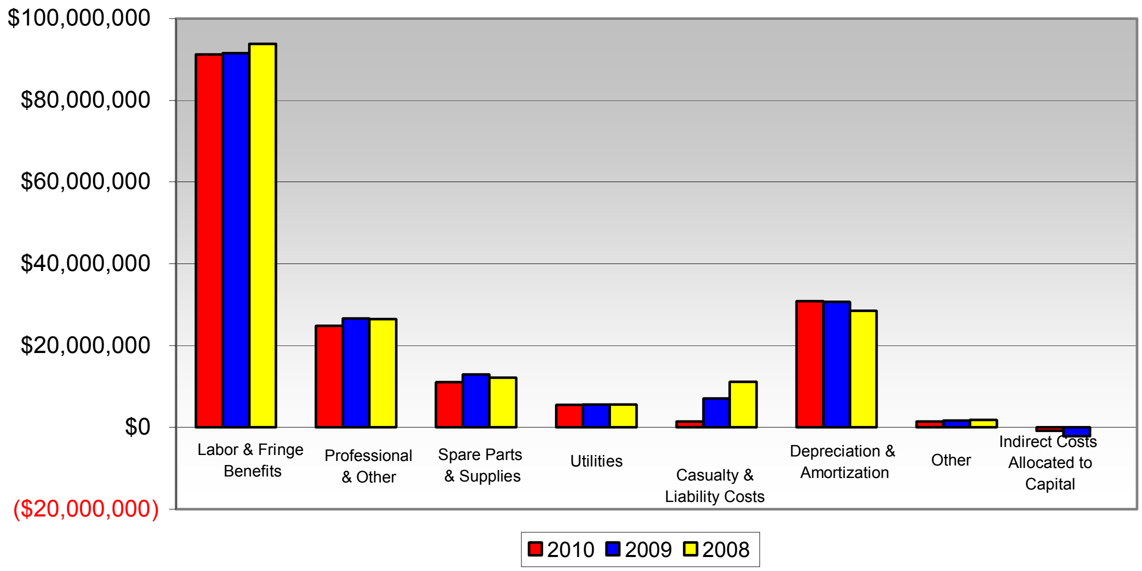
Revenue

Fares, investment income, contracted services, and other revenue decreased by a combined $4,439,129, or 9.0 percent for the fiscal year ended June 30, 2010, and increased by a combined $2,019,000 or 4.2 percent, for the fiscal year ended June 30, 2009. The revenue decrease for the fiscal year ended June 30, 2010 is primarily due to a decline in investment income and fare revenue stemming from a decrease in ridership. The revenue increases for the fiscal year ended June 30, 2009 are primarily due to an increase in fare revenues due to the District's fare increase effective January 1, 2009.

Operating assistance declined by $8,826,199 or 8.7 percent and $5,849,360 or 5.4 percent, for the fiscal years ended June 30, 2010 and June 30, 2009, respectively due to a decline in Measure A and Transportation Development Act funds.

The majority of construction and acquisition activities are funded with capital contributions from other governmental units such as federal, state, and local agencies. Capital contributions decreased by 33.2 percent during the fiscal year ended June 30, 2010 and increased by 50.4 percent during the year ended June 30, 2009. The decrease for the year ended June 30, 2010 is primarily the result of the completion of both the replacement of 91 CNG buses and the Metro Heavy Repair Facility Expansion in the prior fiscal year. The net increase for the year ended June 30, 2009 was primarily the result of the Metro Heavy Repair Facility Expansion, Northeast Corridor Lumberjack Realignment, and the South Sacramento Corridor Phase 2 Expansion.

OPERATING EXPENSES



Expenses

Operating expenses decreased by 5.9 percent for the fiscal year ended June 30, 2010 and decreased by 3.1 percent for the fiscal year ended June 30, 2009. The decrease in operating costs for the fiscal year ended June 30, 2010 can be attributed primarily to declines in the District's Public Liability/Property Damage and Workers' Compensation costs, CNG, and services including: Paratransit, security and consulting related to the District's Transit Action Plan. These declines were partially mitigated by a reduction in indirect costs charged to the capital program. The decrease in operating costs for the fiscal year ending June 30, 2009 can be attributed to a decline in the District's Public Liability/Property Damage and Workers' Compensation costs as a result of the successful resolution of claims at a lower rate than originally anticipated and actual incurred losses increasing at a lower amount than expected as well as the District's implementation of its Indirect Cost Allocation Plan (CAP).

Analysis of the District's Financial Position

The District's net assets provide information on near term inflows, outflows, and balances of spendable resources. The District is reporting unrestricted net assets as of June 30, 2010 of $(2,092,621), a decline of $3,538,328, or 244.7 percent, in comparison with June 30, 2009, which reported unrestricted net assets of $1,445,707, a decline of $1,249,362, or 46.4 percent from June 30, 2008. The decrease in unrestricted net assets of $3,538,328 and $1,249,362 in 2010 and 2009, respectively, was the result of the District using its unrestricted net assets to fund operations and capital projects.

Capital Asset and Debt Activity

As of June 30, 2010 the District's investment in various capital assets, such as bus and light rail vehicles, facilities, land, buildings and equipment decreased to $778,764,512 from $780,144,304 representing a 0.2 percent decrease. The most significant additions to the District's capital costs are related to work in process on the Green Line to the River District and South Line Phase 2 light rail extension projects. These increases were offset by depreciation expense. As of June 30, 2009, the District's investment in various capital assets, such as bus and light rail vehicles, facilities, land, buildings and equipment increased to $780,144,304 from $763,048,331, representing a 2.2 percent increase. The most significant additions to the District's capital assets are related to the acquisition and receipt of 39 Orion 40' CNG buses and construction activity (work in process) on the following light rail projects: Metro Heavy Repair Facility Expansion, Northeast Corridor Lumberjack Realignment, and the South Sacramento Corridor Phase 2 Expansion. Additional information on the capital assets can be found in Footnote 4 to the financial statements.

The District's Certificates of Participation debt decreased by $1,680,984 or 15.0 percent for the fiscal year ended June 30, 2010 and $1,605,983 or 12.5 percent for the fiscal year ended June 30, 2009. This debt represents Certificates of Participation (COPs) notes distributed in fiscal year 2004 for the purchase of light rail vehicles, trolley vehicles, related equipment and real property to be used as maintenance facilities. The District recorded a liability and a corresponding asset of $100,681,155 and $146,527,940 as of June 30, 2010 and 2009, respectively, resulting from its participation in three Lease/Leaseback transactions. Additional information on debt activity can be found in Footnote 6 and 7 to the financial statements.

Current Economic Factors and Conditions

The District has plans for future expansion and improvement of light rail and bus services. As of June 30, 2010 the District has construction contracts and property acquisition commitments of approximately $25,227,690.

Request for Information

Please address all questions or requests for additional information to the Finance and Treasury Department, Attention: Chief Financial Officer, Sacramento Regional Transit District, 1400 29th Street, PO Box 2110, Sacramento CA 95812-2110.

SACRAMENTO REGIONAL TRANSIT DISTRICT
STATEMENTS OF NET ASSETS – BUSINESS TYPE ACTIVITIES
ENTERPRISE FUND
JUNE 30, 2010 and 2009

	2010	2009
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 3,038,320	$ 4,524,427
Restricted Cash and Cash Equivalents	18,615,462	2,539,609
Investments	-	102,781
Restricted Investments	1,068,620	-
Deposits for Lease/Leaseback Payable	47,264,990	52,081,022
Receivables:		
State and Local Government	6,895,363	20,898,217
Federal Government	28,047,253	33,050,722
Other	4,300,112	5,001,003
Spare Parts and Supplies Inventory	16,797,023	16,748,339
Other Current Assets	50,000	59,860
Total Current Assets	126,077,143	135,005,980
Non-Current Assets:		
Restricted Cash & Cash Equivalents	4,463,297	19,179,585
Investments	-	3,788,260
Restricted Investments	4,130,718	1,056,135
Deposits for Lease/Leaseback Payable	53,416,165	94,446,918
Deferred Issuance Costs	242,502	294,466
Prepaid Lease	300,000	350,000
Non-Depreciated Capital Assets	157,864,981	144,121,692
Depreciated Capital Assets, Net	620,899,531	636,022,612
Total Non-Current Assets	841,317,194	899,259,668
Total Assets	$ 967,394,337	$ 1,034,265,648

The accompanying notes are an integral part of these financial statements.

SACRAMENTO REGIONAL TRANSIT DISTRICT
STATEMENTS OF NET ASSETS – BUSINESS TYPE ACTIVITIES - continued
ENTERPRISE FUND
JUNE 30, 2010 and 2009

	2010	2009
LIABILITIES		
Current Liabilities:		
Line of Credit	$11,100,000	$20,000,000
Accounts Payable	12,105,312	15,003,198
Other Accrued Liabilities	3,192,559	4,234,852
Compensated Absences	6,465,233	6,835,175
Interest Payable	130,761	158,621
Unearned Revenue	503,124	524,123
Advances from Other Governments	9,895,284	6,445,829
Claims Payable	6,628,000	6,425,000
Lease/Leaseback Payable	47,264,990	44,707,003
Certificates of Participation	1,765,984	1,680,984
Retention Payable	380,312	880,602
Total Current Liabilities	99,431,559	106,895,387
Long-Term Liabilities:		
Certificates of Participation	7,788,606	9,554,590
Compensated Absences	1,804,685	1,693,592
Advances from Other Governments	13,310,081	13,101,655
Claims Payable	11,307,077	15,425,000
Lease/Leaseback Payable	53,416,165	101,820,937
Deferred Gain on Lease/Leaseback	10,284,189	10,703,953
Total Long-Term Liabilities	97,910,803	152,299,727
Total Liabilities	197,342,362	259,195,114
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	770,303,653	771,044,618
Restricted For Capital Projects	1,840,943	2,580,209
Unrestricted	(2,092,621)	1,445,707
Total Net Assets	$ 770,051,975	$ 775,070,534

The accompanying notes are an integral part of these financial statements.

SACRAMENTO REGIONAL TRANSIT DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — BUSINESS TYPE ACTIVITIES
ENTERPRISE FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Fares	$ 30,863,701	$ 32,571,459
OPERATING EXPENSES		
Labor and Fringe Benefits	91,203,130	91,580,300
Professional and Other Services	24,797,197	26,584,306
Spare Parts and Supplies	11,043,792	12,950,141
Utilities	5,530,888	5,544,739
Casualty and Liability Costs	2,286,204	7,104,114
Depreciation and Amortization	30,870,183	30,698,602
Indirect Costs Allocated to Capital Programs	(862,965)	(2,171,760)
Other	1,401,986	1,680,016
Total Operating Expenses	166,270,415	173,970,458
Operating Loss	(135,406,714)	(141,398,999)
NON-OPERATING REVENUES (EXPENSES)		
Operating Assistance:		
State and Local	58,134,639	70,724,997
Federal	34,551,703	30,787,544
Investment Income	6,438,505	8,910,839
Interest Expense	(6,792,061)	(9,154,035)
Pass Through to Subrecipients	(3,637,885)	(478,468)
Contract Services	4,598,650	4,311,430
Other	2,758,212	3,304,469
Total Non-Operating Revenues	96,051,763	108,406,776
Loss Before Capital Contributions	(39,354,951)	(32,992,223)
Capital Contributions:		
State and Local	29,380,939	42,441,018
Federal	4,955,453	8,984,598
(Decrease) Increase in Net Assets	(5,018,559)	18,433,393
Net Assets, July 1	775,070,534	756,637,141
Net Assets, June 30	$ 770,051,975	$ 775,070,534

The accompanying notes are an integral part of these financial statements.

SACRAMENTO REGIONAL TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS – BUSINESS TYPE ACTIVITIES
ENTERPRISE FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 31,531,967	$ 34,394,874
Cash Received from Contract Sources	4,598,650	4,311,430
Cash Paid to Suppliers	(52,361,990)	(57,148,271)
Cash Paid to Employees	(91,641,307)	(89,881,396)
Cash Received from Other Sources	2,705,571	3,262,249
Net Cash Used in Operating Activities	(105,167,109)	(105,061,114)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State and Local Receipts	62,339,297	75,219,543
Federal Receipts	40,574,446	21,776,439
Pass-Through to Subrecipients	(3,637,885)	(478,468)
Advances on the Line of Credit	56,100,000	44,300,000
Payments on the Line of Credit	(65,000,000)	(34,800,000)
Net Cash Provided by Noncapital Financing Activities	90,375,858	106,017,514
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(29,858,189)	(48,158,452)
Principal Payments on Certificates of Participation	(1,605,000)	(1,530,000)
Interest Paid	(661,669)	(765,271)
Proceeds from Sale of Capital Assets	52,641	42,220
Payments for Lease/Leaseback	-	(8,155)
State and Local Capital Grants	42,837,016	44,186,511
Federal Capital Grants	3,936,179	9,614,410
Net Cash Provided by Capital and Related Financing Activities	14,700,978	3,381,263
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	11,300,470	12,131,378
Purchases of Investments	(11,552,112)	(5,664,184)
Investment Income	215,373	493,382
Net Cash Provided by (Used in) Investing Activities	(36,269)	6,960,576
Net Increase (Decrease) in Cash and Cash Equivalents	(126,542)	11,298,239
Cash and Cash Equivalents, July 1	26,243,621	14,945,382
Cash and Cash Equivalents, June 30	$ 26,117,079	$ 26,243,621
RECONCILIATION TO STATEMENT OF NET ASSETS		
Cash and Cash Equivalents	$ 3,038,320	$ 4,524,427
Restricted Cash and Cash Equivalents, Current	18,615,462	2,539,609
Restricted Cash and Cash Equivalents, Non-Current	4,463,297	19,179,585
Total Cash and Cash Equivalents	$ 26,117,079	$ 26,243,621

The accompanying notes are an integral part of these financial statements.

SACRAMENTO REGIONAL TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS – BUSINESS TYPE ACTIVITIES
ENTERPRISE FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 and 2009

	2010	2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating Loss	$ (135,406,714)	$ (141,398,999)
Adjustments to Reconcile Net Loss from Operations to Net Cash Used in Operating Activities:		
Depreciation	31,237,981	30,698,602
Amortization	(367,798)	-
Contract Services Nonoperating Income	4,598,650	4,311,430
Miscellaneous Nonoperating Income	2,705,571	3,262,249
Effect of Changes in:		
Other Receivables	689,266	1,879,149
Spare Parts and Supplies Inventory	(48,684)	(124,492)
Other Current Assets	9,860	(9,860)
Prepaid Lease	50,000	50,000
Accounts, Other Accrued and Retention Payable	(4,440,469)	(2,773,991)
Compensated Absences and Other	(258,849)	224,394
Post Retirement Benefit Obligation	-	(1,507,862)
Unearned Revenue	(21,000)	(55,734)
Reserve for Claims	(3,914,923)	384,000
Net Cash Used in Operating Activities	$ (105,167,109)	$ (105,061,114)

	2010	2009
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Interest Income from Investments Held to Pay Lease/Leaseback	$ 6,234,236	$ 8,489,134
Interest Expense on Capital Lease/Leaseback	(6,234,236)	(8,489,134)
Reduction of Deposits for Lease/Leaseback Payment by Payment Undertaker	52,081,021	52,470,138
Payment of Lease/Leaseback Payable by Payment Undertaker	(52,081,021)	(52,470,138)
NET NON-CASH INVESTING AND FINANCING ACTIVITIES	$ -	$ -

The accompanying notes are an integral part of these financial statements.

SACRAMENTO REGIONAL TRANSIT DISTRICT
STATEMENTS OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
JUNE 30, 2010 and 2009

	2010	2009
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 8,665,647	$ 6,916,504
Interest, Dividends, and Other Receivables	1,914,236	7,279,857
Total Current Assets	10,579,883	14,196,361
Long-Term Investments:		
Equity Securities	95,284,271	89,564,198
Fixed Income Securities	65,052,647	56,463,120
Total Long-Term Investments	160,336,918	146,027,318
Total Assets	170,916,801	160,223,679
LIABILITIES		
Liabilities:		
Securities Purchased Payable	5,840,584	14,100,788
Accounts Payable	683,866	1,288,682
Total Liabilities	6,524,450	15,389,470
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 164,392,351	$ 144,834,209

The accompanying notes are an integral part of these financial statements.

SACRAMENTO REGIONAL TRANSIT DISTRICT
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 and 2009

	2010	2009
ADDITIONS		
Contributions:		
Employer	$ 11,694,384	$ 10,757,070
Member	-	32,704
Total Contributions	11,694,384	10,789,774
Investment Income:		
Net Increase (Decrease) in Fair Value of Investments	18,837,951	(27,538,740)
Interest, Dividends, and Other Income	4,525,594	5,143,057
Investment Expenses	(1,253,745)	(1,114,639)
Net Investment Income (Loss)	22,109,800	(23,510,322)
Total Additions (Deductions)	33,804,184	(12,720,548)
DEDUCTIONS		
Benefits Paid to Participants	14,152,018	13,009,445
Administrative Expenses	94,024	145,577
Total Deductions	14,246,042	13,155,022
Increase (Decrease) in Net Assets	19,558,142	(25,875,570)
Net Assets, Held in Trust for Pension Benefits - July 1	144,834,209	170,709,779
Net Assets, Held in Trust for Pension Benefits - June 30	$ 164,392,351	$ 144,834,209

The accompanying notes are an integral part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Sacramento Regional Transit District (District) was established in 1973 pursuant to the Sacramento Regional Transit District Act. The District has the responsibility to develop, maintain, and operate a public mass transit transportation system for the benefit of the residents of the Sacramento area. The District is governed by a Board of Directors appointed by the Sacramento City Council, the Sacramento County Board of Supervisors, the Elk Grove City Council, the Citrus Heights City Council, the Rancho Cordova City Council, and the Folsom City Council.

As required by Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity", the District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether the entity has a significant operational and financial relationship with the District.

The District has determined that no other outside entity meets the above criteria and, therefore, no other entity has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that has such a relationship to the District that would result in the District being considered a component unit of that other entity.

BASIS OF PRESENTATION

The accounts of the District are organized and operated on the basis of funds, each of which is considered an independent fiscal and accounting entity. The activities of each fund are accounted for with a separate set of self-balancing statements that comprise its assets, liabilities, net assets, revenues, and expenses, as appropriate. These statements distinguish between the business-type and fiduciary activities of the District. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's statements are organized into the following fund types:

Proprietary Fund Type

The ***Enterprise Fund*** distinguishes operating revenues and expenses from non-operating items. The District's operating revenues are generated directly from its transit operations and consist principally of passenger fares. Operating expenses for the transit operations include all costs related to providing transit services. These costs include labor, fringe benefits, materials, supplies, services, utilities, leases, rentals, and depreciation on capital assets. All other revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses. Unrestricted net assets for the enterprise fund represent the net assets available for future operations.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Type

The ***Pension Trust Funds*** are used to account for assets held by the District in a trustee capacity. The District maintains the following Pension Trust Funds:

The Amalgamated Transit Union (ATU) Local 256 and International Brotherhood of Electrical Workers (IBEW) Local 1245 Member Retirement Plan Fund (ATU/IBEW) accounts for the retirement funds of members of ATU Local 256 and IBEW Local 1245.

The Salaried Employees Retirement Plan Fund (Salaried) accounts for the retirement funds of the District's salaried employees.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund and the pension trust funds are accounted for on a flow of economic resources measurement focus. This measurement focus emphasizes the determination of increased/decreased net assets. The accrual basis of accounting is used for the enterprise fund and the pension trust funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. District contributions to the pension trust funds are recognized in the period in which contributions are due, while benefits and refunds are recognized when due and payable in accordance with the pension trust funds plan agreements.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all Financial Accounting Standards Board (FASB) statements and authoritative pronouncements issued on and before November 30, 1989 are applied to proprietary operations unless they conflict with GASB pronouncements. The District has elected not to apply FASB statements issued subsequent to November 30, 1989.

BUDGETARY INFORMATION

State law requires the adoption of an annual budget for the enterprise fund, which must be approved by the Board of Directors. The Budget is prepared on an accrual basis. Budgetary control is maintained at several levels. The legal level of control is at the fund level. The Board of Directors authorizes budget amendments to the fund level. Line item reclassification amendments to the budget must be authorized by the responsible manager. Operating expenses are monitored by department managers who are assigned responsibility for controlling their budgets. Emphasis is placed on the total budget for the division. Capital expenses operate under the control of a project-to-date budget.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS

All investments are reported at fair value measured by quoted market price.

RESTRICTED ASSETS

Restricted Assets consists of monies and other resources, the use of which is legally restricted for capital and debt service.

INVENTORIES

Inventories are stated at average cost and charged to expense at the time individual items are withdrawn from inventory (consumption method). Inventory consists primarily of parts and supplies relating to transportation vehicles and facilities.

CAPITAL ASSETS

Capital assets are stated at historical cost. The cost of normal maintenance and repairs is charged to operations as incurred. Infrastructure, which includes light rail vehicle tracks, has been capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related properties. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Buildings and improvements	30 to 50 years
Buses and maintenance vehicles	4 to 12 years
Light-rail structures and light-rail vehicles	25 to 45 years
Other operating equipment	5 to 15 years

No depreciation is provided on construction in progress until construction is completed and the asset is placed in service.

It is the District's policy to capitalize all capital assets with an individual cost of more than $5,000, and a useful life in excess of one year.

COMPENSATED ABSENCES

The District's policy allows employees to accumulate earned unused vacation and sick leave which can be paid to employees upon separation from the District, subject to a vesting policy. These compensated absences are reported and accrued as a liability in the period incurred.

The current portion of the compensated absences is estimated by applying a percentage to the end of the year compensated absences liability. The percentage is calculated by dividing the vacation and sick leave that was liquidated (used/cashed out) during the year by the beginning vacation and sick leave balance.

FEDERAL, STATE, AND LOCAL GRANT FUNDS

Grants are accounted for in accordance with the purpose for which the funds are intended. Approved grants for the acquisition of land, building, and equipment are recorded as capital contributions as the related grant conditions are met. Approved grants for operating assistance are recorded as revenues in the year in which the related grant conditions are met.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advances received on grants are recorded as a liability until related grant conditions are met. The Transportation Development Act (TDA) provides that any funds not earned and not used may be required to be returned to their source.

When both restricted and unrestricted resources are available for the same purpose the District uses restricted resources first.

SELF-INSURANCE

The District is self-insured up to specified limits for workers' compensation claims, general liability claims, and major property damage. The District accrues the estimated costs of the self-insured portion of claims in the period in which the amount of the estimated loss is determinable.

USE OF ESTIMATES

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

RECLASSIFICATIONS

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

NEW PRONOUNCEMENTS

For the fiscal years ended June 30, 2010 and 2009, the District implemented the following new GASB pronouncements:

GASB Statement No. 51 (GASB 51) "*Accounting and Financial Reporting for Intangible Assets*". This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. This statement had no impact on the District in fiscal year 2010 and 2009.

GASB Statement No. 49 (GASB 49) "*Accounting and Financial Reporting for Pollution Remediation Obligations*". This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups.

A government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and if certain events have occurred. As of June 30, 2009 the District adopted GASB 49 prospectively. The District has had no known pollution remediation obligations and thus, no liability has been recorded in the financial statements.

GASB Statement No. 53 (GASB 53) "*Accounting and Financial Reporting of Derivative Instruments"* This Statement establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments.

The District does not invest in derivatives or enter into derivative agreements.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 58 (GASB 58) *"Accounting and Financial Reporting for Chapter 9 Bankruptcies".* This Statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

GASB 58 only applies to Governments that filed for Chapter 9 bankruptcy protection.

2. CASH AND INVESTMENTS

As of June 30, 2010 and 2009, the cash and investments among all funds consisted of the following:

	2010	2009
Cash on hand	$ 154,450	$ 126,404
Cash and cash equivalents	34,628,276	33,033,720
Investments	165,536,256	150,974,495
	$ 200,318,982	$ 184,134,619

2. CASH AND INVESTMENTS (Continued)

The total cash and investments as of June 30, 2010, are reported in the accompanying basic financial statements as follows:

	Enterprise Fund	Fiduciary Funds	Total
Unrestricted:			
Cash and cash equivalents	$ 3,038,320	$ -	$ 3,038,320
Investments	-	-	-
Total unrestricted	3,038,320	-	3,038,320
Restricted:			
Cash and cash equivalents	23,078,759	8,665,647	31,744,406
Investments	5,199,338	160,336,918	165,536,256
Total restricted	28,278,097	169,002,565	197,280,662
Total cash and investments	$ 31,316,417	$ 169,002,565	$ 200,318,982

The total cash and investments as of June 30, 2009, are reported in the accompanying basic financial statements as follows:

	Enterprise Fund	Fiduciary Funds	Total
Unrestricted:			
Cash and cash equivalents	$ 4,524,427	$ -	$ 4,524,427
Investments	3,891,041	-	3,891,041
Total unrestricted	8,415,468	-	8,415,468
Restricted:			
Cash and cash equivalents	21,719,194	6,916,504	28,635,698
Investments	1,056,135	146,027,318	147,083,453
Total restricted	22,775,329	152,943,822	175,719,151
Total cash and investments	$ 31,190,797	$ 152,943,822	$ 184,134,619

INVESTMENTS

The District pursues a program of safety, liquidity, and yield in its cash management and investment program in order to achieve maximum return on the Enterprise Fund's available funds. The Enterprise Fund's investment policy (pertaining to investment of surplus funds) is governed by an annual Board adopted policy, which is in compliance with the provisions of Articles 1 and 2 of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code.

2. CASH AND INVESTMENTS (Continued)

The following table identifies the investment types that are authorized by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Rating	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds	5 years	N/A	None	None
U.S. Treasury obligations	5 years	N/A	None	None
U.S. Agency securities	5 years	N/A	None	None
Bankers' acceptances	180 days	N/A	40%	30%
Commercial paper	270 days	A1/P1	25%	10%
Negotiable certificates of deposit	5 years	N/A	30%	None
Reverse repurchase agreements	92 days	N/A	20% of base value	None
Medium-term notes	5 years	A	30%	None
Mutual funds investing in eligible securities	N/A	AAA	20%	10%
Mortgage pass-through securities	5 years	AA	20%	None
Local Agency Investment Fund	N/A	N/A	None	None
JPA pools (other investment pools)	N/A	N/A	None	None

A Retirement Board adopted policy; the "Statement of Investment Objectives and Policy Guidelines for ATU/IBEW and Salaried Employees' Retirement Funds" governs the Pension Trust Funds' investments. This Policy focuses on the continued feasibility of achieving, and the appropriateness of, the Asset Allocation Policy, the Investment Objectives, the Investment Policies and Guidelines and the Investment Restrictions.

The following table identifies the investment types that are authorized by the Retirement Board. The table also identifies certain provisions of the Investment Objectives and Policy that address interest risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity (1)	Minimum Rating	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Municipal Debt	None	Baa	None	None
U.S. Treasury Obligations	None	N/A	None	None
U.S. Agency Securities	None	N/A	None	None
Bankers' Acceptances	None	N/A	None	None
Commercial Paper	None	A2	None	None
Certificates of Deposit	None	N/A	None	None
Repurchase Agreements with US Treasury and Agency Securities as Collateral	None	N/A	None	None
Corporate Bonds	None	Baa	None	None
Mortgage Pass-Through Securities	None	None	None	None
Collateralized Mortgage Obligations	None	Aaa	None	None
Asset Backed Securities	None	None	None	None
Mutual Funds	N/A	N/A	25% (2)	5%
Real Estate Investment Trust	N/A	N/A	25% (2)	5%
Depository Receipts	N/A	N/A	25% (2)	5%
Stocks	N/A	N/A	25% (2)	5%

(1) The fixed income portion of the ATU/IBEW and Salaried Plans shall be limited in duration to between 75% and 125% of the Barclays Capital Aggregate Bond index.
(2) No more than 25% of the fair value on the purchase cost basis of the total common stock portfolio (equity securities) shall be invested in a single industry at the time of purchase.

2. CASH AND INVESTMENTS (Continued)

INVESTMENT RISK FACTORS

There are many factors that can affect the value of investments such as: interest rate risk, credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk. These types of risks may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

INTEREST RATE RISK

Interest rate risk is the risk that the value of fixed income securities will decline because of rising interest rates. The prices of fixed income securities with a longer time to maturity, measured by duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with a shorter duration.

The following table provides information about the interest rate risks associated with investments as of June 30, 2010.

	Maturities in Years				
	Less than 1	1 – 5	6 – 10	More than 10	Fair Value
Enterprise Fund					
Corporate bonds	$ -	$ 735,756	$ -	$ -	$ 735,756
Local Agency Investment Fund	850,383	-	-	-	850,383
Corporate bonds – FDIC Insured	-	565,350	-	-	565,350
U.S. Government Agency obligations	-	3,154,434	-	-	3,154,434
U.S. Government Issued obligations	270,375	473,423	-	-	743,798
Total Enterprise Fund	$ 1,120,758	$ 4,928,963	$ -	$ -	$ 6,049,721
Fiduciary Funds					
ATU/IBEW and Salaried:					
Collateralized mortgage obligations	$ -	$ 169,899	$ 35,518	$ 13,435,479	$ 13,640,896
Corporate bonds	686,300	5,114,928	5,210,352	4,494,959	15,506,539
Municipal bonds	-	-	-	449,712	449,712
U.S. Government Agency obligations	-	-	47,518	13,581,329	13,628,847
U.S. Government Issued obligations	-	10,289,433	2,049,210	3,777,030	16,115,673
Asset backed securities	188,833	511,419	264,831	4,745,897	5,710,980
Total Fiduciary Fund	$ 875,133	$ 16,085,679	$ 7,607,429	$ 40,484,406	$ 65,052,647

2. CASH AND INVESTMENTS (Continued)

The following table provides information about the interest rate risks associated with the District's investments as of June 30, 2009.

	Maturities in Years				
	Less than 1	1 – 5	6 – 10	More than 10	Fair Value
Enterprise Fund					
Corporate bonds	$ -	$ 210,521	$ -	$ -	$ 210,521
Local Agency Investment Fund	6,947,557	-	-	-	6,947,557
Corporate bonds – FDIC Insured	-	429,760	-	-	429,760
U.S. Government Agency obligations	102,781	3,370,996	-	-	3,473,777
U.S. Government Issued obligations	-	833,118	-	-	833,118
Total Enterprise Fund	$ 7,050,338	$ 4,844,395	$ -	$ -	$ 11,894,733
Fiduciary Funds					
ATU/IBEW and Salaried:					
Collateralized mortgage obligations	$ -	$ -	$ 220,917	$ 12,905,663	$ 13,126,580
Corporate bonds	928,457	5,312,809	6,377,823	2,739,295	15,358,384
U.S. Government Agency obligations	-	-	69,409	19,064,760	19,134,169
U.S. Government Issued obligations	-	809,842	508,711	2,317,482	3,636,035
Asset backed securities	105	845,134	251,843	4,110,870	5,207,952
Total Fiduciary Fund	$ 928,562	$ 6,967,785	$ 7,428,703	$ 41,138,070	$ 56,463,120

2. CASH AND INVESTMENTS (Continued)

MORTGAGE PASS-THROUGH SECURITIES

These securities are issued by Government Sponsored Enterprises (GSEs), which are a group of financial services corporations created by the United States Congress. The GSEs include: the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Association (Freddie Mac), and the Federal Home Loan Banks. Another institution that issues these securities is the Government National Mortgage Association (Ginnie Mae). All agencies include short embedded prepayment options. Unanticipated prepayments by the obligers of the underlying assets reduce the total expected rate of return.

COLLATERALIZED MORTGAGE OBLIGATIONS

Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

ASSET-BACKED SECURITIES

Asset-backed securities generate a return based upon either the payment of interest or principal on obligations in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates.

CALLABLE BONDS

Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The District or the Pension Trust Funds must then replace the called bond with a bond that may have a lower yield than the original bond. The call feature causes the fair value to be highly sensitive to changes in interest rates. As of June 30, 2010, the District had no callable bonds. The ATU/IBEW and Salaried Pension Trust Fund held callable bonds with a fair value of $8,340,096.

As of June 30, 2009, the District had no callable bonds. The ATU/IBEW Pension Trust Fund and the Salaried Pension Trust Fund held callable bonds with a fair value of $7,503,733.

CORPORATE DEBT – RANGE NOTES

Range notes are securities which pay two different interest rates depending on whether or not a benchmark index falls within a pre-determined range as structured per the note. If the benchmark index rate does not fall within the pre-determined range, the note will not earn the coupon rate for that time period. With this pre-determined range feature, range notes are highly sensitive to changes in interest rate. As of June 30, 2010 and 2009, the District did not hold any of these securities. As of June 30, 2010, the ATU/IBEW and Salaried Pension Trust Fund held range notes with a fair value of $438,306. As of June 30, 2009, the ATU/IBEW Pension Trust Fund and the Salaried Pension Trust Fund held range notes with a fair value of $331,459.

2. CASH AND INVESTMENTS (Continued)

CREDIT RISK

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. The circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Services (Moody's). The lower the rating, the greater the chance - in the rating agency's opinion - that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

For the fiscal years ending June 30, 2010 and 2009, the Pension Trust Funds are in adherence with the credit risk provisions of the Statement of Investment Objectives and Policy Guidelines.

The following tables provide information on the credit ratings and fair value associated with cash and investments as of June 30, 2010:

	Enterprise Fund	
Moody's Ratings	Fair Value	Percentage of Portfolio
Not applicable	$ 25,266,696	80.68%
Not rated	850,383	2.72%
Aaa/P1	4,463,582	14.25%
Aa1	64,314	0.21%
Aa2	240,878	0.77%
Aa3	124,426	0.40%
A1	164,098	0.52%
A2	142,040	0.45%
	$ 31,316,417	100.00%

2. CASH AND INVESTMENTS (Continued)

Fiduciary Funds

Moody's Ratings	ATU/IBEW and Salaried Fair Value	Percentage of Portfolio
Not applicable	$ 103,949,918	61.51%
Not rated	10,373,905	6.14%
Aaa	31,232,274	18.48%
Aa1	354,865	0.21%
Aa2	2,214,210	1.31%
Aa3	735,389	0.44%
A1	2,361,531	1.40%
A2	2,415,030	1.43%
A3	1,923,777	1.14%
Baa1	1,821,596	1.08%
Baa2	2,397,537	1.42%
Baa3	2,521,882	1.49%
Ba1	467,770	0.27%
Ba2	532,577	0.32%
Ba3	737,186	0.44%
B1	531,937	0.31%
B2	727,048	0.43%
B3	262,595	0.16%
Caa1	1,238,910	0.73%
Caa2	355,297	0.21%
Caa3	1,476,177	0.87%
Ca	371,154	0.21%
Total	$ 169,002,565	100.00%

The following tables provide information on the credit ratings and fair value associated with investments as of June 30, 2009:

Enterprise Fund

Moody's Ratings	Fair Value	Percentage of Portfolio
Not applicable	$ 19,296,064	61.86%
Not rated	6,947,557	22.27%
Aaa/P1	4,736,655	15.19%
Aa2	170,013	0.55%
Aa3	40,508	0.13%
	$ 31,190,797	100.00%

2. CASH AND INVESTMENTS (Continued)

Fiduciary Funds

Moody's Ratings	ATU/IBEW and Salaried Fair Value	Percentage of Portfolio
Not applicable	$ 96,480,702	63.08%
Not rated	15,190,215	9.93%
Aaa	18,632,725	12.18%
Aa1	897,884	0.59%
Aa2	1,845,430	1.21%
Aa3	1,089,504	0.71%
A1	1,810,408	1.18%
A2	2,603,665	1.70%
A3	1,386,667	0.91%
Baa1	2,239,035	1.46%
Baa2	3,008,304	1.97%
Baa3	2,020,330	1.32%
Ba1	735,441	0.48%
Ba2	569,133	0.37%
Ba3	663,014	0.43%
B1	495,512	0.32%
B2	637,202	0.42%
B3	1,312,208	0.86%
Caa1	345,284	0.23%
Caa2	240,336	0.16%
Caa3	740,823	0.49%
Total	$ 152,943,822	100.00%

2. CASH AND INVESTMENTS (Continued)

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk associated with a lack of diversification of having too much invested in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. During fiscal year 2010 and 2009, the District did have more than 5% of total investments in a single issuer aside from the Local Agency Investment Fund (LAIF), which are disclosed as follows:

	2010	2009
Federal Farm Credit Bank	$ 625,746	$ 487,555
Federal Home Loan Bank	607,374	546,992
Federal Home Loan Mortgage Corporation	1,383,237	1,633,363
Federal National Mortgage Association	-	581,288
Tennessee Valley Authority	306,514	-
	$ 2,922,871	$ 3,249,198

The investment policy of the Pension Trust Funds states that the investment in the securities of a single issuer shall not exceed 5% (at cost) of the value of the portfolio. None of the Pension Trusts Funds' investments in a single organization represented greater than 5% of the total investments.

2. CASH AND INVESTMENTS (Continued)

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.

As of June 30, 2010 and 2009, $2,596,568 and $7,991,860 respectively, of the District's deposits were in excess of federal depository insurance (FDIC) limits and were held in collateralized accounts with securities collateralized in the financial institutions' name.

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 District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2010 and 2009, the District had no investment securities exposed to custodial credit risk. The Pension Trust Funds' investment securities are not exposed to custodial credit risk because all securities are held by the Pension Trust Funds' custodian bank.

INVESTMENT IN STATE INVESTMENT POOL

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Local Investment Advisory Board (LIAB). The LIAB consists of five members as designated by State statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District'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.

The District did not directly enter into any derivative investments. The District's total investment in the LAIF at June 30, 2010 and 2009 was $850,383 and $6,947,557, respectively. The total fair value amount invested by all public agencies in LAIF at June 30, 2010 and 2009 was $23,263,615,099 and $25,156,667,108, respectively. The LAIF is part of the Pooled Money Investment Account (PMIA) whose balances as of June 30, 2010 and June 30, 2009 were $69,555,776,591 and $50,853,707,566, respectively. Included in PMIA's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities at June 30, 2010 and 2009, totaling $3,130,602,000 and $2,296,565,000 , approximately 4.50% and 4.52% of the total portfolio, and structured notes totaling $625,119,000 and $5,169,332,000, approximately 0.90% and 10.17% of the total portfolio, respectively.

2. CASH AND INVESTMENTS (Continued)

FOREIGN CURRENCY RISK

The current District investment policy does not address foreign currency risk, which is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The Pension Trust Funds' investment policy states that international equity shall be comprised of American Depository Receipts (ADR) of non-U.S. companies, common stocks of non-U.S. companies, preferred stocks of non-U.S. companies, foreign convertible securities including debentures convertible to common stocks, and cash equivalents.

The following table provides information on deposits and investments held in various foreign currencies, which are stated in U.S. dollars. As of June 30, 2010 and 2009 the District does not have any deposits or investments in a foreign currency; however, the Pension Trust Funds do have foreign currency deposits and investments, which may be used for hedging purposes.

At June 30, 2010, the U.S. dollar balances organized by investment type and currency denominations are as follows:

Fiduciary Fund:

	Foreign Currency	ATU/IBEW and Salaried
Cash	Euro Currency	$ 1,071
	Japanese Yen	47,461
Stocks	Euro Currency	5,387,371
	Japanese Yen	4,252,034
	New Zealand Dollar	51,528
	Pound Sterling	2,054,783
	Swiss Franc	616,012
Total:		$ 12,410,260

At June 30, 2009, the U.S. dollar balances organized by investment type and currency denominations are as follows:

Fiduciary Fund:

	Foreign Currency	ATU/IBEW and Salaried
Cash	Euro Currency	$ 18,252
	Japanese Yen	25,455
	Pound Sterling	38
Stocks	Euro Currency	5,635,508
	Japanese Yen	4,662,218
	New Zealand Dollar	65,079
	Pound Sterling	2,565,944
	Swiss Franc	403,947
Total:		$ 13,376,441

2. CASH AND INVESTMENTS (Continued)

RESTRICTED CASH AND INVESTMENTS

Enterprise Fund
At June 30, 2010 and 2009, cash and investments includes restricted amounts of the District's Enterprise Fund of $28,278,097 and $22,775,329, respectively. Amounts represent monies restricted for retirement of debt, developer fee projects, and grantor-approved projects.

Fiduciary Fund
At June 30, 2010 and 2009, cash and investments include restricted amounts of the Pension Trust Funds of $169,002,565 and $152,943,822, respectively. Amounts represent funds restricted for employees' retirement.

3. PREPAID LEASE

The District leases parking space from the State of California under a thirty-year lease expiring on June 30, 2017, with a fifteen-year no cost extension option. The total lease rental payments of $1,500,000 were prepaid by the District and are being expensed over a thirty-year period. The prepaid lease balance at June 30 is summarized as follows:

	2010	2009
Prepaid Lease, Balance	$ 350,000	$ 400,000
Less: Current Portion	(50,000)	(50,000)
Prepaid Lease, Non-current	$ 300,000	$ 350,000

4. CAPITAL ASSETS

Activity for the year ended June 30, 2010 was as follows:

Assets at Cost	Balance June 30, 2009	Additions	Transfers	Deletions	Balance June 30, 2010
Non-Depreciated Capital Assets					
Land*	$ 85,226,659	$ -	$ -	$ -	$ 85,226,659
Capital Projects in Process	58,895,033	31,158,709	(15,897,668)	(1,517,752)	72,638,322
Total Non-Depreciated Capital Assets	144,121,692	31,158,709	(15,897,668)	(1,517,752)	157,864,981
Depreciated Capital Assets					
Buildings and Improvements*	633,797,775	-	15,563,440	-	649,361,215
Buses and Other Equipment	275,707,599	238,387	334,228	(11,773,555)	264,506,659
Total Depreciated Capital Assets	909,505,374	238,387	15,897,668	(11,773,555)	913,867,874
Accumulated Depreciation:					
Buildings and Improvements	(158,031,599)	(17,287,510)	-	-	(175,319,109)
Buses and Other Equipment	(115,451,163)	(13,950,471)	-	11,752,400	(117,649,234)
Total Accumulated Depreciation	(273,482,762)	(31,237,981)	-	11,752,400	(292,968,343)
Capital Assets Being Depreciated, Net	636,022,612	(30,999,594)	15,897,668	(21,155)	620,899,531
Capital Assets, Net	$ 780,144,304	$ 159,115	$ -	$ (1,538,907)	$ 778,764,512

*Land and Building – the values of the land and buildings at McClellan Park, approximately $3.7 million and $6.7 million, respectively, are included in these figures in anticipation of the District receiving future Fee Simple title. On January 5, 2007, a net lease and purchase agreement was recorded, giving the District a 94-year land and building leasehold and providing for a future transfer of Fee Simple title upon completion of Hazardous Materials clean-up by the United States Air Force. Pursuant to such transaction, the District acquired a leasehold interest in multiple buildings and some exterior parking and the right to use certain common areas at McClellan Park (formerly McClellan Air Force Base). Fee Simple title to the property is projected to be transferred to the District in 2011. Therefore, the current lease in furtherance of conveyance is being reported as a fee simple ownership of the property.

4. CAPITAL ASSETS (continued)

Activity for the year ended June 30, 2009 was as follows:

Assets at Cost	Balance June 30, 2008	Additions	Transfers	Deletions	Balance June 30, 2009
Non-Depreciated Capital Assets					
Land*	$ 84,130,373	$ 651,286	$ 445,000	$ -	$ 85,226,659
Capital Projects in Process	46,086,568	28,828,138	(16,019,673)	-	58,895,033
Total Non-Depreciated Capital Assets	130,216,941	29,479,424	(15,574,673)	-	144,121,692
Depreciated Capital Assets					
Buildings and Improvements	623,555,098	345,328	9,897,349	-	633,797,775
Buses and Other Equipment	273,519,825	18,333,700	5,677,324	(21,823,250)	275,707,599
Total Depreciated Capital Assets	897,074,923	18,679,028	15,574,673	(21,823,250)	909,505,374
Accumulated Depreciation:					
Buildings and Improvements	(141,078,343)	(16,953,256)	-	-	(158,031,599)
Buses and Other Equipment	(123,165,190)	(14,109,223)	-	21,823,250	(115,451,163)
Total Accumulated Depreciation	(264,243,533)	(31,062,479)	-	21,823,250	(273,482,762)
Capital Assets Being Depreciated, Net	632,831,390	(12,383,451)	15,574,673	-	636,022,612
Capital Assets, Net	$ 763,048,331	$ 17,095,973	$ -	$ -	$ 780,144,304

5. LINE OF CREDIT

For the purpose of short term borrowing needs, the District has an unsecured line of credit agreement with a bank. As of June 30, 2010 and June 30, 2009, the District is in compliance with the short term borrowing requirements stated under the California Government Code. The purpose of the line of credit is to meet the District's liquidity needs stemming from the timing of cash receipts from Federal and State awards. The line is subject to a $25,000,000 limit and bears interest at either prime rate minus one half percent on a fixed rate basis or LIBOR plus two percent on a variable basis. The line of credit expired June 30, 2010. The District renewed the line of credit from Wells Fargo Bank in the amount of $25,000,000. The line of credit is available until June 30, 2011 The line of credit balance at June 30, 2010 and 2009 is summarized as follows:

	2010	2009
Beginning Balance	$ 20,000,000	$ 10,500,000
Draws	56,100,000	44,300,000
Payments	(65,000,000)	(34,800,000)
Ending Balance	$ 11,100,000	$ 20,000,000

6. LEASES

OPERATING LEASES

The District leases buildings, parking lots, and office facilities under non-cancelable operating leases. Total cost for such leases was $586,959 and $596,515 for the fiscal years ended June 30, 2010 and 2009, respectively. The future minimum lease payments for these leases are as follows:

Year Ending June 30,		Amount
2011	$	587,869
2012		428,491
2013		2,475
Total	$	1,018,835

CAPITAL LEASES

FINANCE OBLIGATIONS UNDER CAPITAL LEASE/LEASEBACK

In December 2005, January 2006 and September 2007, the District entered into 3 transactions to lease 50 light rail vehicles to an equity investor (the "headlease") and simultaneously subleased the light rail cars back (the "sublease"). Trusts were created coincident to these transactions to serve as the lessee\ sublessor.

Under the headlease agreements, the District retains the right to use the light rail vehicles and is also responsible for their continued maintenance and insurance. These transactions resulted in a net cash gain to the District of $11,820,731, which was deferred and is being amortized over the life of the lease. At June 30, 2010 and 2009, the District had a balance of $10,284,189 and $10,703,953, respectively, as deferred gain on Lease/Leaseback. During the fiscal years ending June 30, 2010 and 2009, the District amortized $419,764 and $415,842 of the Deferred Gain on Lease/Leaseback.

The District's sublease arrangement has been recorded similar to a capital lease arrangement in that the present value of the future lease payments has been recognized on the Statement of Net Assets as a Lease/Leaseback payable.

At closing, the light rail vehicles had a fair value of approximately $223,880,000 and a net book value of $94,822,528. As part of the headlease agreements, the District received prepayments equivalent to the net present value of the headlease obligations. The District transferred a portion of these proceeds to third party lenders/undertakers in accordance with the terms of debt and equity payment undertaking agreements. These agreements constitute commitments by the debt and equity payment undertakers to pay the District's sublease and buy-out options under the terms of the subleases. The debt and equity payment undertakers' performance under the agreement is guaranteed by their parent company. In accordance with generally accepted accounting principles in the United States of America, the District has reflected this as a financing transaction.

6. LEASES (Continued)

In September and November 2008, American International Group (AIG) and Ambac Assurance Corporation (Ambac) were respectively downgraded by both the Standard and Poor's and Moody's rating agencies. AIG and Ambac are financial participants in all of the District's three lease transactions, which are referred to as Sale In/Lease Out (SILO) transactions. The downgrade of AIG triggered a requirement within the lease documents for the District to replace AIG within 60 days with a similar financial participant acceptable to the equity investor. The downgrade of Ambac also triggered another replacement requirement on all three transactions. AIG and Ambac continue to perform as required on all three lease transactions since the downgrades and the District's equity investor has granted the District consecutive extensions to find acceptable replacements. The District continues to make every effort to replace AIG and Ambac with acceptable alternatives while actively participating in the national coalition of similarly positioned public agencies in their efforts to work towards a regulatory or legislative solution to the SILO and Lease In/Lease Out (LILO) problems which are being experienced throughout the transit industry nationwide. In the event that the District is unable to replace AIG and Ambac with acceptable alternatives and relief is not experienced at the regulatory or legislative level or as a result of negotiations with its equity investor, the District in a worse case scenario could be required to pay the net termination value on the leases. However, it is reasonably anticipated that this negative consequence can be averted.

As a result of the downgrade of AIG and Ambac the District also needed to seek forbearance from Wells Fargo Bank who provides a line of credit to the District for its working capital. Wells Fargo Bank has provided extensions as provided by the District's equity investor on the SILO transactions. The need for additional forbearance with respect to the line of credit will end when a permanent solution is reached with respect to AIG and Ambac in connection with the lease transactions.

As the debt and equity payment undertaking agreements have been structured to meet all future obligations under the sublease, the District has recorded the amounts held by the payment undertakers as Deposits for Lease/Leaseback Payables on the Statements of Net Assets. At June 30, 2010 and 2009, the balance of this deposit was $100,681,155 and $146,527,940, respectively.

The obligation under the lease agreements and the investments held to pay the lease/leaseback obligation are adjusted annually to reflect the change in the net present value of the related sublease and buy-out options. The following table sets forth the aggregate amounts due under the sublease agreements.

Future minimum payments due in fiscal years ending June 30,:	Amount
2011	$ 47,264,990
2012	24,271,104
2013	3,857,272
2014	-
2015	-
2016-2020	-
2021-2025	-
2026-2030	3,163,610
2031-2035	11,611,558
2036	83,156,922
Total future minimum payments	173,325,456
Less: imputed interest	(72,644,301)
Present value of minimum lease payments	$ 100,681,155

7. LONG-TERM DEBT

CERTIFICATES OF PARTICIPATION 2003 FAREBOX REVENUE

In December 2003, the California Transit Finance Corporation (CTFC) issued Certificates of Participation (COP) totaling $18,000,000 on behalf of the District with interest rates ranging from 2.0% to 5.0%. The COPs continue to finance the acquisition of light rail vehicles, trolley vehicles and real property to be used for maintenance facilities. On December 1, 2003, the District entered into an installment purchase contract with the CTFC. The obligation of the District to make installment payments is an unconditional obligation of the District payable solely from, and secured by, a lien on and gross pledge of farebox revenues through 2015. The installment agreement requires the District to make annual COP payments to CTFC which are then remitted to the COP holders. Scheduled maturity dates occur at various times through March 1, 2015. Annual principal and interest payments on the COPs are expected to require less than 6.8 percent of total farebox revenues. The total principal and interest remaining to be paid on the COPs were $10,399,377 and $12,476,910 at June 30, 2010 and 2009 respectively. Principal and interest paid were $2,077,533 and $2,079,033 for the fiscal years ending June 30, 2010 and 2009 respectively. Farebox revenues were $30,863,701 and $32,571,459 for the fiscal years ending June 30, 2010 and 2009 respectively.

As of June 30, 2010, debt service requirements to maturity are as follows:

Fiscal Years Ending June 30,:	Principal	Interest	Total
2011	$ 1,690,000	$ 392,282	$ 2,082,282
2012	1,770,000	307,783	2,077,783
2013	1,835,000	244,062	2,079,062
2014	1,905,000	175,250	2,080,250
2015	2,000,000	80,000	2,080,000
Total	$ 9,200,000	$ 1,199,377	$ 10,399,377

As of June 30, 2010, the unamortized premium and bond issuance cost associated with the COPs were $354,590 and $242,502, respectively. As of June 30, 2009, the unamortized bond premium and bond issuance costs were $430,574 and $294,466, respectively.

For the fiscal years ended June 30, 2010, and 2009, the amortization of the premium and issuance costs were $75,984 and $51,964, respectively.

7. LONG-TERM DEBT (Continued)

CHANGES IN LONG-TERM LIABILITES

Long-term liability activity for the fiscal year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Certificates of participation	$ 10,805,000	$ -	$ (1,605,000)	$ 9,200,000	$ 1,690,000
Issuance Premium	430,574	-	(75,984)	354,590	75,984
Total COP	11,235,574	-	(1,680,984)	9,554,590	1,765,984
Compensated Absences	8,528,767	6,417,964	(6,676,813)	8,269,918	6,465,233
Advances from Other Governments	19,547,484	22,438,404	(18,780,523)	23,205,365	9,895,284
Claims Payable	21,850,000	83,585	(3,998,508)	17,935,077	6,628,000
Lease/Leaseback Payable	146,527,940	6,234,236	(52,081,021)	100,681,155	47,264,990
Long-Term Liabilities	$ 207,689,765	$ 35,174,189	$ (83,217,849)	$ 159,646,105	$ 72,019,491

Long term liability activity for the fiscal year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Certificates of participation	$ 12,335,000	$ -	$ (1,530,000)	$ 10,805,000	$ 1,605,000
Issuance Premium	506,557	-	(75,983)	430,574	75,984
Total COP	12,841,557	-	(1,605,983)	11,235,574	1,680,984
Compensated Absences	8,304,373	6,898,316	(6,673,922)	8,528,767	6,835,175
Advances from Other Governments	20,498,631	2,590,785	(3,541,932)	19,547,484	6,445,829
Claims Payable	21,466,000	4,919,261	(4,535,261)	21,850,000	6,425,000
Lease/Leaseback Payable	190,508,944	8,489,134	(52,470,138)	146,527,940	44,707,003
Long-Term Liabilities	$ 253,619,505	$ 22,897,496	$ (68,827,236)	$ 207,689,765	$ 66,093,991

8. FUNDING SOURCES

The District is dependent upon funds from several sources to meet its operating, maintenance, and capital requirements. The receipt of such funds is controlled by statutes, the provisions of various grant contracts, regulatory approvals, and, in some instances, is dependent on the availability of grantor and local matching funds.

FEDERAL GRANTS

Federal grant funding is obtained from the Federal Transit Administration (FTA). Federal funding for the fiscal years ended June 30 is comprised of the following:

	2010	2009
Operating assistance grants:		
FTA Section 5316	$ 327,984	$ 652,671
FTA Section 5307	21,283,578	17,669,227
FTA Section 5309	4,844,088	4,465,646
FTA ARRA	8,096,053	8,000,000
Total Federal operating assistance grants	34,551,703	30,787,544
Capital grants:		
FTA Section 5307	931,200	929,338
FTA Section 5309	380,973	892,613
STP and CMAQ	3,593,021	7,162,647
FTA ARRA	50,259	-
Total Federal capital grants	4,955,453	8,984,598
Total Federal operating and capital grants	$ 39,507,156	$ 39,772,142

The FTA retains its interest in assets acquired with Federal funds should they be disposed of before the end of their economic lives or not used for public transit.

Under provisions of Section 5307 of the Urban Mass Transportation Act of 1964, as amended, Federal resources are made available for planning, capital, and operating assistance, subject to certain limitations. Funds are apportioned annually based on a statutory formula and are available for a period of three years following the close of the fiscal year for which they were apportioned. Any unobligated funds at the end of such period revert to the federal government. In general, funds received for operations must, at a minimum, be matched 50% with local contributions and funds for capital projects must be matched 20% with local contributions.

On February 17, 2009 the President signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). The Act provides direct funding from the federal government for infra-structure, fiscal stabilization and other programs over the next several years. ARRA is designed to create or save jobs, and invest in science, health care, transportation, education, and energy efficiency.

8. FUNDING SOURCES (Continued)

STATE AND LOCAL GRANTS

The District qualified for and received distributions from Local Transportation Funds and State Transit Assistance under claims approved by the Sacramento Area Council of Governments (SACOG) in accordance with provisions of the Transportation Development Act (TDA).

State and local grant funding for the fiscal years ended June 30, is comprised of the following:

	2010	2009
Operating assistance grants:		
Local Transportation Funds	$ 24,698,724	$ 33,056,759
Measure A Sales Tax Revenue	27,678,086	34,872,181
State Transit Assistance	5,757,829	2,796,057
Total state and local operating assistance grants	58,134,639	70,724,997
Capital grants:		
State Transit Assistance	-	2,112,033
Traffic Congestion Relief Program	7,584,327	7,744,656
Measure A Sales Tax Revenue	15,705,365	8,431,317
Proposition 116	-	606,620
Proposition IB	1,451,853	2,097,894
Developer Fees	-	1,095,961
Public Transportation Account	94,086	16,278,065
Air Quality Management	-	1,736,000
Local Transportation Funds	1,143,519	-
City of Sacramento	1,208,725	-
Sacramento County	153,293	1,038,427
Department of Transportation	208,677	317,607
Sacramento Housing and Redevelopment	275,502	297,512
Homeland Security	674,699	253,581
Transportation Enhancement Activities	672,067	-
Other	208,826	431,345
Total state and local capital grants	29,380,939	42,441,018
Total state and local grants	$ 87,515,578	$ 113,166,015

ADVANCES FROM OTHER GOVERNMENTS

Advances at June 30, consisted of the following:

	2010	2009
Developer Fees	$ 12,682,866	$ 12,430,435
Proposition IB	9,693,760	6,445,829
Laguna Facilities District	543,277	579,289
Other	285,462	91,931
Total advances from other governments	$ 23,205,365	$ 19,547,484

The advances from other governments are utilized principally for capital funding.

9. FARE REVENUE RATIO

The District is required to maintain a fare revenue-to-operating expense ratio of 25.50% in accordance with the Transportation Development Act. To demonstrate compliance with this Fare Revenue Ratio, the District has supplemented, per California Public Utilities Code Section 99268.19, a portion of its Local Measure A funds in order to meet the required ratio. The fare revenue-to-operating expense ratio for the District is calculated as follows for the fiscal years ended June 30:

	2010	2009
Fare Revenues	$ 30,863,701	$ 32,571,459
Local Fund Supplementation (Measure A)	3,663,358	3,962,864
Total Revenues	$ 34,527,059	$ 36,534,323
Operating Expenses	$ 166,270,415	$ 173,970,458
Less Allowable Exclusions:		
Depreciation and Amortization	(30,870,183)	(30,698,602)
Net Operating Expenses	$ 135,400,232	$ 143,271,856
Fare Revenue Ratio	25.50%	25.50%

10. PENSION PLANS

DESCRIPTION OF PLANS

The District contributes to three single-employer defined benefit pension plans: The Sacramento Regional Transit District Retirement Plan for members of ATU, Local 256 (the ATU Plan), the Sacramento Regional Transit District Retirement Plan for members of and IBEW Local 1245 (the IBEW Plan), and the Sacramento Regional Transit District Retirement Plan for Salaried Employees who are members of the Administrative Employees' Association (AEA), Management and Confidential Employees Group (MCEG), and the American Federation of State, County and Municipal Employees (AFSCME) (Salaried Plan).

The plans are administered by the District under the direction of five separate Retirement Boards of Directors, each representing one of the aforementioned bargaining and employee groups of ATU, IBEW, AEA, AFSCME and MCEG. Each Retirement Board is comprised of equal representation; District Management by a member from the District's Board of Directors and General Manager, and two members from the represented group. All members are elected annually.

For the ATU Plan, the ATU members will fully vest after ten years of service and for the IBEW plan, the IBEW members will fully vest after five years of service. For the Salaried Plan, members represented by the AEA and MCEG fully vest after five years of service. The members of AFSCME fully vest after nine years of service.

During the year ended June 30, 2010, the District's Board of Directors approved a two year Retirement Incentive Program. The effects of this plan will be recognized in the year ended June 30, 2011, at which time the new actuary valuation report dated July 1, 2010, will be implemented. The Retirement Incentive Program is expected to increase the actuarial accrued liability by $1,200,000 for the Union Plan and $700,000 for Salaried Plan for those who retired as of June 30, 2010.

Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. The District's Board of Directors and the collective bargaining groups jointly establish and amend benefit provisions for the ATU, IBEW and Salaried Plans. The ATU/IBEW Plan and the Salaried Plan issues a publicly available combined financial report that includes financial statements and required supplementary information. During the year ended June 30, 2010, the pension plans commingled their investments as allowed by the bargaining agreements to lower costs. The report may be obtained by writing to Sacramento Regional Transit District, Attention: Chief Financial Officer, P.O. Box 2110, Sacramento, CA 95812.

ADMINISTRATION

The plans are administered by the Retirement Boards. All expenses incurred in the administration of the plans are paid by the plans, with the exception of the yearly financial statement audit fees.

10. PENSION PLANS (continued)

FUNDING POLICY

The District contributed 100% of an actuarially determined rate; the rates for the fiscal year ended June 30, 2010, based on the actuarial valuation dated July 1, 2008, were 17.83% or $7,425,798 and 19.95% or $4,268,586 of annual covered payroll for the ATU/IBEW and Salaried Plans, respectively. Contribution rates for the fiscal year ended June 30, 2009, based on the actuarial valuation dated July 1, 2007, were 16.30% or $6,937,170 and 17.97% or $3,819,900 of annual covered payroll for the ATU/IBEW and Salaried Plans, respectively. The District's contribution to the plans are mandated by contractual agreements with employee groups and may be amended at any time. Amendments to existing contracts are agreed upon between each collective bargaining unit and the District. No contributions are required by plan members.

ANNUAL PENSION COST

The annual required contributions for both the ATU/IBEW Plan and Salaried Plan were determined as part of the July 1, 2008 and July 1, 2007 actuarial valuation using the entry age actuarial cost method. The July 1, 2008 and July 1, 2007 actuarial valuation reports were used to determine the contribution rate for fiscal year ended June 30, 2010 and June 30, 2009, respectively. The remaining amortization of the unfunded liability at June 30, 2009 is 26 years and 28 years at June 30, 2008.

The July 1, 2009 actuarial assumptions included (a) 8.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 3.76% to 12.82% for ATU/IBEW employees and 3.5% to 15.9% for Salaried employees. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of assets was determined using the market value adjusted to reflect investment earnings greater than (or less than) the assumed rate over a five-year period. The plans' unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on a closed basis.

10. PENSION PLANS (Continued)

The District's annual pension cost, the percentage of annual pension cost contributed to the plans, and the net pension obligation for the past three fiscal years were as follows:

Ficsal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	$ 11,812,742	100.0%	$ -
6/30/2009	10,757,070	100.0%	-
6/30/2010	11,694,384	100.0%	-

FUNDING STATUS AND FUNDING PROGRESS

The funded status of the plans as of July 1, 2009 is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
ATU/IBEW Employees' Plan:						
6/30/2009	$ 134,537,202	$ 179,294,287	$ 44,757,085	75.0%	$ 43,626,223	102.6%
Salaried Employees' Plan:						
6/30/2009	$ 50,164,727	$ 82,942,062	$ 32,777,335	60.5%	$ 22,601,919	145.0%

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, 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.

11. POST-RETIREMENT BENEFITS

DESCRIPTION OF PLAN

The District provides certain health care and life insurance benefits under the provisions of the Personnel Rules and Procedures for active and retired members of AEA, AFSCME, and MCEG. These members and their dependents may become eligible for such benefits if the employees reach normal retirement age while working for the District. These benefits and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year.

The District established an irrevocable trust to prefund the other postemployment benefit annual required contribution by participating in the California Employer's Retiree Benefit Trust Program (CERBT) during the fiscal year ended June 30, 2009. The funds in the CERBT are held in trust and will be administered by the California Public Employees' Retirement System (CalPERS) as an agent multiple-employer plan. Benefit provisions are established and may be amended by District labor agreements which are approved by the Board of Directors. The District's Other Postemployment Benefits (OPEB) financial statements will be included in the CalPERS CAFR. Copies of the CalPERS' CAFR may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

FUNDING POLICY

The obligation of the District to contribute to the plan is established by the Board of Directors. The District currently funds the OPEB at 100% of the ARC.

Prior to establishing the irrevocable trust with CERBT, the District paid on a pay-as-you-go basis, recording health care and life insurance benefit contributions based on when the insurance premium payments were made. The District contributes 92% of the cost for plan members hired after 1993, and 100% for plan members hired prior to 1994. One hundred and forty-six and one hundred twenty-nine employees and/or their beneficiaries were eligible to receive such benefits at June 30, 2010, and 2009, respectively.

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The CERBT fund, which is an IRC Section 115 Trust, is set up for the purpose of (i) receiving employer contributions to prefund health and other postemployment benefits for retirees and their beneficiaries, (ii) invest contributed amounts and income therein, and (iii) disburse contributed amounts and income therein, if any, to pay for costs of administration of the fund and to pay for health care costs or other postemployment benefits in accordance with the terms of the District's OPEB plan.

11. POST-RETIREMENT BENEFITS (Continued)

ANNUAL OPEB COST AND NET OPEB OBLIGATION

The ARC for the fiscal year ended June 30, 2010 was determined as part of the July 1, 2008 actuarial valuation. The ARC rate was 13.1% of annual covered payroll. For the fiscal year ended June 30, 2010 and 2009, the District's annual OPEB cost (expense) was $2,779,579 and $2,751,016, respectively. The following table shows the components of the District's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation to the plan:

	2010	2009
Annual required contribution	$ 2,779,579	$ 2,751,016
Interest on net OPEB obligation	-	90,243
Adjustment to annual required contribution	-	(90,243)
Annual OPEB cost (expense)	2,779,579	2,751,016
Contributions Made	2,779,579	4,258,878
Increase (Decrease) in net OPEB obligation	-	(1,507,862)
Net OPEB obligation – beginning of year	-	1,507,862
Net OPEB obligation – end of year	$ -	$ -

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended June 30, 2010 and the two preceding years were as follows:

Ficsal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$ 2,774,707	45.7%	$ 1,507,862
6/30/2009	2,751,016	154.8%	-
6/30/2010	2,779,579	100.0%	-

FUNDING STATUS AND FUNDING PROGRESS

The funded status of the plan as of July 1, 2008, was as follows:

Actuarial accrued liability (AAL)	$ 28,837,480
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 28,837,480
Funded Ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	$ 19,292,251
UAAL as a percentage of covered payroll	149.48%

11. POST-RETIREMENT BENEFITS (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress immediately following the notes to the financial statements presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation.

In the July 1, 2008 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 7.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10.0% for calendar year 2008, reduced by decrements of 0.5% a year to an ultimate rate of 4.5% at 2017 and thereafter.

The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method the plan's normal cost is developed as a level amount over the participants' working lifetime. The AAL is the cumulative value, on the valuation date, of prior service costs. For retirees, the AAL is the present value of all projected benefits.

The ARC under this method equals the normal cost plus the amortization of unfunded AAL over a thirty (30) year open period and is being amortized as a level percentage of increasing payroll. The Plan costs are derived by making certain specific assumptions as to the rates of interest, mortality, turnover, and the like, which are assumed to hold for many years in the future. Actual experience may differ somewhat from the assumptions and the effect of such differences is spread over all periods. Due to these differences, the costs determined by the valuation must be regarded as estimates of the true Plan costs.

12. SELF-INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Coverage provided by self-insured and excess coverage is generally as follows as of June 30, 2010:

Type of Coverage	Self-insurance (per occurrence)	Excess Coverage (per occurrence)
Workers' Compensation	Up to $2,000,000	$2,000,000 to $25,000,000
Commercial General Liability		
Bus	Up to $2,000,000	$2,000,000 to $100,000,000
Light Rail	Up to $5,000,000	$5,000,000 to $100,000,000
*Property:		
Flood & All Other Perils	Up to $250,000	$250,000 to $227,200,000**
Collision	Up to $500,000	$500,000 to $227,200,000

* Includes revenue and non-revenue vehicles.
** In Aggregate excess coverage for flood.

The District purchases commercial insurance for claims in excess of self-insured amounts and for all other risks of loss to a stated maximum amount. The District is self-insured for amounts in excess of these maximum amounts. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The claims liability of $17,935,077 and $21,850,000 reported at June 30, 2010, and 2009, respectively, is based on estimates of the amounts needed to pay prior and current year claims and to allow accrual of estimated incurred but not reported claims. Non-incremental claims adjustment expenses have been included as part of the liability. As of June 30, 2010 Workers' Compensation liability and Public Liability and Property Damage (PLPD) liability are discounted using discount factors that assume a 0.0% and 4.0 % rate respectively. As of June 30, 2010, PLPD was discounted by the amount the District holds in a reserve fund in the amount of $4.1 million. As of June 30, 2009, both liabilities were discounted using a 4.5% rate of return.

These claim estimates are actuarially determined and based on the requirements of GASB Statements No. 10 and 30, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the District's claims liability amount during the fiscal years ended June 30, 2010 and 2009 were as follows:

Fiscal Year Ended	Beginning of the Year Liability	Current Year Claims and Changes in Estimate	Claims Payments	End of the Year Liability
June 30, 2010	$ 21,850,000	$ 83,585	$ (3,998,508)	$ 17,935,077
June 30, 2009	21,466,000	4,919,261	(4,535,261)	21,850,000

13. CONTINGENT LIABILITIES AND COMMITMENTS

The District is involved in various claims and litigation arising from its operations. District management, after consultation with the District's general counsel, believes that the resolution of such matters will not have a material adverse effect on the District's financial position or results of operations.

The District receives funding for specific purposes that is subject to review and audit by the granting agencies or funding source. Such audits could result in a request for reimbursement for expenses disallowed under the terms and conditions of the contracts. Management is of the opinion that no material liabilities will result from such potential audits.

The District has construction contracts and property acquisition commitments of approximately $25,227,690 and $14,334,740 at June 30, 2010, and 2009, respectively. Federal, state, and local grant funds have been approved for such construction.

PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA)

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006. Of the $19.925 billion of state general obligation bonds authorized, $4 billion was set aside by the State as instructed by statute as the PTMISEA. These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements or for rolling stock procurement, rehabilitation or replacement. PTMISEA activity for the fiscal years ended June 30, 2010 and 2009 are as follows:

Balance July 1, 2008	$ -
Receipts	1,883,652
Expenses:	
Siemens Mid Life Overhaul	(659,331)
Replace Neighborhood Ride Vehicles (hybrids)	(1,180,165)
ADA Transit Plan Improvements	(14,149)
Ahern/12th St Crossing Improvement	(5,217)
LRT Crossing Enhancements	(24,790)
Balance June 30, 2009	$ -
Balance July 1, 2009	$ -
Receipts	1,062,574
Expenses:	
Bus Maintenance Facility	(537,055)
Siemens Mid Life Overhaul	(57,416)
Replace Neighborhood Ride Vehicles (hybrids)	(265,289)
UTDC Retrofit	(16,094)
ADA Transit Plan Improvements	(27,391)
Ahern/12th St Crossing Improvement	(20,036)
LRT Crossing Enhancements	(139,293)
Balance June 30, 2010	$ -

SACRAMENTO REGIONAL TRANSIT DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS
AS OF JUNE 30, 2010

Sacramento Regional Transit District
ATU/IBEW Pension Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2007	125,257,646	154,996,244	29,738,598	80.8%	44,718,496	66.5%
6/30/2008	134,022,855	171,092,073	37,069,218	78.3%	44,916,133	82.5%
6/30/2009	134,537,202	179,294,287	44,757,085	75.0%	43,626,223	102.6%

The District's contributions to the plans are mandated by contractual agreements with employee groups and may be amended at any time. Amendments to existing contracts are agreed upon between each collective bargaining unit and the District. No contributions are required by plan members.

Sacramento Regional Transit District
Salaried Pension Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2007	44,561,443	72,273,554	27,712,111	61.7%	21,929,109	126.4%
6/30/2008	48,659,603	79,072,546	30,412,943	61.5%	21,114,983	144.0%
6/30/2009	50,164,727	82,942,062	32,777,335	60.5%	22,601,919	145.0%

The District’s contribution to the plans are mandated by contractual agreements with employee groups and may be amended at any time. Amendments to existing contracts are agreed upon between each collective bargaining unit and the District. No contributions are required by plan members.

SACRAMENTO REGIONAL TRANSIT DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS
AS OF JUNE 30, 2010

Sacramento Regional Transit District
Retirees' Other Post Employment Benefits (OPEB) Trust

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2006	$ -	$ 21,918,000	$ 21,918,000	-	$ 21,180,000	103.5%
7/1/2008	-	28,837,480	28,837,480	-	19,292,251	149.5%

The District is currently funding the OPEB plan at 100% of the ARC. No contributions are required by plan members.

SACRAMENTO REGIONAL TRANSIT DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
JUNE 30, 2010

	ATU/IBEW	Salaried	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 6,277,647	$ 2,388,000	$ 8,665,647
Interest, Dividend and Other Receivables	1,375,675	538,561	1,914,236
Total Current Assets	7,653,322	2,926,561	10,579,883
Long-Term Investments:			
Equity Securities	69,105,861	26,178,410	95,284,271
Fixed Income Securities	47,104,104	17,948,543	65,052,647
Total Long-Term Investments	116,209,965	44,126,953	160,336,918
Total Assets	123,863,287	47,053,514	170,916,801
LIABILITIES			
Liabilities:			
Securities Purchased Payable	4,227,916	1,612,668	5,840,584
Accounts Payable	504,710	179,156	683,866
Total Liabilities	4,732,626	1,791,824	6,524,450
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 119,130,661	$ 45,261,690	$ 164,392,351

SACRAMENTO REGIONAL TRANSIT DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
JUNE 30, 2009

	ATU/IBEW	Salaried	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 5,140,335	$ 1,776,169	$ 6,916,504
Interest, Dividend and Other Receivables	5,291,316	1,988,541	7,279,857
Total Current Assets	10,431,651	3,764,710	14,196,361
Long-Term Investments:			
Equity Securities	65,588,411	23,975,787	89,564,198
Fixed Income Securities	41,293,660	15,169,460	56,463,120
Total Long-Term Investments	106,882,071	39,145,247	146,027,318
Total Assets	117,313,722	42,909,957	160,223,679
LIABILITIES			
Liabilities:			
Securities Purchased Payable	10,838,015	3,262,773	14,100,788
Accounts Payable	1,230,234	58,448	1,288,682
Total Liabilities	12,068,249	3,321,221	15,389,470
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 105,245,473	$ 39,588,736	$ 144,834,209

SACRAMENTO REGIONAL TRANSIT DISTRICT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	ATU/IBEW	Salaried	Total
ADDITIONS			
Contributions:			
Employer	$ 7,425,798	$ 4,268,586	$ 11,694,384
Member	-	-	-
Total Contributions	7,425,798	4,268,586	11,694,384
Investment Income:			
Net Increase in Fair Value of Investments	13,872,976	4,964,975	18,837,951
Interest, Dividends, and Other Income	3,282,591	1,243,003	4,525,594
Investment Expenses	(909,220)	(344,525)	(1,253,745)
Net Investment Gain	16,246,347	5,863,453	22,109,800
Total Additions	23,672,145	10,132,039	33,804,184
DEDUCTIONS			
Benefits Paid to Participants	9,743,381	4,408,637	14,152,018
Administrative Expenses	43,576	50,448	94,024
Total Deductions	9,786,957	4,459,085	14,246,042
Increase in Net Assets	13,885,188	5,672,954	19,558,142
Net Assets Held in Trust for Pension Benefits - July 1	105,245,473	39,588,736	144,834,209
Net Assets Held in Trust for Pension Benefits - June 30	$ 119,130,661	$ 45,261,690	$ 164,392,351

SACRAMENTO REGIONAL TRANSIT DISTRICT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	ATU/IBEW	Salaried	Total
ADDITIONS			
Contributions:			
Employer	$ 6,937,170	$ 3,819,900	$ 10,757,070
Member	32,704	-	32,704
Total Contributions	6,969,874	3,819,900	10,789,774
Investment Income:			
Net Decrease in Fair Value of Investments	(20,291,908)	(7,246,832)	(27,538,740)
Interest, Dividends, and Other Income	3,782,205	1,360,852	5,143,057
Investment Expenses	(814,919)	(299,720)	(1,114,639)
Net Investment Loss	(17,324,622)	(6,185,700)	(23,510,322)
Total Deductions	(10,354,748)	(2,365,800)	(12,720,548)
DEDUCTIONS			
Benefits Paid to Participants	9,506,648	3,502,797	13,009,445
Administrative Expenses	76,190	69,387	145,577
Total Deductions	9,582,838	3,572,184	13,155,022
Decrease in Net Assets	(19,937,586)	(5,937,984)	(25,875,570)
Net Assets Held in Trust for Pension Benefits - July 1	125,183,059	45,526,720	170,709,779
Net Assets Held in Trust for Pension Benefits - June 30	$ 105,245,473	$ 39,588,736	$ 144,834,209

This part of the Sacramento Regional Transit District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

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Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual reports for the relevant year. The District implemented GASB Statement No. 34 during the fiscal year ended June 30, 2004 (with comparative results for the fiscal year ended June 30, 2003); schedules are presented beginning in that year.*

Net Assets
Last Nine Fiscal Years
(accrual basis of accounting)

Fiscal Year

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Assets									
Invested in Capital Assets, Net of Related Debt	$ 429,884,286	$ 539,090,155	$ 690,299,311	$ 717,156,080	$ 726,108,985	$ 743,350,268	$ 752,242,824	$ 771,044,618	$ 770,303,653
Restricted for Capital Projects	4,947,856	6,099,645	3,068,545	2,682,164	2,103,382	1,927,944	1,699,248	2,580,209	1,840,943
Unrestricted	25,953,281	13,372,312	3,705,484	10,460,999	1,807,267	9,881,934	2,695,069	1,445,707	(2,092,621)
Total Net Assets	$ 460,785,423	$ 558,562,112	$ 697,073,340	$ 730,299,243	$ 730,019,634	$ 755,160,146	$ 756,637,141	$ 775,070,534	$ 770,051,975

Source: Comprehensive Annual Financial Report

SACRAMENTO REGIONAL TRANSIT DISTRICT
STATISTICAL INFORMATION (UNAUDITED)

Changes in Net Assets
Last Nine Fiscal Years
(accrual basis of accounting)
Fiscal Year

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating Revenues									
Fares	$ 21,848,823	$ 21,744,856	$ 22,003,511	$ 21,101,127	$ 25,071,791	$ 27,101,261	$ 29,865,810	$ 32,571,459	$ 30,863,701
Operating Expenses									
Labor and Fringe Benefits	56,331,820	62,832,940	72,483,379	79,366,137	85,367,863	85,886,946	93,779,919	91,580,300	91,203,130
Professional and Other Services	14,453,815	17,028,922	19,552,537	21,418,260	23,555,360	23,612,684	26,504,694	26,584,306	24,797,197
Spare Parts and Supplies	10,047,407	10,062,997	11,091,794	14,467,760	18,444,824	14,941,288	12,187,760	12,950,141	11,043,792
Utilities	2,637,652	3,172,557	4,349,380	4,388,924	5,578,806	4,944,021	5,550,144	5,544,739	5,530,888
Casualty and Liability Costs	10,686,707	10,661,690	9,308,192	7,175,773	7,787,626	9,773,759	11,159,479	7,104,114	2,286,204
Depreciation and Amortization	17,307,988	17,081,939	23,233,378	28,120,749	28,840,311	28,434,288	28,445,407	30,698,602	30,870,183
Indirect Costs Allocated to Capital Programs	-	-	-	-	-	-	-	(2,171,760)	(862,965)
Other	1,327,360	1,414,831	1,864,053	2,092,273	1,890,293	1,970,575	1,896,171	1,680,016	1,401,986
Total Operating Expenses	112,792,749	122,255,876	141,882,713	157,029,876	171,465,083	169,563,561	179,523,574	173,970,458	166,270,415
Operating Loss	(90,943,926)	(100,511,020)	(119,879,202)	(135,928,749)	(146,393,292)	(142,462,300)	(149,657,764)	(141,398,999)	(135,406,714)
Non-Operating Revenues (Expenses)									
Operating Assistance:									
State and Local	52,591,930	52,242,163	66,877,107	70,453,388	78,679,574	92,839,043	84,557,745	70,724,997	58,134,639
Federal	6,483,135	14,105,618	11,852,702	24,400,487	19,413,267	21,011,076	22,804,156	30,787,544	34,551,703
Investment Income	2,286,149	2,203,817	1,076,396	842,381	3,881,756	7,907,986	8,145,081	8,910,839	6,438,505
Interest Expense	(635,997)	(459,450)	(469,877)	(633,675)	(3,805,198)	(7,900,469)	(7,951,190)	(9,154,035)	(6,792,061)
Pass Through to Subrecipients		(227,046)	(751,881)	(527,735)	(2,570,421)	(1,790,639)	(1,377,945)	(478,468)	(3,637,885)
Contract Services	6,778,896	5,561,255	5,697,324	4,969,841	4,992,826	5,295,200	4,732,120	4,311,430	4,598,650
Other	3,418,483	1,559,822	1,728,354	1,507,615	1,198,073	891,015	4,336,186	3,304,469	2,758,212
Total Non-Operating Revenues	70,922,596	74,986,179	86,010,125	101,012,302	101,789,877	118,253,212	115,246,153	108,406,776	96,051,763
Loss Before Capital Contributions	(20,021,330)	(25,524,841)	(33,869,077)	(34,916,447)	(44,603,415)	(24,209,088)	(34,411,611)	(32,992,223)	(39,354,951)
Capital Contributions									
State and Local	27,627,912	59,605,048	57,025,643	14,778,557	22,287,387	21,267,294	29,606,239	42,441,018	29,380,939
Federal	40,478,728	63,172,602	115,451,448	54,333,899	21,321,013	28,082,306	4,575,184	8,984,598	4,955,453
Increase in Net Assets before Extraordinary Item	48,085,310	97,252,809	138,608,014	34,196,009	(995,015)	25,140,512	(230,188)	18,433,393	(5,018,559)
Extraordinary Loss on Early Extinguishment of Debt	-	-	(96,786)	-	-	-	-	-	-
Special Items	-	-	-	-	715,406	-	-	-	-
Increase(Decrease) in Net Assets after Extraordinary Item	$ 48,085,310	$ 97,252,809	$ 138,511,228	$ 34,196,009	$ (279,609)	$ 25,140,512	$ (230,188)	$ 18,433,393	$ (5,018,559)

Source: Comprehensive Annual Financial Report

Operating Revenues by Source
Last Nine Fiscal Years

Fiscal Year	Farebox	Fare Prepayment/ Outlet Sales	Special / Contracted	Other	Total
2002	$ 7,206,316	$ 13,126,971	$ 1,513,401	$ 2,135	$ 21,848,823
2003	6,819,467	12,850,666	2,075,200	(477)	21,744,856
2004	7,230,262	12,022,373	2,750,876	-	22,003,511
2005	7,161,638	11,686,809	2,246,603	6,077	21,101,127
2006	7,677,324	16,325,280	1,054,862	14,325	25,071,791
2007	8,179,034	18,182,009	718,701	21,517	27,101,261
2008	8,549,841	19,672,827	1,622,660	20,482	29,865,810
2009	8,801,118	22,156,898	1,592,215	21,228	32,571,459
2010	8,219,357	20,876,281	1,747,750	20,313	30,863,701

Total Revenue Source: Comprehensive Annual Financial Report

Principal Fare Revenue Payers
Current Year and Nine Years Ago

	Fiscal Year 2010 Sales		Fiscal Year 2001 Sales	
Customers	Amount	%	Amount	%
Department of Human Assistance	$ 2,072,296	6.71%	$ 1,614,250	7.39%
Raley's Family of Fine Stores	1,227,565	3.98%	640,545	2.93%
Los Rios Community College District	1,093,680	3.54%	-	0.00%
Health & Human Services	1,076,725	3.49%	422,605	1.93%
Department of Transportation	1,070,475	3.47%	459,245	2.10%
Employment Development Department	974,907	3.16%	489,171	2.24%
California Environmental Protection Agency	872,307	2.83%	-	0.00%
Alta California Regional Center	857,128	2.78%	458,936	2.10%
Franchise Tax Board	703,179	2.28%	286,980	1.31%
California State University Sacramento	527,307	1.71%	-	0.00%
Ralphs	-	0.00%	719,470	3.29%
Water Resources Department	-	0.00%	705,277	3.23%
Department of Motor Vehicles	-	0.00%	308,985	1.41%
Subtotal (10 Largest)	10,475,569	33.94%	6,105,464	27.95%
Balance from other customers	20,388,132	66.06%	15,741,123	72.05%
Grand Total	$ 30,863,701	100.00%	$ 21,846,587	100.00%

Total Revenue Source: Comprehensive Annual Financial Report

Ratio of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Certificates of Participation 1992	Certificates of Participation 2003	Line of Credit	Six-County Region Percentage of Personal Income	Six-County Region Per Capita
2001	10,800,000	-	-	0.02%	5.38
2002	8,100,000	-	-	0.01%	3.92
2003	5,400,000	-	-	0.01%	2.55
2004	-	18,000,000	-	0.02%	8.35
2005	-	16,630,000	-	0.02%	7.6
2006	-	15,230,000	8,000,000	0.03%	10.48
2007	-	13,805,000	-	0.02%	6.15
2008	-	12,335,000	10,500,000	Not available	9.94
2009	-	10,805,000	20,000,000	Not available	13.26
2010	-	9,200,000	11,100,000	Not available	8.64

Source: Comprehensive Annual Financial Report

Notes: The District did not include the Sale/Leaseback and the Lease/Leaseback debt as the District received matching deposits for the payment of these obligations.

The District has not entered into debt arrangements with legal debt limitations.

CONTINUING DISCLOSURE REQUIREMENTS
(SEC Rule 15c2-12)

The following summary provides the District's specific and continuing Securities and Exchange Commission (SEC) disclosure requirements (Rule 15c2-12) in connection with the California Transit Finance Corporation Farebox Revenue Certificates of Participation, 2003 Series-C (Certificates). All Disclosure requirements can be found in the Official Statement, the District's Comprehensive Annual Financial Report (CAFR) and the District's Adopted Budget.

		2004 Official Statement	FY 2010 CAFR Page No.	FY 2010 Adopted Budget
1	Management Discussion and Analysis, Audited Financial Statements and Statistical Information		3-79	
2	Tabular or numerical information of the types contained in the Official Statement relating to the COPs under the following subscriptions:			
	Installment Payments	8		
	Net Installment Payments and Anticipated Farebox Revenues	9		
	Ridership and Farebox Revenues		73,74,76,77	
	Historical Operating Results		14,62,63	
	Farebox Recovery Ratios		44,73	
	Historical Nonoperating Revenues – 10 year funds		71,72	
	Measure A Funding Trends		43,72	
	LTF Revenue Funding Trends		43,72	
	STA Funds Available to and Utilized by the District		43,72	
	Federal Grant Moneys Available to the District		42,71	
	Adopted Operating Budgets			44,50
	Capital Project Expediture Plan			123

Pledged Revenue Coverage
Last Nine Fiscal Years

Fiscal Year	Fare Revenue	Non-Fare Revenues	Total Revenue	Less Operating Expense	Net Available Revenue	Debt Service		Coverage
						Principal	Interest	
2002	21,848,823	68,758,093	90,606,916	91,507,201	(900,285)	2,700,000	631,801	(0.27)
2003	21,744,856	71,329,015	93,073,871	100,471,586	(7,397,715)	2,700,000	459,450	(2.34)
2004	22,003,511	87,231,883	109,235,394	115,378,743	(6,143,349)	5,400,000	609,956	(1.02)
2005	21,101,127	101,993,546	123,094,673	122,314,384	780,289	1,370,000	700,524	0.38
2006	25,071,791	104,658,444	129,730,235	133,217,834	(3,487,599)	9,400,000	699,146	(0.35)
2007	27,101,261	118,470,621	145,571,882	134,356,800	11,215,082	1,425,000	640,008	5.43
2008	29,865,810	115,572,834	145,438,644	149,029,101	(3,590,457)	1,470,000	611,508	(1.72)
2009	32,571,459	108,754,008	141,325,467	139,829,027	1,496,440	1,530,000	549,033	0.72
2010	30,863,701	96,360,868	127,224,569	131,552,128	(4,327,559)	1,605,000	472,533	(2.08)

Notes: Details regarding the District's debt can be found in the notes to the financial statements. Operating expenses do not include depreciation and amortization and capital funded expenses. Capital revenue has been excluded.

Debt-service is funded via the District's capital program.

Demographic and Economic Indicators
Last Ten Fiscal Years

	Population[1,2]		Personal Income[1,2] (In Thousands)		Per Capital Personal Income[1]		Unemployment Rate[3]	
	Sacramento County	Six-County Region	Sacramento County	Six-County Region	Sacramento County	Six-County Region	Sacramento County	Six-County Region
2001	1,265,432	2,007,171	38,609,164	63,210,929	30,511	31,493	4.50%	4.80%
2002	1,299,105	2,066,069	40,305,802	66,012,313	31,026	31,951	5.70%	5.90%
2003	1,324,971	2,114,581	42,565,304	69,875,688	32,125	33,045	5.90%	6.10%
2004	1,344,279	2,154,175	45,282,809	75,040,119	33,686	34,835	5.60%	5.80%
2005	1,354,695	2,183,363	47,564,045	79,266,744	35,111	36,305	5.00%	5.20%
2006	1,362,328	2,210,376	50,167,306	84,535,893	36,825	38,245	4.80%	4.90%
2007	1,373,585	2,238,314	52,625,397	89,016,546	38,312	39,769	5.40%	5.60%
2008	1,386,469	2,266,130	54,177,837	91,439,415	39,076	40,350	7.20%	7.30%
2009	1,432,168	2,324,344	Not available	Not available	Not available	Not available	11.30%	11.60%
2010	1,445,327	2,349,935	Not available	Not available	Not available	Not available	12.70%	13.10%

Source: Six-county region includes Sacramento, Placer, Yolo, El Dorado, Yuba and Sutter counties.

1. 2001-2008 U.S. Department of Commerce, Bureau of Economic Analysis, *CA1-3 Personal income population, per capital personal income.*
2. 2009-2010 State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001–2010, with 2000 Benchmark.
3. State of California, Employment Development Department, Labor Force & Employment Data

Principal Employers
Current Year and Ten Years Ago

	Fiscal Year 2010			Fiscal Year 2001		
Employer	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
State of California	73,243	1	12.22%			
Sacramento County	11,620	2	1.94%			
Sutter Health Sacramento Sierra Region	8,702	3	1.45%	16,600	1	2.78%
UC Davis Health System	8,500	4	1.42%			
Mercy/Catholic Healthcare West	6,976	5	1.16%	6,000	5	1.01%
Kaiser Permanente	6,414	6	1.07%	10,530	2	1.77%
Elk Grove Unified School District	6,391	7	1.07%			
Intel Corporation	6,000	8	1.00%	5,000	9	0.84%
Sacramento Municipal Utility District	5,057	9	0.84%			
San Juan Unified School District	4,900	10	0.82%			
Oracle Corporation				8,500	3	1.43%
Raley’s Inc.				6,430	4	1.08%
Hewlett-Packard				5,800	6	0.97%
Pacific Bell				5,658	7	0.95%
Horizons West Inc.				5,400	8	0.91%
Apple Computers				5,000	10	0.84%
Total	137,803		22.99%	74,918		12.58%

Sources: Fiscal Year 2010 Sacramento Business Journal
Fiscal Year 2001, Sacramento Area Commerce and Trade Organization

District Profile
As of June 30, 2010

Date the Authority began Operations	April 1, 1973
Form of Governance	Board of Directors, with General Manager
Metropolitan Population	1.4 million
Total Employees	907
Service Area	All of Sacramento County, with services to Citrus Heights, Carmichael, Fair Oaks, Elk Grove, Folsom and Rancho Cordova
Area of Authority (in Square Miles)	Approximately 418 Square Miles
Population of Service Area	Approximately 1.4 million
Local Financial Support	Local Transportation Funds Measure A Sales Tax Revenue
Number of Bus Routes	64
Number of Rail Lines	2
Miles of Rail	37.5
Weekday Bus Revenue Service Miles	23,491
Weekday Rail Revenue Service Miles	13,195
Average Weekday Bus and Rail Riders	108,100
Number of Vehicles in Service	182 Compressed Natural Gas (CNG) Buses 30 CNG Buses (Reserve) 76 Rail Vehicles 4 Replica Streetcars 17
Paratransit	102 Paratransit Vehicles
Park and Ride Lots	18
Bus and Light Rail Transfer Stations	31
Bus Stops	3,300+
Rail Stations	48

TEN YEAR FUNDING HISTORY

The following table shows available funding that the District has been awarded over the last ten years from our major federal funding sources, followed by a brief description of each source.

	FEDERAL FUNDS						
	Federal Transit Funds					Federal Highway Discretionary Funds	ARRA
	Section 5307	Section 5309 Fixed Guideway	Section 5309 Bus	Section 5309 New Start	Section 5316 Jobs Access		
2001	$ 12,944,353	$ 2,880,051	$ 990,315	$ 34,870,640	$ 632,944	$ 20,000,000	$ -
2002	13,931,478	3,239,800	990,029	324,724	970,342	18,600,000	-
2003	14,349,591	3,410,682	1,229,598	-	1,241,009	3,397,600	-
2004	13,875,713	3,116,717	491,130	-	736,770	3,173,607	-
2005	13,650,000	2,978,598	485,888	-	1,082,863	8,000,000	-
2006	14,840,853	3,452,070	870,000	-	430,000	3,602,000	-
2007	14,250,000	4,217,137	401,280	-	425,047	1.363,000	-
2008	17,177,791	4,562,242	434,720	4,410,000	200,000	7,100,000	-
2009	17,981,339	4,797,633	451,440	6,930,000	483,148	1,363,000	(1) 16,240,000
2010	19,028,000	4,638,430	-	38,000,000	28,898	2,300,000	(2) 15,057,612

Federal Funds

Section 5307 Funds: Funds distributed by formula to large and small urban areas for a variety of transit planning, capital and preventive maintenance needs.

Section 5309 Fixed Guideway Funds: Funds distributed by formula to urban rail transit operators for repair and rehabilitation of com-muter and light rail systems.

Section 5309 Bus Funds: Funds for bus purchases and bus support facility projects. These funds are specifically earmarked by Congress each year.

Section 5309 New Starts Funds: Funds for fixed guideway (i.e. light rail, commuter rail, etc) projects. New Start projects are recommended by the Federal Transit Administration and based on rigorous criteria and selected for funding by Congress.

Section 5316 Jobs Access & Reverse Commute: Funds for operating new service that provides increased access to job opportunities, either through new service routes or expansions of existing routes into non-traditional service hours.

Federal Highway Discretionary Funds: Funds distributed for a variety of transportation planning, construction, and equipment acquisition needs. Projects are approved for funding by local agencies and forwarded to appropriate state and federal agencies for funding authorization.

ARRA Funds: On February 17, 2009 the President signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). The Act provides direct funding from the federal government for infrastructure, fiscal stabilization and other programs over the next several years. ARRA is designed to create or save jobs, and invest in science, health care, transportation, education, and energy efficiency.

(1) Comprised of section 5309 and 5307 preventative maintenance funds in the amount of $946,296 and $15,293,704 respectively.
(2) Section 5307 preventive maintenance funds.

TEN YEAR FUNDING HISTORY

The following table shows available funding that the District has been awarded over the last ten years from our major state and local funding sources, followed by a brief description of each source.

	STATE FUNDS		LOCAL FUNDS		
	State Transportation Improvement Program	Other	Measure A	Local Transportation Fund	State Transit Assistance
2001	$ -	$ -	$ 29,670,676	$ 33,053,521	$ 2,436,862
2002	34,432,135	7,900,000	32,949,451	33,571,008	2,700,000
2003	-	3,436,400	33,058,743	31,362,453	2,664,281
2004	-	-	33,020,730	33,444,322	2,431,270
2005	-	-	33,946,336	35,243,504	2,679,648
2006	44,368,000	-	41,846,466	37,861,087	5,818,675
2007	-	70,000	43,775,228	39,400,100	(1) 15,758,692
2008	10,125,000	19,512,000	47,605,525	32,459,480	8,541,278
2009	-	1,558,699	35,372,181	33,056,759	4,908,090
2010	-	7,979,439	79,836,086	24,698,724	5,151,088

State Funds

State Transportation Improvement Program: Funds distributed by the State for projects, including transit construction projects, that relieve traffic congestion on state and local roads and highways.

Proposition 116 Rail Bond Funds: Funds approved by California voters in *1990 (Clean Air Transportation Improvement Act*) for passenger rail purposes. The District received a total of $100 million for light rail improvement and expansion projects.

Other: These funds include Transit Capital Improvement funds for projects approved for funding in FY 1997 and earlier (the last year that TCI funds were made available by the State), Traffic Congestion Relief Program funds approved in the FY 2000 State Budget for specific District capital projects, and Propostiion 1B funds approved for funding in FY 2007.

Local Funds

Measure A is a ½ cent sales tax ordinance that supports road and public transportation improvements in Sacramento County. Passed by voters in 1998, it expired in April 2009. The District received approximately 1/3 of the tax (1/6 cent). In November 2004, voters approved an extension of the Measure A ordinance until 2039 with transit receiving 38.25% of the ½-cent tax.

Local Transportation Fund: Funds generated by the state sales tax, and used for transit operating support purposes. The Transportation Development Act (TDA) allocates a portion of the state sales tax for transportation purposes.

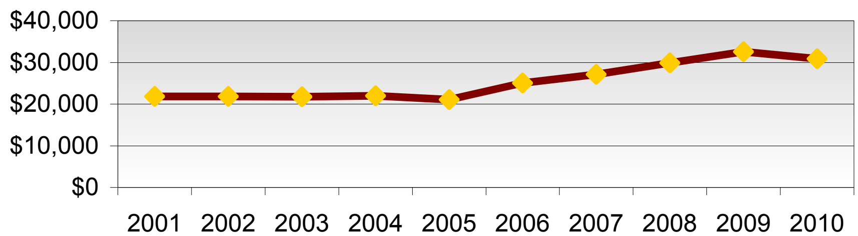
State Transit Assistance Funds: Funds generated by the sales tax on gasoline and diesel fuel sales. These funds are disbursed to transit agencies for a variety of transit capital and operating support needs.

(1) Of the $15.7 million, $4.7million was appropriated for operating purpose with the remaining amounts assigned to various capital projects.

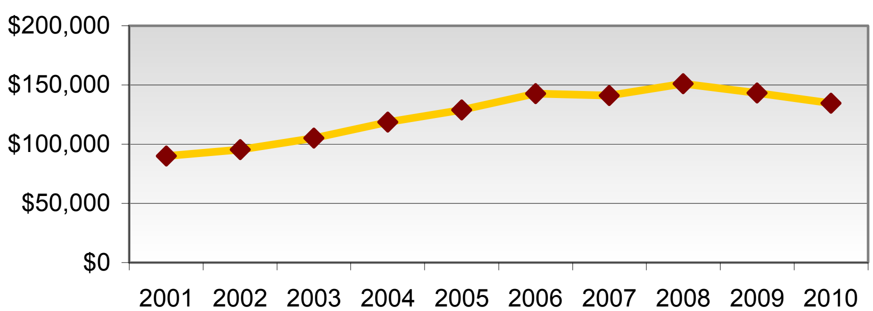
FARE RECOVERY
LAST TEN FISCAL YEARS
(in Thousands)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fare Revenue	$21,846	$21,848	$21,745	$22,004	$21,101	$25,072	$27,101	$29,866	$32,571	$30,864
Local Fund Supplementation	1,129	2,500	5,074	8,252	11,771	11,298	8,887	8,659	3,963	3,663
Total Operating Expenses	90,099	95,484	105,173	118,650	128,909	142,625	141,129	151,079	143,271	135,400
Fare Recovery Ratio	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%

FARE REVENUE
(in Thousands)



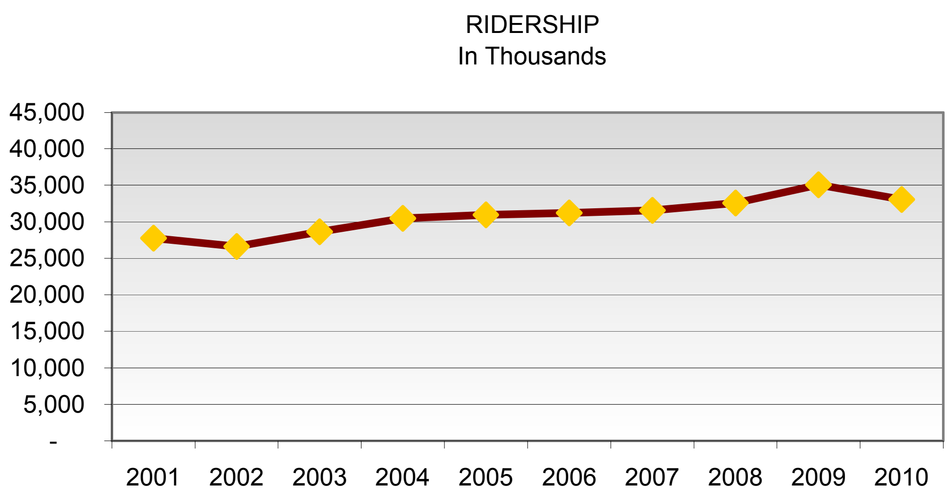
TOTAL OPERATING EXPENSES
(In Thousands)



Source: Comprehensive Annual Financial Report

RIDERSHIP
LAST TEN FISCAL YEARS

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Ridership	27,734	26,610	28,616	30,469	30,938	31,230	31,951	32,951	35,050	33,060
% change	(1.37%)	(4.05%)	7.54%	6.48%	1.54%	0.94%	2.31%	3.13%	6.37%	(5.68%)

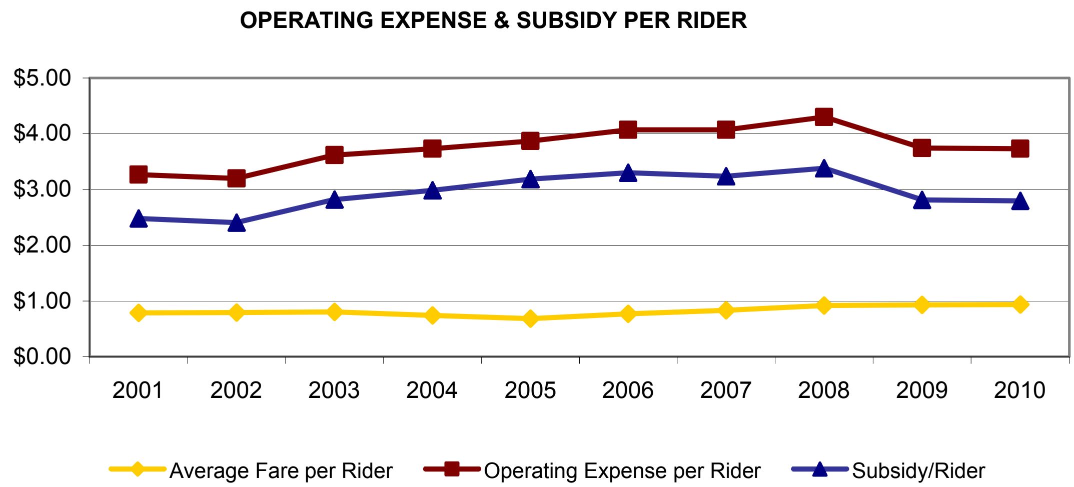


Source: District Planning Department
NTD Statistics

OPERATING SUBSIDY
LAST TEN FISCAL YEARS

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Average Fare per Rider	$0.79	$0.79	$0.80	$0.74	$0.68	$0.77	$0.83	$0.92	$0.93	$0.93
Operating Expense per Rider [1]	$3.27	$3.20	$3.62	$3.73	$3.87	$4.07	$4.07	$4.30	$3.75	$3.76
Subsidy/Rider	$2.48	$2.41	$2.82	$2.99	$3.19	$3.30	$3.24	$3.38	$2.82	$2.82

[1] Operating expense per rider excludes Paratransit and depreciation costs.



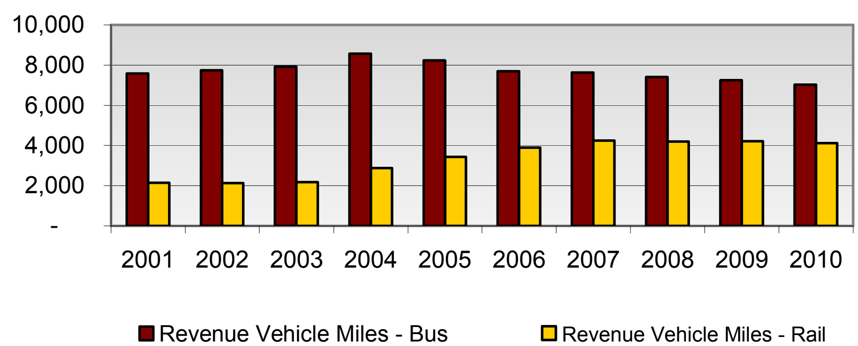
Source: Comprehensive Annual Financial Report
District Planning Department
NTD Statistics

SERVICE PERFORMANCE DATA (In thousands)*
LAST TEN FISCAL YEARS

SERVICE PROVIDED

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
BUS										
Revenue Vehicle Miles - Bus*	7,580	7,738	7,923	8,566	8,239	7,688	7,638	7,431	7,244	7,032
Revenue Vehicle Hours*	584.8	600.9	614.7	696.7	749.0	710.9	702.8	677.7	652.0	628.2
# Vehicles	225	229	247	275	275	275	269	271	271	233
RAIL										
Revenue Vehicle Miles - Rail*	2,144	2,128	2,171	2,879	3,429	3,888	4,128	4,267	4,213	4,120
Revenue Vehicle Hours*	104.8	103.7	105.8	149.8	197.3	208.9	209.7	216.7	213.1	208.6
Train Revenue Hours*	46.6	46.4	46.4	65.4	83.3	81.5	81.6	81.9	81.7	81.4
# of Vehicles	36	36	36	76	76	76	76	76	76	76

SERVICE PROVIDED



SERVICE CONSUMED

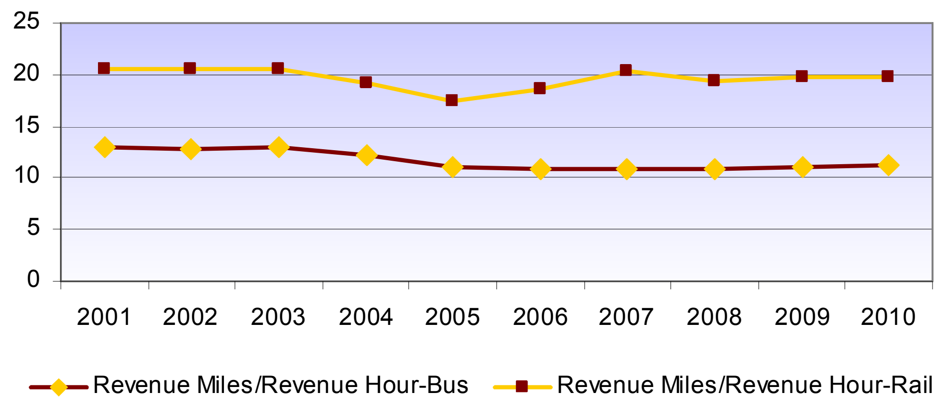
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
BUS										
Passengers*	19,115	18,069	19,756	19,447	18,929	16,778	17,461	17,466	17,735	17,579
Passenger Miles*	79,275	72,297	75,325	67,701	61,747	54,559	54,551	57,444	59,001	61,417
RAIL										
Passengers*	8,618	8,541	8,859	11,022	12,009	14,452	14,490	15,485	17,315	15,481
Passenger Miles*	44,457	46,711	47,365	56,948	60,682	78,181	78,760	85,807	93,087	83,409
TOTAL										
Passengers*	27,734	26,610	28,616	30,469	30,938	31,230	31,951	32,951	35,050	33,060
Passenger Miles*	123,731	119,008	122,690	124,649	122,430	132,740	133,311	143,251	152,088	144,826
FLEET										
Bus	225	229	247	275	275	275	269	271	271	233
Rail	36	36	36	76	76	76	76	76	76	76
TOTAL EMPLOYEES	868	952	1,161	1,154	1,164	1,198	1,162	1,125	1,087	907

Source: District Planning Department; NTD Statistics

SERVICE PERFORMANCE DATA (Continued)
LAST TEN FISCAL YEARS

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenue Miles/Revenue Hour-Bus	13	13	13	12	11	11	11	11	11	11
Revenue Miles/Revenue Hour-Rail	20	21	21	19	17	19	20	19	20	20

SERVICE PERFORMANCE DATA



Source: District Planning Department ; NTD Statistics

FARES
(As of June 30, 2010)

Single and Daily Pass Fares

Rider Type	Fare Type	Single Ride	Daily Pass
Age 19-61	Basic	$ 2.50	$ 6.00
Senior (62 & older)	Discount	$ 1.25	$ 3.00
Individuals with Disabilities	Discount	$ 1.25	$ 3.00
Medicare Cardholder	Discount	$ 1.25	$ 3.00
Student (age 5-18)	Discount	$ 1.25	$ 3.00

Pre-Paid Ticket Books

Fare Book Type	Fare Type	# of Tickets	Book Price
Single Fare	Basic	10	$ 25.00
Single Fare	Discount	10	$ 12.50
Daily Fare	Basic	10	$ 60.00
Daily Fare	Discount	10	$ 30.00

Monthly Passes and Stickers

Fare/Rider Type	Price
Basic Monthly Pass	$ 100.00
Basic Semi-Monthly Pass	$ 50.00
Senior/Disabled Monthly Sticker	$ 50.00
Senior/Disabled Semi-Monthly Sticker	$ 25.00
Super Senior Monthly Sticker (age 75+)	$ 40.00
Student Monthly Sticker	$ 50.00
Student Semi-Monthly Sticker	$ 25.00
Yolo Express Sticker	$ 25.00

Effective September 1, 2009, Central City/Shuttle fares have been discontinued and transfers will no longer be issued.

PERFORMANCE MEASURES

Performance Measures in Sacramento's Peer Transit Agencies											
			2008 Statistics								
City, State	**2000 Urban Area Population**		**Cost per Passenger**		**Cost per Revenue Mile**		**Cost per Revenue Hour**		**Subsidy per Passenger**		**Farebox Recovery Ratio**
	(UZA Rank)		(Peer Rank)		(Peer Rank)		(Peer Rank)		(Peer Rank)		(Peer Rank)
BUS PEERS											
Sacramento, CA	**1,393,498**	**(29)**	**$ 4.97**	**(3)**	**$ 11.69**	**(3)**	**$ 128.17**	**(3)**	**$ 4.07**	**(3)**	**18.2% (6)**
Buffalo, NY	976,703	(39)	4.38	(5)	9.12	(7)	110.63	(6)	3.29	(7)	24.9% (1)
Charlotte, NC	758,927	(48)	4.18	(7)	7.09	(8)	101.38	(7)	3.49	(5)	16.5% (7)
Columbus, OH	1,133,193	(37)	4.25	(6)	9.16	(6)	113.55	(5)	3.43	(6)	19.3% (4)
Long Beach, CA	11,789,487	(2)	2.42	(8)	9.81	(4)	101.06	(8)	1.90	(8)	21.4% (3)
San Carlos, CA	3,228,605	(12)	6.38	(1)	13.33	(1)	148.72	(2)	5.21	(1)	18.3% (5)
San Jose, CA	1,538,312	(25)	6.00	(2)	12.39	(2)	154.47	(1)	5.19	(2)	13.6% (8)
Tacoma, WA	2,712,205	(14)	4.63	(4)	9.27	(5)	115.40	(4)	3.62	(4)	21.9% 23)
Average for Bus Peers	**3,162,490**		**4.61**		**10.02**		**120.74**		**3.73**		**19.3%**
RAIL PEERS											
Sacramento, CA	**1,393,498**	**(29)**	**3.35**	**(3)**	**12.15**	**(4)**	**240.01**	**(3)**	**2.44**	**(3)**	**27.1% (5)**
Dallas, TX	4,145,659	(6)	4.59	(2)	16.99	(1)	365.60	(1)	3.88	(2)	15.5% (6)
Denver, CO	1,984,889	(21)	2.02	(6)	4.43	(7)	85.28	(7)	0.96	(6)	52.7% (2)
Portland, OR	1,583,138	(24)	2.16	(4)	12.24	(3)	185.04	(4)	1.35	(4)	37.4% (3)
Salt Lake City, UT	887,650	(43)	1.86	(5)	9.42	(5)	107.85	(6)	1.19	(5)	35.8% (4)
San Diego, CA	2,674,436	(15)	1.49	(7)	6.99	(6)	127.34	(5)	0.66	(7)	55.6% (1)
San Jose, CA	1,538,312	(25)	5.31	(1)	16.56	(2)	276.85	(2)	4.49	(1)	15.5% (7)
Average for Rail Peers	**2,135,681**		**2.91**		**11.11**		**191.33**		**2.09**		**34.2%**
Source: National Transit Database, 2008 Transit Profiles - All Agencies											

Performance Measures Analysis

In 2000, the Sacramento urban area, ranked 29th in the US based on population. Table 1 compares the District's 2008 performance to 7 other bus peer transit properties and 6 other rail peer transit properties. This table indicates the following:

Bus
The District ranks 3rd in Cost per Passenger, Cost per Revenue Mile, Cost per Revenue Hour, and Subsidy per Passenger among its Bus peer transit agencies.
The District ranks 6th in Farebox Recovery Ratio among its Bus peer transit agencies.

Rail
The District ranks 3rd in Cost per Passenger, Cost per Revenue Hours and Subsidy per Passenger among its Rail peer transit agencies. The District ranks 4th in Cost per Revenue Mile amount its Rail peer transit agencies.
The District ranks 5th in Farebox Recovery Ratio among its Rail peer transit agencies.

Attachment 4

SACRAMENTO REGIONAL TRANSIT DISTRICT

REPORTS REQUIRED BY OMB CIRCULAR A-133 AND TRANSPORTATION DEVELOPMENT ACT

YEAR ENDED JUNE 30, 2010

SACRAMENTO REGIONAL TRANSIT DISTRICT

YEAR ENDED JUNE 30, 2010

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SACRAMENTO REGIONAL TRANSIT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Federal Agency Grant Identifying Number	Expenditures
U.S. Department of Transportation:			
Direct Federal Programs			
Federal Transit Administration -			
Federal Transit Cluster			
Federal Transit - Capital Investment Grants	20.500	CA-05-0244	$ 4,638,430
Federal Transit - Capital Investment Grants	20.500	CA-03-0013	291,310
Federal Transit - Capital Investment Grants	20.500	CA-03-0630	170,920
Federal Transit - Capital Investment Grants	20.500	CA-03-0584	123,418
Federal Transit - Capital Investment Grants	20.500	CA-03-0689	625
Federal Transit - Capital Investment Grants	20.500	CA-03-0713	358
Total 20.500			5,225,061
Federal Transit - Formula Grants	20.507	CA-90-Y791	18,792,998
Federal Transit - Formula Grants	ARRA 20.507	CA-96-X060	8,146,312
Federal Transit - Formula Grants	20.507	CA-90-Y356	4,811,835
Federal Transit - Formula Grants	20.507	CA-90-Y742	645,000
Federal Transit - Formula Grants	20.507	CA-90-Y633	567,957
Federal Transit - Formula Grants	20.507	CA-90-Y537	355,200
Federal Transit - Formula Grants	20.507	CA-95-X029	218,633
Federal Transit - Formula Grants	20.507	CA-90-Y161	181,528
Federal Transit - Formula Grants	20.507	CA-90-X942	173,787
Federal Transit - Formula Grants	20.507	CA-90-Y471	60,861
Total 20.507			33,954,111
Total Federal Transit Cluster			39,179,172
Jobs Access - Reverse Commute	20.516	CA-37-X134	300,000
Jobs Access - Reverse Commute	20.516	CA-37-X065	27,984
Total 20.516			327,984
Total Federal Expenditures			$ 39,507,156

1. BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Sacramento Regional Transit District (the District) and is prepared on the accrual basis of accounting. Expenses are recorded at the time liabilities are incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. PASS-THROUGH AWARDS

The District passed-through the following amounts to subrecipients related to Jobs Access - Reverse Commute (JARC) Federal Funds, CFDA #20.516:

Paratransit	$ 14,530
Sacramento County	13,454
Total	$ 27,984

The District passed-through the following amounts to subrecipients related to Federal Transit - Capital Investment Grants, CFDA #20.500:

City of Sacramento	$ 168,760
City of Placerville	31,472
City of Galt	5,426
Total	$ 205,658

The District passed-through the following amounts to subrecipients related to Federal Transit - Formula Grants, CFDA #20.507:

El Dorado County Transit Authority	$ 2,243,712
City of Folsom	545,000
Paratransit	395,908
City of Rancho Cordova	218,381
Sacramento Area Council of Governments	1,243
Total	$ 3,404,244

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* AND THE TRANSPORTATION DEVELOPMENT ACT

Members of the Board of Directors
Sacramento Regional Transit District
Sacramento, California

Members of the Board of Directors
Sacramento Area Council of Governments
Sacramento, California

We have audited the financial statements of the business-type activities and the pension trust funds of the Sacramento Regional Transit District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 15, 2010. 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 of America. The financial statements of the District as of June 30, 2009, were audited by other auditors, whose report dated December 2, 2009, expressed an unqualified opinion on those financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs, as item 2010-1, that we consider to be a significant deficiency in internal control over financial reporting. 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.

2880 Gateway Oaks Drive, Suite 100 • Sacramento, CA 95833
101 Parkshore Drive, Suite 100 • Folsom, CA 95630
Phone: 916.646.6464 • Fax: 916.929.6836 • gilbertcpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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. Our audit was further made to determine that Transportation Development Act (TDA) funds allocated to and received by the District were expended in conformance with applicable statutes, rules and regulations of the TDA and the allocation instructions and resolutions of Sacramento Area Council of Governments as required by Section 6667 of Title 21, Division 3, Chapter 2, Article 5.5 of the California Code of Regulations. 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2010-2.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of District management and Board of Directors, the Board of Directors of the Sacramento Area Council of Governments, 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC
Sacramento, California

December 15, 2010

Gilbert Associates, Inc.
CPAs and Advisors

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

Independent Auditor's Report

Members of the Board of Directors
Sacramento Regional Transit District
Sacramento, California

Members of the Board of Directors
Sacramento Area Council of Governments
Sacramento, California

Compliance

We have audited Sacramento Regional Transit District (the District) 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 the District's major federal program for the year ended June 30, 2010. The District'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 District's management. Our responsibility is to express an opinion on the District'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. 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 District'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 District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

2880 Gateway Oaks Drive, Suite 100 • Sacramento, CA 95833
101 Parkshore Drive, Suite 100 • Folsom, CA 95630
Phone: 916.646.6464 • Fax: 916.929.6836 • gilbertcpa.com

Internal Control Over Compliance

Management of the District 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 District'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 District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-2. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the business-type activities and the pension trust funds of the District as of and for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of District management and Board of Directors, the Board of Directors of the Sacramento Area Council of Governments, 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC
Sacramento, California

December 15, 2010

SACRAMENTO REGIONAL TRANSIT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	___Yes	✓ No
Significant deficiency(ies) identified?	✓ Yes	___None Reported
Noncompliance material to financial statements noted?	___Yes	✓ No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	___Yes	✓ No
Significant deficiency(ies) identified?	✓ Yes	___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 OMB Circular A-133, Section .510(a)?	___Yes	✓ No

Identification of major programs

CFDA Number(s)	Name of Federal Program or Cluster
20.500 and 20.507	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs	$ 1,185,215	
Auditee qualified as low-risk auditee?	✓ Yes	___No

SECTION II –FINANCIAL STATEMENT FINDINGS

2010-1 SIGNIFICANT DEFICIENCY – PAYROLL CONTROLS

Condition:

Our test of controls over the District's payroll process for employees that operate the bus and rail system, identified two instances which prevent us from relying on the District's internal controls. The first instance involved a data entry error resulting in an overpayment to one employee for 1 additional hour of work and the second involved the use of an incorrect code resulting in an over payment to the employee for 24 minutes. Although individually these exceptions are immaterial to the financial statements, the District should review it's internal controls over the payroll process and determine if there are additional steps that can be taken to improve or strengthen it's internal controls.

Criteria:

Internal controls should be designed and operate effectively to ensure that all employees are being paid for the appropriate wage and for the amount of hours actually worked.

Cause:

The process for paying drivers involves multiple steps to insure that their time is properly recorded and tracked in conjunction with the various wage and time types available. Since these processes involve entering a significant amount of data into the payroll system, the Payroll supervisor performs summary reviews of the transactions to insure that significant over or under payments do not occur. As such, the District identified the cause of the errors to be a result of data entry errors not captured in the current payroll review process

Effect:

Two employees were over paid (1 hour and 24 minutes in total).

Recommendation:

We recommend that the District review it's internal controls over the payroll system for bus and rail employees and determine if additional steps can be implemented to improve the accuracy of payroll records.

Management Response:

Although the District has internal controls in place to identify data entry errors, we agree that additional steps can be taken to improve our existing processes. Since the payroll process involves processing a significant number of daily and hourly transactions, we will add a new control which will require the Payroll Supervisor to randomly select and review 10 operators' time records on a monthly basis. This process will require the Supervisor to match the employee's hourly pay to the payroll ledger to insure that the data entry is accurate. If the Supervisor discovers any errors, she will increase the sample size for that time period. Additionally, the District is in the process of implementing Trapeze, which should improve time keeping by eliminating some of the current data entry processes.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF TRANSPORTATION

2010-2 Federal Transit Cluster – CFDA No. 20.500, 20.507
Grant No. CA-96-X060 and CA-90-Y356
Grant Period – Year ended June 30, 2010

Condition:

During our testing of the District's internal control policy to verify contractors' status on the Excluded Parties List System (EPLS), we noted that the procurement department was not checking the approved contractors against the EPLS. Our testing of three contracts to the EPLS verified that the contractors were not out of compliance; however, the control process surrounding procurement did not operate effectively.

Criteria:

To ensure that the District has not awarded contracts to vendors that have been suspended or debarred from operating in California it is necessary to search the EPLS and verify the entities' status. Per the Code of Federal Regulations, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300)

Questioned Costs:

None.

Effect:

Without proper controls in place the District may execute a contract with an entity that has been suspended or debarred from operating in the State of California.

Cause:

The procurement staff did not follow the District policy of reviewing the EPLS system to ensure that the contractor had not been suspended or debarred.

Recommendation:

We recommend that the District follow their internal procurement policy and verify the contractors' status on the EPLS system before awarding any federal related contracts.

Management Response:

As a result of the finding, procurement staff has been reminded to adhere to this policy and procedure requirement to verify that firms participating in RT procurements have not been suspended or debarred.

In order to verify compliance with this procedure, a sample of 10 transactions a month will be tested to insure that the vendors being considered for award of a contract have not been placed on the List of Parties Excluded from Federal Procurement or Non-procurement Programs.

SACRAMENTO REGIONAL TRANSIT DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2010

There were no findings noted in prior year.

Attachment 5

SACRAMENTO REGIONAL
TRANSIT DISTRICT

Report to the Board of Directors

For the Year Ended June 30, 2010

SACRAMENTO REGIONAL TRANSIT DISTRICT

REPORT TO THE BOARD OF DIRECTORS
FOR THE YEAR ENDED JUNE 30, 2010

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SACRAMENTO REGIONAL TRANSIT DISTRICT

REPORT TO THE BOARD OF DIRECTORS

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2010

We have audited the financial statements of the business-type activities and the pension trust funds of the Sacramento Regional Transit District (District) for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were management's estimate of the depreciation and amortization of capital assets, accrued compensated absences, reserve for claims liability, and other post-employment benefits (OPEB) costs.

Management's estimate of depreciation and amortization is based on the estimated useful lives of the related assets. Management's estimate of accrued compensated absences is based on the accrued vacation hours and hourly rate of each employee at year-end. Management's estimate of the reserve for claims is based upon historical performance and the future estimated costs associated with assessments and claims filed against the District. The estimate of annual OPEB costs are based on the estimated costs of providing benefits to the District's current and retired employees and spouses using actuarial methods and assumptions prescribed by GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

SACRAMENTO REGIONAL TRANSIT DISTRICT

REPORT TO THE BOARD OF DIRECTORS

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2010

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We did not identify and propose any adjusting journal entries.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 15, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We identified items we considered to be significant deficiencies related to the District's internal controls surrounding payroll processing and federal procurement. These findings are reported in the separate report titled Reports Required by OMB Circular A-133 and Transportation Development Act for the year ended June 30, 2010.

SACRAMENTO REGIONAL TRANSIT DISTRICT

REPORT TO THE BOARD OF DIRECTORS

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2010

Below represents other matters identified by the District's predecessor auditor during their June 30, 2009 financial audit.

CONSTRUCTION IN PROGRESS

We noted that the District did not have a formal review and approval process for the determination of the classification of capital project costs at year end. As part of the year end closing process, Finance Department staff collaborates with various project managers to determine the proper classification of capital project costs included in construction-in-progress (CIP). Project costs are evaluated to determine amounts related to completed portions of projects requiring reclassification from CIP to loand and land improvements or depreciable capital assets in accordance with generally accepted accounting principles. The process does not provide for documentation of the project manager's input and concurrence of the assets during the capitalization and asset classification process.

Recommendation:

To improve this process, we recommended the District establish year-end close processes and procedures requiring project managers to evaluate project costs and to complete and approve standardized documentation which details costs by asset classification.

Management Response:

Management concurs with the recommendation. The District will modify its current year-end process to include sign off from project managers approving the appropriate costs requiring capitalization, the proper asset classification, and provide a brief explanation if their determination of the amount and classification differs from that proposed by finance staff. This signed document will become part of the process documentation when reclassifying assets from CIP to land and land improvements or depreciable capital assets in accordance with generally accepted accounting principles.

Current Year Status:

Implemented.

STRATEGIC PLAN

Agency-level computer controls require that IT strategic plans be developed that are closely aligned with the business objectives strategy. The District had developed a Strategic Information Technology Plan (Plan) in June 2004 with three-year goals and one year objectives. The Plan, however, has not been updated to account for objectives that have been accomplished or changes to three-year strategic goals. IT strategic plans should be periodically updated to account for changes in the economic and IT environment and ensure that the Plan continues to be aligned with the goals and objectives of the District as a whole.

Recommendation:

The District IT Director, working in conjunction with the Executive Committee, should work to update and implement a revised IT Strategic Plan. This plan should continue to:

- Identify and prioritize IT initiatives.
- Be aligned with the goals and objectives of the District as a whole.
- Be periodically reviewed by the Executive Committee and periodically updated for continued relevance to strategic initiatives.
- Be periodically reported to executive management on progress made towards initiatives.

Management Response:

Management concurs with the recommendation. Although the District has made many technological advances as described in the GFOA awarded budget document, the District will begin a process of updating the IT Strategic Plan and ensure that the plan is periodically reviewed and the progress of the goals are reported to executive management during the District’s quarterly executive and senior management meetings.

Current Year Status:

Not implemented.

Current Year Management Response:

Management will update the 2004 Plan over the course of the next fiscal year (FY 2011).

DISASTER RECOVERY PLAN

Computer operations controls require that an agency has developed and documented a disaster recovery/business continuity plan to provide contingency procedures for unforeseeable events and assure that system and financial data can be recovered in a timely manner. While the District has developed system and data recovery procedures for certain types of events, a comprehensive and formal written disaster recovery plan has not yet been developed. Additionally, the planned recovery site is within two miles of the primary data center and may be subject to the same risk of flooding or other natural disaster. This could affect accessibility to the site and data if a significant event were to occur. There are also no redundant power generation capabilities at either site. Without a full disaster recovery plan that has been fully tested, the District cannot be fully assured that system and application data can be restored in a timely manner for unforeseen events.

Recommendation:

The District should plan and budget for the development of a written and comprehensive disaster recovery/ business continuity plan to provide contingency procedures for unforeseeable events such as natural disasters. The plan development should also include an evaluation of the operational capabilities of the planned recovery site. Once implemented, the plan should be periodically tested to ensure that financial systems and data can be recovered. Findings from the testing should be incorporated into updates to the plan.

Management Response:

The Districts concurs with the recommendation. The District will begin the process of developing, documenting, and periodically testing a disaster recovery/business continuity plan to assure that system and financial data can be recovered in a timely manner.

Current Year Status:

Implemented.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2010

PASSWORDS

General computer controls related to access to programs and data requires that appropriate password requirements be established and enforced within an agency. While some network and application password configuration requirements have been established by the District, they have not been formally documented within a District policy or standards document. Without being established as a formal policy or standard, the requirements may be subject to change without formal review. Additionally, the current network and financial application configurations do not enforce best practices for passwords as shown below:

	Network	Financial Application	Best Practices
Password Expiration	180 days	none	30-90 days
Password Length	6 characters	6 characters	7-14 characters
Password History Remembered	unlimited	none	12-24 passwords remembered
Password Complexity Required (strong passwords)	Strong passwords required	none	Yes - require alpha, numeric, or special characters
Auto Lockout	3 failed attempts	none	3-5 invalid logon attempts will lock account

Recommendation:

The District Executive Committee, working in conjunction with the IT Director, should establish policy or standards for password configuration requirements for use in the network as well as the financial application. The password configuration requirements should be at least as stringent as industry best practices

Management Response:

Management agrees with the recommendations. It is important to have strong security and password controls. Beginning January 1, 2010, the District will implement the recommendations noted above.

Current Year Status:

Partially implemented.

Current Year Management Response:

A new Active Domain password policy has been developed based on the prior year's recommendation; however testing and deployment have been delayed as a result of the recent reduced staffing levels. The new policy is expected to be implemented at which time the District is able to re-instate IT support staff to assist tests and rollout.

RISK ASSESSMENTS

General computer controls over the access to programs and data require that mechanisms or procedures be in place to identify and react to risks arising from internal and external sources. A comprehensive means to identify IT risks is through the periodic performance of IT risk assessments. The District, while having had an overall IT assessment performed in 2005, has not completed a formal IT risk assessment to help identify the risks to the delivery of IT services and the accuracy and integrity of the District's financial and personnel data.

Recommendation:

The District IT Director should have an IT risk assessment performed on his department. The risk assessment should focus on identifying all of the possible risks to the District's IT department, the delivery of IT services and the accuracy and integrity of the District's financial and personnel data. The risk assessment should quantify the likelihood of an event, the impact of the event and the mitigating controls that would address the possible risks.

Management Response:

Management concurs with the recommendation and agrees that a systems security risk assessment would add value to the organization. This will be brought forward to the District's Capital Projects Committee to be added as a future project as funding permits.

Current Year Status:

Not implemented.

Current Year Management Response:

The District staff continues to concur with the recommendation and will implement a risk assessment by the end of FY 2011.

SACRAMENTO REGIONAL TRANSIT DISTRICT

REPORT TO THE BOARD OF DIRECTORS

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2010

USER ACCOUNT ACCESS REVIEW

General computer controls over access to programs and data require that application security controls restrict access to District IT resources and data. While data owners have been assigned and authorization roles have been developed within the financial application, there are no policy and procedures to ensure that user accounts are periodically reviewed to ensure they are up-to-date and that testing is performed to ensure that the system continues to enforce a proper segregation of duties between the defined authorization roles.

Recommendation:

The District IT Director, working in conjunction with the Finance Director, should define and document the roles within the financial application that are used to enforce a segregation of duties. These roles should be periodically tested to ensure that they continue to enforce a segregation of duties and users within each role should be periodically reviewed to ensure that they are up-to-date.

Management Response:

Management agrees with the recommendation. The District will review the roles assigned to users in the financial application to ensure proper segregations of duties exist. Periodically, the IT Director will provide a change log showing any changes made to the existing roles and/or responsibilities.

Current Year Status:

Partially implemented.

Current Year Management Response:

District staff is in the process of addressing this comment. Policies and procedures will be created and reviewed by the end of FY 2011.