

SOUTH COUNTY TRANSIT
FINANCIAL STATEMENTS
June 30, 2017

SOUTH COUNTY TRANSIT
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Moss, Levy & Hartzheim LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
South County Transit
San Luis Obispo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the South County Transit (Agency) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South County Transit, as of June 30, 2017, and the respective changes in financial position, and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the South County Transit's 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with audited financial statements from which it has been derived.

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the South County Transit's basic financial statements. The schedule of expenses – budget and actual is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenses – budget and actual is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2017, on our consideration of the South County Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Moss, Levy & Hutzheim LLP

September 24, 2017
Santa Maria, California

SOUTH COUNTY TRANSIT
STATEMENT OF NET POSITION
JUNE 30, 2017
WITH COMPARATIVE TOTALS FOR JUNE 30, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and investments	\$ 302,583	\$ 839,528
Accounts receivable	35,618	18,209
Prepaid items	5,997	4,085
Deposits	<u>2,000</u>	<u>2,000</u>
Total current assets	<u>346,198</u>	<u>863,822</u>
Capital assets:		
Depreciable:		
Buildings and improvements	152,006	264,718
Equipment and vehicles	2,690,289	3,034,270
Less accumulated depreciation	<u>(1,435,731)</u>	<u>(1,821,550)</u>
Total net capital assets	<u>1,406,564</u>	<u>1,477,438</u>
 Total assets	 <u>1,752,762</u>	 <u>2,341,260</u>
LIABILITIES		
Current liabilities:		
Accounts payable	106,588	268,561
Accrued payroll	21,113	14,193
Unearned revenue	<u>9,656</u>	<u>130,599</u>
Total current liabilities:	<u>137,357</u>	<u>413,353</u>
Noncurrent Liabilities		
Compensated absences	<u>4,386</u>	<u>2,549</u>
Total noncurrent liabilities:	<u>4,386</u>	<u>2,549</u>
 Total liabilities	 <u>141,743</u>	 <u>415,902</u>
NET POSITION		
Net investment in capital assets	1,406,564	1,477,438
Unrestricted	<u>204,455</u>	<u>447,920</u>
 Total net position	 <u>\$ 1,611,019</u>	 <u>\$ 1,925,358</u>

The notes to basic financial statements are an integral part of this statement.

SOUTH COUNTY TRANSIT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Passenger fares	\$ 145,021	\$ 139,508
Advertising and other income	1,138	4,538
Total operating revenues	<u>146,159</u>	<u>144,046</u>
Operating Expenses:		
Salaries and benefits	568,810	458,580
Maintenance and operation	565,847	485,390
Administration and financial services	87,950	79,830
Depreciation	207,932	232,615
Total operating expenses	<u>1,430,539</u>	<u>1,256,415</u>
 Operating income (loss)	 <u>(1,284,380)</u>	 <u>(1,112,369)</u>
Non-Operating Revenues (Expenses):		
Interest income	4,791	4,344
Transportation Development Act funds	235,546	189,302
Low Carbon Transit Operations Program	97,348	
Fees and reimbursements from other governmental agencies	51,569	46,729
Federal grants	440,019	372,691
Gain on disposal of capital assets	3,710	
Settlement payments		(38,409)
Total non-operating revenues (expenses)	<u>832,983</u>	<u>574,657</u>
Capital Contributions:		
Federal capital grants	100,000	
State capital grants	37,058	33,215
Local transportation capital grants		3,212
Total capital contributions	<u>137,058</u>	<u>36,427</u>
 Change in net position	 (314,339)	 (501,285)
Net position, beginning of fiscal year	<u>2,426,646</u>	<u>2,426,646</u>
 Net position, end of fiscal year	 <u>\$ 1,611,019</u>	 <u>\$ 1,925,358</u>

The notes to basic financial statements are an integral part of this statement.

SOUTH COUNTY TRANSIT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Receipts from customers	\$ 133,905	\$ 185,192
Payments to suppliers and wages	(1,377,735)	(908,891)
Net cash (used) by operating activities	<u>(1,243,830)</u>	<u>(723,699)</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of property, plant, and equipment	(137,058)	(36,427)
Sale of capital assets	3,710	
Capital grants received	108,308	51,038
Net cash provided (used) by capital and related financing activities	<u>(25,040)</u>	<u>14,611</u>
Cash Flows from Noncapital Financing Activities:		
Operating subsidies	235,546	189,302
Fees, grants, and reimbursements received	491,588	419,420
Settlement payments		(38,409)
Net cash provided by noncapital financing activities	<u>727,134</u>	<u>570,313</u>
Cash Flows From Investing Activities:		
Interest income	4,791	4,344
Net cash provided by investing activities	<u>4,791</u>	<u>4,344</u>
Net decrease in cash and cash equivalents	(536,945)	(134,431)
Cash and cash equivalents, beginning of fiscal year	<u>839,528</u>	<u>973,959</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 302,583</u>	<u>\$ 839,528</u>

The notes to basic financial statements are an integral part of this statement.

SOUTH COUNTY TRANSIT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating loss to net cash (used) by operating activities:		
Operating loss	\$ (1,284,380)	\$ (1,112,369)
Adjustments to reconcile operating income to net cash used by operating activities		
Depreciation expense	207,932	232,615
Change in operating assets and liabilities:		
Accounts receivable	(17,409)	37,321
Prepaid items	(1,912)	(317)
Accounts payable	(161,973)	114,088
Accrued payroll	6,920	4,349
Compensated absences	1,837	(3,211)
Unearned revenue	<u>5,155</u>	<u>3,825</u>
Net cash (used) by operating activities	<u>\$ (1,243,830)</u>	<u>\$ (723,699)</u>

The notes to basic financial statements are an integral part of this statement.

SOUTH COUNTY TRANSIT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – REPORTING ENTITY

The South County Transit (the Agency) is a Joint Powers Agency created by a joint powers agreement among the Cities of Arroyo Grande, Grover Beach, Pismo Beach, and the County of San Luis Obispo. The Agency's accounting and financial management affairs are maintained by San Luis Obispo Regional Transit Authority (SLORTA), as an agent of the Agency.

The purpose of the Agency is to operate a fixed route transit system within the southern part of San Luis Obispo County with services to the participating member communities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Accounting Policies - The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants (AICPA).
- B. Accounting Method - The Agency follows the accrual method of accounting, whereby revenues are recorded as earned, and expenses are recorded when incurred regardless of the timing of related cash flows.
- C. Fund Financial Statements – The fund financial statements provide information about the Agency's fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

GASB Statement No. 34, defines major funds and requires that the Agency's major proprietary-type fund be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenses equal to ten percent of their fund-type total and five percent of the grand total. The Agency maintains one proprietary fund as follows:

Proprietary Fund Type

Enterprise Fund

Enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Agency reported its enterprise fund as a major fund in the accompanying basic financial statements.

- D. Cash and Cash Equivalents - For purposes of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- E. Property, Plant, and Equipment – Capital assets purchased by the Agency are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired.
- F. Depreciation – Capital assets purchased by the Agency are depreciated over their estimated useful lives (ranging from 3-15 years) under the straight-line method of depreciation.
- G. Receivables - The Agency did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts, and accounts receivable are shown at full value.
- H. Compensated Absences – Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the Agency.

SOUTH COUNTY TRANSIT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Revenue Recognition - The South County Transit's primary source of revenues include passenger fares, State Transit Assistance funds, and Local Transportation Fund/Transportation Development Act (TDA) allocations made to the participating members, but assigned by the members to this Agency for its sole use. The San Luis Obispo County of Governments administers the State Transit Assistance and Transportation Development Act funds, approves claims for such funds submitted by this Agency, and makes payments to the Agency based upon such claims.

Generally, amounts due from other governments are recorded as revenues when earned. However, when the expenditure of funds is the prime factor for determining eligibility for grants, revenue is accrued when the related expenditures have been made on an approved grant. The Agency recognizes as revenues the amounts allocated to it by San Luis Obispo Council of Governments to the extent approved by San Luis Obispo Council of Governments.

J. Net Position - GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

K. Use of Estimates -The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

L. Comparative Data/Totals Only – Comparative total data for the prior fiscal year has been presented in certain accompanying financial statements in order to provide an understanding of the changes in the Agency's financial position, operations, and cash flows. Also, certain prior fiscal amounts have been reclassified to conform to the current fiscal year financial statements presentation.

M. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provisions of this statement are effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 83	"Certain Asset Retirement Obligations"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 85	"Omnibus 2017"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

SOUTH COUNTY TRANSIT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Future Accounting Pronouncements (Continued)

Statement No. 86	"Certain Debt Extinguishment Issues"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.

NOTE 3 - CASH AND INVESTMENTS

On June 30, 2017, the Agency had the following cash and investments on hand:

Cash on hand and in banks	\$	47,419
Investments		<u>255,164</u>
Total cash and investments	\$	<u>302,583</u>

Cash and investments listed above are presented on the accompanying basic financial statements as follows:

Cash and investments, statement of net position	\$	<u>302,583</u>
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The Agency categorizes its fair value measurements within the fair value hierarchy established by Generally Accepted Accounting Principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Agency's investments are in the San Luis Obispo Investment Pool and in the Local Agency Investment Fund which are external investment pools not valued under level 1, 2 or 3.

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the Agency 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	10%	5%
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
County Investment Pool	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

SOUTH COUNTY TRANSIT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

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

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
San Luis Obispo County Investment Pool	\$ 37,835	\$ 37,835	\$ -	\$ -	\$ -
Local Agency Investment Fund	<u>217,329</u>	<u>217,329</u>			
Total	<u>\$ 255,164</u>	<u>\$ 255,164</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt from Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
San Luis Obispo County Investment Pool	\$ 37,835	N/A	\$ -	\$ -	\$ -	\$ 37,835
Local Agency Investment Fund	<u>217,329</u>					<u>217,329</u>
Total	<u>\$ 255,164</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 255,164</u>

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Agency investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Agency will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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 fair 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 the Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The Agency may waive collateral requirements for deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

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 Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the San Luis Obispo County Investment Pool or LAIF).

SOUTH COUNTY TRANSIT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
<i>Business-type activities:</i>				
Capital Assets, being depreciated				
Building and improvements	\$ 264,718	\$ 5,121	\$ 117,833	\$ 152,006
Vehicles and equipment	3,034,270	131,937	475,918	2,690,289
Total capital assets, being depreciated	<u>3,298,988</u>	<u>137,058</u>	<u>593,751</u>	<u>2,842,295</u>
Less accumulated depreciation for:				
Building and improvements	262,164	2,066	117,833	146,397
Vehicles and equipment	1,559,386	205,866	475,918	1,289,334
Total accumulated depreciation	<u>1,821,550</u>	<u>207,932</u>	<u>593,751</u>	<u>1,435,731</u>
Net depreciable capital assets	<u>\$ 1,477,438</u>	<u>\$ (70,874)</u>	<u>\$ -</u>	<u>\$ 1,406,564</u>

Depreciation expense for the fiscal year ended June 30, 2017, was \$207,932. Depreciation expense for the fiscal year ended June 30, 2016, was \$232,615.

NOTE 5 – OPERATING SUBSIDIES FROM LOCAL TRANSPORTATION AND STATE TRANSIT ASSISTANCE FUNDS

The Agency was allocated the following funds from the Local Transportation Funds (LTF) and State Transit Assistance Fund for the fiscal years ended June 30, 2017 and 2016:

<u>Allocation Assigned By/Claimant</u>	<u>Article/Section</u>	<u>Amount</u>	
		<u>2017</u>	<u>2016</u>
Local Transportation Fund:			
City of Arroyo Grande	4 / 99260(a)	\$ 64,432	\$ 38,757
City of Grover Beach	4 / 99260(a)	48,577	29,374
City of Pismo Beach	4 / 99260(a)	28,505	17,237
County of San Luis Obispo	4 / 99260(a)	<u>27,156</u>	<u>16,625</u>
Total Article 4 – LTF		<u>168,670</u>	<u>101,993</u>
State Transit Fund:			
Regional Transit Authority	6.5 / 99313	66,088	83,561
Regional Transit Authority	6.5 / 99314	<u>5,417</u>	<u>6,960</u>
Total Article 6.5 – STF		<u>71,505</u>	<u>90,521</u>
Total TDA Revenue		<u>\$ 240,175</u>	<u>\$ 192,514</u>

SOUTH COUNTY TRANSIT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 – OPERATING SUBSIDIES FROM LOCAL TRANSPORTATION AND STATE TRANSIT ASSISTANCE FUNDS (Continued)

Transit system operating subsidies are earned by the Agency to the extent that it has incurred eligible operating expenses. Eligible expenses compared to the subsidies received and accrued were as followed:

	Amount	
	2017	2016
Operating expenses	\$ 1,430,539	\$ 1,256,415
Plus/(minus):		
Capital purchases with LTF and STA	4,629	3,212
Depreciation	(207,932)	(232,615)
Fare revenues	(145,021)	(139,508)
Other operating revenues	<u>(1,138)</u>	<u>(4,538)</u>
Maximum total allocation	1,081,077	882,966
TDA operating allocations received and accrued	<u>240,175</u>	<u>192,514</u>
Allocation over/under maximum	<u>\$ (840,902)</u>	<u>\$ (690,452)</u>

NOTE 6 – FARE REVENUE RATIO

The Agency had fare revenue ratios for the year ended June 30, 2017 and 2016, computed as follows:

	2017	2016
(a) Operating revenues – passenger fares	\$ 145,021	\$ 139,508
(b) Operating costs – net of depreciation expense	1,222,607	1,023,800
(c) Fare revenue ratio [(a) / (b)]	11.86%	13.63%
Minimum ratio required	20.00%	20.00%
Under minimum ratio requirement	8.14%	6.37%

The Agency was not in compliance with applicable TDA regulations pertaining to acceptable fare revenue ratios which require a minimum ratio of 20%.

NOTE 7 – LONG TERM DEBT – COMPENSATED ABSENCES

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Compensated absences	\$ 2,549	\$ 9,951	\$ 8,114	\$ 4,386

NOTE 8 – UNEARNED REVENUE

Unearned revenue at June 30, 2017, and June 30, 2016, consisted of the following:

	June 30, 2017	June 30, 2016
Bus Pass Sales	\$ 9,629	\$ 4,474
Low Carbon Transit Operations Program		97,348
Prop 1B funding	<u>27</u>	<u>28,777</u>
Total Unearned revenues	<u>\$ 9,656</u>	<u>\$ 130,599</u>

SOUTH COUNTY TRANSIT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 – INSURANCE

The Agency is exposed to various risks of loss related to torts, theft, damage to, or destruction of an asset and errors or omissions. The Agency maintains comprehensive general liability including automobile insurance of \$25 million for buses, vans, equipment, and facilities. The Agency also purchases commercial Special Liability Insurance and Special District Property Insurance with limits of \$10 million per occurrence and \$100 million annual aggregate.

NOTE 10 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B in November 2006, included a program of funding in the amount of \$4 billion to be deposited in the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). Of this amount, \$3.6 billion in the PTMISEA was made available to project sponsors in California for allocation to eligible public transportation projects for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or rolling stock procurement, rehabilitation, expansion, or replacement. PTMISEA eligibility is based on STA allocations to each project sponsor during the fiscal years 2004-05, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10 and 2010-11, and were made available during the 2011-12 fiscal year. Qualifying expenditures must be encumbered within three years from the date of allocation and expended within three years from the date of the encumbrance.

Interest earned on funds to date is \$8,622. The Agency had qualifying expenditures incurred under this program from previous allocation totaling \$28,332, which was used for the Intelligent Transportation Systems (ITS) procurement on transit coaches and is included in State capital grants in the accompanying financial statements.

NOTE 11 – THE LOW CARBON TRANSIT OPERATIONS PROGRAM (LCTOP)

The Low Carbon Transit Operations Program (LCTOP) is one of several programs that are part of the Transit, Affordable Housing, and Sustainable Communities Program established by the California Legislature in 2014 by Senate Bill 862. The LCTOP was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emission and improve mobility, with a priority on serving disadvantaged communities. Approved projects in LCTOP will support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance and other costs to operate those services or facilities, with each project reducing greenhouse gas emissions. For agencies whose service area includes disadvantaged communities, at least 50 percent of the total moneys received shall be expended on projects that will benefit disadvantaged communities. Senate Bill 862 continuously appropriates five percent of the annual auction proceeds in the Greenhouse Gas Reduction Fund (Fund) for LCTOP, beginning in 2015-16.

Interest earned on funds to date is \$1,110. The Agency had qualifying expenditures incurred under this program from previous allocation totaling \$98,458, which was used for operating expenses for the new route 27 and 28 service and is included in the accompanying financial statements.

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SUPPLEMENTARY INFORMATION SECTION

**SOUTH COUNTY TRANSIT
 PROPRIETARY FUND
 SCHEDULE OF EXPENSES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Administrative Expenditures			
Insurance			
Liability and Physical Damage	\$ 82,800	\$ 82,593	\$ 207
Workers Compensation	57,000	54,056	2,944
Property Insurance	700	701	(1)
Rent	36,000	30,600	5,400
Utilities	8,450	8,603	(153)
Radio Expense	1,240	1,236	4
Legal Services	6,200		6,200
Payroll Processing	1,680	1,362	318
Administration - Staff Time	74,750	74,750	
Finance	13,200	13,200	
Office Expense/Miscellaneous	10,370	9,950	420
Audit	3,000	3,020	(20)
Marketing/Community Relations/Printing	25,000	29,271	(4,271)
Uniforms/Laundry/Physicals/Ads	10,270	9,892	378
Operating Expenditures			
Salaries/Benefits	579,750	568,810	10,940
Maintenance	115,800	166,134	(50,334)
Dispatch	21,850	21,850	
Sign Maintenance	3,000		3,000
SCT Bus Fuel	215,770	140,573	75,197
Contingency	12,640	6,006	6,634
Total administration and operations	<u>1,279,470</u>	<u>1,222,607</u>	<u>56,863</u>
Capital Outlay			
Facility Improvements/Bus Stop Amenities	141,010	7,389	133,621
ITS	156,600	129,669	26,931
Transit Center Improvements	62,500		62,500
Total capital outlay	<u>360,110</u>	<u>137,058</u>	<u>223,052</u>
Total expenses, budgetary basis	<u>\$ 1,639,580</u>	<u>\$ 1,359,665</u>	<u>\$ 279,915</u>
TOTAL EXPENSES, BUDGETARY BASIS		\$ 1,359,665	
ADD:			
DEPRECIATION		207,932	
LESS:			
CAPITALIZED EXPENSES		(137,058)	
TOTAL OPERATING EXPENSES PER FINANCIAL STATEMENTS		<u>\$ 1,430,539</u>	

