SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY

FINANCIAL STATEMENTS

June 30, 2018

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FINANCIAL SECTION

Moss, Levy & Hartzheim LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
San Luis Obispo Regional Transit Authority
San Luis Obispo, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the of San Luis Obispo Regional Transit Authority (Agency) as of and for the fiscal year ended June 30, 2018, and the related notes to the 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 auditors' 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 financial position of the San Luis Obispo Regional Transit Authority, as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Proportionate Share of Net Pension Liability on page 23, and the Schedule of Pension Contributions on page 24, Schedule of Changes in the Net OPEB Liability and Related Ratios on page 25, and the Schedule of OPEB Contributions on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.

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Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the San Luis Obispo Regional Transit Authority's basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison schedule 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.

Report on Summarized Comparative Information

We have previously audited the San Luis Obispo Regional Transit Authority 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 11, 2017. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2017, is consistent in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated January 21, 2019, on our consideration of the San Luis Obispo Regional Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim LLP

January 21, 2019
Santa Maria, California

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018

	2018	2017
ASSETS		
Current assets:		
Cash and investments	$ 3,403,077	$ 2,445,281
Accounts receivable	486,097	170,260
Intergovernmental receivables	108,660	101,030
Grants receivable	1,962,471	2,531,238
Prepaid items	154,006	56,329
Inventory at cost	205,224	227,491
Total current assets	6,319,535	5,531,629
Capital assets:		
Nondepreciable:		
Land	1,512,602	1,512,602
Construction in progress	336,279	286,651
Depreciable:		
Buildings and improvements	5,735,965	4,754,698
Equipment and vehicles	16,809,930	16,812,810
Less accumulated depreciation	(12,115,260)	(10,184,552)
Total net capital assets	12,279,516	13,182,209
Total assets	18,599,051	18,713,838
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pensions	380,297	375,085
Total deferred outflows of resources	380,297	375,085
LIABILITIES		
Current liabilities:		
Accounts payable	324,185	185,581
Accrued payroll	382,414	178,142
Unearned revenue	4,382,178	3,990,863
Customer deposits		27,703
Loan payable	200,596	200,596
Total current liabilities	5,289,373	4,582,885
Noncurrent liabilities:		
Compensated absences	206,884	161,601
Other post-employment benefits	122,838	29,521
Net pension liability	628,213	543,863
Loan payable	11,707	212,302
Total noncurrent liabilities	969,642	947,287
Total liabilities	6,259,015	5,530,172
DEFERRED INFLOWS OF RESOURCES		
Deferred pensions	24,078	39,083
Deferred OPEB	5,343	
Total deferred inflows of resources	29,421	39,083
NET POSITION		
Net investment in capital assets	12,067,213	12,769,311
Unrestricted	623,699	750,357
Total net position	$ 12,690,912	$ 13,519,668

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

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	2018	2017
Operating Revenues:		
Passenger fares	$ 1,437,854	$ 1,324,772
Other operating revenue	123,334	22,200
Total operating revenues	1,561,188	1,346,972
Operating Expenses:		
Transit operating expenses	8,136,150	7,415,139
Administration and financial services	1,658,049	1,605,972
Depreciation	2,043,637	1,873,538
Total operating expenses	11,837,836	10,894,649
Operating loss	(10,276,648)	(9,547,677)
Non-Operating Revenues (Expenses):		
Transportation Development Act funds	5,193,057	4,553,619
Federal and State grants	3,059,203	3,151,480
Interest income	19,636	11,287
Fees and reimbursements from other governmental agencies	119,270	114,900
Gain/(loss) on disposal of capital assets	5,894	14,008
Environmental planning		
Interest expense	(19,249)	(30,960)
Total non-operating revenues (expenses)	8,377,811	7,814,334
Capital Contributions:		
Federal capital grants	643,595	658,615
State capital grants	523,277	819,373
Local capital grants	3,054	63,652
Total capital contributions	1,169,926	1,541,640
Change in net position	(728,911)	(191,703)
Net position, beginning of fiscal year	13,519,668	13,711,371
Prior period adjustment	(99,845)	
Net position, beginning of fiscal year, restated	13,419,823	13,711,371
Net position, end of fiscal year	$ 12,690,912	$ 13,519,668

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

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	2018	2017
Cash Flows From Operating Activities:		
Receipts from customers	$ 1,245,351	$ 1,426,217
Payments to suppliers and wages	(9,595,213)	(9,229,508)
Net cash used by operating activities	(8,349,862)	(7,803,291)
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of property, plant, and equipment	(1,169,926)	(1,541,640)
Principal paid - loan payable	(200,595)	(200,596)
Interest expense	(19,249)	(30,960)
Capital grants received	1,169,926	1,541,640
Sale of capital assets	34,877	37,913
Net cash used by capital and related financing activities	(184,967)	(193,643)
Cash Flows from Noncapital Financing Activities:		
Grants received	9,353,719	7,129,826
Fees and reimbursements	119,270	114,900
Net cash provided by noncapital financing activities	9,472,989	7,244,726
Cash Flows From Investing Activities:		
Interest income	19,636	11,287
Net cash provided by investing activities	19,636	11,287
Net increase (decrease) in cash and cash equivalents	957,796	(740,921)
Cash and cash equivalents, beginning of fiscal year	2,445,281	3,186,202
Cash and cash equivalents, end of fiscal year	$ 3,403,077	$ 2,445,281

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

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	2018	2017
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (10,276,648)	$ (9,547,677)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	2,043,637	1,873,538
Change in operating assets, deferred outflows, liabilities, and deferred inflows:		
Accounts receivable	(315,837)	79,245
Prepaid items	(97,677)	(13,451)
Inventory	22,267	(20,138)
Deferred outflows	(5,212)	(221,528)
Accounts payable	138,604	(52,094)
Accrued payroll	204,272	30,953
Unearned revenue	(149,008)	5,545
Customer deposits	(27,703)	
Other post-employment benefits	(6,528)	10,496
Net pension liability	84,350	128,977
Compensated absences	45,283	(1,288)
Deferred Inflows	(9,662)	(75,869)
Net cash used by operating activities	$ (8,349,862)	$ (7,803,291)

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

NOTE 1 – REPORTING ENTITY

San Luis Obispo Regional Transit Authority (the Agency) is a Joint Powers Agency created by a joint powers agreement among the Cities of San Luis Obispo, Morro Bay, Atascadero, Arroyo Grande, El Paso de Robles, Grover Beach, Pismo Beach, and the County of San Luis Obispo.

The purpose of the Agency is to operate a fixed route public transportation system linking San Luis Obispo to the outlying communities of Morro Bay, Los Osos, Arroyo Grande, El Paso de Robles, Grover Beach, Pismo Beach, Atascadero, Cambria, San Simeon, Nipomo, Santa Maria, Templeton, Santa Margarita, and San Miguel, along with Cuesta College and California Men's Colony. The Agency also owns, operates, and administers a countywide public demand responsive transportation system that is fully accessible for disabled riders. On August 1, 2009, the Agency began in-house vehicle operations and maintenance. Prior to August 1, 2009, a private transportation company provided these services.

The Agency is governed by a Board of Directors comprised of twelve members representing each of the seven cities, in addition to the five members of the County Board of Supervisors.

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. 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.

D. Accounts Receivable – 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.

E. Inventory – Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out method.

F. 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. Capital assets are defined by the Agency as assets with initial, individual costs of more than $1,000 and estimated useful life in excess of two years.

G. 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.

H. Compensated Absences – Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the Agency.

I. Revenue Recognition - The Agency'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 Council 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 and approved to it 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the San Luis Obispo Regional Transit Authority's California Public Employee's Retirement System (CalPERS) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,"* and GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities,"* the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 10 for a detailed listing of the deferred outflows of resources the District has reported.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has two items which qualify for reporting in this category; refer to Note 10 and 11 for a detailed listing of the deferred inflows of resources the District has reported.

N. 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.

O. Future Accounting Pronouncements

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

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. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 88	"Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 89	"Accounting for Interest Cost Incurred before the End of a Construction Period"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 90	"Majority Equity Interest-an Amendment of GASB Statements No. 14 and No. 61"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.

NOTE 3 - CASH AND INVESTMENTS

On June 30, 2018 the Agency had the following cash and investments on hand:

Cash on hand and in banks	$ 739,218
Investments	2,663,859
Total cash and investments	$ 3,403,077

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

Cash and investments, statement of net position	$ 3,403,077

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 which is an external investment pool which is 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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.

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:

		Remaining Maturity (in Months)			
Investment Type	Carrying Amount	12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
San Luis Obispo County Investment Pool	$ 2,663,859	$ 2,663,859	$ -	$ -	$ -
Total	$ 2,663,859	$ 2,663,859	$ -	$ -	$ -

NOTE 3 - CASH AND INVESTMENTS (Continued)

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 on the following page 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.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt from Disclosure	Rating as of Fiscal Year End AAA	AA	Not Rated
San Luis Obispo County Investment Pool	$ 2,663,859	N/A	$ -	$ -	$ -	$ 2,663,859
Total	$ 2,663,859		$ -	$ -	$ -	$ 2,663,859

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.

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 Cash held by San Luis Obispo County).

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets, not being depreciated				
Land	$ 1,512,602	$ -	$ -	$ 1,512,602
Construction in progress	286,651	1,039,432	989,804	336,279
Total capital assets, not being depreciated	$ 1,799,253	$ 1,039,432	$ 989,804	$ 1,848,881
Capital assets, being depreciated				
Building and improvements	$ 4,754,698	$ 989,804	$ 8,537	$ 5,735,965
Vehicles and equipment	16,812,810	130,494	133,374	16,809,930
Total capital assets, being depreciated	21,567,508	1,120,298	141,911	22,545,895
Less accumulated depreciation for:				
Building, improvements, vehicles and equipment	10,184,552	2,043,637	112,929	12,115,260
Total accumulated depreciation	10,184,552	2,043,637	112,929	12,115,260
Total capital assets, being depreciated, net	$ 11,382,956	$ (923,339)	$ 28,982	$ 10,430,635
Governmental activities, capital assets, net	$ 13,182,209	$ 116,093	$ 1,018,786	$ 12,279,516

Depreciation expense for the fiscal year ended June 30, 2018, was $2,043,637. The depreciation expense for the fiscal year ended June 30, 2017, was $1,873,538.

NOTE 5 – UNEARNED REVENUE

	2018	2017
TDA Local Transportation Funds	$ 3,760,428	$ 2,807,942
The Agency received an advance from developers for construction of bus stops as a condition imposed by the County Board of Supervisors. These funds are deferred until the bus stops have been constructed.	38,688	38,688
The Agency distributes Universal bus passes to Social Services and the general public as part of a "Welfare to Work Program." These funds are deferred revenue until they are tendered or redeemed.	85,163	234,171
Prop 1B funding	497,899	642,783
Low Carbon Transit Operator Program		267,279
Total unearned revenues	$ 4,382,178	$ 3,990,863

NOTE 6 – OPERATING SUBSIDIES FROM LOCAL TRANSPORTATION AND STATE TRANSIT ASSISTANCE FUNDS

The County was allocated the following funds from the Local Transportation Fund (LTF) and State Transit Assistance Fund for the fiscal years ended June 30, 2018 and 2017:

Allocation Assigned By/Claimant	Article/ Section	Amount 2018	Amount 2017
Local Transportation Fund:			
City of Arroyo Grande	4 / 99260(a)	$ 201,105	$ 172,127
City of San Luis Obispo	4 / 99260(a)	694,798	583,204
County of San Luis Obispo	4 / 99260(a)	2,245,334	1,587,610
City of Grover Beach	4 / 99260(a)	151,949	129,816
City of Morro Bay	4 / 99260(a)	121,609	101,569
City of Atascadero	4 / 99260(a)	350,230	288,087
City of El Paso de Robles	4 / 99260(a)	916,356	875,080
City of Pismo Beach	4 / 99260(a)	92,789	76,157
Total LTF		4,774,170	3,813,650
State Transit Fund:			
Regional Transit Authority	6.5 / 99313	1,362,706	462,686
Regional Transit Authority	6.5 / 99314	85,064	56,009
Total STF		1,447,770	518,695
Subtotal		6,221,940	4,332,345
Add: Recognition of prior fiscal year unearned revenues		2,807,942	3,246,928
Less: Current fiscal year unearned revenues		(3,760,428)	(2,807,942)
Total TDA Allocation		$ 5,269,454	$ 4,771,331

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

	2018	2017
Operating and interest expenses	$ 11,857,085	$ 10,925,609
Add:		
Capital purchases with LTF and STF	76,397	217,712
Less:		
Depreciation	(2,043,637)	(2,043,637)
Fare revenues	(1,437,854)	(1,324,772)
Special events and other revenues	(123,334)	(22,200)
Federal and state operating grants	(3,059,203)	(3,151,480)
Maximum total allocation amount	5,269,454	4,601,232
TDA allocations received and accrued	6,221,940	4,332,345
Change in TDA transit allocations in unearned revenues	(952,486)	268,887
Allocation over/(under) maximum	$ -	$ -

NOTE 7 – FARE REVENUE RATIO

The Agency had fare revenue ratios for the fiscal year ended June 30, 2018 as computed as follows:

	Fixed Route	Runabout	Paso Express	Paso Dial a Ride
(a) Operating fare revenues	$ 1,096,922	$ 154,035	$ 137,891	$ 6,598
(b) Operating expenses, net of depreciation	5,318,245	3,125,333	698,731	136,533
(c) Fare revenue ratio [(a) / (b)]	20.63%	4.93%	19.73%	4.83%
Minimum ratio required	17.36%	N/A	17.36%	15.00%
Under minimum ratio requirement	N/A	N/A	N/A	10.17%

	Nipomo	Cambria Trolley	Avila Trolley
(a) Operating fare revenues	$ 34,270	$ -	$ 8,138
(b) Operating expenses, net of depreciation	438,403	5,472	71,482
(c) Fare revenue ratio [(a) / (b)]	7.82%	0.00%	11.38%
Minimum ratio required	10.00%	10.00%	17.36%
Under minimum ratio requirement	2.18%	10.00%	5.98%

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

	Fixed Route	Runabout	Paso Express	Paso Dial a Ride
(a) Operating fare revenues	$ 1,003,303	$ 136,526	$ 138,519	$ 7,113
(b) Operating expenses, net of depreciation	4,671,014	3,131,606	669,146	136,509
(c) Fare revenue ratio [(a) / (b)]	21.48%	4.36%	20.70%	5.21%
Minimum ratio required	17.36%	N/A	17.36%	15.00%
Under minimum ratio requirement	N/A	N/A	N/A	9.79%

	Nipomo	Cambria Trolley	Avila Trolley
(a) Operating fare revenues	$ 28,151	$ -	$ 11,160
(b) Operating expenses, net of depreciation	332,009	4,263	76,564
(c) Fare revenue ratio [(a) / (b)]	8.47%	0.00%	14.58%
Minimum ratio required	10.00%	10.00%	20.00%
Under minimum ratio requirement	1.53%	10.00%	5.42%

The Agency was in compliance with applicable TDA regulations pertaining to acceptable fare revenue ratios for routes encompassing both urbanized and non-urbanized areas which require a minimum ratio of 17.15% blended rate as approved by San Luis Obispo Council of Governments. The fare revenue ratios for the Paso Dial a Ride, Nipomo, Cambria Trolley and Avila Trolley are under their various minimum required ratios. When the fare revenue ratio is under the minimum requirement for two consecutive years, there is a potential for a reduction in future TDA eligibility for the difference between the required minimum and actual fares in accordance with Public Utilities Code Section 99268.9 and CCR Section 6633.9, unless waived by the San Luis Obispo Council of Governments.

NOTE 8 – LONG TERM DEBT

	Balance July 1, 2017	Prior-period Adjustment	Increases	Decreases	Balance at June 30, 2018 Total	Current	Long Term
Vacation	$ 122,609	$ -	$ 194,732	$ 155,260	$ 162,081	$ -	$ 162,081
Sick leave	38,992		36,345	30,534	44,803		44,803
Loan payable	412,898			200,595	212,303	200,596	11,707
Other post-employment benefits	29,521	99,845	195	6,723	122,838		122,838
Net pension liability	543,863		192,811	108,461	628,213		628,213
Total	$ 1,147,883	$ 99,845	$ 424,083	$ 501,573	$ 1,170,238	$ 200,596	$ 969,642

NOTE 9 – LOAN PAYABLE

The Agency entered into a loan with Rabobank on June 1, 2011. The original balance of the loan was $3,082,621. A prepayment of $799,168 in principal was made on January 29, 2014. The loan was refinanced with Rabobank for $1,512,183 on March 24, 2014 with a fixed interest rate of 5.75%. Payment on the loan is due in variable monthly interest payments which began on April 1, 2014 and budgeted principal payments of $100,298 beginning April 30, 2014, with all outstanding principal plus accrued unpaid interest due on April 30, 2021. The outstanding principal balance at June 30, 2018, was $212,303.

NOTE 10 – PENSION PLAN

A. General Information about the Pension Plans

Plan Descriptions

The Plan is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the assumptions for funding purposes, but not accounting purposes, and membership information is listed in the June 30, 2016 GASB 68 actuarial valuation report for the Miscellaneous risk pool. Details of the benefits provided can be obtained from Appendix B of the June 30, 2016 actuarial valuation report for the CalPERS Miscellaneous risk pool. This report is a publicly available valuation report that can be obtained at CalPERS' website under Forms and Publications.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Classic members with five years of total service are eligible to retire at age 50 and PEPRA members with five years of total service are eligible to retire at age 52, with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	8.921% + $41,145	6.533% + $176

NOTE 10 – PENSION PLAN (Continued)

A. General Information about the Pension Plans (Continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the Authority were $120,722 for the fiscal year ended June 30, 2018.

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

At June 30, 2018, the Agency reported a liability of $628,213 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. The Agency's proportionate share of the net pension liability for the miscellaneous plan as of June 30, 2016, and 2017 was as follows:

	Miscellaneous
Proportion - June 30, 2016	0.01566%
Proportion - June 30, 2017	0.01594%
Change - Increase (Decrease)	0.00028%

For the year ended June 30, 2018, the Agency recognized pension expense of $184,855. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	$ 120,722	$ -
Differences between expected and actual experience	868	12,440
Changes in assumptions	107,736	8,215
Net difference between projected and actual earnings on retirement plan investments	24,365	
Adjustment due to differences in proportions	68,266	3,423
Difference in actual contributions and proportionate share of contributions	58,340	
	$ 380,297	$ 24,078

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

$108,461 was reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

NOTE 10 – PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Fiscal Year Ending June 30,	Amount
2019	$ 90,691
2020	100,153
2021	59,120
2022	(14,467)
	$ 235,497

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.0% Net Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowanc Floor on Purchasing Power applies; 2.75% thereafter

(1) The mortality table used was developed based on CalPERs' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on testing the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB No. 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2022. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2021-22 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class.

NOTE 10 – PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Discount Rate (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits were calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	80.00%	2.27%
Inflation Sensitive	6.0%	60.00%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.0%		

(a) An expected inflation of 2.5% was used for this period.
(b) An expected inflation of 3.0% was used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate

The following represents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.15 percent) or 1- percentage point higher (8.15 percent) than the current rate:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
Agency's proportionate share of the net pension plan liability	$ 983,341	$ 628,213	$ 334,090

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to Pension Plan

At June 30, 2018, the Agency had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2018.

NOTE 11– POST EMPLOYEMENT BENEFITS OTHER THAN PENSIONS

Plan Description

Plan administration. The Authority provides post-retirement medical coverage through CalPERS under the Public Employees Medical and Hospital Care Act (PEMHCA), also referred to as PERS Health. There are 12 medical plans in the "Other Southern California" region that participants may elect coverage for. Participants may also receive benefits if outside the region. Findings and assumptions are based on a 50%/50% blend of the PERS Health (PEMHCA) rates for calendar years 2018 and 2019.

Benefits provided. The Authority offers the same medical plans to its retirees as to its active employees, with the general exception that upon reaching age 65 and becoming eligible for Medicare, the retiree must join one of the Medicare Supplement coverages offered under PEMHCA.

Employees become eligible to retire and receive Authority-paid healthcare benefits upon attainment of age 50 (Classic Plan) or age 52 (New Members/PEPRA Plan) and 5 years of covered PERS service, or by attaining qualifying disability retirement status. Authority's contribution on behalf of retirees is the same as for active employees - 100% of the PEMHCA premium for retiree and covered dependents, but not to exceed $256 per month. Benefits continue for the lifetime of the retiree with survivor benefits extended to surviving spouses for PERS annuitants who elect pension options with survivor benefits. The Authority paid 0.33% of premium administrative fee on behalf of employees and retirees for the year ended June 30, 2018.

Employees Covered

As of July 1, 2017, actuarial valuation, the following current and former employees were covered by the benefit terms under the Authority's Plan:

Active plan members	5
Inactive plan members or beneficiaries currently receiving benefilts	2
Total	7

Contributions

The Authority currently finances benefits on a pay-as-you-go basis.

Net OPEB Liability

The Authority's Net OPEB Liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of July 1, 2017. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

Actuarial assumptions. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.00%
Investment rate of return	4.00% net of OPEB plan investment expense
Healthcare cost trend rate	5.00%

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

Actuarial assumptions used in the July 1, 2017 valuation were based on the CalPERS 1997-2015 Experience Study 2%@55 rates. Termination rates used were Crocker-Sarason Table T-5 less mortality.

Discount rate. GASB 75 requires a discount rate that reflects the following:

a) The long-term expected rate of return on OPEB plan investments — to the extent that the OPEB plan's fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;

b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher — to the extent that the conditions in (a) are not met.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Net OPEB Liability (Continued)

To determine a resulting single (blended) rate, the amount of the plan's projected fiduciary net position (if any) and the amount of projected benefit payments is compared in each period of projected benefit payments. The discount rate used to measure the Authority's total OPEB liability is based on these requirements and the following information:

Reporting Date	Measurement Date	Long-term Expected Return of Plan Investments (if any)	Municipal Bond 20 Year High Grade Rate Index	Discount Rate
July 1, 2017	July 1, 2017	4.00%	4.00%	3.13%
June 30, 2018	June 30, 2018	4.00%	3.62%	3.62%

Changes in the OPEB Liability

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at June 30, 2017 (Valuation Date July 1, 2017)	$ 129,366	$ -	$ 129,366
Changes recognized for the measurement period:			
Service cost	2,583		2,583
Interest	3,945		3,945
Changes of assumptions	(6,333)		(6,333)
Contributions - employer		6,723	(6,723)
Net investment income			
Benefit payments	(6,723)	(6,723)	
Administrative expense			
Net Changes	(6,528)		(6,528)
Balance at 30, 2018 (Measurement date June 30, 2018)	$ 122,838	$ -	$ 122,838

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.62 percent) or 1-percentage-point higher (4.62 percent) than the current discount rate:

	1% Decrease (2.62%)	Discount Rate (3.62%)	1% Increase (4.62%)
Net OPEB Liability	$ 136,326	$ 122,838	$ 111,350

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.00 percent) or 1-percentage-point higher (6.00 percent) than the current healthcare cost trend rates:

	1% Decrease (4.00%)	Trend Rate (5.00%)	1% Increase (6.00%)
Net OPEB Liability	$ 118,145	$ 122,838	$ 128,356

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Investments

The plan has no investments as of June 30, 2018.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the Authority recognized OPEB expense of $5,538. As of the fiscal year ended June 30, 2018, the Authority reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ -	$ -
Change in assumptions		5,343
	$ -	$ 5,343

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Fiscal year Ending June 30,	Amount
2019	$ (990)
2020	(990)
2021	(990)
2022	(990)
2023	(990)
2024	(393)
	$ (5,343)

NOTE 12 – 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 Agency Property Insurance with limits of $25 million per occurrence and $100 million annual aggregate.

NOTE 13 – DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

At June 30, 2018, deferred inflows and outflows of resources, reported on the Statement of Net Position, consisted of the following:

Deferred Inflows of Resources:	
Pensions	$ 24,078
OPEB	5,343
Total Deferred Inflows	$ 29,421
Deferred Outflows of Resources:	
Pensions	$ 380,297
Total Deferred Outflows	$ 380,297

NOTE 14 – OPERATING LEASE

The Agency has entered into an operating lease for office facilities and bus yard with lease terms in excess of one year. Rent can increase between 1.5% and 5% annually with the lease available through February 2022. Future minimum lease payments under this agreement for the next year are $438,252

NOTE 15 – 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, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16 and were made available during the 2016-17 fiscal years. 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 $13,229. The Agency had qualifying expenditures incurred under this program from previous allocation totaling $178,110, which was used as Intelligent Transportation System, Paso Robles Facility Improvement and is included in State capital grants in the accompanying financial statements.

NOTE 16 – 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 $4,430. The Agency had qualifying expenditures incurred under this program from previous allocation totaling $268,770 which was used for the procurement of construction services of Paso Robles Facility Improvement and is included in State capital grants in the accompanying financial statements.

NOTE 17 – SENATE BILL 1 – STATE OF GOOD REPAIR

The Road Repair and Accountability Act of 2017, Senate Bill (SB) 1 (Chapter 5, Statues of 2017), signed by the Governor on April 28, 2017, includes a program that will provide additional revenues for transit infrastructure repair and service improvements. This investment in public transit will be referred to as the State of Good Repair program. This program provides funding of approximately $105 million annually to the State Transit Assistance (STA) Account. These funds are to be made available for eligible transit maintenance, rehabilitation and capital projects.

This program demonstrates California's commitment to clean, sustainable transportation, and the role that public transit plays in that vision. While SB 1 addresses a variety of transportation needs, this program has a specific goal of keeping transit systems in a state of good repair, including the purchase of new transit vehicles, and maintenance and rehabilitation of transit facilities and vehicles. These new investments will lead to cleaner transit vehicle fleets, increased reliability and safety, and reduced greenhouse gas emissions and other pollutants.

In the fiscal year ended June 30, 2018, the San Luis Obispo Regional Transit Authority received $257,835 and interest earned was $179.

NOTE 18 – RESTATEMENT

A restatement of ($99,845) on the financial statements was to adjust OPEB. The adjustment was due to the Agency's implementation of GASB Statement No. 75.

NOTE 19 – SUBSEQUENT EVENT

The Authority is involved in ongoing litigation arising from errors discovered by the RTA in August 2018 with regard to the RTA's participation in CalPERS. As of the date of issuance of this report, the amount of the claim cannot be reasonably be estimated but could exceed $110,000.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
Last 10 Years*
As of June 30, 2018

The following table provides required supplementary information regarding the Agency's Pension Plan.

	2018	2017	2016	2015
Proportion of the net pension liability	0.00633%	0.00726%	0.00604%	0.00684%
Proportionate share of the net pension liability	$ 628,213	$ 628,213	$ 414,886	$ 425,837
Covered payroll	$ 932,784	$ 822,150	$ 473,673	$ 345,255
Proportionate share of the net pension liability as percentage of covered payroll	67.35%	76.41%	87.59%	123.34%
Plan's total pension liability	$ 37,161,348,332	$ 33,358,627,624	$ 31,771,217,402	$ 30,829,966,631
Plan's fiduciary net position	$ 27,244,095,376	$ 24,705,532,291	$ 24,907,305,871	$ 24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	73.31%	74.06%	78.40%	79.82%

Notes to Schedule:
Changes in assumptions - In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

In 2016, the discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

In 2018, the discount rate was changed by CalPERS from 7.65 percent to 7.15 percent.

*- Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF CONTRIBUTIONS
Last 10 Years*
As of June 30, 2018

The following table provides required supplementary information regarding the Agency's Pension Plan.

	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 120,722	$ 108,461	$ 126,258	$ 74,414
Contribution in relation to the actuarially determined contributions	(120,722)	(108,461)	(126,258)	(74,414)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 1,030,066	$ 932,784	$ 822,150	$ 473,673
Contributions as a percentage of covered payroll	11.72%	11.63%	15.36%	15.71%

Notes to Schedule

Valuation Date: 6/30/2016

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2014/2015 were derived from the June 30, 2012 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2016 funding valuation report.
Inflation	2.75%
Salary Increases	Varies by entry age and service
Payroll Growth	3.00%
Investment Rate of Return	7.15%
Retirement Age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

In 2018, the discount rate was changed by CalPERS from 7.65 percent to 7.15 percent.

*- Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
Last 10 Years*
As of June 30, 2018

Measurement Period		2018
Total OPEB Liability		
Service cost	$	2,583
Interest on the total OPEB liability		3,945
Actual and expected experience difference		
Changes in assumptions		(6,333)
Changes in benefit terms		
Benefit payments		(6,723)
Net change in total OPEB Liability		(6,528)
Total OPEB liability- beginning		129,366
Total OPEB liability- ending (a)	$	122,838
Plan Fiduciary Net Position		
Contribution - employer	$	6,723
Net investment income		
Benefit payments		(6,723)
Administrative expense		
Net change in plan fiduciary net position		
Plan fiduciary net position- beginning		
Plan fiduciary net position- ending (b)	$	-
Net OPEB liability - ending (a)-(b)	$	122,838
Plan fiduciary net position as a percentage of the total OPEB liability		0.00%

*- Fiscal year 2018 was the 1st year of implementation, therefore only one year is shown.

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF OPEB CONTRIBUTIONS
Last 10 Years*
As of June 30, 2018

The following table provides required supplementary information regarding the COG's OPEB.

	2018
Actuarially Determined Contribution (ARC)	$ 7,112
Contributions in relation to the ARC	(6,723)
Contribution deficiency (excess)	$ 389
Covered payroll	$ 1,030,061
Contributions as a percentage of covered payroll	0.65%

Notes to Schedule

Valuation Date:	7/1/2017
Discount Rate:	3.62%
Salary Increases:	3.00%

*- Fiscal year 2018 was the 1st year of implementation, therefore only one year is shown.

SUPPLEMENTARY INFORMATION SECTION

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENSES
BUDGET AND ACTUAL
As of June 30, 2018

	Adopted Budget	Actual	County Services Actual	Variance with Budget
Administration:				
Labor	$ 855,390	$ 910,006	$ -	$ (54,616)
Labor - Administration Workers Comp	70,930	66,631		4,299
Office Space Rental	477,880	433,799		44,081
Property Insurance	17,240	17,200		40
Professional Technical Services	99,990	77,984		22,006
Professional Development	37,670	37,234		436
Operating Expense	270,460	271,349		(889)
Marketing and Reproduction	90,720	90,196		524
Contingency	120,490			120,490
North County Management Contract	(41,850)	(41,850)		
County Management Contract	(85,230)	(85,230)	95,230	(95,230)
SCT Management Contract	(119,270)	(119,270)		
Total Administration	1,794,420	1,658,049	95,230	41,141
Service Delivery:				
Labor - Operations	4,245,580	3,945,608	232,863	67,109
Labor - Operations Worker Comp	479,910	450,826	26,842	2,242
Labor - Maintenance	989,230	966,370	56,966	(34,106)
Labor - Maintenance Workers Comp	140,450	131,938	7,912	600
Fuel	1,054,460	951,945	18,969	83,546
Insurance	615,000	639,240	13,533	(37,773)
Special Transportation (includes Senior Vans, Lucky Bucks, etc.)	43,900	45,834	43,347	(45,281)
Avila Trolley	69,900	51,973	59,988	(42,061)
Maintenance (parts, supplies, materials)	636,610	579,676	9,831	47,103
Maintenance Contract Costs	92,100	126,390	2,739	(37,029)
Total Operations	8,367,140	7,889,800	472,990	4,350
Capital/Studies:				
Computer System Maintenance/Upgrades	52,220	40,183		12,037
Miscellaneous Capital				
Facility Improvements	32,540	17,452		15,088
Maintenance Equipment	42,010	16,701		25,309
Specialized Maintenance Tools	33,500			33,500
Desk and Office Equipment	6,600	4,472		2,128
Vehicle ITS/Camera System	163,510	102,138		61,372
Bus Stop Improvements/Bus Stop Solar Lighting	295,100	90,747		204,353
Bus Rehabilitation	126,000			126,000
Total Capital Outlay	751,480	271,693	-	479,787
Interest Expense	30,490	19,249		11,241
Loan Paydown	200,600	200,595		5
Elks Lane Project	1,831,420	48,596		1,782,824
Paso Property Improvements	859,830	849,637		10,193
Management Contracts	246,350	246,350		
TOTAL FUNDING USES	$ 14,081,730	$ 11,183,969	$ 568,220	$ 2,329,541
TOTAL EXPENSES, BUDGETARY BASIS		$ 11,183,969		
ADD:				
DEPRECIATION		2,043,637		
LESS:				
CAPITALIZED EXPENSES		(1,169,926)		
LOAN PRINCIPAL PAYMENTS		(200,595)		
NON-OPERATING EXPENSES		(19,249)		
TOTAL OPERATING EXPENSES PER FINANCIAL STATEMENTS		$ 11,837,836		

Moss, Levy & Hartzheim LLP
Certified Public Accountants

To the Board of Directors
San Luis Obispo Regional Transit Authority

We have audited the basic financial statements of the San Luis Obispo Regional Transit Authority (the Authority) for the fiscal year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards* and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 1, 2018. 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 San Luis Obispo Regional Transit Authority are described in Note 2 to the financial statements. 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 estimate affecting the Authority's financial statements was (were):

> Management's estimate of the useful lives of capital assets is based on experience with other capital assets and on their standard table of useful lives. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the other postemployment benefits (OPEB) expense is based on the actuary's expertise and experience. We evaluated the key factors and assumptions used to develop the other postemployment benefits (OPEB) expense in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the net pension liability and deferred inflows and outflows related to pension are based on the CalPERS actuary's expertise and experience. We evaluated the key factors and assumptions used to develop the net pension liability and deferred inflows and outflows related to pension in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

> The disclosure of the Pension Plan in Note 10 to the financial statements.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 January 21, 2019.

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. Our comments to management follow:

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of San Luis Obispo Regional Transit Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Moss, Levy & Hartzheim LLP

January 21, 2019

Santa Maria, California