# SAN LUIS OBISPO
# REGIONAL TRANSIT AUTHORITY

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

## JUNE 30, 2021 AND 2020

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY**

**JUNE 30, 2021 AND 2020**

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# FINANCIAL SECTION

# INDEPENDENT AUDITOR'S 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 San Luis Obispo Regional Transit Authority (the Authority) as of and for the fiscal years ended June 30, 2021 and 2020, and the related notes to the basic financial statements, which collectively comprise the Authority'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 basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic 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 Authority'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 Authority'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 opinions.



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## Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2021 and 2020, 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 the Net Pension Liability and the Schedule of Pension Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise the Authority'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 relates 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 Schedule of Expenses – Budget and Actual 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 November 10, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 10, 2021

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY**
**STATEMENT OF NET POSITION**
**JUNE 30, 2021 AND 2020**

| | 2021 | 2020 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and investments | $ 6,643,804 | $ 4,651,364 |
| Accounts receivable | 124,750 | 3,834 |
| Deposits | 2,000 | - |
| Intergovernmental receivables | 3,565,896 | 5,820,393 |
| Prepaid items | 153,695 | 138,726 |
| Inventory at cost | 225,134 | 228,748 |
| Total Current Assets | 10,715,279 | 10,843,065 |
| Noncurrent Assets: | | |
| Restricted - Cash | 184,204 | - |
| Total restricted assets | 184,204 | - |
| Capital Assets: | | |
| Nondepreciable | | |
| Land | 1,512,602 | 1,512,602 |
| Construction in progress | 14,867,631 | 2,443,247 |
| Depreciable | | |
| Buildings and improvements | 6,564,830 | 6,256,619 |
| Equipment and vehicles | 20,911,655 | 18,220,424 |
| Less accumulated depreciation | (17,448,319) | (13,928,737) |
| Total Net Capital Assets | 26,408,399 | 14,504,155 |
| Total Noncurrent Assets | 26,592,603 | 14,504,155 |
| **Total Assets** | 37,307,882 | 25,347,220 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred pension | 2,910,978 | 222,959 |
| Deferred OPEB | - | 1,451 |
| **Total Deferred Outflows of Resources** | 2,910,978 | 224,410 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts payable | 1,957,094 | 455,126 |
| Accrued payroll | 250,801 | 220,787 |
| Unearned revenue | 5,582,922 | 7,767,414 |
| Unearned revenue - State of Good Repair | 706,382 | 146,836 |
| Compensated absences | 72,251 | 66,408 |
| Total Current Liabilities | 8,569,450 | 8,656,571 |
| Noncurrent liabilities: | | |
| Compensated absences | 216,752 | 199,224 |
| Total OPEB liability | 32,501 | 38,645 |
| Net pension liability | 3,072,225 | 653,046 |
| Pension plan exit liability | 843,578 | 2,775,642 |
| Loan payable | 3,700,697 | - |
| Total Noncurrent Liabilities | 7,865,753 | 3,666,557 |
| **Total Liabilities** | 16,435,203 | 12,323,128 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred pension | 310,316 | 25,970 |
| Deferred OPEB | - | 1,244 |
| **Total Deferred Inflows of Resources** | 310,316 | 27,214 |
| **NET POSITION** | | |
| Net investment in capital assets | 22,707,702 | 14,504,155 |
| Unrestricted | 765,639 | (1,282,867) |
| **Total Net Position** | $ 23,473,341 | $ 13,221,288 |

The notes to the 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, 2021 AND 2020**

| | 2021 | 2020 |
|---|---|---|
| **OPERATING REVENUES:** | | |
| Passenger fares | $ 361,944 | $ 1,000,863 |
| Other operating revenue | 137,597 | 184,884 |
| Total Operating Revenues | 499,541 | 1,185,747 |
| **OPERATING EXPENSES:** | | |
| Transit operating expenses | 9,364,771 | 8,835,914 |
| Administration and financial services | 2,000,233 | 1,831,712 |
| Depreciation | 2,263,733 | 2,293,690 |
| Total Operating Expenses | 13,628,737 | 12,961,316 |
| Operating Loss | (13,129,196) | (11,775,569) |
| **NON-OPERATING REVENUES (EXPENSES):** | | |
| Transportation Development Act funds | 4,402,688 | 3,341,982 |
| Federal and State grants | 10,499,052 | 6,362,653 |
| Interest income | 27,062 | 29,485 |
| Fees and reimbursements from other governmental agencies | 63,330 | 122,650 |
| Gain on disposal of capital assets | 31,046 | 23,933 |
| Interest expense | (7,519) | - |
| Total Non-Operating Revenues (Expenses) | 15,015,659 | 9,880,703 |
| **CAPITAL CONTRIBUTIONS:** | | |
| Federal capital grants | 5,916,552 | 469,970 |
| State capital grants | 1,895,009 | 1,299,530 |
| Local capital grants | 226,804 | - |
| Total Capital Contributions | 8,038,365 | 1,769,500 |
| **SPECIAL ITEMS:** | | |
| Transfers from the former South County Transit | 2,423,998 | - |
| CalPERS pension plan exit | (2,096,773) | - |
| Total Special Items | 327,225 | - |
| Change in Net Position | 10,252,053 | (125,366) |
| Net Position, Beginning of Fiscal Year | 13,221,288 | 13,346,654 |
| Net Position, End of Fiscal Year | $ 23,473,341 | $ 13,221,288 |

The notes to the 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, 2021 AND 2020**

| | 2021 | 2020 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Receipts from customers | $ (1,246,321) | $ 3,790,828 |
| Payments to employees | (15,491,031) | (7,244,135) |
| Payments to suppliers | 1,648,757 | (3,923,493) |
| Net Cash Used by Operating Activities | (15,088,595) | (7,376,800) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | |
| Acquisition of operations | 4,168,640 | - |
| Principal paid - loan payable | 3,700,697 | - |
| Interest expense | (7,519) | - |
| Capital grants received | 8,038,365 | 1,769,500 |
| Acquisition and construction of property, plant, and equipment | (15,912,619) | (1,769,500) |
| Sale of capital assets | 31,046 | 23,933 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | 18,610 | 23,933 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:** | | |
| Grants received | 17,156,237 | 7,352,683 |
| Fees and reimbursements | 63,330 | - |
| Net Cash Provided by Noncapital Financing Activities | 17,219,567 | 7,352,683 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Interest income | 27,062 | 29,485 |
| Net Cash Provided by Investing Activities | 27,062 | 29,485 |
| Net Increase in Cash and Cash Equivalents | 2,176,644 | 29,301 |
| Cash and Cash Equivalents, Beginning of Fiscal Year | 4,651,364 | 4,622,063 |
| Cash and Cash Equivalents, End of Fiscal Year | $ 6,828,008 | $ 4,651,364 |

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

## SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
## STATEMENT OF CASH FLOWS (Continued)
## FOR THE FISCAL YEAR ENDED JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|---|---|---|
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES** | | |
| Operating loss | $ (13,129,196) | $ (11,775,569) |
| Adjustments to reconcile operating loss to net cash used by operating activities | | |
| Depreciation expense | 2,263,733 | 2,293,690 |
| Change in operating assets, deferred outflows, liabilities, and deferred inflows: | | |
| Accounts receivable | (120,916) | 222,033 |
| Prepaid items | (14,969) | 436 |
| Inventory | 3,614 | (21,661) |
| Deposits | (2,000) | - |
| Deferred outflows of resources | (2,686,568) | 85,393 |
| Accounts payable | 1,501,968 | (393,503) |
| Accrued payroll | 30,014 | (188,750) |
| Unearned revenue | (1,624,946) | 2,383,048 |
| Total OPEB liability | (6,144) | (90,402) |
| Net pension liability | (1,609,658) | 54,788 |
| Compensated absences | 23,371 | 56,771 |
| Deferred inflows of resources | 283,102 | (3,074) |
| Net Cash Used by Operating Activities | $ (15,088,595) | $ (7,376,800) |

| | 2021 | 2020 |
|---|---|---|
| Reconciliation of Cash and Cash Equivalents per Statement of Cash Flows to the Statement of Net Position: | | |
| Cash and investments | $ 6,643,804 | $ 4,651,364 |
| Restricted - Cash | 184,204 | - |
| Cash and Cash Equivalents per Statement of Cash Flows | $ 6,828,008 | $ 4,651,364 |

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

## NOTE 1 – REPORTING ENTITY

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

The purpose of the Authority 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 Authority also owns, operates, and administers a countywide public demand responsive transportation system that is fully accessible for disabled riders. On August 1, 2009, the Authority began in-house vehicle operations and maintenance. Prior to August 1, 2009, a private transportation company provided these services.

The Authority 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

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

### A. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing transportation services. The principal operating revenues of the Authority are charges to passengers for transportation services (passenger fares). Operating expenses include the cost of providing service, including general and administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### B. Revenue Recognition

The Authority'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 Authority 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 Authority, and makes payments to the Authority 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 Authority recognizes as revenues the amounts allocated and approved to it by San Luis Obispo Council of Governments.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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 Authority 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. Capital Assets

Capital assets purchased by the Authority are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired. Capital assets are defined by the Authority 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 Authority 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 leave benefits are recognized as liabilities of the Authority.

I. Net Position

In the Statement of Net Position, net position is classified in the following categories:

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

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

Unrestricted Net Position – This amount is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

K. 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 Authority's pension plan with San Luis Obispo County Pension Plan (the Trust) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by SLOCPT. 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.

L. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Authority's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Accounting principles generally accepted in the United States of America require that the reported results must pertain to liability and asset information within certain defined timeframes.

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 Authority 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. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

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 Authority that is applicable to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time.

N. Reclassification

Certain prior fiscal amounts have been reclassified to conform to the current fiscal year financial statements presentation.

O. New Accounting Pronouncements – Implemented

**GASB Statement No. 84** – *Fiduciary Activities*. The requirements of this statement are effective for periods beginning after December 15, 2019. There was no effect on the Authority's accounting and financial reporting as a result of implementing this standard.

**GASB Statement No. 90** – *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61.* The requirements of this statement are effective for periods beginning after December 15, 2019. There was no effect on the Authority's accounting and financial reporting as a result of implementing this standard.

## NOTE 2 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

P. <u>Future Accounting Pronouncements</u>

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

**GASB Statement No. 87** – *Leases.* The requirements of this statement are effective for periods beginning after June 15, 2021. The Authority will implement GASB Statement No. 87 if and where applicable.

**GASB Statement No. 89** – *Accounting for Interest Cost Incurred Before the End of a Construction Period.* The requirements of this statement are effective for periods beginning after December 15, 2020. The Authority will implement GASB Statement No. 89 if and where applicable.

**GASB Statement No. 91** – *Conduit Debt Obligations.* The requirements of this statement are effective for periods beginning after December 15, 2021. The Authority will implement GASB Statement No. 91 if and where applicable.

**GASB Statement No. 92** – *Omnibus 2020*. The requirements of this statement are for paragraphs related to GASB Statement No. 87 and implementation guide 2019-3, reinsurance recoveries, to implement with GASB Statement No. 87; all others are effective periods beginning June 15, 2022. Early application is encouraged. The Authority will implement GASB Statement No. 92 if and where applicable.

**GASB Statement No. 93** – *Replacement of Interbank Offered Rates.* The requirements of this statement are effective for periods beginning after June 15, 2022. Early application is encouraged. The Authority will implement GASB Statement No. 93 if and where applicable.

**GASB Statement No. 94** – *Public-Private and Public-Private Partnerships and Availability Payment Arrangements.* The requirements of this statement are effective for periods beginning after June 15, 2022, and all periods thereafter. The Authority will implement GASB Statement No. 94 if and where applicable.

**GASB Statement No. 96** – *Subscription-Based Information Technology Arrangements.* The requirements of this statement are effective for periods beginning after June 15, 2022, and all reporting periods thereafter. The Authority will implement GASB Statement No. 96 if and where applicable.

**GASB Statement No. 97** – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans.* The requirements in paragraph 4 as it applies to defined contribution plans, defined contribution OPEB plans, and other employee benefit plans, and paragraph 5 are effective immediately. All other requirements are applicable for periods beginning after June 15, 2021. The Authority will implement GASB Statement No. 97 if and where applicable.

## NOTE 3 – <u>CASH AND INVESTMENTS</u>

The Authority's cash and investments as of June 30, 2021, are classified in the statement of net position as follows:

| | |
|---|---|
| Cash and investments | $ 6,643,804 |
| Restricted - Cash | 184,204 |
| Total Cash and Investments | $ 6,828,008 |

## NOTE 3 – CASH AND INVESTMENTS (Continued)

On June 30, 2021, the Authority had the following cash and investments on hand:

| | | |
|---|---|---|
| Cash on hand and in banks | $ | 608,344 |
| Investments | | 6,035,460 |
| Restricted cash | | 184,204 |
| Total Cash and Investments | $ | 6,828,008 |

Investments Authorized by the California Government Code and the Authority's Investment Policy

The table below identifies the investment types that are authorized for the Authority by the California Government Code (or the Authority's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, where more restrictive) 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.

Information about the sensitivity of the fair values of the Authority'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 Authority's investments by maturity:

| 2021 | | Remaining Maturity | | | |
|---|---|---|---|---|---|
| Investment Type | Carrying Amount | 12 Months or Less | 13-24 Months | 25-60 Months | More than 60 Months |
| San Luis Obispo County Investment Pool | $ 6,035,460 | $ 6,035,460 | $ - | $ - | $ - |
| Total | $ 6,035,460 | $ 6,035,460 | $ - | $ - | $ - |

**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 below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year-end for each investment type.

| 2021 | | | | Rating as of Fiscal Year-End | | |
|---|---|---|---|---|---|---|
| Investment Type | Carrying Amount | Minimum Legal Rating | Exempt from Disclosure | AAA | AA | Not Rated |
| San Luis Obispo County Investment Pool | $ 6,035,460 | N/A | $ - | $ - | $ - | $ 6,035,460 |
| Total | $ 6,035,460 | | $ - | $ - | $ - | $ 6,035,460 |

Concentration of Credit Risk

The investment policy of the Authority 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 Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority'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 Authority's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The Authority may waive collateral requirements for deposits which are fully insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). Balances in excess of the FDIC insurance amounted to $357,038 at June 30, 2021.

Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and
- Level 3: Investments reflect prices based upon unobservable sources.

The Authority's investments in the County investment pool are measured at amortized cost, and are not valued under Level 1, 2, or 3. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool.

## NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2021, was as follows:

| | Balance July 1, 2020 | Increases | Decreases | Adjustments | Balance June 30, 2021 |
|---|---|---|---|---|---|
| Capital Assets Not Being Depreciated: | | | | | |
| Land | $ 1,512,602 | $ - | $ - | $ - | $ 1,512,602 |
| Construction in progress | 2,443,247 | 12,424,384 | - | - | 14,867,631 |
| Total Capital Assets Not Being Depreciated | 3,955,849 | 12,424,384 | - | - | 16,380,233 |
| Capital Assets Being Depreciated: | | | | | |
| Buildings and improvements | 6,256,619 | 28,683 | - | 279,528 | 6,564,830 |
| Vehicles and equipment | 18,220,424 | 960,362 | (488,793) | 2,219,662 | 20,911,655 |
| Total Capital Assets Being Depreciated | 24,477,043 | 989,045 | (488,793) | 2,499,190 | 27,476,485 |
| Less Accumulated Depreciation For: | | | | | |
| Buildings, improvements, vehicles and equipment | 13,928,737 | 2,263,733 | (488,793) | 1,744,642 | 17,448,319 |
| Total Accumulated Depreciation | 13,928,737 | 2,263,733 | (488,793) | 1,744,642 | 17,448,319 |
| Total Capital Assets Being Depreciated, Net | 10,548,306 | (1,274,688) | - | 754,548 | 10,028,166 |
| Governmental Activities, Capital Assets, Net | $ 14,504,155 | $ 11,149,696 | $ - | $ 754,548 | $ 26,408,399 |

Depreciation expense for the fiscal year ended June 30, 2021, was $2,263,733.

## NOTE 5 – UNEARNED REVENUE

The Authority received the following TDA funds:

| | 2021 |
|---|---|
| Local Transportation Funds | $ 4,835,810 |
| The Authority 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. | 45,688 |
| The Authority 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. | 33,763 |
| Proposition 1B funding | 199,722 |
| State Transit Assistance (STA) Senate Bill (SB) 1 State of Good Repair funding | 706,382 |
| TDA Article 4.5 funds | 180,761 |
| Federal Transit Administration (FTA) Proceeds Carried Forward to Future Procurement | 41,550 |
| Low Carbon Transit Operator Program | 245,628 |
| Total Unearned Revenues | $ 6,289,304 |

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

The Authority was allocated the following funds from the focal Transportation Fund (LTF) and State Transit Assistance Fund for the fiscal year ended June 30, 2021:

| Allocation Assigned By/Claimant | Article/Section | Amount 2021 |
|---|---|---|
| Local Transportation Fund: | | |
| City of Arroyo Grande | 4/99260(a) | $ 141,622 |
| City of San Luis Obispo | 4/99260(a) | 482,850 |
| County of San Luis Obispo | 4/99260(a) | 1,791,228 |
| City of Grover Beach | 4/99260(a) | 107,216 |
| City of Morro Bay | 4/99260(a) | 82,704 |
| City of Atascadero | 4/99260(a) | 240,884 |
| City of El Paso de Robles | 4/99260(a) | 247,532 |
| City of Pismo Beach | 4/99260(a) | 65,275 |
| Total LTF | | 3,159,311 |
| State Transit Fund (STF): | | |
| Regional Transit Authority | 6.5/99313 | 1,094,837 |
| Regional Transit Authority | 6.5/99314 | 64,942 |
| Total STF | | 1,159,779 |
| Subtotal | | 4,319,090 |
| Add: Recognition of prior fiscal year unearned revenues | | 5,455,860 |
| Less: Current fiscal year unearned revenues | | (4,835,810) |
| Total TDA Allocation | | $ 4,939,140 |

## NOTE 6 – OPERATING SUBSIDIES FROM LOCAL TRANSPORTATION AND STATE TRANSIT ASSISTANCE FUNDS (Continued)

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

| | 2021 |
|---|---|
| Operating and interest expenses | $ 13,636,256 |
| Add: | |
| Capital purchases with LTF and STF | 874 |
| California Public Employees Retirement System (CalPERS) pension plan exit | 4,028,759 |
| Less: | |
| Depreciation | (2,263,733) |
| Fare revenues | (361,944) |
| Special events and other revenues | (137,597) |
| Federal and state operating grants | (10,499,052) |
| Maximum Total Allocation Amount | 4,403,563 |
| TDA allocations received and accrued | 4,319,090 |
| Change in TDA transit allocations in unearned revenues | 84,473 |
| Allocation over/(under) maximum | $ - |

## NOTE 7 – FARE REVENUE RATIO

The Authority had fare revenue ratios for the fiscal year ended June 30, 2021, computed as follows:

2021

| | Fixed Route | Runabout | Paso Express | Paso Dial a Ride |
|---|---|---|---|---|
| (a) Operating fare revenues | $ 197,491 | $ 64,674 | $ 66,473 | $ 4,705 |
| (b) Operating expenses, net of depreciation | 6,367,091 | 2,691,531 | 826,964 | 142,419 |
| (c) Fare revenue ratio [(a)/(b)] | 3.1% | 2.4% | 8.0% | 3.3% |
| Minimum ratio required | 15.8% | N/A | 15.0% | N/A |
| Under minimum ratio requirement | N/A* | N/A* | N/A* | N/A* |

| | Nipomo | Cambria Trolley | Avila Trolley | SoCo Transit |
|---|---|---|---|---|
| (a) Operating fare revenues | $ 6,373 | $ - | $ - | $ 22,228 |
| (b) Operating expenses, net of depreciation | 446,488 | 5,862 | - | 853,797 |
| (c) Fare revenue ratio [(a)/(b)] | 1.4% | 0.0% | 0.0% | 2.6% |
| Minimum ratio required | N/A | N/A | 15.0% | 15.0% |
| Under minimum ratio requirement | N/A* | N/A* | N/A* | N/A* |

* - Due to COVID-19, the fare revenue ratio was waived for the year ended June 30, 2021.

## NOTE 8 – LONG-TERM LIABILITIES

| | Balance July 1, 2020 | Increases | Decreases | Balance at June 30, 2021 Total | Current | Long-Term |
|---|---|---|---|---|---|---|
| Pacific Western Bank | $ - | $ 894,000 | $ - | $ 894,000 | $ - | $ 894,000 |
| TIFIA loan | - | 2,806,697 | - | 2,806,697 | - | 2,806,697 |
| Compensation absences | 265,632 | 336,058 | (312,687) | 289,003 | 72,251 | 216,752 |
| OPEB | 38,645 | - | (6,144) | 32,501 | - | 32,501 |
| Net pension liability | 653,046 | 2,419,179 | - | 3,072,225 | - | 3,072,225 |
| Pension plan exit liability | 2,775,642 | - | (1,932,064) | 843,578 | - | 843,578 |
| Total long-term liabilities | $ 3,732,965 | $ 6,455,934 | $ (2,250,895) | $ 7,938,004 | $ 72,251 | $ 7,865,753 |

In September 3, 2020, the Authority entered into a loan agreement for a principal amount not to exceed $13,080,000 to be used to pay a portion of eligible project costs. As of June 30, 2021, the Authority has drawn down $2,806,697. The loan bears an interest rate of 0.7%. The maturity date is July 1, 2056.

In July 21, 2020, the Authority entered into a loan agreement for a principal amount not to exceed $1,020,000 to be used to pay a portion of eligible project costs. As of June 30, 2021, the Authority has drawn down $894,000. The loan bears an interest rate of 3.0%. The maturity date is July 1, 2025.

## NOTE 9 – PENSION PLAN

A. General Information about the Pension Plan

*Plan Description*

The Authority contributes to the San Luis Obispo County Employees Retirement Plan (the “Plan”), which is an independent multiple-employer cost sharing contributory defined benefit pension plan consisting of five employers: the County of San Luis Obispo (the “Employer”), the Superior Court in San Luis Obispo County, the San Luis Obispo Air Pollution Control District, the San Luis Obispo County Pension Trust, and the San Luis Obispo Local Agency Formation Commission. The Plan exists, operates, and is constituted under the authority of Section 53215 of Section 17 of Article XVI of the California Constitution and the Government Code Article 1.5 (Pension Trusts), of Chapter 2 (Officers and Employees), of Part 1 (Powers and Duties Common to Cities, Counties and Other Agencies), of Division 2 (Cities, Counties and Other Agencies), of Title 5 (Local Agencies) of the California Government Code.

Pursuant to the foregoing California Government Code provisions, the County Board of Supervisors established the San Luis Obispo County Pension Trust (the “Trust”) by the adoption of Chapter 2.56 of the San Luis Obispo County Code. Following the adoption of Chapter 2.56 of the County Code, the Board of Supervisors adopted the By-Laws of the Trust. The Plan is part of those By-Laws. The County Board of Supervisors has the sole authority to amend the Plan’s provisions. Participation in the Plan is mandatory for all regular employees. Participants are currently broken into three Tiers depending on date of hire:

| | |
|---|---|
| Tier 1 | Tier 1 generally includes members hired before January 1, 2011. As of December 31, 2020, there were 0 active Authority employed members in Tier 1. |
| Tier 2 | Tier 2 generally includes members hired on or after January 1, 2011, but before January 1, 2013. Tier 2 only applies to members hired after the date each bargaining unit adopted Tier 2. Members hired in a bargaining unit that did not adopt Tier 2 are considered Tier 1 members. As of December 31, 2020, there were 6 active Authority employed members in Tier 2. |
| Tier 3 | Tier 3 includes all members hired on or after January 1, 2013. As of December 31, 2020, there were 6 active Authority employed members in Tier 3. |

**NOTE 9 – PENSION PLAN** (Continued)

A. General Information about the Pension Plan (Continued)

*Plan Description* (Continued)

The Trust and the Plan are both administered by the San Luis Obispo County Pension Trust Board of Trustees (the "Trustees"). Separate stand-alone financial statements are issued for the Plan and are available at the County Auditor-Controller-Treasurer-Tax Collector's office.

The Plan's financial statements are prepared on the accrual basis of accounting. All assets are invested and held pursuant to, and in accordance with, the Investment Policy of the Plan. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to formal commitments and statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. All other securities are valued at the last reported market price at current exchange rates.

*Benefit Provisions*

Members terminating employment before accruing five years of Trust service credit forfeit the right to receive retirement benefits unless they establish reciprocity with another public agency within the prescribed time period. Non-vested members who terminate service are required to withdraw their accumulated contributions plus accrued interest. The employer contributions forfeited by non-vested members are absorbed back into the pension trust fund. Members who terminate after earning five years of Trust service credit may leave their contributions on deposit and upon reaching age eligibility elect to take a retirement. Differences between expected and actual experience for vested or non-vested benefits may result in an increase or decrease to pension expense and net pension liability.

Plan participants, upon vesting and attaining the minimum retirement age, are entitled to annual retirement benefits as defined in the Plan document. The applicable retirement formula, minimum retirement age, compensation base, post-retirement cost of living adjustment, cost of living adjustment carry over, and final compensation maximum may differ depending upon the Plan provisions in effect at the member's date of hire, the member's classification, the member's age, and the member's bargaining unit. Participants receive their accumulated plan benefits as a life annuity payable monthly upon retirement. In the event of total and permanent disability, participants, upon satisfaction of membership service requirements and other applicable provisions of the Plan, receive disability benefits as defined in the Plan document. The Plan also provides a death benefit of $1,000 (one-thousand) paid to a beneficiary or estate if a member dies after retirement.

For members within Tier 1, final average salary is the average monthly salary based on the highest twelve consecutive months of earnings and may include a compensation pickup for various management bargaining units. For members with Tier 2 or Tier 3 benefits, final average salary is the average monthly salary based on the highest thirty-six consecutive months of earnings with no pickup.

The retirement benefit for Tier 1, Tier 2, and Tier 3 members includes post-retirement cost of living adjustments (COLAs) based upon the Consumer Price Index. Tier 1 member COLAs are limited to a maximum of 3% annually. For Tier 2 and Tier 3 members, COLAs are limited to a maximum of 2% annually. There is no minimum COLA requirement, and COLAs must be approved by the Board of Trustees annually.

**NOTE 9 – PENSION PLAN** (Continued)

A. General Information about the Pension Plan (Continued)

*Contributions*

Plan members are required by statue to contribute to the pension plan. Members' contribution rates are formulated based on age at date of entry and the actuarially calculated future benefits. The County is required by statute to contribute the remaining amounts necessary to finance the estimated benefits accrued to its members. Member and employer contribution rates for each plan are as follows:

| Plan | Employer Contribution Rates | Employee Contribution Rates |
|---|---|---|
| Miscellaneous Tier 1 | 0.00% | 0.00% |
| Miscellaneous Tier 2 | 25.48% | 11.79% - 18.56% |
| Miscellaneous Tier 3 | 24.99% - 28.99% | 6.17% - 17.92% |

Contributions to the pension plan from the Authority were $254,132 for the fiscal year ended June 30, 2021.

The Plan establishes the basic obligations for employer and member contributions and benefits to and of the retirement system. The actual employer and member contribution rates in effect each year are based on recommendations made by an independent actuary that are approved by the Board of Trustees and adopted by the County Board of Supervisors.

B. Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At June 30, 2021, the Authority reported a liability of $3,072,225 for its proportionate share of the net pension liability of the Plan. The net pension liability was measured as of December 31, 2020.

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of January 1, 2020. The actuarial assumptions used in the January 1, 2020 valuation were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2017. Measurements as of December 31, 2020, are based on the fair value of assets on that date, and the Total Pension Liability as of the valuation date, January 1, 2020. The actuarial assumptions were rolled forward to the Trust Plan's fiscal year-end of December 31, 2020. There were no significant events between the January 1, 2020 valuation date and the December 31, 2020 measurement date for the Pension Plan's GASB Statement No. 67 valuation.

The Authority's proportion of the net pension liability was based on the projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participates, actuarially determined. The Authority's proportionate share of the net pension liability for the Plan as of June 30, 2019 and December 31, 2020, was as follows:

| | |
|---|---|
| Proportion - June 30, 2019 | 0.01587% |
| Proportion - December 31, 2020 | 0.45130% |
| Change - Increase (Decrease) | 0.43543% |

For the fiscal year ended June 30, 2021, the Authority recognized pension expense of $929,260. 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 December 31, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**NOTE 9 – PENSION PLAN** (Continued)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Authority contributions subsequent to measurement date | $ 203,566 | $ - |
| Differences between actual and expected experience | 110,519 | 1,203 |
| Changes in assumptions | 207,976 | - |
| Net difference between projected and actual earnings on plan investments | - | 309,113 |
| Adjustment due to differences in proportions | 2,388,917 | - |
| Differences in actual contributions and proportionate share of contributions | - | - |
| Total | $ 2,910,978 | $ 310,316 |

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.

$203,566 reported as deferred outflows of resources related to contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2022.

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

| Fiscal Year Ended June 30 | Amount |
|---|---|
| 2022 | $ (3,095) |
| 2023 | 83,269 |
| 2024 | (81,963) |
| 2025 | 9,968 |
| 2026 | 2,388,917 |
| | $ 2,397,096 |

**NOTE 9 – PENSION PLAN** (Continued)

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

*Actuarial Assumptions*

The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation Date | January 1, 2020 |
| Measurement Date | December 31, 2020 |
| Actuarial Assumptions: | |
| Discount Rate | 6.88% |
| Inflation | 2.25% |
| Projected Salary Increase | 2.75%, including inflation, additional merit component applicable to first 7 years of experience |
| Investment Rate of Return | 6.88%, net of pension plan investment expense, including inflation |
| COLA Increases | 3.00% for Tier 1 and 2.50% for Tier 2 and Tier 3 |
| Post Retirement Benefit Increase | Based on the sex distinct Pub-2010 amount-weighted, above median income, with generationally morality improvements using scale MP-2019 |

*Discount Rate*

The discount rate used to measure the total pension liability was 6.88 percent. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for expected inflation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

| Asset Class | New Strategic Allocation | Weighted Average Long-Term Expected Real Rate of Return |
|---|---|---|
| Cash Equivalents/Short Duration Government | 10.00% | -1.50% |
| Equities - Public Market | 30.00% | 3.23% |
| Real Assets | 15.00% | 5.13% |
| Private Markets | 30.00% | 5.42% |
| US Treasury - Long Duration/TIPS | 15.00% | -1.11% |
| Total | 100.00% | |

**NOTE 9 – PENSION PLAN** (Continued)

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

*Discount Rate* (Continued)

The following represents the Authority's proportionate share of the net pension liability calculated using the discount rate of 6.88 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.88%) or 1-percentage point higher (7.88%) than the current rate:

| | 1% Decrease 5.88% | Discount Rate 6.88% | 1% Increase 7.88% |
|---|---|---|---|
| Agency's proportionate share of the net pension plan liability | $ 4,468,329 | $ 3,072,225 | $ 1,929,714 |

**NOTE 10 – INSURANCE**

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

**NOTE 11 – OPERATING LEASE**

On September 1, 2006, the Authority entered into an operating lease for office facilities and bus yard with lease terms in excess of one year. The lease term is ten years and two months and commenced January 1, 2007, and expires on February 28, 2017. On March 5, 2015, the operating lease agreement was amended extending the operating lease term to February 28, 2022. Rent expense for the year ended June 30, 2021, was $469,463. Future minimum lease payments under this agreement are budgeted at $355,504 for the next fiscal year.

**NOTE 12 – 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 1 B 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, and 2009-10, and 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16 and were made available during the 2016-17 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.

During the fiscal year ended June 30, 2021, the Authority received $138,763 in PTMISEA receipts. Interest was earned for the fiscal year ended June 30, 2021, for $12,324. The Authority had qualifying expenditures incurred under this program from previous allocation totaling $1,817,920 for the fiscal year ended June 30, 2021, which were used for bus replacements and electronic fare collection system and is included in State capital grants in the accompanying financial statements.

**NOTE 12 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT** (Continued)

**Schedule of PTMISEA Proposition 1B Funds**
**For the Year Ended June 30, 2021**

| Description | Amount |
|---|---|
| **Balance - beginning of the year** | $ 1,866,555 |
| **Receipts:** | |
| PTMISEA receipts | 138,763 |
| Interest accrued 7/1/2020 through 6/30/2021 | 12,324 |
| **Expenses:** | |
| PTMISEA expenditures | 1,817,920 |
| **Balance - end of year** | $ 199,722 |

**NOTE 13 – 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 (SGR) program. This program provides funding of approximately $105 million annually to the 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.

During the fiscal year ended June 30, 2021, the Authority received $39,720 in SB1 SGR funds. In the fiscal year ended June 30, 2021, the Authority did not spend any SB1 SGR funds.

**NOTE 14 – CONTINGENT LIABILITY FOR PENSION PLAN EXIT**

The Authority had contracted with the California Public Employees' Retirement System (CalPERS) since 1994, and administrative, management and confidential employees were offered participation in the CalPERS defined benefit retirement program. To reduce potential future financial obligations, the Board adopted a Resolution of Intention to terminate the Authority's contract with CalPERS on January 9, 2019. Staff subsequently investigated the cost to terminate the contract and an ad hoc committee appointed by the Board has determined that joining the San Luis Obispo County Employees Retirement Plan provides an equivalent retirement program for employees currently enrolled in CalPERS.

The pension plan exit liability was determined to be $843,578 as of June 30, 2021.

Payments made for the pension plan exit were $4,028,759 during 2021. The remaining pension plan exit liability was determined to be $843,578 as of June 30, 2021. The pension plan exit liability was reduced by $1,931,986.

**NOTE 15 – TRANSFER OF OPERATIONS**

Effective January 1, 2021, South County Transit (the Agency) consolidated and transferred its operations to the Authority. Consolidation of the Agency's local-fixed route services into the Authority has significant net financial benefits. The principal benefit being that the consolidation would avoid a roughly $70,000 annual penalty for failing to achieve the State of California 20% fare revenue ratio requirement, and to realize cost efficiencies. The Authority recognized $2,423,998 as a special item. The following were recognized as January 1, 2021:

| | |
|---|---|
| **ASSETS** | |
| Current assets | $ 1,931,847 |
| Capital assets | 754,548 |
| Total Assets | 2,686,395 |
| **LIABILITIES** | |
| Current liabilities | 262,397 |
| Non current liabilities | - |
| Total Liabilities | 262,397 |
| **NET POSITION** | |
| Net investment in capital assets | 754,548 |
| Unrestricted | 1,669,450 |
| Total Net Position | $ 2,423,998 |

**NOTE 16 – CONTINGENCIES**

The Authority has a potential unfunded liability of approximately $1,500,000 arising from the expiration and surrender of its leased premises at 179 Cross Street, San Luis Obispo, California. The Authority is working out a funding plan for the potential unfunded liability.

**NOTE 17 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 10, 2021, the date these financial statements were available to be issued.

# REQUIRED SUPPLEMENTARY INFORMATION

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY**
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**
**FOR THE LAST TEN YEARS ENDED JUNE 30, 2021***

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

| | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Proportion of the net pension liability | 0.45130% | 0.00637% | 0.00621% | 0.00633% |
| Proportionate share of the net pension liability | $ 3,072,225 | $ 653,046 | $ 598,258 | $ 628,213 |
| Covered payroll | $ 980,914 | $ 925,276 | $ 1,030,066 | $ 932,784 |
| Proportionate share of the net pension liability as a percentage of covered payroll | 313.20% | 70.58% | 58.08% | 67.35% |
| Plan's total pension liability | $ 2,247,011,774 | $ 41,426,453,489 | $ 38,944,855,364 | $ 37,161,348,332 |
| Plan's fiduciary net position | $ 1,566,326,195 | $ 31,179,414,067 | $ 29,308,589,559 | $ 27,244,095,376 |
| Plan's fiduciary net position as a percentage of the total pension liability | 69.71% | 75.26% | 75.26% | 73.31% |

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Proportion of the net pension liability | 0.00629% | 0.60400% | 0.00684% |
| Proportionate share of the net pension liability | $ 543,863 | $ 414,886 | $ 425,837 |
| Covered payroll | $ 822,150 | $ 473,673 | $ 345,255 |
| Proportionate share of the net pension liability as a percentage of covered payroll | 66.15% | 87.59% | 123.34% |
| Plan's total pension liability | $ 33,358,627,624 | $ 31,771,217,402 | $ 30,829,966,631 |
| Plan's fiduciary net position | $ 24,705,532,291 | $ 24,907,305,871 | $ 24,607,502,515 |
| Plan's fiduciary net position as a percentage of the total pension liability | 74.06% | 78.40% | 79.82% |

Changes in assumptions

In 2020, inflation was changed from 2.50 percent to 2.75 percent.

In 2018, inflation was changed from 2.75 percent to 2.50 percent and individual salary increases and overall payroll growth were reduced from 3.00 percent to 2.75 percent.

In 2017, the discount rate was changed from 7.65 percent to 7.15 percent.

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 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

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

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY**
**SCHEDULE OF PENSION CONTRIBUTIONS**
**FOR THE LAST TEN YEARS ENDED JUNE 30, 2021***

| | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Contractually required contribution (actuarially determined) | $ 245,132 | $ 81,697 | $ 121,671 | $ 120,722 |
| Contribution in relation to the actuarially determined contribution | (245,132) | (81,697) | (121,671) | (120,722) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Covered payroll | $ 980,914 | $ 540,683 | $ 925,276 | $ 1,030,066 |
| Contributions as a percentage of covered payroll | 24.99% | 15.11% | 13.15% | 11.72% |

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Contractually required contribution (actuarially determined) | $ 108,461 | $ 126,258 | $ 74,414 |
| Contribution in relation to the actuarially determined contribution | (108,461) | (126,258) | (74,414) |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| Covered payroll | $ 832,784 | $ 822,150 | $ 473,673 |
| Contributions as a percentage of covered payroll | 13.02% | 15.36% | 15.71% |

**Notes to Schedule**

| | |
|---|---|
| Valuation date: | January 1, 2020 |
| Measurement date: | December 31, 2020 |

Methods and assumptions used to determine contribution rates:

| | |
|---|---|
| Actuarial cost method | Entry Age Normal |
| Asset valuation method | 5-year smoothed market |
| Amortization payment growth method | Level percentage of payroll |
| Amortization policy | Unfunded actuarial liability (UAL) as of January 1, 2021 is amortized over a closed 30-year period (20 years as of January 1, 2020). As of January 1, 2019, future UAL changes are amortized over closed 20-year periods. |
| Discount rate | 6.88% |
| Wage and amortization growth rate | 2.75% |
| Inflation | 2.75% |
| Salary increases | 2.75% plus merit component based on years of service from 0.00% to 5.25% |
| Mortality | Sex distinct PUB-2020 Amount-Weighted, Above Median Income, adjusted by 0.99 for males and 1.01 for females, with generationally mortality improvements using scale MP-2019. |

# SUPPLEMENTARY INFORMATION

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY**
**SCHEDULE OF EXPENSES – BUDGET AND ACTUAL**
**AS OF JUNE 30, 2021**

| | Adopted Budget | Actual | County Services Actual | Variance with Budget |
|---|---|---|---|---|
| **Administration:** | | | | |
| Labor | $ 1,042,550 | $ 1,009,239 | $ - | $ 33,311 |
| Labor - Administration Workers Comp | 47,000 | 39,077 | - | 7,923 |
| Office Space Rental | 508,850 | 496,463 | - | 12,387 |
| Property Insurance | 28,490 | 30,154 | - | (1,664) |
| Professional Technical Services | 262,400 | 256,453 | - | 5,947 |
| Professional Development | 60,070 | 31,866 | - | 28,204 |
| Operating Expense | 365,150 | 308,451 | - | 56,699 |
| Marketing and Reproduction | 98,560 | 91,211 | - | 7,349 |
| North County Management Contract | (44,440) | (44,440) | - | - |
| County Management Contract | (91,580) | (91,580) | 99,450 | - |
| SCT Management Contract | (126,660) | (126,660) | - | - |
| **Total Administration** | 2,150,390 | 2,000,234 | 99,450 | 150,156 |
| **Service Delivery:** | | | | |
| Labor - Operations | 5,927,310 | 4,904,973 | 214,087 | 1,022,337 |
| Labor - Operations Workers Comp | 355,290 | 311,496 | 11,995 | 43,794 |
| Labor - Maintenance | 1,287,250 | 1,372,675 | 56,690 | (85,425) |
| Labor - Maintenance Workers Comp | 97,290 | 80,889 | 3,148 | 16,401 |
| Fuel | 1,064,520 | 922,419 | 19,803 | 142,101 |
| Insurance | 764,160 | 688,980 | 10,199 | 75,180 |
| Special Transportation (includes County Programs and Cuesta Evenings Avila Trolley) | 48,340 | 15,253 | 22,254 | 33,087 |
| Avila Trolley | 68,460 | - | - | 68,460 |
| Maintenance (Parts, Supplies, Materials) | 708,380 | 581,675 | 44,719 | 126,705 |
| Maintenance Contract Costs | 143,200 | 76,948 | 856 | 66,252 |
| **Total Service Delivery** | 10,464,200 | 8,955,308 | 383,751 | 1,508,892 |
| **Capital/Studies:** | | | | |
| Computer System Maintenance/Upgrades | 46,440 | 37,786 | - | 8,654 |
| Miscellaneous Capital | | | | |
| Maintenance Equipment | 40,200 | 38,398 | - | 1,802 |
| Radios | 6,600 | - | - | 6,600 |
| Bus Stop Improvements/Bus Stop Solar Lighting Vehicles | 313,360 | 28,682 | - | 284,678 |
| COVID Related Capital Items | 453,060 | 256,031 | - | 197,029 |
| Vehicles | | | | |
| Support Vehicles | 56,700 | 34,538 | - | 22,162 |
| 40' Coaches | 631,800 | - | - | 631,800 |
| Cutaway and Dial A Ride Vehicles | 631,750 | 123,878 | - | 507,872 |
| Runabout Vehicles and Equipment | 261,300 | 469,732 | - | (208,432) |
| **Total Capital/Studies** | 2,441,210 | 989,045 | - | 1,452,165 |

# SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
## SCHEDULE OF EXPENSES – BUDGET AND ACTUAL (Continued)
## AS OF JUNE 30, 2021

| | Adopted Budget | Actual | County Services Actual | Variance with Budget |
|---|---|---|---|---|
| Contingency | 147,240 | 146,780 | - | 460 |
| Debt Service Reserve | 203,960 | 208,136 | - | (4,176) |
| Loan Repayments | 24,010 | 7,519 | - | 16,491 |
| Elks Lane Project | 15,298,090 | 12,431,119 | - | 2,866,971 |
| Management Contracts | 262,680 | 255,947 | - | 6,733 |
| **TOTAL FUNDING USES** | $ 30,991,780 | $ 24,994,088 | $ 483,201 | $ 5,984,917 |
| **TOTAL EXPENSES, BUDGETARY BASIS** | | $ 24,994,088 | | |
| **ADD:** | | | | |
| **DEPRECIATION** | | 2,263,733 | | |
| **LESS:** | | | | |
| **LOAN REPAYMENT** | | (7,519) | | |
| **DEBT SERVICE RESERVE** | | (208,136) | | |
| **CAPITALIZED EXPENSES** | | (13,413,429) | | |
| **TOTAL OPERATING EXPENSES PER FINANCIAL STATEMENTS** | | $ 13,628,737 | | |

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

We have audited the financial statements of the San Luis Obispo Regional Transit Authority (the Authority) for the fiscal year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and the 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 17, 2021. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Matters**

*Qualitative Aspects of Accounting Practices*
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 to the financial statements. The Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 84 – *Fiduciary Activities* and GASB Statement No. 90 – *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61.* We noted no transactions entered into by the Authority during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Authority's financial statements were:

> Management's estimate of the useful lives of capital assets for purposes of calculating annual depreciation expense. We evaluated the key factors and assumptions used to develop the estimate of 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 its net pension liability, and related deferred inflows of resources and deferred outflows of resources are based on actuarial valuations that involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. We evaluated the key factors and assumptions used to develop the estimate of the net pension liability, and related deferred inflows of resources and deferred outflows of resources 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 disclosures affecting the financial statements were:

> The disclosures of Capital Asset and Depreciation and Pension in Notes 4 and 9 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

*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. The attached schedule includes material misstatements detected as a result of audit procedures that have been corrected by management.

*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 November 10, 2021.

*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 Authority'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 Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Other Matters**

We applied certain limited procedures to the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Expenses – Budget and Actual, which accompanies the financial statements but are not RSI. With respect to this supplementary information, 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.

**Restriction on Use**

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 10, 2021

**San Luis Obispo Regional Transit Authority**
**Adjusting Journal Entries**
**June 30, 2021**

| Account | Description | Debit | Credit |
|---|---|---|---|
| **Adjusting Journal Entries JE # 1** | | | |
| To adjust prepaids to actual | | | |
| 1750005 | Prepaid Other | $ 71,687 | $ - |
| 5001599 | Medical Premiums-Employer | - | 71,687 |
| **Total** | | **$ 71,687** | **$ 71,687** |

# SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY

## SINGLE AUDIT REPORT

## FOR THE FISCAL YEAR ENDED JUNE 30, 2021

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY**

**JUNE 30, 2021**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the 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, the financial statements of the San Luis Obispo Regional Transit Authority (the Authority), as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 10, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 10, 2021

**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

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

**Report on Compliance with Transportation Development Act Requirements**

We have audited the San Luis Obispo Regional Transit Authority's (the Authority) compliance with Transportation Development Act (TDA) requirements that funds allocated to and received by the Authority were expended in conformance with applicable statutes, rules, and regulations of the TDA and the allocation instructions and resolutions of the Santa Barbara County Association of Governments as required by Section 6667 of Title 21, Division 3, Chapter 2, Article 5.5 of the California Code of Regulations during the fiscal year ended June 30, 2021.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the applicable statutes, rules, and regulations of the TDA.

**Auditor's Responsibility**

Our responsibility is to express an opinion on each of the Authority's compliance requirements referred to in Section 6667, which requires that for a transit claimant, the independent auditor will perform at least the following tasks:

a) Determine whether the claimant was an entity eligible to receive the funds allocated to it,
b) Determine whether the claimant is maintaining its accounts and records on an enterprise fund basis and is otherwise in compliance with the uniform system of accounts and records adopted by the State Controller, pursuant to Public Utilities Code Section 99234,
c) Determine whether the funds received by the claimant pursuant to the TDA were expended in conformance with those sections of the TDA specifying the qualifying purposes, including Public Utilities Code Sections 99262 and 99263 for operators receiving funds under Article 4; Sections 99275, 99275.5, and 99277 for Article 4.5 claimants; Section 99400(c), (d), and (e) for Article 8 claimants for service provided under contract; and Section 99405(d) for transportation services provided by cities and counties with populations of less than 5,000,
d) Determine whether the funds received by the claimant pursuant to the TDA were expended in conformance with the applicable rules, regulations, and procedures of the transportation planning agency and in compliance with the allocation instructions and resolutions,
e) Determine whether interest earned on funds received by the claimant pursuant to the TDA were expended only for those purposes for which the funds were allocated in accordance with Public Utilities Code Sections 99234.1, 99301, 99301.5, and 99301.6,
f) Verify the amount of the claimant's operating cost for the fiscal year, the amount of fare revenues required to meet the ratios specified in Sections 6633.2 and 6633.5, and the amount of the sum of fare revenues and local support required to meet the ratios specified in the Section 6633.2,

g) Verify the amount of the claimant's actual fare revenues for the fiscal year,
h) Verify the amount of the claimant's actual local support for the fiscal year,
i) Verify the amount the claimant was eligible to receive under the TDA during the fiscal year in accordance with Sections 6634 and 6649,
j) Verify, if applicable, the amount of the operator's expenditure limitation in accordance with Section 6633.1,
k) In the case of an operator, determine whether the operator's employee retirement system or private pension plan is in conformance with the provisions of Public Utilities Code Sections 99271, 99272, and 99273,
l) In the case of an operator, determine whether the operator has had a certification by the Department of the California Highway Patrol verifying that the operator is in compliance with Section 1808.1 of the Vehicle Code, as required in Public Utilities Code Section 99251,
m) In the case of an operator, verify, if applicable, its State Transit Assistance eligibility pursuant to Public Utilities Code Section 99314.6 or 99314.7, and
n) In the case of a claimant for community transit services, determine whether it is in compliance with Public Utilities Code Sections 99155 and 99155.5.

Compliance with the requirements referred to above is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

**Opinion on Transportation Development Act Compliance**

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that are applicable to the Authority for the fiscal year ended June 30, 2021.

**Purpose of this Report**

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the TDA. Accordingly, this report is not suitable for any other purpose.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's compliance with the applicable bond act and state accounting requirements.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 10, 2021

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited the San Luis Obispo Regional Transit Authority's (the Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the fiscal year ended June 30, 2021. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements*, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2021.



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209-451-4833

**Report on Internal Control over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the Authority as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated November 10, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 10, 2021

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

| Federal Grantor / Pass-Through Grantor / Program or Cluster Title | Federal CFDA Number | Identifying Number | Total Federal Expenditures |
|---|---|---|---|
| U.S. Department of Transportation | | | |
| Direct: | | | |
| CARES FTA Section 5307 - Operating Assistance | 20.507 | CA-2020-116-00 | $ 7,917,840 |
| CARES FTA Section 5307 - Capital Assistance (COVID Capital Items) | 20.507 | CA-2021-047-02 | 257,722 |
| FTA Section 5307 - Capital Assistance & Ops Assist FY 14/15 (Bus Stop Improvements) | 20.507 | CA-90-Z272-04 | 14,118 |
| FTA Section 5307 - Capital Assistance ADA Vehicles | 20.507 | CA-2019-082-00 | 390,570 |
| FTA Section 5307 - Capital Assistance (Veh Maint Equipment) | 20.507 | CA-2018-073-04 | 6,116 |
| FTA Section 5307 - Capital Assistance (ADA Vehicles) | 20.507 | CA-2018-073-04 | 32,009 |
| FTA Section 5307 - Capital Assistance (Bus Stop Impr) | 20.507 | CA-2018-073-03 | 1,891 |
| FTA Section 5307 - Capital Assistance (Rolling Stock) | 20.507 | CA-2020-283-02 | 92,000 |
| FTA Section 5307 - Capital Assistance (ADA Vehicles) | 20.507 | CA-2018-073-02 | 5,252 |
| FTA Section 5307 - Capital Assistance (Veh Maint Equip) | 20.507 | CA-2017-100-004 | 1,312 |
| **Total FTA Section 5307** | | | 8,718,830 |
| **Total Federal Transit Cluster** | | | 8,718,830 |
| FTA Section 5339 - Capital Assistance (Bus Stop Improvements) | 20.509 | CA-2016-064-02 | 11,719 |
| FTA Section 5339 - Capital Assistance (BMF) | 20.509 | CA-2020-040-01 | 5,115,922 |
| **Total FTA Section 5339** | | | 5,127,641 |
| Passed Through the State of California Department of Transportation | | | |
| FTA Section 5311 - Operating Assistance | 20.509 | 64BO20-01449 | 564,632 |
| CARES ACT - FTA Section 5311 - Operating Assistance | 20.509 | 64VO20-01341 | 1,134,604 |
| **Total FTA Section 5311** | | | 1,699,236 |
| Total U.S. Department of Transportation | | | 15,545,707 |
| Total Expenditures of Federal Awards, excluding federal loan balances | | | $ 15,545,707 |
| Federal Loan Balances | | | |
| Transportation Infrastructure Finance and Innovation Act (TIFIA) Program | 20.223 | | 2,806,697 |
| Total federal loan balances | | | 2,806,697 |
| Total Expenditures of Federal Awards, including federal loan balances | | | $ 18,352,404 |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

## NOTE 1 – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all Federal award programs of the San Luis Obispo Regional Transit Authority (the Authority). All Federal awards received directly from Federal agencies as well as Federal awards passed through from other government agencies are included on the Schedule.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying Schedule is presented using the accrual basis of accounting, which is described in Note 2 of the Authority's financial statements.

## NOTE 3 – RELATIONSHIP TO FINANCIAL STATEMENTS

Federal award monies are reported in the Authority's financial statements as revenues from Federal operating and capital assistance grants.

## NOTE 4 – INDIRECT COST RATE

The Authority did not elect to use the 10 percent de minimus indirect cost rate.

## NOTE 5 – LOANS OUTSTANDING

The following program had federally-funded loans outstanding at June 30, 2021:

| Assistance Listing Number | Program Title | Amount Outstanding | | | | |
|---|---|---|---|---|---|---|
| | | July 1, 2020 | New Loans | Loan Payments | Forgiven | June 30, 2021 |
| 20.223 | TIFIA | $ - | $ 2,806,697 | $ - | $ - | $ 2,806,697 |

# FINDINGS AND QUESTIONED COSTS SECTION

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

## I. Summary of Auditor's Results

***Financial Statements***

| | | |
|---|---|---|
| Type of auditor's report issued: | | Unmodified |
| Internal control over financial reporting: | | |
| Material weakness identified? | ____ Yes | X No |
| Significant deficiencies identified that are not considered to be material weaknesses? | ____ Yes | X None reported |
| Noncompliance material to financial statements noted? | ____ Yes | X No |

***Federal Awards***

| | | |
|---|---|---|
| Internal control over major federal programs: | | |
| Material weakness identified? | ____ Yes | X No |
| Significant deficiencies identified that are not considered to be material weaknesses? | ____ Yes | X None reported |
| Type of auditor's report issued on compliance for major programs: | | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? | ____ Yes | X No |

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Clusters |
|---|---|
| 20.507 | Federal Transit – Formula Grants (Urbanized Areas Formula Program) |
| 20.509 | Formula Grants for Rural Areas |

| | | |
|---|---|---|
| Dollar threshold used to distinguish Type A and B programs: | $750,000 | |
| Auditee qualified as low risk auditee? | X Yes | ____ No |

## II. Findings Relating to Financial Statement Required Under Generally Accepted Government Auditing Standards (GAGAS)

None.

## III. Federal Award Findings and Questioned Costs

None.

## IV. State Award Findings and Questioned Costs

None.

## V. Summary of Prior Audit (June 30, 2020) Findings and Current Status

None.