

**SAN LUIS OBISPO
REGIONAL TRANSIT AUTHORITY

BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2025 AND 2024**

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY

JUNE 30, 2025 AND 2024

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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 Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the San Luis Obispo Regional Transit Authority (the Authority) as of and for the fiscal years ended June 30, 2025 and 2024, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2025 and 2024, and the respective changes in financial position, and cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

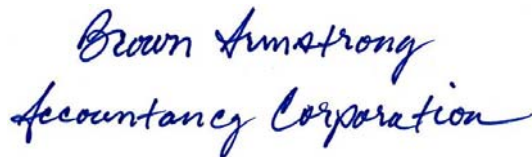
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenses – budget and actual is presented for purposes of additional analysis 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 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 October 10, 2025, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
October 10, 2025

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
Current Assets:		
Cash and investments	\$ 8,241,464	\$ 7,280,362
Accounts receivable	79,409	34,418
Deposits	2,000	2,000
Intergovernmental receivables	4,818,239	4,508,273
Prepaid items	358,451	321,590
Inventory at cost	<u>415,783</u>	<u>347,327</u>
Total Current Assets	<u>13,915,346</u>	<u>12,493,970</u>
Noncurrent Assets:		
Restricted - Cash	<u>346,614</u>	<u>346,614</u>
Total restricted assets	<u>346,614</u>	<u>346,614</u>
Capital Assets:		
Nondepreciable		
Land	1,512,602	1,512,602
Depreciable		
Buildings and improvements	26,590,154	26,404,329
Vehicles and equipment	25,429,534	26,904,867
Less accumulated depreciation	<u>(21,509,284)</u>	<u>(20,238,237)</u>
Depreciable assets, net	30,510,404	33,070,959
Right-to-use leased assets, net	<u>89,870</u>	<u>102,829</u>
Total Net Capital Assets	<u>32,112,876</u>	<u>34,686,390</u>
Total Noncurrent Assets	<u>32,459,490</u>	<u>35,033,004</u>
Total Assets	<u>46,374,836</u>	<u>47,526,974</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension	<u>1,600,862</u>	<u>2,106,652</u>
Total Deferred Outflows of Resources	<u>1,600,862</u>	<u>2,106,652</u>

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

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
STATEMENTS OF NET POSITION (Continued)
JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	509,785	637,935
Accrued payroll	548,024	474,751
Unearned revenue	6,277,255	5,980,873
Unearned revenue - State of Good Repair	1,274,275	723,053
Compensated absences	86,842	90,907
Lease liability	49,886	49,922
Pension plan exit liability	176,205	172,378
Total other post-employment benefits (OPEB) liability	3,072	3,072
Loan payable	346,829	350,255
	<u>9,272,173</u>	<u>8,483,146</u>
Total Current Liabilities		
Noncurrent liabilities:		
Compensated absences	260,525	272,719
Total OPEB liability	9,461	12,533
Net pension liability	5,511,489	4,897,352
Pension plan exit liability	-	176,205
Lease liability	29,167	42,520
Loan payable	11,614,081	11,960,910
	<u>17,424,723</u>	<u>17,362,239</u>
Total Noncurrent Liabilities		
	<u>26,696,896</u>	<u>25,845,385</u>
Total Liabilities		
DEFERRED INFLOWS OF RESOURCES		
Deferred pension	65,810	97,202
	<u>65,810</u>	<u>97,202</u>
Total Deferred Inflows of Resources		
NET POSITION		
Net investment in capital assets	20,072,913	22,282,783
Unrestricted	1,140,079	1,408,256
	<u>21,212,992</u>	<u>23,691,039</u>
Total Net Position	<u>\$ 21,212,992</u>	<u>\$ 23,691,039</u>

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

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
OPERATING REVENUES:		
Passenger fares	\$ 1,119,585	\$ 1,085,887
Other operating revenue	<u>388,807</u>	<u>240,488</u>
Total Operating Revenues	<u>1,508,392</u>	<u>1,326,375</u>
OPERATING EXPENSES:		
Transit operating expenses	14,098,698	13,777,779
Administration and financial services	2,298,774	2,102,853
Depreciation and amortization	<u>3,444,792</u>	<u>3,151,543</u>
Total Operating Expenses	<u>19,842,264</u>	<u>19,032,175</u>
Operating Loss	<u>(18,333,872)</u>	<u>(17,705,800)</u>
NONOPERATING REVENUES (EXPENSES):		
Transportation Development Act funds	9,853,872	6,692,610
Federal and State grants	5,129,585	7,731,169
Interest income	219,108	108,428
Gain (Loss) on disposal of capital assets	(12,579)	21,005
Planning	(92,668)	(158,686)
Interest expense	<u>(94,380)</u>	<u>(105,045)</u>
Total Nonoperating Revenues (Expenses)	<u>15,002,938</u>	<u>14,289,481</u>
CAPITAL CONTRIBUTIONS:		
Federal capital grants	571,909	3,005,678
State capital grants	145,600	1,376,158
Local capital grants	<u>135,378</u>	<u>40,433</u>
Total Capital Contributions	<u>852,887</u>	<u>4,422,269</u>
Change in Net Position	<u>(2,478,047)</u>	<u>1,005,950</u>
Net Position, Beginning of Fiscal Year	<u>23,691,039</u>	<u>22,685,089</u>
Net Position, End of Fiscal Year	<u><u>\$ 21,212,992</u></u>	<u><u>\$ 23,691,039</u></u>

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

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2025 AND 2024**

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 2,311,005	\$ 3,917,864
Payments to employees	(9,937,538)	(10,157,797)
Payments to suppliers	<u>(5,723,302)</u>	<u>(5,424,357)</u>
Net Cash Used by Operating Activities	<u>(13,349,835)</u>	<u>(11,664,290)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid - loan payable	(350,255)	(339,861)
Principal paid - lease payment	(49,922)	(49,957)
Interest expense	(94,380)	(105,045)
Capital grants received	852,887	4,422,269
Acquisition and construction of capital assets	(852,887)	(4,422,269)
Proceeds from the sale of capital assets	5,563	21,005
Planning	<u>(92,668)</u>	<u>(158,686)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(581,662)</u>	<u>(632,544)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants received	<u>14,673,491</u>	<u>15,083,338</u>
Net Cash Provided by Noncapital Financing Activities	<u>14,673,491</u>	<u>15,083,338</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	<u>219,108</u>	<u>108,428</u>
Net Cash Provided by Investing Activities	<u>219,108</u>	<u>108,428</u>
Net Increase in Cash and Cash Equivalents	961,102	2,894,932
Cash and Cash Equivalents, Beginning of Fiscal Year	<u>7,626,976</u>	<u>4,732,044</u>
Cash and Cash Equivalents, End of Fiscal Year	<u><u>\$ 8,588,078</u></u>	<u><u>\$ 7,626,976</u></u>

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

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (18,333,872)	\$ (17,705,800)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization expense	3,444,792	3,151,543
Change in operating assets, deferred outflows, liabilities, and deferred inflows:		
Accounts receivable	(44,991)	176,414
Prepaid items	(36,861)	(34,614)
Inventory	(68,456)	45,809
Deferred outflows of resources	505,790	792,768
Accounts payable	(128,150)	(462,557)
Accrued payroll	73,273	48,234
Unearned revenue	847,604	2,415,075
Total OPEB liability	(3,072)	(4,608)
Net pension liability	441,759	(112,702)
Compensated absences	(16,259)	42,399
Deferred inflows of resources	(31,392)	(16,251)
Net Cash Used by Operating Activities	<u>\$ (13,349,835)</u>	<u>\$ (11,664,290)</u>
 Reconciliation of Cash and Cash Equivalents per Statement of Cash Flows to the Statement of Net Position:		
Cash and investments	\$ 8,241,464	\$ 7,280,362
Restricted - Cash	<u>346,614</u>	<u>346,614</u>
Cash and Cash Equivalents per Statement of Cash Flows	<u>\$ 8,588,078</u>	<u>\$ 7,626,976</u>

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

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024**

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, deferred outflows of resources, liabilities, and deferred inflows of resources (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/amortization 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 includes 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 TDA funds, approves claims for such funds submitted by the Authority, and makes payments to the Authority based upon such claims.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Revenue Recognition (Continued)

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.

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/Amortization

Capital assets purchased by the Authority are depreciated/amortized over their estimated useful lives (ranging from 3-15 years) under the straight-line method of depreciation/amortization.

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.”

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Trust (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 the Trust. 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. 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.

M. Reclassification

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

N. New Accounting Pronouncements – Implemented

GASB Statement No. 101 – *Compensated Absences*. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all fiscal years thereafter. There was no effect on the Authority's accounting and financial reporting as a result of implementing this standard.

GASB Statement No. 102 – *Certain Risk Disclosures*. The requirements of this statement are effective for fiscal years beginning after June 15, 2024, and all fiscal years thereafter. There was no effect on the Authority's accounting and financial reporting as a result of implementing this standard.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)O. Future Accounting Pronouncements

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

GASB Statement No. 103 – *Financial Reporting Model Improvements*. The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all fiscal years thereafter. The Authority will implement GASB Statement No. 103 when and where applicable.

GASB Statement No. 104 – *Disclosure of Certain Capital Assets*. The requirements of this statement are effective for fiscal years beginning after June 15, 2026, and all fiscal years thereafter. The Authority will implement GASB Statement No. 104 when and where applicable.

NOTE 3 – CASH AND INVESTMENTS

The Authority's cash and investments as of June 30, 2025 and 2024, are classified in the Statement of Net Position as follows:

	2025	2024
Cash and investments	\$ 8,241,464	\$ 7,280,362
Restricted - Cash	346,614	346,614
Total Cash and Investments	<u>\$ 8,588,078</u>	<u>\$ 7,626,976</u>

On June 30, 2025 and 2024, the Authority had the following cash and investments on hand:

	2025	2024
Cash on hand and in banks	\$ 1,433,116	\$ 1,082,386
Investments	6,808,348	6,197,976
Restricted cash	346,614	346,614
Total Cash and Investments	<u>\$ 8,588,078</u>	<u>\$ 7,626,976</u>

NOTE 3 – CASH AND INVESTMENTS (Continued)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:

2025		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	\$ 6,808,348	\$ 6,808,348	\$ -	\$ -	\$ -
Total	\$ 6,808,348	\$ 6,808,348	\$ -	\$ -	\$ -

2024		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	\$ 6,197,976	\$ 6,197,976	\$ -	\$ -	\$ -
Total	\$ 6,197,976	\$ 6,197,976	\$ -	\$ -	\$ -

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.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt from Disclosure	Rating as of Fiscal Year-End		
				AAA	AA	Not Rated
San Luis Obispo County Investment Pool	\$ 6,808,348	N/A	\$ -	\$ -	\$ -	\$ 6,808,348
Total	<u>\$ 6,808,348</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,808,348</u>

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt from Disclosure	Rating as of Fiscal Year-End		
				AAA	AA	Not Rated
San Luis Obispo County Investment Pool	\$ 6,197,976	N/A	\$ -	\$ -	\$ -	\$ 6,197,976
Total	<u>\$ 6,197,976</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,197,976</u>

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). The balances in excess of the FDIC insurance amounted to \$852,778 and \$579,844 at June 30, 2025 and 2024, respectively.

NOTE 3 – CASH AND INVESTMENTS (Continued)**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 years ended June 30, 2025 and 2024, was as follows:

	Balance July 1, 2024	Increases	Decreases	Adjustments	Balance June 30, 2025
Capital Assets Not Being Depreciated:					
Land	\$ 1,512,602	\$ -	\$ -	\$ -	\$ 1,512,602
Total Capital Assets Not Being Depreciated	1,512,602	-	-	-	1,512,602
Capital Assets Being Depreciated:					
Buildings and improvements	26,404,329	185,825	-	-	26,590,154
Vehicles and equipment	26,904,867	667,062	(2,142,395)	-	25,429,534
Total Capital Assets Being Depreciated	53,309,196	852,887	(2,142,395)	-	52,019,688
Less Accumulated Depreciation For:					
Buildings, improvements, vehicles, and equipment	20,238,237	3,395,300	(2,124,253)	-	21,509,284
Total Accumulated Depreciation	20,238,237	3,395,300	(2,124,253)	-	21,509,284
Total Capital Assets Being Depreciated, Net	33,070,959	(2,542,413)	(18,142)	-	30,510,404
Right-to-Use Leased Assets					
Building and Corp Yard	242,153	36,533	-	-	278,686
Accumulated Amortization	139,324	49,492	-	-	188,816
Total Right-to-Use Leased Assets, Net	102,829	(12,959)	-	-	89,870
Governmental Activities, Capital Assets, Net	\$ 34,686,390	\$ (2,555,372)	\$ (18,142)	\$ -	\$ 32,112,876

NOTE 4 – CAPITAL ASSETS (Continued)

	Balance July 1, 2023	Increases	Decreases	Adjustments	Balance June 30, 2024
Capital Assets Not Being Depreciated:					
Land	\$ 1,512,602	\$ -	\$ -	\$ -	\$ 1,512,602
Total Capital Assets Not Being Depreciated	1,512,602	-	-	-	1,512,602
Capital Assets Being Depreciated:					
Buildings and improvements	26,237,737	166,592	-	-	26,404,329
Vehicles and equipment	23,812,713	4,255,677	(1,163,523)	-	26,904,867
Total Capital Assets Being Depreciated	50,050,450	4,422,269	(1,163,523)	-	53,309,196
Less Accumulated Depreciation For:					
Buildings, improvements, vehicles, and equipment	18,299,707	3,102,053	(1,163,523)	-	20,238,237
Total Accumulated Depreciation	18,299,707	3,102,053	(1,163,523)	-	20,238,237
Total Capital Assets Being Depreciated, Net	31,750,743	1,320,216	-	-	33,070,959
Right-to-Use Leased Assets					
Building and Corp Yard	205,596	36,557	-	-	242,153
Accumulated Amortization	89,834	49,490	-	-	139,324
Total Right-to-Use Leased Assets, Net	115,762	(12,933)	-	-	102,829
Governmental Activities, Capital Assets, Net	\$ 33,379,107	\$ 1,307,283	\$ -	\$ -	\$ 34,686,390

Depreciation and amortization expense for the fiscal years ended June 30, 2025 and 2024, was \$3,444,792 and \$3,151,543, respectively.

NOTE 5 – UNEARNED REVENUE

The Authority received the following TDA funds:

	<u>2025</u>	<u>2024</u>
Local Transportation Funds	\$ 5,768,830	\$ 5,664,389
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.	85,551	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.	356,631	217,300
Proposition 1B Funding	-	14,517
State Transit Assistance (STA) Senate Bill (SB) 1 State of Good Repair funding	1,274,275	723,053
TDA Article 4.5 Funds	21,000	(9,566)
Federal Transit Administration (FTA) proceeds carried forward to future procurement	45,243	43,583
Low Carbon Transit Operator Program	<u>-</u>	<u>4,962</u>
Total Unearned Revenues	<u>\$ 7,551,530</u>	<u>\$ 6,703,926</u>

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

The Authority was allocated the following funds from the Local Transportation Fund (LTF) and State Transit Assistance (STA) Fund for the fiscal years ended June 30, 2025 and 2024:

Allocation Assigned By/Claimant	Article/Section	Amount	
		2025	2024
Local Transportation Fund (LTF):			
City of Arroyo Grande	4/99260(a)	\$ 625,386	\$ 666,382
City of San Luis Obispo	4/99260(a)	1,237,660	1,275,654
County of San Luis Obispo	4/99260(a)	3,811,173	3,876,187
City of Grover Beach	4/99260(a)	436,363	462,868
City of Morro Bay	4/99260(a)	212,715	220,306
City of Atascadero	4/99260(a)	626,157	641,593
City of El Paso de Robles	4/99260(a)	850,697	1,142,424
City of Pismo Beach	4/99260(a)	275,090	290,718
Total LTF		8,075,241	8,576,132
State Transit Assistance (STA) Fund:			
Regional Transit Authority	6.5/99313	1,850,436	1,915,000
Regional Transit Authority	6.5/99314	154,095	161,000
Total STA Fund		2,004,531	2,076,000
Subtotal		10,079,772	10,652,132
Add: Recognition of prior fiscal year unearned revenues		5,542,930	1,704,867
Less: Current fiscal year unearned revenues		(5,768,830)	(5,664,389)
Total TDA Allocation		\$ 9,853,872	\$ 6,692,610

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:

	2025	2024
Operating and interest expenses	\$ 19,936,644	\$ 19,137,220
Add:		
Capital purchases with LTF and STA funds	124,558	673,177
Less:		
Depreciation and amortization	(3,444,792)	(3,151,543)
Fare revenues	(1,119,585)	(1,085,887)
Special events and other revenues	(388,807)	(240,488)
Federal and state operating grants	(5,129,585)	(7,731,169)
Maximum Total Allocation Amount	9,978,433	7,601,310
TDA allocations received and accrued	10,079,772	10,652,132
Change in TDA transit allocations in unearned revenues	(101,339)	(3,050,822)
Allocation over/(under) maximum	\$ -	\$ -

NOTE 7 – FARE REVENUE RATIO

The Authority had fare revenue ratios for the fiscal years ended June 30, 2025 and 2024, computed as follows:

2025	Fixed Route	Runabout	Paso Express	Paso Dial a Ride
Operating fare revenues	\$ 704,469	\$ 116,656	\$ 158,765	\$ 5,024
Other local support - federal grants	1,924,118	998,882	297,028	59,472
(a) Net operating revenues	2,628,587	1,115,538	455,793	64,496
(b) Operating expenses, net of depreciation and pension expense (GASB Statement No. 68 adjustment)	7,620,207	3,981,631	811,362	162,455
(c) Fare revenue ratio [(a)/(b)]	34.5%	28.0%	56.2%	39.7%
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
Operating fare revenues	\$ 13,968	\$ 66	\$ 9,017	\$ 110,422
Other local support - federal grants	-	-	35,540	944,460
(a) Net operating revenues	13,968	66	44,557	1,054,882
(b) Operating expenses, net of depreciation and pension expense (GASB Statement No. 68 adjustment)	529,299	8,681	72,143	2,185,075
(c) Fare revenue ratio [(a)/(b)]	2.6%	0.8%	61.8%	48.3%
Minimum ratio required	N/A	N/A	15.0%	15.0%
Under minimum ratio requirement	N/A*	N/A*	N/A*	N/A*
	Other	Morro Bay	Morro Bay Trolley	Atascadero Dial A Ride
Operating fare revenues	\$ 333	\$ 254	\$ 373	\$ 238
Other local support - federal grants	-	-	-	-
(a) Net operating revenues	333	254	373	238
(b) Operating expenses, net of depreciation and pension expense (GASB Statement No. 68 adjustment)	50,567	38,250	14,232	7,411
(c) Fare revenue ratio [(a)/(b)]	0.7%	0.7%	2.6%	3.2%
Minimum ratio required	N/A	N/A	N/A	15.0%
Under minimum ratio requirement	N/A*	N/A*	N/A*	N/A*

NOTE 7 – FARE REVENUE RATIO (Continued)

2024	Fixed Route	Runabout	Paso Express	Paso Dial a Ride	
Operating fare revenues	\$ 692,192	\$ 109,605	\$ 151,436	\$ 4,769	
Other local support - federal grants	2,263,644	1,630,718	365,135	74,622	
(a) Net operating revenues	2,955,836	1,740,323	516,571	79,391	
(b) Operating expenses, net of depreciation and pension expense (GASB Statement No. 68 adjustment)	7,398,849	3,733,421	881,706	154,012	
(c) Fare revenue ratio [(a)/(b)]	39.9%	46.6%	58.6%	51.5%	
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	Other
Operating fare revenues	\$ 14,075	\$ -	\$ 6,469	\$ 107,313	\$ 28
Other local support - federal grants	-	-	33,516	1,080,504	-
(a) Net operating revenues	14,075	-	39,985	1,187,817	28
(b) Operating expenses, net of depreciation and pension expense (GASB Statement No. 68 adjustment)	605,568	6,319	73,500	2,268,321	31,537
(c) Fare revenue ratio [(a)/(b)]	2.3%	0.0%	54.4%	52.4%	0.1%
Minimum ratio required	N/A	N/A	15.0%	15.0%	N/A
Under minimum ratio requirement	N/A*	N/A*	N/A*	N/A*	N/A*

* Due to COVID-19, the fare revenue ratio was waived for the fiscal years ended June 30, 2025 and 2024.

NOTE 8 – LONG-TERM LIABILITIES

	Balance July 1, 2024	Increases	Decreases	Balance at June 30, 2025		
				Total	Current	Long-Term
Pacific Western Bank	\$ 350,255	\$ -	\$ (350,255)	\$ -	\$ -	\$ -
Transportation Infrastructure Finance and Innovation Act (TIFIA) loan	11,960,910	-	-	11,960,910	346,829	11,614,081
Leases	92,442	36,533	(49,922)	79,053	49,886	29,167
Compensated absences	363,626	478,216	(494,475)	347,367	86,842	260,525
Total OPEB liability	15,605	-	(3,072)	12,533	3,072	9,461
Net pension liability	4,897,352	614,137	-	5,511,489	-	5,511,489
Pension plan exit liability	348,583	-	(172,378)	176,205	176,205	-
Total long-term liabilities	<u>\$ 18,028,773</u>	<u>\$ 1,128,886</u>	<u>\$ (1,070,102)</u>	<u>\$ 18,087,557</u>	<u>\$ 662,834</u>	<u>\$ 17,424,723</u>

	Balance July 1, 2023	Increases	Decreases	Balance at June 30, 2024		
				Total	Current	Long-Term
Pacific Western Bank	\$ 690,116	\$ -	\$ (339,861)	\$ 350,255	\$ 350,255	\$ -
Transportation Infrastructure Finance and Innovation Act (TIFIA) loan	11,960,910	-	-	11,960,910	-	11,960,910
Leases	105,842	36,557	(49,957)	92,442	49,922	42,520
Compensated absences	321,227	479,451	(437,052)	363,626	90,907	272,719
Total OPEB liability	20,213	-	(4,608)	15,605	3,072	12,533
Net pension liability	4,841,422	55,930	-	4,897,352	-	4,897,352
Pension plan exit liability	517,215	-	(168,632)	348,583	172,378	176,205
Total long-term liabilities	<u>\$ 18,456,945</u>	<u>\$ 571,938</u>	<u>\$ (1,000,110)</u>	<u>\$ 18,028,773</u>	<u>\$ 666,534</u>	<u>\$ 17,362,239</u>

NOTE 8 – LONG-TERM LIABILITIES (Continued)

On September 3, 2020, the Authority entered into a loan agreement with TIFIA 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, 2025 and 2024, the Authority has drawn down \$11,960,910. The loan bears an interest rate of 0.7%. The maturity date is July 1, 2056.

At June 30, 2025, future minimum payments were as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 346,829	\$ 83,726
2027	349,257	81,298
2028	351,702	78,853
2029	354,164	76,392
2030	356,643	73,912
2031-2035	1,821,012	331,765
2036-2040	1,885,647	267,132
2041-2045	1,952,574	200,203
2046-2050	2,021,878	130,899
2051-2055	2,093,641	59,136
2056-2057	427,563	2,993
	<u>\$ 11,960,910</u>	<u>\$ 1,386,309</u>

On July 21, 2020, the Authority entered into a loan agreement with Pacific Western Bank 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, 2025 and 2024, the Authority has drawn down \$0 and \$350,255, respectively. The loan bears an interest rate of 3.0%. The loan was paid off as of June 30, 2025.

On July 1, 2021, the Authority entered into a 42-month lease as lessee for the use of a portion of the County's premises. An initial lease liability was recorded in the amount of \$127,808. On May 8, 2024, the lease was extended to December 31, 2025, and on August 21, 2025, the lease was extended to December 31, 2026. As of June 30, 2025 and 2024, the value of the lease liability is \$54,631 and \$54,669, respectively. The Authority is required to make monthly fixed payments of \$4,442 through December 2024, \$3,580 through December 31, 2025, and \$3,723 through December 31, 2026. The lease has an interest rate of 4%. The right-to-use leased asset useful life is 66 months as of the contract commencement. The value of the right-to-use leased asset as of June 30, 2025 and 2024, was \$200,898 and \$164,365, respectively, and accumulated amortization was \$136,956 and \$100,430, respectively. Refer to Note 4 of the financial statements.

At June 30, 2025, future minimum lease payments were as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 36,545	\$ 7,273
2027	18,086	4,255
	<u>\$ 54,631</u>	<u>\$ 11,528</u>

NOTE 8 – LONG-TERM LIABILITIES (Continued)

On July 1, 2021, the Authority entered into a 72-month lease as lessee for the use of a portion of the County's Corp Yard totaling approximately 1.5 acres of real property. An initial lease liability was recorded in the amount of \$77,788. As of June 30, 2025 and 2024, the value of the lease liability is \$24,422 and \$37,773, respectively. The Authority is required to make monthly fixed payments of \$1,320 through March 30, 2026, and \$1,373 through April 30, 2027. The lease has an interest rate of 4%. The right-to-use leased asset useful life was 72 months as of the contract commencement. The value of the right-to-use leased asset as of June 30, 2025 and 2024, was \$77,788, and accumulated amortization was \$51,860 and \$38,895, respectively. Refer to Note 4 of the financial statements.

At June 30, 2025, future minimum lease payments were as follows:

Fiscal Year Ended June 30,	Principal	Interest
2026	\$ 13,341	\$ 2,654
2027	11,081	2,699
	<u>\$ 24,422</u>	<u>\$ 5,353</u>

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 six 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, the San Luis Obispo Local Agency Formation Commission, and the Authority. 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, 2024, 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, 2024, there were 5 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, 2024, there were 7 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 statute 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 Authority 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:

<u>Plan</u>	<u>Employer Contribution Rates</u>	<u>Employee Contribution Rates</u>
Miscellaneous Tier 1	0.00%	0.00%
Miscellaneous Tier 2	34.36%	11.79% - 18.56%
Miscellaneous Tier 3	33.87% - 37.87%	6.17% - 17.92%

Contributions to the pension plan from the Authority were \$288,514 and \$279,029 for the fiscal years ended June 30, 2025 and 2024, respectively.

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 fiscal 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, 2025 and 2024, the Authority reported a liability of \$5,511,489 and \$4,897,352, respectively, for its proportionate share of the net pension liability of the Plan. The net pension liability was measured as of December 31, 2024 and 2023.

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of January 1, 2024 and 2023. The actuarial assumptions used in the January 1, 2024 and 2023 valuations were based on the results of an actuarial experience study for the period January 1, 2017 through December 31, 2023. Measurements as of December 31, 2024 and 2023, are based on the fair value of assets on that date, and the total pension liability as of the valuation dates, January 1, 2024 and 2023. The actuarial assumptions were rolled forward to the Plan's fiscal year-ends of December 31, 2024 and 2023. There were no significant events between the January 1, 2024 and 2023 valuation dates and the December 31, 2024 and 2023 measurement dates for the 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 participants, actuarially determined. The Authority's proportionate share of the net pension liability for the Plan as of June 30, 2025 and 2024, (measurement dates December 31, 2024 and 2023) was as follows:

Proportion - December 31, 2023	0.48770%
Proportion - December 31, 2024	<u>0.51020%</u>
Change - Increase (Decrease)	<u><u>0.02250%</u></u>

NOTE 9 – PENSION PLAN (Continued)**B. Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions**
(Continued)

Proportion - December 31, 2022	0.48980%
Proportion - December 31, 2023	<u>0.48770%</u>
Change - Increase (Decrease)	<u>-0.00210%</u>

For the fiscal years ended June 30, 2025 and 2024, the Authority recognized pension expense of \$877,578 and \$631,885, respectively. 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, 2024 and 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

December 31, 2024	Deferred Outflows of Resources	Deferred Inflows of Resources
Authority contributions subsequent to measurement date	\$ 288,514	\$ -
Differences between actual and expected experience	342,157	-
Changes in assumptions	411,197	-
Net difference between projected and actual earnings on plan investments	336,673	-
Adjustment due to differences in proportions	222,321	65,810
Differences in actual contributions and proportionate share of contributions	-	-
Total	<u>\$ 1,600,862</u>	<u>\$ 65,810</u>
December 31, 2023	Deferred Outflows of Resources	Deferred Inflows of Resources
Authority contributions subsequent to measurement date	\$ 279,029	\$ -
Differences between actual and expected experience	330,057	-
Changes in assumptions	350,096	-
Net difference between projected and actual earnings on plan investments	388,377	-
Adjustment due to differences in proportions	759,093	97,202
Differences in actual contributions and proportionate share of contributions	-	-
Total	<u>\$ 2,106,652</u>	<u>\$ 97,202</u>

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.

\$288,514 and \$279,029 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 years ended June 30, 2025 and 2024, respectively.

NOTE 9 – PENSION PLAN (Continued)**B. Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions**
(Continued)

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
2026	\$ 432,157
2027	470,998
2028	103,750
2029	83,120
2030	156,513
	<u>\$ 1,246,538</u>

Actuarial Assumptions

The total pension liability in the January 1, 2024, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	January 1, 2024
Measurement Date	December 31, 2024
Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.50%
Projected Salary Increase	3.00%, plus merit component based on years of service ranging from 0.00% to 5.25%
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
COLA Increases	3.00% for Tier 1 and 2.00% for Tier 2 and Tier 3

Discount Rate

The discount rate used to measure the total pension liability was 6.75 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.

NOTE 9 – PENSION PLAN (Continued)**B. Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions**
(Continued)*Discount Rate* (Continued)

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%	4.00%
Equities - Public Market	30.00%	6.25%
Real Assets	15.00%	8.14%
Private Markets	30.00%	8.19%
US Treasury - Long Duration/TIPS	15.00%	4.15%
Total	100.00%	

The following represents the Authority's proportionate share of the net pension liability calculated using the discount rate of 6.75 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 (5.75%) or 1-percentage point higher (7.75%) than the current rate:

December 31, 2024	1% Decrease 5.75%	Discount Rate 6.75%	1% Increase 7.75%
Authority's proportionate share of the net pension plan liability	\$ 7,514,791	\$ 5,511,489	\$ 3,870,733
December 31, 2023	1% Decrease 5.75%	Discount Rate 6.75%	1% Increase 7.75%
Authority's proportionate share of the net pension plan liability	\$ 6,703,593	\$ 4,897,352	\$ 3,417,604

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 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B in November 2006, included a program of funding in the amount of \$4 billion to be deposited in the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). Of this amount, \$3.6 billion in the PTMISEA was made available to project sponsors in California for allocation to eligible public transportation projects for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or rolling stock procurement, rehabilitation, expansion, or replacement.

PTMISEA eligibility is based on STA allocations to each project sponsor during the fiscal years 2004-05 through 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 years ended June 30, 2025 and 2024, the Authority did not receive PTMISEA allocations. Interest earned for the fiscal years ended June 30, 2025 and 2024, was \$263 and \$423, respectively. The Authority had qualifying expenditures of \$14,780 and \$0 for the fiscal years ended June 30, 2025 and 2024, respectively.

Schedule of PTMISEA Proposition 1B Funds For the Year Ended June 30, 2025	
Description	Amount
Balance - beginning of the year	\$ 14,517
Receipts:	
PTMISEA receipts	-
Interest accrued 7/1/2024 through 6/30/2025	263
Expenses:	
PTMISEA expenditures	14,780
Balance - end of year	<u>\$ -</u>

Schedule of PTMISEA Proposition 1B Funds For the Year Ended June 30, 2024	
Description	Amount
Balance - beginning of the year	\$ 14,094
Receipts:	
PTMISEA receipts	-
Interest accrued 7/1/2023 through 6/30/2024	423
Expenses:	
PTMISEA expenditures	-
Balance - end of year	<u>\$ 14,517</u>

NOTE 12 – SENATE BILL 1 – STATE OF GOOD REPAIR

The Road Repair and Accountability Act of 2017, Senate Bill (SB) 1 (Chapter 5, Statutes 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 SB1 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 years ended June 30, 2025 and 2024, the Authority received \$514,406 and \$85,377, respectively, in SB1 SGR funds. In the fiscal years ended June 30, 2025 and 2024, the Authority spent \$1,558 and \$0, respectively, in SB1 SGR funds.

NOTE 13 – 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 Authority's Board of Directors 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 of Directors has determined that joining the San Luis Obispo County Employees Retirement Plan provides an equivalent retirement program for employees previously enrolled in CalPERS.

Payments made for the pension plan exit were \$172,378 and \$168,632 during the fiscal years ended June 30, 2025 and 2024, respectively. The remaining pension plan exit liability was \$176,205 and \$348,583 as of June 30, 2025 and 2024, respectively.

NOTE 14 - CERTAIN RISK DISCLOSURES

The Authority receives a substantial portion of its operating and capital funding from allocations of TDA and STA funds, as well as federal and state transit grants. While these funding sources represent a concentration, management does not believe they present a current vulnerability under GASB Statement No. 102, *Certain Risk Disclosures*. These revenues are recurring, broadly distributed among state and federal programs, and are supplemented by passenger fares, local contributions, and other grant opportunities. In the event of reductions in one source, alternative funding mechanisms are available to sustain operations and capital programs.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 10, 2025, 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 FISCAL YEARS ENDED JUNE 30, 2025**

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

	2025	2024	2023	2022	2021
Proportion of the net pension liability	0.51020%	0.48770%	0.48980%	0.51100%	0.45130%
Proportionate share of the net pension liability	\$ 5,511,489	\$ 4,897,352	\$ 4,841,422	\$ 3,272,997	\$ 3,272,997
Covered payroll	\$ 1,296,823	\$ 1,179,231	\$ 1,160,540	\$ 980,914	\$ 540,683
Proportionate share of the net pension liability as a percentage of covered payroll	425.00%	415.30%	417.17%	333.67%	605.34%
Plan's total pension liability	\$ 2,885,216,023	\$ 2,712,658,050	\$ 2,583,068,273	\$ 2,390,539,528	\$ 2,247,011,774
Plan's fiduciary net position	\$ 1,804,957,416	\$ 1,708,463,155	\$ 1,594,492,075	\$ 1,749,962,789	\$ 1,566,326,195
Plan's fiduciary net position as a percentage of the total pension liability	62.56%	62.98%	61.73%	73.20%	69.71%
	2020	2019	2018	2017	2016
Proportion of the net pension liability	0.00637%	0.00621%	0.00633%	0.00629%	0.60400%
Proportionate share of the net pension liability	\$ 653,046	\$ 598,258	\$ 628,213	\$ 543,863	\$ 414,886
Covered payroll	\$ 925,276	\$ 1,030,066	\$ 832,784	\$ 822,150	\$ 473,673
Proportionate share of the net pension liability as a percentage of covered payroll	70.58%	58.08%	75.44%	66.15%	87.59%
Plan's total pension liability	\$ 41,426,453,489	\$ 38,944,855,364	\$ 37,161,348,332	\$ 33,358,627,624	\$ 31,771,217,402
Plan's fiduciary net position	\$ 31,179,414,067	\$ 29,308,589,559	\$ 27,244,095,376	\$ 24,705,532,291	\$ 24,907,305,871
Plan's fiduciary net position as a percentage of the total pension liability	75.26%	75.26%	73.31%	74.06%	78.40%

Changes in assumptions

In 2021, the discount rate was changed from 6.88% to 6.75%.

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.

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE LAST TEN FISCAL YEARS ENDED JUNE 30, 2025**

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Contractually required contribution (actuarially determined)	\$ 461,675	\$ 409,249	\$ 353,079	\$ 312,585	\$ 245,132
Contribution in relation to the actuarially determined contribution	<u>(461,675)</u>	<u>(409,249)</u>	<u>(353,079)</u>	<u>(312,585)</u>	<u>(245,132)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,379,502	\$ 1,296,823	\$ 1,179,231	\$ 1,160,540	\$ 980,914
Contributions as a percentage of covered payroll	33.47%	31.56%	29.94%	26.93%	24.99%
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution (actuarially determined)	\$ 81,697	\$ 121,671	\$ 120,722	\$ 108,461	\$ 126,258
Contribution in relation to the actuarially determined contribution	<u>(81,697)</u>	<u>(121,671)</u>	<u>(120,722)</u>	<u>(108,461)</u>	<u>(126,258)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 540,683	\$ 925,276	\$ 1,030,066	\$ 832,784	\$ 822,150
Contributions as a percentage of covered payroll	15.11%	13.15%	11.72%	13.02%	15.36%

Notes to Schedule

Valuation Date	January 1, 2024
Measurement Date	December 31, 2024
Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.50%
Projected Salary Increase	3.00%, plus merit component based on years of service ranging from 0.00% to 5.25%
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
COLA Increases	3.00% for Tier 1 and 2.00% for Tier 2 and Tier 3

SUPPLEMENTARY INFORMATION

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENSES – BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

	Adopted Budget	Actual	Variance with Budget
Administration:			
Labor	\$ 1,334,260	\$ 1,355,234	\$ (20,974)
Labor - Administration Workers Comp	47,560	39,123	8,437
Office Space Rental	59,770	56,837	2,933
Property Insurance	283,570	281,598	1,972
Professional Technical Services	320,550	290,774	29,776
Professional Development	97,340	48,618	48,722
Operating Expense	419,320	441,056	(21,736)
Marketing and Reproduction	141,300	107,394	33,906
North County Management Contract	(59,030)	(59,030)	-
County Management Contract	(121,670)	(121,670)	-
SCT Management Contract	(141,160)	(141,160)	-
Total Administration	2,381,810	2,298,774	83,036
Service Delivery:			
Labor - Operations - Bus Operators	5,581,200	4,938,608	642,592
Labor - Operations - Training Staff	422,910	412,729	10,181
Labor - Operations - Operations Supervisors/Schedulers	1,551,600	1,469,523	82,077
Labor - Operations - Ops Mgt./Oversight	448,750	460,829	(12,079)
Labor - Operations Workers Comp	360,680	296,699	63,981
Labor - Maintenance	1,998,840	1,740,704	258,136
Labor - Maintenance Workers Comp	98,760	81,241	17,519
Fuel	1,565,280	1,318,218	247,062
Insurance	1,010,430	1,009,948	482
Special Transportation (for SLOCAT and Paso)	33,500	23,375	10,125
Maintenance (Parts, Supplies, Materials)	1,059,720	760,867	298,853
Maintenance Contract Costs	156,120	169,631	(13,511)
Total Service Delivery	14,287,790	12,682,372	1,605,418
Capital/Studies:			
Computer System Maintenance/Upgrades	393,260	25,043	368,217
Miscellaneous Capital			
Maintenance Equipment	218,760	19,299	199,461
Vehicle ITS/Camera System	18,030	16,694	1,336
Bus Stop Improvements	324,930	135,288	189,642
Large Capital Repairs	402,760	76	402,684
Vehicles			
Support Vehicles	45,600	-	45,600
Fixed Route Vehicles	320,650	121,887	198,763
Trolley Vehicles	293,200	42,053	251,147
Cutaway and Dial A Ride Vehicles	154,810	164,629	(9,819)
Runabout Vehicles	1,125,260	277,382	847,878
Total Capital/Studies	3,297,260	802,351	2,494,909

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENSES – BUDGET AND ACTUAL (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

	<u>Adopted Budget</u>	<u>Actual</u>	<u>Variance with Budget</u>
Contingency	200,040	-	200,040
CalPERS Buyout	178,310	178,308	2
Loan Repayments	472,140	444,635	27,505
Short Range Transit Plan	92,030	92,668	(638)
Elks Lane Project	2,379,560	50,537	2,329,023
Management Contracts	<u>321,860</u>	<u>321,860</u>	<u>-</u>
TOTAL FUNDING USES	<u><u>\$ 23,610,800</u></u>	<u><u>\$ 16,871,505</u></u>	<u><u>\$ 6,739,295</u></u>
TOTAL EXPENSES, BUDGETARY BASIS		\$ 16,871,505	
ADD:			
DEPRECIATION AND AMORTIZATION		3,444,792	
GASB 68 ADJUSTMENT		1,088,535	
LESS:			
LOAN INTEREST PAYMENTS		(94,380)	
LOAN PRINCIPAL REPAYMENT		(350,255)	
CALPERS BUYOUT PRINCIPAL PAYMENTS		(172,378)	
CAPITALIZED EXPENSES		<u>(945,555)</u>	
TOTAL OPERATING EXPENSES PER FINANCIAL STATEMENTS		<u><u>\$ 19,842,264</u></u>	

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, 2025. 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 April 8, 2025. 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. During 2025, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 102 – *Certain Risk Disclosures*. 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 estimates 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 estimates of the net pension liability, and related deferred inflows of resources and deferred outflows of resources, in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimates in determining its lease liability and right-to-use leased asset. We evaluated the key factors and assumptions used to develop these estimates in determining that they are 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, lease liability and right-to-use leased asset, and pension in Notes 4, 8, and 9 to the financial statements, respectively.

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. There were no such misstatements.

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 October 10, 2025.

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 is 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
October 10, 2025