SAN LUIS OBISPO
REGIONAL TRANSIT AUTHORITY

BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2022

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY

JUNE 30, 2022

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

Report on 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 year ended June 30, 2022, 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, 2022, 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.

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.

Change in Accounting Principle

As described in Note 8 to the financial statements, in 2022, the Authority adopted new accounting guidance, Governmental Accounting Standards Board No. 87, *Leases.* Our opinion is not modified with respect to this matter.

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.

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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 November 8, 2022, 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

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 8, 2022

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2022

	2022
ASSETS	
Current Assets:	
Cash and investments	$ 4,278,465
Accounts receivable	144,352
Deposits	2,000
Intergovernmental receivables	4,786,573
Prepaid items	236,736
Inventory at cost	263,917
Total Current Assets	9,712,043
Noncurrent Assets:	
Restricted - Cash	184,204
Total restricted assets	184,204
Capital Assets:	
Nondepreciable	
Land	1,512,602
Depreciable	
Buildings and improvements	26,220,948
Equipment and vehicles	22,412,297
Less accumulated depreciation	(15,500,769)
Depreciable assets, net	33,132,476
Right-to-use leased asset, net	160,679
Total Net Capital Assets	34,805,757
Total Noncurrent Assets	34,989,961
Total Assets	44,702,004
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension	2,857,008
Total Deferred Outflows of Resources	2,857,008

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

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
STATEMENT OF NET POSITION (Continued)
JUNE 30, 2022

LIABILITIES	
Current Liabilities:	
Accounts payable	1,282,272
Accrued payroll	355,416
Unearned revenue	2,948,456
Unearned revenue - State of Good Repair	860,566
Compensated absences	65,992
Lease liability	49,993
Total Current Liabilities	5,562,695
Noncurrent liabilities:	
Compensated absences	216,752
Total OPEB liability	26,357
Net pension liability	3,272,997
Pension plan exit liability	682,189
Lease liability	105,842
Loan payable	12,980,910
Total Noncurrent Liabilities	17,285,047
Total Liabilities	22,847,742
DEFERRED INFLOWS OF RESOURCES	
Deferred pension	669,941
Total Deferred Inflows of Resources	669,941
NET POSITION	
Net investment in capital assets	21,669,012
Unrestricted	2,372,317
Total Net Position	$ 24,041,329

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, 2022

	2022
OPERATING REVENUES:	
Passenger fares	$ 886,229
Other operating revenue	365,791
Total Operating Revenues	1,252,020
OPERATING EXPENSES:	
Transit operating expenses	11,253,862
Administration and financial services	1,948,806
Depreciation and amortization	2,323,575
Total Operating Expenses	15,526,243
Operating Loss	(14,274,223)
NONOPERATING REVENUES (EXPENSES):	
Transportation Development Act funds	6,713,187
Federal and State grants	7,187,463
Interest income	16,534
Loss on disposal of capital assets	(330,179)
Interest expense	(94,523)
Total Nonoperating Revenues (Expenses)	13,492,482
CAPITAL CONTRIBUTIONS:	
Federal capital grants	1,885,324
State capital grants	626,750
Local capital grants	787,655
Total Capital Contributions	3,299,729
SPECIAL ITEMS:	
Building decommissioning	(1,950,000)
Total Special Items	(1,950,000)
Change in Net Position	567,988
Net Position, Beginning of Fiscal Year	23,473,341
Net Position, End of Fiscal Year	$ 24,041,329

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, 2022

	2022
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ (1,247,864)
Payments to employees	(10,979,958)
Payments to suppliers	(2,474,166)
Net Cash Used by Operating Activities	(14,701,988)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid - loan payable	9,280,213
Principal paid - lease payment	(49,761)
Interest expense	(94,523)
Capital grants received	3,299,729
Acquisition and construction of property, plant, and equipment	(10,857,159)
Proceeds from the sale of capital assets	11,643
Building decommission	(1,950,000)
Net Cash Used by Capital and Related Financing Activities	(359,858)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Grants received	12,679,973
Net Cash Provided by Noncapital Financing Activities	12,679,973
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	16,534
Net Cash Provided by Investing Activities	16,534
Net Decrease in Cash and Cash Equivalents	(2,365,339)
Cash and Cash Equivalents, Beginning of Fiscal Year	6,828,008
Cash and Cash Equivalents, End of Fiscal Year	$ 4,462,669

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, 2022

	2022
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	$ (14,274,223)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation and amortization expense	2,323,575
Change in operating assets, deferred outflows, liabilities, and deferred inflows:	
Accounts receivable	(19,602)
Prepaid items	(83,041)
Inventory	(38,783)
Deferred outflows of resources	53,970
Accounts payable	(674,822)
Accrued payroll	104,615
Unearned revenue	(2,480,282)
Total OPEB liability	(6,144)
Net pension liability	39,383
Compensated absences	(6,259)
Deferred inflows of resources	359,625
Net Cash Used by Operating Activities	$ (14,701,988)
Reconciliation of Cash and Cash Equivalents per Statement of Cash Flows to the Statement of Net Position:	
Cash and investments	$ 4,278,465
Restricted - Cash	184,204
Cash and Cash Equivalents per Statement of Cash Flows	$ 4,462,669

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, 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 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.

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

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."

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. 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. 87 – *Leases.* The requirements of this statement were originally effective for periods beginning after June 15, 2021. The Authority has implemented the provisions of GASB Statement No. 87 in the current year. See Note 8 for detailed discussion of the effects of the Authority's financial statements as a result of implementing this standard.

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

O. New Accounting Pronouncements – Implemented (Continued)

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. There was no effect on the Authority's accounting and financial reporting as a result of implementing this standard.

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 for periods beginning June 15, 2021. Early application is encouraged. There was no effect on the Authority's accounting and financial reporting as a result of implementing this standard.

GASB Statement No. 93 – *Replacement of Interbank Offered Rates.* The requirements of this statement are effective for periods beginning after June 15, 2021. There was no effect on the Authority's accounting and financial reporting as a result of implementing this standard.

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. There was no effect on the Authority's accounting and financial reporting as a result of implementing this standard.

P. Future Accounting Pronouncements

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

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. 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. 99 – *Omnibus 2022*. The requirements of this statement are effective as follows:

- The requirements related to the extension of the use of London Interbank Offered Rate (LIBOR), accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in GASB Statement No. 34, as amended, and terminology updates related to GASB Statement No. 53 and GASB Statement No. 63 are effective upon issuance.
- The requirements related to leases, public-private and public-public partnerships (PPPs), and subscription-based information technology arrangements (SBITAs) are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

The Authority will implement GASB Statement No. 99 if and where applicable.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Future Accounting Pronouncements

GASB Statement No. 100 – *Accounting Changes and Error Corrections.* The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. The Authority will implement GASB Statement No. 100 if and where applicable.

GASB Statement No. 101 – *Compensated Absences.* The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. The Authority will implement GASB Statement No. 101 if and where applicable.

NOTE 3 – CASH AND INVESTMENTS

The Authority's cash and investments as of June 30, 2022, are classified in the statement of net position as follows:

Cash and investments	$ 4,278,465
Restricted - Cash	184,204
Total Cash and Investments	$ 4,462,669

On June 30, 2022, the Authority had the following cash and investments on hand:

Cash on hand and in banks	$ 508,555
Investments	3,769,910
Restricted cash	184,204
Total Cash and Investments	$ 4,462,669

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:

2022		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	$ 3,769,910	$ 3,769,910	$ -	$ -	$ -
Total	$ 3,769,910	$ 3,769,910	$ -	$ -	$ -

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.

2022				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	$ 3,769,910	N/A	$ -	$ -	$ -	$ 3,769,910
Total	$ 3,769,910		$ -	$ -	$ -	$ 3,769,910

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). There were no balances in excess of the FDIC insurance amounted at June 30, 2022.

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, 2022, was as follows:

	Balance July 1, 2021	Increases	Decreases	Adjustments	Balance June 30, 2022
Capital Assets Not Being Depreciated:					
Land	$ 1,512,602	$ -	$ -	$ -	$ 1,512,602
Construction in progress	14,867,631	9,130,896	-	(23,998,527)	-
Total Capital Assets Not Being Depreciated	16,380,233	9,130,896	-	(23,998,527)	1,512,602
Capital Assets Being Depreciated:					
Buildings and improvements	6,564,830	74,600	(4,417,009)	23,998,527	26,220,948
Vehicles and equipment	20,911,655	1,651,663	(151,021)	-	22,412,297
Total Capital Assets Being Depreciated	27,476,485	1,726,263	(4,568,030)	23,998,527	48,633,245
Less Accumulated Depreciation For:					
Buildings, improvements, vehicles and equipment	17,448,319	2,278,658	(4,226,208)	-	15,500,769
Total Accumulated Depreciation	17,448,319	2,278,658	(4,226,208)	-	15,500,769
Total Capital Assets Being Depreciated, Net	10,028,166	(552,395)	(341,822)	23,998,527	33,132,476
Right-to-Use Leased Asset					
Building	-	205,596	-	-	205,596
Accumulated Amortization	-	44,917	-	-	44,917
Total Right-to-Use Leased Asset, Net	-	160,679	-	-	160,679
Governmental Activities, Capital Assets, Net	$ 26,408,399	$ 8,739,180	$ (341,822)	$ -	$ 34,805,757

Depreciation and amortization expense for the fiscal year ended June 30, 2022, was $2,323,575.

NOTE 5 – UNEARNED REVENUE

The Authority received the following TDA funds:

	2022
Local Transportation Funds	$ 2,318,097
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.	44,296
Proposition 1B funding	14,900
State Transit Assistance (STA) Senate Bill (SB) 1 State of Good Repair funding	860,566
TDA Article 4.5 funds	236,254
Federal Transit Administration (FTA) Proceeds Carried Forward to Future Procurement	41,788
Low Carbon Transit Operator Program	247,433
Total Unearned Revenues	$ 3,809,022

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 STA Fund for the fiscal year ended June 30, 2022:

Allocation Assigned By/Claimant	Article/Section	Amount 2022
Local Transportation Fund (LTF):		
City of Arroyo Grande	4/99260(a)	$ 176,012
City of San Luis Obispo	4/99260(a)	383,992
County of San Luis Obispo	4/99260(a)	1,432,732
City of Grover Beach	4/99260(a)	131,499
City of Morro Bay	4/99260(a)	64,903
City of Atascadero	4/99260(a)	191,480
City of El Paso de Robles	4/99260(a)	448,485
City of Pismo Beach	4/99260(a)	80,995
Total LTF		2,910,098
State Transit Assistance (STA) Fund:		
Regional Transit Authority	6.5/99313	1,358,000
Regional Transit Authority	6.5/99314	111,826
Total STA Fund		1,469,826
Subtotal		4,379,924
Add: Recognition of prior fiscal year unearned revenues		4,835,810
Less: Current fiscal year unearned revenues		(2,318,097)
Total TDA Allocation		$ 6,897,637

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:

	2022
Operating and interest expenses	$ 15,526,243
Add:	
Capital purchases with LTF and STA	441,288
Building decommissioning	1,950,000
Less:	
Depreciation and amortization	(2,323,575)
Fare revenues	(886,229)
Special events and other revenues	(365,791)
Federal and state operating grants	(7,187,463)
Maximum Total Allocation Amount	7,154,473
TDA allocations received and accrued	4,379,924
Change in TDA transit allocations in unearned revenues	2,774,549
Allocation over/(under) maximum	$ -

NOTE 7 – FARE REVENUE RATIO

The Authority had fare revenue ratios for the fiscal year ended June 30, 2022, computed as follows:

2022

	Fixed Route	Runabout	Paso Express	Paso Dial a Ride
(a) Operating fare revenues	$ 602,766	$ 66,505	$ 101,999	$ 5,562
(b) Operating expenses, net of depreciation	6,685,979	2,884,513	857,019	175,763
(c) Fare revenue ratio [(a)/(b)]	9.0%	2.3%	11.9%	3.2%
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	$ 15,434	$ -	$ 782	$ 93,181
(b) Operating expenses, net of depreciation	502,499	1,283	60,173	2,035,439
(c) Fare revenue ratio [(a)/(b)]	3.1%	0.0%	0.0%	4.6%
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 fiscal year ended June 30, 2022.

NOTE 8 – LONG-TERM LIABILITIES

	Balance July 1, 2021	Increases	Decreases	Balance at June 30, 2022 Total	Current	Long-Term
Pacific Western Bank	$ 894,000	$ 126,000	$ -	$ 1,020,000	$ -	$ 1,020,000
Transportation Infrastructure Finance and Innovation Act (TIFIA) loan	2,806,697	9,154,213	-	11,960,910	-	11,960,910
Leases	-	205,596	(49,761)	155,835	49,993	105,842
Compensated absences	289,003	361,472	(367,731)	282,744	65,992	216,752
OPEB liability	32,501	-	(6,144)	26,357	-	26,357
Net pension liability	3,072,225	200,772	-	3,272,997	-	3,272,997
Pension plan exit liability	843,578	-	(161,389)	682,189	-	682,189
Total long-term liabilities	$ 7,938,004	$ 10,048,053	$ (585,025)	$ 17,401,032	$ 115,985	$ 17,285,047

On 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, 2022, the Authority has drawn down $11,960,910. The loan bears an interest rate of 0.7%. The maturity date is July 1, 2056.

On 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, 2022, the Authority has drawn down $1,020,000. The loan bears an interest rate of 3.0%. The maturity date is July 1, 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. As of June 30, 2022, the value of the lease liability is $91,331. The Authority is required to make monthly fixed payments of $3,031. The lease has an interest rate of 4%. The right-to-use leased asset useful life was 42 months as of the contract commencement. The value of the right-to-use leased asset as of June 30, 2022, was $127,808 and accumulated amortization was $31,952. Refer to Note 4 of the financial statements.

At June 30, 2022, future minimum lease payments were as follows:

June 30,	Principal	Interest
2023	$ 36,623	$ 2,984
2024	36,597	1,516
2025	18,112	211
2026	-	-
2027	-	-
	$ 91,332	$ 4,711

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, 2022, the value of the lease liability is $64,504. The Authority is required to make monthly fixed payments of $1,117. 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, 2022, was $77,788 and accumulated amortization was $12,965. Refer to Note 4 of the financial statements.

NOTE 8 – LONG-TERM LIABILITIES (Continued)

At June 30, 2022, future minimum lease payments were as follows:

June 30,	Principal	Interest
2023	$ 13,370	$ 2,335
2024	13,360	1,801
2025	13,351	1,266
2026	13,341	733
2027	11,081	203
	$ 64,503	$ 6,338

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, 2021, 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, 2021, 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, 2021, there were 6 active Authority employed members in Tier 3.

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.

NOTE 9 – PENSION PLAN (Continued)

A. General Information about the Pension Plan (Continued)

Plan Description (Continued)

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 $312,585 for the fiscal year ended June 30, 2022.

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, 2022, the Authority reported a liability of $3,273,027 for its proportionate share of the net pension liability of the Plan. The net pension liability was measured as of December 31, 2021.

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of January 1, 2021. The actuarial assumptions used in the January 1, 2021 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, 2021, are based on the fair value of assets on that date, and the Total Pension Liability as of the valuation date, January 1, 2021. The actuarial assumptions were rolled forward to the Plan's fiscal year-end of December 31, 2021. There were no significant events between the January 1, 2021 valuation date and the December 31, 2021 measurement date 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 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 - December 31, 2020	0.45130%
Proportion - December 31, 2021	0.51100%
Change - Increase (Decrease)	0.05970%

For the fiscal year ended June 30, 2022, the Authority recognized pension expense of $937,898. 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, 2021, 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	$ 214,480	$ -
Differences between actual and expected experience	209,010	-
Changes in assumptions	318,103	-
Net difference between projected and actual earnings on plan investments	-	669,941
Adjustment due to differences in proportions	2,115,415	-
Differences in actual contributions and proportionate share of contributions	-	-
Total	$ 2,857,008	$ 669,941

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.

$214,480 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, 2023.

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
2023	$ 55,397
2024	(131,708)
2025	(27,615)
2026	(38,902)
2027	2,115,415
	$ 1,972,587

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, 2021
Measurement Date	December 31, 2021
Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.25%
Projected Salary Increase	2.75%, including inflation, additional merit component applicable to first 7 years of experience
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
COLA Increases	2.50% for Tier 1 and 2.00% for Tier 2 and Tier 3
Post Retirement Benefit Increase	Based on the sex distinct Pub-2010 amount-weighted, above median income, adjusted by 0.99 for males and 1.01 for females, with generationally morality improvements using scale MP-2019

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. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

NOTE 9 – PENSION PLAN (Continued)

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

Discount Rate (Continued)

Asset Class	New Strategic Allocation	Weighted Average Long-Term Expected Real Rate of Return
Cash Equivalents/Short Duration Government	10.00%	-1.44%
Equities - Public Market	30.00%	3.20%
Real Assets	15.00%	4.70%
Private Markets	30.00%	5.92%
US Treasury - Long Duration/TIPS	15.00%	-0.91%
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:

	1% Decrease 5.75%	Discount Rate 6.75%	1% Increase 7.75%
Agency's proportionate share of the net pension plan liability	$ 4,952,583	$ 3,272,997	$ 1,900,486

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, 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.

NOTE 11 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT (Continued)

During the fiscal year ended June 30, 2022, the Authority received $0 in PTMISEA receipts. Interest earned for the fiscal year ended June 30, 2022, was $0. The Authority had qualifying expenditures incurred under this program from previous allocation totaling $0 for the fiscal year ended June 30, 2022.

Schedule of PTMISEA Proposition 1B Funds
For the Year Ended June 30, 2022

Description	Amount
Balance - beginning of the year	$ 199,722
Receipts:	
PTMISEA receipts	-
Interest accrued 7/1/2021 through 6/30/2022	-
Expenses:	
PTMISEA expenditures	-
Balance - end of year	$ 199,722

NOTE 12 – 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, 2022, the Authority received $409,174 in SB1 SGR funds. In the fiscal year ended June 30, 2022, the Authority did not spend any 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 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 currently enrolled in CalPERS.

Payments made for the pension plan exit were $161,389 during 2022. The remaining pension plan exit liability was $682,189 as of June 30, 2022.

NOTE 14 – 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 15 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 8, 2022, 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, 2022*

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

	2022	2021	2020	2019
Proportion of the net pension liability	0.51100%	0.45130%	0.00637%	0.00621%
Proportionate share of the net pension liability	$ 3,272,997	$ 3,272,997	$ 653,046	$ 598,258
Covered payroll	$ 980,914	$ 540,683	$ 925,276	$ 1,030,066
Proportionate share of the net pension liability as a percentage of covered payroll	333.67%	605.34%	70.58%	58.08%
Plan's total pension liability	$ 2,390,539,528	$ 2,247,011,774	$ 41,426,453,489	$ 38,944,855,364
Plan's fiduciary net position	$ 1,749,962,789	$ 1,566,326,195	$ 31,179,414,067	$ 29,308,589,559
Plan's fiduciary net position as a percentage of the total pension liability	73.20%	69.71%	75.26%	75.26%

	2018	2017	2016	2015
Proportion of the net pension liability	0.00633%	0.00629%	0.60400%	0.00684%
Proportionate share of the net pension liability	$ 628,213	$ 543,863	$ 414,886	$ 425,837
Covered payroll	$ 832,784	$ 822,150	$ 473,673	$ 345,255
Proportionate share of the net pension liability as a percentage of covered payroll	75.44%	66.15%	87.59%	123.34%
Plan's total pension liability	$ 37,161,348,332	$ 33,358,627,624	$ 31,771,217,402	$ 30,829,966,631
Plan's fiduciary net position	$ 27,244,095,376	$ 24,705,532,291	$ 24,907,305,871	$ 24,607,502,515
Plan's fiduciary net position as a percentage of the total pension liability	73.31%	74.06%	78.40%	79.82%

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.

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

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE LAST TEN FISCAL YEARS ENDED JUNE 30, 2022*

	2022	2021	2020	2019
Contractually required contribution (actuarially determined)	$ 312,585	$ 245,132	$ 81,697	$ 121,671
Contribution in relation to the actuarially determined contribution	(312,585)	(245,132)	(81,697)	(121,671)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 1,160,540	$ 980,914	$ 540,683	$ 925,276
Contributions as a percentage of covered payroll	26.93%	24.99%	15.11%	13.15%

	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 120,722	$ 108,461	$ 126,258	$ 74,414
Contribution in relation to the actuarially determined contribution	(120,722)	(108,461)	(126,258)	(74,414)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 1,030,066	$ 832,784	$ 822,150	$ 473,673
Contributions as a percentage of covered payroll	11.72%	13.02%	15.36%	15.71%

Notes to Schedule

Valuation Date	January 1, 2021
Measurement Date	December 31, 2021
Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.25%
Projected Salary Increase	2.75%, including inflation, additional merit component applicable to first 7 years of experience
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
COLA Increases	2.50% for Tier 1 and 2.00% for Tier 2 and Tier 3
Post Retirement Benefit Increase	Based on the sex distinct Pub-2010 amount-weighted, above median income, adjusted by 0.99 for males and 1.01 for females, with generationally morality improvements using scale MP-2019

SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENSES – BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Adopted Budget	Actual	County Services Actual	Variance with Budget
Administration:				
Labor	$ 1,079,020	$ 1,155,728	$ -	$ (76,708)
Labor - Administration Workers Comp	44,970	36,430	-	8,540
Office Space Rental	407,450	320,704	-	86,746
Property Insurance	38,870	103,049	-	(64,179)
Professional Technical Services	167,100	101,515	-	65,585
Professional Development	66,470	28,826	-	37,644
Operating Expense	366,380	346,908	-	19,472
Marketing and Reproduction	181,800	115,936	-	65,864
North County Management Contract	(47,740)	(47,740)	-	-
County Management Contract	(98,390)	(98,390)	96,932	-
SCT Management Contract	(114,160)	(114,160)	-	-
Total Administration	2,091,770	1,948,806	96,932	142,964
Service Delivery:				
Labor - Operations	6,622,980	6,077,507	292,988	545,473
Labor - Operations Workers Comp	339,940	275,382	12,862	64,558
Labor - Maintenance	1,581,620	1,556,213	74,518	25,407
Labor - Maintenance Workers Comp	93,090	75,411	3,465	17,679
Fuel	1,113,670	1,518,152	17,774	(404,482)
Insurance	909,680	680,956	11,438	228,724
Special Transportation (for SLOCAT and Paso)	44,480	20,668	20,668	23,812
Avila Trolley	76,490	56,854	50,956	19,636
Maintenance (Parts, Supplies, Materials)	695,930	623,832	6,833	72,098
Maintenance Contract Costs	136,900	91,680	953	45,220
Total Service Delivery	11,614,780	10,976,655	492,455	638,125
Capital/Studies:				
Computer System Maintenance/Upgrades	40,370	10,960	-	29,410
Miscellaneous Capital				
Maintenance Equipment	42,500	830	-	41,670
Radios	6,600	-	-	6,600
Bus Stop Improvements/Bus Stop Solar Lighting	377,430	91,543	-	285,887
Large Capital Repairs	575,000	346,679	-	228,321
Vehicles				
Runabout Vehicles	302,000	-	-	302,000
40' Coaches	1,986,680	1,276,250	-	710,430
Total Capital/Studies	3,330,580	1,726,262	-	1,604,318

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENSES – BUDGET AND ACTUAL (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Adopted Budget	Actual	County Services Actual	Variance with Budget
Contingency	164,480	-	-	164,480
PERS Buyout	178,310	178,308	-	2
Building Decommissioning	1,950,000	1,950,000	-	-
Loan Repayments	108,240	94,523	-	13,717
Elks Lane Project	10,213,970	8,199,548	-	2,014,422
Management Contracts	260,290	260,290	-	-
TOTAL FUNDING USES	$ 29,912,420	$ 25,334,392	$ 589,387	$ 4,578,028
TOTAL EXPENSES, BUDGETARY BASIS		$ 25,334,392		
ADD:				
DEPRECIATION		2,323,575		
LESS:				
LOAN REPAYMENT		(94,523)		
PERS BUYOUT PRINCIPAL PAYMENTS		(161,389)		
BUILDING DECOMMISSIONING		(1,950,000)		
CAPITALIZED EXPENSES		(9,925,812)		
TOTAL OPERATING EXPENSES PER FINANCIAL STATEMENTS		$ 15,526,243		

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, 2022. 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 13, 2022. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Matters</u>

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. 87 – *Leases.* 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.
>
> Management estimate in determining lease liability and right-to-use leased asset. We evaluated the key factors and assumptions used to develop these estimates 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, 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 November 8, 2022.

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 8, 2022

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY

SINGLE AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY

JUNE 30, 2022

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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, 2022, 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 8, 2022.

Report on 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 entity'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 or significant deficiencies may exist that were not identified.

Report on 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

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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 communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 8, 2022

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 San Luis Obispo 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, 2022.

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,

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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, 2022.

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 8, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL 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

Opinion on Each Major Federal Program

We have audited San Luis Obispo Regional Transit Authority's (the Authority) compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority's federal programs.

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit. Identify and assess the risks of material noncompliance, 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 Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated November 8, 2022, which contained unmodified opinions on those financial statements. Our audit was performed 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 8, 2022

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Assistance Listing Number	Identifying Number	Total Federal Expenditures
U.S. Department of Transportation			
Direct:			
Transportation Infrastructure Finance and Innovation Act - 3rd party loan	20.223		$ 9,154,213
CARES FTA Section 5307 - Operating Assistance	20.507	CA-2020-116-00	$ 150,070
ARP FTA Section 5307 - Operating Assistance	20.507	CA-2022-060-00	1,100,678
FTA Section 5307 - Capital Assistance & Ops Assist FY 14/15 (Bus Stop Improvements)	20.507	CA-90-Z272-04	8,322
FTA Section 5307 - Operating Assistance	20.507	PENDING	2,193,300
FTA Section 5307 - Operating Assistance	20.507	PENDING	339,000
FTA Section 5307 - Operating Assistance	20.507	PENDING	616,000
FTA Section 5307 - Capital Assistance (Maintenance tools)	20.507	CA-2019-082-03	2,455
FTA Section 5307 - Capital Assistance (Veh Maint Equipment)	20.507	CA-2018-073-04	381
FTA Section 5307 - Capital Assistance (Engine rehab)	20.507	CA-2021-161-02	252,181
FTA Section 5307 - Capital Assistance (Bus Stop Improvements)	20.507	CA-2016-065-03	60
FTA Section 5307 - Capital Assistance (Bus Stop Improvements)	20.507	CA-2016-065-11	3,642
FTA Section 5307 - Capital Assistance (Bus Stop Improvements)	20.507	CA-2017-100-11	3,702
Total FTA Section 5307			4,669,791
Total Federal Transit Cluster			4,669,791
FTA Section 5339 - Capital Assistance (Rolling Stock)	20.509	CA-2020-283-05	489,298
FTA Section 5339 - Capital Assistance (Rolling Stock)	20.509	CA-2020-283-06	395,609
FTA Section 5339 - Capital Assistance (BMF)	20.509	CA-2020-040-01	732,129
Total FTA Section 5339			1,617,036
Passed Through the State of California Department of Transportation:			
FTA Section 5311 - Operating Assistance	20.509	64BO21-01735	586,252
CRRSAA - FTA Section 5311 - Operating Assistance	20.509	64RO21-01659	1,549,904
Total FTA Section 5311			2,136,156
Total U.S. Department of Transportation			17,577,196
Total Expenditures of Federal Awards, Excluding Federal Loan Balances			$ 17,577,196

Federal Loan Balances Carried Forward from Prior Year			
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			$ 20,383,893

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

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

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, 2022:

		Amount Outstanding				
Assistance Listing Number	Program Title	July 1, 2021	New Loans	Loan Payments	Forgiven	June 30, 2022
20.223	TIFIA	$ 2,806,697	$ 9,154,213	$ -	$ -	$ 11,960,910

FINDINGS AND QUESTIONED COSTS SECTION

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

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:

Assistance Listing Number	Name of Federal Program or Clusters
20.507	Federal Transit – Formula Grants (Urbanized Areas Formula Program)
20.223	Transportation Infrastructure Finance and Innovation Act

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, 2021) Findings and Current Status

None.