SAN LUIS OBISPO
REGIONAL TRANSIT AUTHORITY

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
JUNE 30, 2020

WITH COMPARATIVE TOTALS FOR 2019

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY

JUNE 30, 2020

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FINANCIAL SECTION

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the San Luis Obispo Regional Transit Authority (the Authority) as of and for the fiscal year ended June 30, 2020, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents. The financial statements as of June 30, 2019, were audited by other auditors, whose report dated March 4, 2020, expressed an unmodified opinion on these statements. We have included these balances for comparison purposes only.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2020, and the respective changes in financial position, and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Proportionate Share of the Net Pension Liability on page 28, the Schedule of Pension Contributions on page 29, the Schedule of Changes in the Postemployment Benefits Other than Pension (OPEB) Liability and Related Ratios on page 30, and the Schedule of OPEB Contributions on page 31, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise the Authority's basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 10, 2020

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR 2019

	2020	2019
ASSETS		
Current Assets:		
Cash and investments	$ 4,651,364	$ 4,622,063
Intergovernmental receivables	3,834	225,867
Grants receivable	5,820,393	3,345,791
Prepaid items	138,726	139,162
Inventory at cost	228,748	207,087
Total Current Assets	10,843,065	8,539,970
Capital Assets:		
Nondepreciable		
Land	1,512,602	1,512,602
Construction in progress	2,443,247	1,313,149
Depreciable		
Buildings and improvements	6,256,619	5,795,474
Equipment and vehicles	18,220,424	18,169,478
Less accumulated depreciation	(13,928,737)	(11,762,358)
Total Net Capital Assets	14,504,155	15,028,345
Total Assets	25,347,220	23,568,315
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension	222,959	304,724
Deferred OPEB	1,451	5,079
Total Deferred Outflows of Resources	224,410	309,803
LIABILITIES		
Current Liabilities:		
Accounts payable	455,126	848,629
Accrued payroll	220,787	409,537
Unearned revenue	7,914,250	5,531,202
Compensated absences	66,408	52,215
Total Current Liabilities	8,656,571	6,841,583
Noncurrent liabilities:		
Compensated absences	199,224	156,646
OPEB	38,645	129,047
Net pension liability	653,046	598,258
Pension plan exit liability	2,775,642	2,775,642
Total Noncurrent Liabilities	3,666,557	3,659,593
Total Liabilities	12,323,128	10,501,176
DEFERRED INFLOWS OF RESOURCES		
Deferred pension	25,970	25,935
Deferred OPEB	1,244	4,353
Total Deferred Inflows of Resources	27,214	30,288
NET POSITION		
Net investment in capital assets	14,504,155	15,028,345
Unrestricted	(1,282,867)	(1,681,691)
Total Net Position	$ 13,221,288	$ 13,346,654

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, 2020
WITH COMPARATIVE TOTALS FOR 2019

	2020	2019
OPERATING REVENUES:		
Passenger fares	$ 1,000,863	$ 1,367,564
Other operating revenue	184,884	137,348
Total Operating Revenues	1,185,747	1,504,912
OPERATING EXPENSES:		
Transit operating expenses	8,835,914	8,668,109
Administration and financial services	1,831,712	1,690,076
Depreciation	2,293,690	2,171,733
Total Operating Expenses	12,961,316	12,529,918
Operating Loss	(11,775,569)	(11,025,006)
NON-OPERATING REVENUES (EXPENSES):		
Transportation Development Act funds	3,341,982	6,200,274
Federal and State grants	6,362,653	3,092,942
Interest income	29,485	43,473
Fees and reimbursements from other governmental agencies	122,650	124,660
Gain/(loss) on disposal of capital assets	23,933	(67,452)
Interest expense	-	(7,457)
Total Non-Operating Revenues (Expenses)	9,880,703	9,386,440
CAPITAL CONTRIBUTIONS:		
Federal capital grants	469,970	3,852,028
State capital grants	1,299,530	1,135,986
Total Capital Contributions	1,769,500	4,988,014
SPECIAL ITEM		
CalPERS pension plan exit	-	(2,775,642)
Total Special Items	-	(2,775,642)
Change in Net Position	(125,366)	573,806
Net Position, Beginning of Fiscal Year	13,346,654	12,690,912
Prior Period Adjustment	-	81,936
Net Position, Beginning of Fiscal Year, Restated	13,346,654	12,772,848
Net Position, End of Fiscal Year	$ 13,221,288	$ 13,346,654

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, 2020
WITH COMPARATIVE TOTALS FOR 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 3,790,828	$ 2,344,871
Payments to employees	(7,244,135)	(6,103,067)
Payments to suppliers	(3,923,493)	(4,013,716)
Net Cash Used by Operating Activities	(7,376,800)	(7,771,912)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquistion and construction of property, plant, and equipment	(1,769,500)	(4,988,014)
Principal paid - loan payable	-	(212,303)
Interest expense	-	(7,457)
Capital grants received	1,769,500	4,988,014
Sale of capital assets	23,933	-
Net Cash Provided (Used) by Capital and Related Financing Activities	23,933	(219,760)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants received	7,352,683	9,042,525
Fees and reimbursements	-	124,660
Net Cash Provided by Noncapital Financing Activities	7,352,683	9,167,185
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	29,485	43,473
Net Cash Provided by Investing Activities	29,485	43,473
Net Increase in Cash and Cash Equivalents	29,301	1,218,986
Cash and Cash Equivalents, Beginning of Fiscal Year	4,622,063	3,403,077
Cash and Cash Equivalents, End of Fiscal Year	$ 4,651,364	$ 4,622,063

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, 2020
WITH COMPARATIVE TOTALS FOR 2019

	2020	2019
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (11,775,569)	$ (11,025,006)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	2,293,690	2,171,733
Change in operating assets, deferred outflows, liabilities, and deferred inflows:		
Accounts receivable	222,033	839,959
Prepaid items	436	14,844
Inventory	(21,661)	(1,863)
Deferred outflows	85,393	70,494
Accounts payable	(393,503)	252,518
Accrued payroll	(188,750)	27,123
Unearned revenue	2,383,048	(100,812)
OPEB	(90,402)	6,209
Net pension liability	54,788	(29,955)
Compensated absences	56,771	1,977
Deferred inflows	(3,074)	867
Net Cash Used by Operating Activities	$ (7,376,800)	$ (7,771,912)

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, Pismo Beach, and the County of San Luis Obispo (the County).

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Cash Equivalents – For purposes of the Statement of Cash Flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.

D. Accounts Receivable – The Authority did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts, and accounts receivable are shown at full value.

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

F. Capital Assets – Capital assets purchased by the Authority are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired. Capital assets are defined by the Authority as assets with initial, individual costs of more than $1,000 and estimated useful life in excess of two years.

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

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

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

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

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

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

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

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 California Public Employee's Retirement System (CalPERS) and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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. The Authority has two items which qualify for reporting in this category; refer to Note 10 and 11 for a detailed listing of the deferred inflows of resources the Authority has reported.

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

O. New Accounting Pronouncements – Implemented

GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The requirements of this standard are effective immediately. The objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by extending the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. 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. 84 – *Fiduciary Activities*. The requirements of this statement are effective for periods beginning after December 15, 2019. The Authority will implement GASB Statement No. 84 if and where applicable.

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

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

GASB Statement No. 90 – *Majority Equity Interests* **–** *an amendment of GASB Statement No. 14 and No. 61.* The requirements of this statement are effective for periods beginning after December 15, 2019. The Authority will implement GASB Statement No. 90 if and where applicable.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Future Accounting Pronouncements (Continued)

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

GASB Statement No. 94 – *Public-Private and Public-Private Partnership and Availability Payment Arrangements.* The requirements of this statement are effective for periods beginning after June 15, 2020, and all periods thereafter. Early application is encouraged. The Authority will implement GASB Statement No. 94 if and where applicable.

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

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

NOTE 3 – CASH AND INVESTMENTS

On June 30, 2020, the Authority had the following cash and investments on hand:

Cash on hand and in banks	$ 544,734
Investments	4,106,630
Total Cash and Investments	$ 4,651,364

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

Cash and investments, statement of net position	$ 4,651,364

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.

NOTE 3 – CASH AND INVESTMENTS (Continued)

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

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%
Mortage 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:

		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	$ 4,106,630	$ 4,106,630	$ -	$ -	$ -
Total	$ 4,106,630	$ 4,106,630	$ -	$ -	$ -

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.

NOTE 3 – CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk (Continued)

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt from Disclosure	Rating as of Fiscal Year End AAA	AA	Not Rated
San Luis Obispo County Investment Pool	$ 4,106,630		$ -	$ -	$ -	$ 4,106,630
Total	$ 4,106,630		$ -	$ -	$ -	$ 4,106,630

Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Authority's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The Authority may waive collateral requirements for deposits which are fully insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). Balances in excess of the FDIC insurance amounted to $295,944 at June 30, 2020.

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 County investment pool is measured at amortized cost, and is not valued under level 1, 2, or 3. The pool are not registered as investment companies with the Securities and Exchange Commission (SEC) nor are they SEC Rule 2a7-like pools.

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Increases	Decreases	Reclass	Balance June 30, 2020
Capital Assets Not Being Depreciated:					
Land	$ 1,512,602	$ -	$ -	$ -	$ 1,512,602
Construction in progress	1,313,149	1,338,657	-	(208,559)	2,443,247
Total Capital Assets Not Being Depreciated	2,825,751	1,338,657	-	(208,559)	3,955,849
Capital Assets Being Depreciated:					
Buildings and improvements	5,795,474	252,586	-	208,559	6,256,619
Vehicles and equipment	18,169,478	178,257	(127,311)	-	18,220,424
Total Capital Assets Being Depreciated	23,964,952	430,843	(127,311)	208,559	24,477,043
Less Accumulated Depreciation For:					
Buildings, improvements, vehicles and equipment	11,762,358	2,293,690	(127,311)	-	13,928,737
Total Accumulated Depreciation	11,762,358	2,293,690	(127,311)	-	13,928,737
Total Capital Assets Being Depreciated, Net	12,202,594	(1,862,847)	-	208,559	10,548,306
Governmental Activities, Capital Assets, Net	$ 15,028,345	$ (524,190)	$ -	$ -	$ 14,504,155

Depreciation expense for the fiscal year ended June 30, 2020, was $2,293,690. The depreciation expense for the fiscal year ended June 30, 2019, was $2,171,733.

NOTE 5 – UNEARNED REVENUE

The Authority received the following TDA funds:

	2020	2019
Local Transportation Funds	$ 5,455,860	$ 3,561,431
The Agency received an advance from developers for construction of bus stops as a condition imposed by the County Board of Supervisors. These funds are deferred until the bus stops have been constructed.	45,688	45,688
The Agency distributes Universal bus passes to Social Services and the general public as part of a "Welfare to Work Program." These funds are deferred revenue until they are tendered or redeemed.	61,340	(15,649)
Proposition 1B funding	1,949,778	1,406,100
STA SB1 State of Good Repair Funding	146,836	351,772
TDA Article 4.5 funds	214,742	181,860
FTA Proceeds Carried Forward to Future Procurment	40,001	-
		-
Low Carbon Transit Operator Program	5	-
Total Unearned Revenues	$ 7,914,250	$ 5,531,202

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

The County was allocated the following funds from the focal Transportation Fund (LTF) and State Transit Assistance Fund for the fiscal years ended June 30, 2020 and 2019:

		Amount	
Allocation Assigned By/Claimant	Article/Section	2020	2019
Local Transportation Fund:			
City of Arroyo Grande	4/99260(a)	$ 175,376	$ 201,449
City of San Luis Obispo	4/99260(a)	603,019	699,012
County of San Luis Obispo	4/99260(a)	2,010,882	2,274,098
City of Grover Beach	4/99260(a)	132,765	152,631
City of Morro Bay	4/99260(a)	102,834	122,237
City of Atascadero	4/99260(a)	304,958	350,969
City of El Paso de Robles	4/99260(a)	765,901	919,046
City of Pismo Beach	4/99260(a)	80,609	93,671
Total LTF		4,176,344	4,813,113
State Transit Fund:			
Regional Transit Authority	6.5/99313	1,368,000	958,167
Regional Transit Authority	6.5/99314	111,997	84,044
Total STF		1,479,997	1,042,211
Subtotal		5,656,341	5,855,324
Add: Recognition of prior fiscal year unearned revenues		3,561,431	3,760,428
Less: Current fiscal year unearned revenues		(5,455,860)	(3,561,431)
Total TDA Allocation		$ 3,761,912	$ 6,054,321

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

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

	2020	2019
Operating and interest expenses	$ 12,961,316	$ 12,537,375
Add:		
Capital purchases with LTF and STF	581,636	286,533
Less:		
Depreciation	(2,293,690)	(2,171,733)
Fare revenues	(1,000,863)	(1,367,564)
Special events and other revenues	(184,884)	(137,348)
Federal and state operating grants	(6,362,653)	(3,092,942)
Maximum Total Allocation Amount	3,700,862	6,054,321
TDA allocations received and accrued	5,656,341	5,855,324
Change in TDA transit allocations in unearned revenues	(1,955,479)	198,997
Allocation over/(under) maximum	$ -	$ -

NOTE 7 – FARE REVENUE RATIO

The Authority had fare revenue ratios for the fiscal year ended June 30, 2020, as computed as follows:

	Fixed Route	Runabout	Paso Express	Paso Dial a Ride
(a) Operating fare revenues	$ 763,066	$ 116,012	$ 97,527	$ 4,967
(b) Operating expenses, net of depreciation	5,895,295	3,344,929	856,711	116,361
(c) Fare revenue ratio [(a)/(b)]	12.9%	3.5%	11.4%	4.3%
Minimum ratio required	15.8%	N/A	15.0%	N/A
Under minimum ratio requirement	N/A*	N/A*	N/A*	N/A*

	Nipomo	Cambria Trolley	Avila Trolley
(a) Operating fare revenues	$ 15,948	$ -	$ 3,343
(b) Operating expenses, net of depreciation	423,918	3,866	26,546
(c) Fare revenue ratio [(a)/(b)]	3.8%	0.0%	12.6%
Minimum ratio required	N/A	N/A	15.0%
Under minimum ratio requirement	N/A*	N/A*	N/A*

* - Due to COVID-19, the farebox recovery ratio was waived for the year ended June 30, 2020.

NOTE 7 – **FARE REVENUE RATIO** (Continued)

The Authority had fare revenue ratios for the fiscal year ended June 30, 2019 as computed as follows:

	Fixed Route	Runabout	Paso Express	Paso Dial a Ride
(a) Operating fare revenues	$ 1,031,700	$ 162,618	$ 136,762	$ 5,909
(b) Operating expenses, net of depreciation	5,702,031	3,271,234	707,777	126,587
(c) Fare revenue ratio [(a)/(b)]	18.09%	4.97%	19.32%	4.67%
Minimum ratio required	15.80%	N/A	15.00%	N/A
Under minimum ratio requirement	N/A	N/A	N/A	N/A

	Nipomo	Cambria Trolley	Avila Trolley
(a) Operating fare revenues	$ 21,789	$ -	$ 8,786
(b) Operating expenses, net of depreciation	470,282	5,891	74,383
(c) Fare revenue ratio [(a)/(b)]	4.63%	0.00%	11.81%
Minimum ratio required	N/A	10.00%	15.00%
Under minimum ratio requirement	N/A	10.00%	3.19%

For the fiscal year ended June 30, 2020, the Authority was not required to comply with applicable TDA regulations pertaining to acceptable fare revenue ratios for routes encompassing both urbanized and non-urbanized areas which require a minimum ratio of 17.15% blended rate as approved by San Luis Obispo Council of Governments.

NOTE 8 – **LONG-TERM LIABILITIES**

	Balance July 1, 2019	Increases	Decreases	Balance at June 30, 2020 Total	Current	Long-Term
Compensation absences	$ 208,861	$ 292,986	$ (236,215)	$ 265,632	$ 66,408	$ 199,224
Other post-employment benefits	129,047	-	(90,402)	38,645	-	38,645
Net pension liability	598,258	54,788	-	653,046	-	653,046
Pension plan exit liability	2,775,642	-	-	2,775,642	-	2,775,642
	$ 3,711,808	$ 347,774	$ (326,617)	$ 3,732,965	$ 66,408	$ 3,666,557

NOTE 9 – **PENSION PLAN**

A. General Information about the Pension Plans

Plan Descriptions

All qualified employees are eligible to participate in the Authority's Miscellaneous Employee Pension Plans, cost-sharing multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and local government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Eligible employees hired after January 1, 2013 that are considered new members as defined by the Public Employees' Pension Reform Act (PEPRA) are participating in the PEPRA Miscellaneous Plan.

NOTE 9 – PENSION PLAN (Continued)

A. General Information about the Pension Plans (Continued)

Benefits Provided

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

The Plans' provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Miscellaneous Plan - For the Year Ended June 30, 2020	
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit Formula	2%@55	2%@62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	50-63	52-67
Monthly Benefits, as a % of Eligible Compensation	1.426%-2.418%	1.000%-2.500%
Required Employee Contribution Rates	7.000%	7.000%
Required Employer Contribution Rates	11.154%	7.557%

Contributions

Section 20814{c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for all Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the Authority were $81,697 for the fiscal year ended June 30, 2020.

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

At June 30, 2020, the Authority reported a liability of $653,046 for its proportionate share of the net pension liability. The net pension liability of all the Plans is measured as of June 30, 2019, and the total pension liability for all Plans used to calculate the net pension liability was determined by an actuarial valuation as June 30, 2018, rolled forward to June 30, 2019, using standard update procedures.

NOTE 9 – <u>PENSION PLAN</u> (Continued)

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

The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. The Authority's proportionate share of the net pension liability for the miscellaneous plan as of June 30, 2018, and 2019, was as follows:

	Miscellaneous
Proportion - June 30, 2018	0.01587%
Proportion - June 30, 2019	0.01631%
Change - Increase (Decrease)	0.00044%

For the fiscal year ended June 30, 2020, the Authority recognized pension expense of $218,285. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Authority contributions subsequent to measurement date	$ 81,697	$ -
Differences between actual and expected experience	45,357	3,514
Changes in assumptions	31,140	11,039
Net difference between projected and actual earnings on plan investments	-	11,417
Adjustment due to differences in proportions	26,337	-
Differences in actual contributions and proportionate share of contributions	38,428	-
Total	$ 222,959	$ 25,970

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.

$81,697 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, 2020.

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

Fiscal Year Ended June 30	Amount
2021	$ 88,603
2022	11,884
2023	12,498
2024	2,307
	$ 115,292

NOTE 9 – PENSION PLAN (Continued)

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

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.00%
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power applies, 2.50% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for all plans, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on testing the plans, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is appropriate and the use of municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report that can be obtained at CalPERS' website.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach.

Using the expected nominal returns for both short-term and long-term, the present value of benefits were calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE 9 –PENSION PLAN (Continued)

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

Discount Rate (Continued)

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 [a]	Real Return Years 11+ [b]
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

[a] An expected inflation of 2.00% used for this period.
[b] An expected inflation of 2.92% used for this period.

The following represents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.15 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 (6.15 percent) or 1- percentage point higher (8.15 percent) than the current rate:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
Agency's proportionate share of the net pension plan liability	$ 1,073,697	$ 653,046	$ 305,827

C. Payable to the Pension Plan

The Authority began the process of withdrawing from CalPERS with the latest actuarial anticipating an exit cost of $3.1 million (as detailed in Note 16) in addition to the invoices in arrears.

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

Plan administration. The Authority provides participates in the California Public Employees Medical and Hospital Care Act (PEMHCA), also referred to as PERS Health. There are 12 medical plans in the "Other Southern California" region that participants may elect coverage for. Participants may also receive benefits if outside the region. Findings and assumptions are based on a 50%/50% blend of the PERS Health (PEMHCA) rates for calendar years 2019 and 2020. As of August and September 2018, the Authority elected to no longer be part of the PEMHCA. In order to minimize the impact of the transition on current CalPERS retirees, the monthly health contribution of $256 will continue but that contribution will not be extended to any current employees when they retire from the Authority. The Authority has two retirees who elected PERS medical, resulting in an annual fiscal impact of $6,144 in 2019/20.

Benefits provided. The Authority offered the same medical plans to its retirees as to its active employees prior to September 2018, with the general exception that upon reaching age 65 and becoming eligible for Medicare, the retiree must join one of the Medicare Supplement coverages offered under PEMHCA.

Prior to September 2018, employees became eligible to retire and receive Authority-paid healthcare benefits upon attainment of age 50 (Classic Plan) or age 52 (New Members/PEPRA Plan) and 5 years of covered PERS service, or by attaining qualifying disability retirement status. The Authority's contribution on behalf of retirees is the same as for active employees - 100% of the PEMHCA premium for retiree and covered dependents, but not to exceed $256 per month. Benefits continue for the lifetime of the retiree with survivor benefits extended to surviving spouses for PERS annuitants who elect pension options with survivor benefits. The Authority paid 0.33% of premium administrative fee on behalf of employees through December 31, 2018.

Employees Covered

As of July 1, 2018, actuarial valuation, the following current and former employees were covered by the benefit terms under the Authority's Plan:

Active employees	-
Inactive employees or beneficiaries currently receiving benefits	2
Total	2

Contributions

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

OPEB Liability

The Authority's OPEB Liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of July 1, 2017. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

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

Salary Increases	3.00%
Inflation rate	3.00%
Healthcare cost trend rate	5.00%

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

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Actuarial assumptions. (Continued)

Actuarial assumptions used in the July 1, 2017 valuation were based on a review of plan experience during the period July 1, 2016 to June 30, 2017 with a change in assumptions resulting from a change in the Municipal Bond 20 Year High Grade Index from 3.62% to 3.13%.

Discount rate. GASB Statement No. 75 requires a discount rate that reflects the following:

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

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

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

Reporting Date	Measurement Date	Long-Term Expected Return of Plan Investments (if any)	Municipal Bond 20 Year High Grade Rate Index	Discount Rate
June 30, 2019	June 30, 2019	4.00%	3.13%	3.13%
June 30, 2020	June 30, 2020	4.00%	3.13%	3.13%

Changes in the OPEB Liability

The changes in the net OPEB liability for the Plan are as follows:

	Total OPEB Liability
Balance at July 1, 2019 (Valuation Date at July 1, 2018)	$ 129,047
Changes recognized for the measurement period:	
Service cost	2,469
Interest	4,326
Change of assumptions	6,137
Change in benefits	(96,611)
Net investment income	-
Benefit payments	(6,723)
Administrative expense	-
Net Changes	(90,402)
Balance at June 30, 2020 (Measurement date June 30, 2019)	$ 38,645

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13 percent) or 1-percentage-point higher (4.13 percent) than the current discount rate:

	1% Decrease 2.13%	Discount Rate 3.13%	1% Increase 4.13%
Total OPEB Liability	$ 40,914	$ 38,645	$ 33,430

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	1% Decrease (4.00%)	Trend Rate (5.00%)	1% Increase (6.00%)
Total OPEB Liability	$ 35,329	$ 38,645	$ 38,691

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

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

For the fiscal year ended June 30, 2020, the Authority recognized OPEB expense of $6,863. As of the fiscal year ended June 30, 2020, the Authority reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 1,451	$ -
Changes of benefits	-	1,244
	$ 1,451	$ 1,244

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

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

Fiscal Year Ended June 30		
2021	$	19
2022		19
2023		19
2024		19
2025		131
	$	207

NOTE 11 – 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 12 – OPERATING LEASE

On September 1, 2006, the Authority entered into an operating lease for office facilities and bus yard with lease terms in excess of one year. The lease term is ten years and two months and commenced January 1, 2007, and expires on February 28, 2017. On March 5, 2015, the operating lease agreement was amended extending the operating lease term to February 28, 2022. Rent expense for the year ended June 30, 2020, was $469,823. Future minimum lease payments under this agreement are budgeted at $495,150 for the next fiscal year.

NOTE 13 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT

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

NOTE 13 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT (Continued)

PTMISEA eligibility is based on STA allocations to each project sponsor during the fiscal years 2004-05, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10 and 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16 and were made available during the 2016-17 fiscal years. Qualifying expenditures must be encumbered within three years from the date of allocation and expended within three years from the date of the encumbrance.

During the fiscal years ended June 30, 2020 and 2019, the Authority received $1,019,836 and $1,552,446 in PTMISEA receipts, respectively. Interest was earned for the fiscal years ended June 30, 2020 and 2019, for $74,727 and $28,476, respectively. The Authority had qualifying expenditures incurred under this program from previous allocation totaling $495,732 and $667,760 for the fiscal years ended June 30, 2020 and 2019, respectively, which were used for bus replacements and electronic fare collection system and is included in State capital grants in the accompanying financial statements.

Schedule of PTMISEA Proposition 1B Funds
For the Year Ended June 30, 2020

Description	Amount
Balance - beginning of the year	$ 1,267,724
Receipts:	
PTMISEA receipts	1,019,836
Interest accrued 7/1/2019 through 6/30/2020	74,727
Expenses:	
PTMISEA expenditures	495,732
Balance - end of year	$ 1,866,554

Schedule of PTMISEA Proposition 1B Funds
For the Year Ended June 30, 2019

Description	Amount
Balance - beginning of the year	$ 354,562
Receipts:	
PTMISEA receipts	1,552,446
Interest accrued 7/1/2018 through 6/30/2019	28,476
Expenses:	
PTMISEA expenditures	667,760
Balance - end of year	$ 1,267,724

NOTE 14 – 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.

In the fiscal year ended June 30, 20120, the Authority did not receive SB1 SGR funds. $19,652 was spent this fiscal year on design and engineering services for the bus maintenance facility project.

NOTE 15 – PRIOR PERIOD ADJUSTMENT

Prior-period adjustments of $81,936 were made to the Statement of Revenues, Expenses, and Changes in Net Position as of June 30, 2018. This adjustment was the result of the following items: $503,201 was made to recognize the FTA Section 5311 grant reimbursement as revenue in the prior-fiscal year in order to match the revenue with the year the expenditures were incurred; ($271,926) to account for CalPERS invoices in arrears for prior contributions, and ($149,339) for the write-off of uncollectable old receivables relating to the ITS system hacking that was settled in June 2019 for less than the receivable recorded.

NOTE 16 – 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 are offered participation in the CalPERS defined benefit retirement program. To reduce potential future financial obligations, the Board adopted a Resolution of Intention to terminate the Authority's contract with CalPERS on January 9, 2019. Staff subsequently investigated the cost to terminate the contract and an ad hoc committee appointed by the Board has determined that joining the San Luis Obispo County Pension Trust (SLOCPT) Retirement Plan provides an equivalent retirement program for employees currently enrolled in CalPERS.

As presented at the November 6, 2019 Board meeting, the financial penalty for withdrawing from CalPERS is anticipated to cost approximately $3.1 million, subject to a final actuarial study that will be conducted by CalPERS in early 2021.

NOTE 17 – SUBSEQUENT EVENTS

In July 2020, the Board of Directors (the Board) approved the execution of two loans with Pacific Western Bank for the following: 1) a three-year $1 million Permanent Loan to close the funding gap representing the locally-funded portion of the Project, and 2) a $14.1 million Line of Credit loan to provide bridge funding until such time that a longer-term financing mechanism can be secured.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. In response, the County of San Luis Obispo, followed by the Governor of California, issued a Shelter at Home order effective March 19, 2020, requiring certain non-essential businesses to temporarily close to the public. At the current time, management is unable to quantify the potential effects of this pandemic on its future financial statements.

Subsequent events have been evaluated through November 10, 2020, the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE LAST TEN YEARS ENDED JUNE 30, 2020*

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

	2020	2019	2018	2017
Proportion of the net pension liability	0.00637%	0.00621%	0.00633%	0.00629%
Proportionate share of the net pension liability	$ 653,046	$ 598,258	$ 628,213	$ 543,863
Covered payroll	$ 925,276	$ 1,030,066	$ 932,784	$ 822,150
Proportionate share of the net pension liability as a percentage of covered payroll	70.58%	58.08%	67.35%	66.15%
Plan's total pension liability	$ 41,426,453,489	$ 38,944,855,364	$ 37,161,348,332	$ 33,358,627,624
Plan's fiduciary net position	$ 31,179,414,067	$ 29,308,589,559	$ 27,244,095,376	$ 24,705,532,291
Plan's fiduciary net position as a percentage of the total pension liability	75.26%	75.26%	73.31%	74.06%

	2016	2015
Proportion of the net pension liability	0.60400%	0.00684%
Proportionate share of the net pension liability	$ 414,886	$ 425,837
Covered payroll	$ 473,673	$ 345,255
Proportionate share of the net pension liability as a percentage of covered payroll	87.59%	123.34%
Plan's total pension liability	$ 31,771,217,402	$ 30,829,966,631
Plan's fiduciary net position	$ 24,907,305,871	$ 24,607,502,515
Plan's fiduciary net position as a percentage of the total pension liability	78.40%	79.82%

<u>Changes in assumptions</u>

In 2018, inflation was changed from 2.75 percent to 2.50 percent and individual salary increases and overall payroll growth was 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 7.5 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 six years are shown.

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE LAST TEN YEARS ENDED JUNE 30, 2020*

	2020	2019	2018	2017
Contractually required contribution (actuarially determined)	$ 81,697	$ 121,671	$ 120,722	$ 108,461
Contribution in relation to the actuarially detetermind contributions	(81,697)	(121,671)	(120,722)	(108,461)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 540,683	$ 925,276	$ 1,030,066	$ 832,784
Contributions as a percentage of covered payroll	15.11%	13.15%	11.72%	13.02%

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

Notes to Schedule

Valuation date:	June 30, 2018
Measurement date:	June 30, 2019

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization method	Fixed Dollar Amount
Maximum amortization period	15 years
Asset valuation method	Fair Value of Assets
Inflation	2.50%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.15%, net of pension plan investment expense, including inflation
Retirement age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF CHANGES IN THE OPEB LIABILITY AND RELATED RATIOS
FOR THE LAST TEN YEARS ENDED JUNE 30, 2020*

	2020	2019	2018
Total OPEB Liability			
Service cost	$ 2,469	$ 2,469	$ 2,583
Interest on the total OPEB liability	4,326	4,326	3,945
Actual and expected experience difference	-	-	-
Change of assumptions	6,137	6,137	(6,333)
Change in benefits	(96,611)	-	-
Benefit payments	(6,723)	(6,723)	(6,723)
Net Change in Total OPEB Liability	(90,402)	6,209	(6,528)
Total OPEB Liability - Beginning	129,047	122,838	129,366
Total OPEB Liability - Ending (a)	$ 38,645	$ 129,047	$ 122,838
Covered Payroll:	$ -	$ 880,054	$ 1,030,061
Total OPEB Liability as a Percentage of Covered Payroll:	0.00%	14.66%	11.93%

*-Fiscal year 2018 was the 1st year of implementation, therefore, only three years are shown.

SAN LUIS OBISPO COUNCIL OF GOVERNMENTS
SCHEDULE OF OPEB CONTRIBUTIONS
FOR THE LAST TEN YEARS ENDED JUNE 30, 2020*

As of June 30, 2020, the plan is not administered through a qualified trust. Therefore there is no Actuarially Determined Contribution (ADC). Benefit payments of $6,723 were made on a pay-as-you-go basis for the fiscal year ended June 30, 2020.

As of June 30, 2019, the plan is not administered through a qualified trust. Therefore there is no Actuarially Determined Contribution (ADC). Benefit payments of $6,723 were made on a pay-as-you-go basis for the fiscal year ended June 30, 2019.

As of June 30, 2018, the plan is not administered through a qualified trust. Therefore there is no Actuarially Determined Contribution (ADC). Benefit payments of $6,723 were made on a pay-as-you-go basis for the fiscal year ended June 30, 2018.

*-Fiscal year 2018 was the 1st year of implementation, therefore, only three years are shown.

SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENSES – BUDGET AND ACTUAL
AS OF JUNE 30, 2020

	Adopted Budget	Actual	County Services Actual	Variance with Budget
Administration:				
Labor	$ 879,630	$ 798,775	$ -	$ 80,855
Labor - Administration Workers Comp	51,300	47,336	-	3,964
Office Space Rental	476,920	469,823	-	7,097
Property Insurance	20,710	24,384	-	(3,674)
Professional Technical Services	112,860	128,011	-	(15,151)
Professional Development	44,970	37,865	-	7,105
Operating Expense	292,950	379,280	-	(86,330)
Marketing and Reproduction	133,240	110,717	-	22,523
North County Management Contract	(43,030)	(43,030)	-	-
County Management Contract	(88,680)	(88,680)	96,180	-
SCT Management Contract	(122,650)	(122,650)	-	-
Total Administration	1,758,220	1,741,831	96,180	16,389
Service Delivery:				-
Labor - Operations	5,086,120	4,811,367	247,155	274,753
Labor - Operations Workers Comp	347,120	321,486	15,213	25,634
Labor - Maintenance	1,121,220	1,005,333	53,303	115,887
Labor - Maintenance Workers Comp	101,580	93,731	4,452	7,849
Fuel	1,048,730	889,930	10,114	158,800
Insurance	677,570	675,137	10,625	2,433
Special Transportation (includes County Programs and Cuesta evenings Avila Trolley)	44,900	32,512	33,592	12,388
Avila Trolley	63,590	20,965	22,199	42,625
Maintenance (parts, supplies, materials)	628,670	597,225	6,323	31,445
Maintenance Contract Costs	125,900	121,181	2,126	4,719
Total Service Delivery	9,245,400	8,568,867	405,102	676,533
Capital/Studies:				
Computer System Maintenance/Upgrades	46,020	8,825	-	37,195
Miscellaneous Capital				
Specialized Maintenance Tools	89,460	160,672	-	(71,212)
Bus Stop Improvements/Bus Stop Solar Lighting Vehicles	252,860	252,586	-	274
Vehicles				
Cutaway and Dial A Ride Vehicles	880,700	3,760	-	876,940
Runabout Vehicles and Equipment	555,200	5,000	-	550,200
Total Capital Outlay	1,824,240	430,843	-	1,393,397
Elks Lane Project	499,990	1,338,657	-	(838,667)
				-
Management Contracts	254,360	254,360	-	-
Contingency	132,040	102,566	-	29,474
TOTAL FUNDING USES	$ 13,714,250	$ 12,437,124	$ 501,282	$ 1,277,126

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENSES (Continued)
AS OF JUNE 30, 2020

TOTAL EXPENSES, BUDGETARY BASIS	$	12,437,124
ADD:		
DEPRECIATION		2,293,690
LESS:		
CAPITALIZED EXPENSES		(1,769,498)
TOTAL OPERATING EXPENSES PER FINANCIAL STATEMENTS	$	12,961,316

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY

SINGLE AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY

JUNE 30, 2020

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BROWN ARMSTRONG
Certified Public Accountants

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, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 10, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 10, 2020

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on Compliance with Transportation Development Act Requirements

We have audited the San Luis Obispo Regional Transit Authority's (the Authority) compliance with Transportation Development Act (TDA) requirements that funds allocated to and received by the Authority were expended in conformance with applicable statutes, rules, and regulations of the TDA and the allocation instructions and resolutions of the Santa Barbara County Association of Governments as required by Section 6667 of Title 21, Division 3, Chapter 2, Article 5.5 of the California Code of Regulations during the fiscal year ended June 30, 2020.

Management's Responsibility

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

Auditor's Responsibility

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

a) Determine whether the claimant was an entity eligible to receive the funds allocated to it,
b) Determine whether the claimant is maintaining its accounts and records on an enterprise fund basis and is otherwise in compliance with the uniform system of accounts and records adopted by the State Controller, pursuant to Public Utilities Code Section 99234,
c) Determine whether the funds received by the claimant pursuant to the TDA were expended in conformance with those sections of the TDA specifying the qualifying purposes, including Public Utilities Code Sections 99262 and 99263 for operators receiving funds under Article 4; Sections 99275, 99275.5, and 99277 for Article 4.5 claimants; Section 99400(c), (d), and (e) for Article 8 claimants for service provided under contract; and Section 99405(d) for transportation services provided by cities and counties with populations of less than 5,000,
d) Determine whether the funds received by the claimant pursuant to the TDA were expended in conformance with the applicable rules, regulations, and procedures of the transportation planning agency and in compliance with the allocation instructions and resolutions,

e) Determine whether interest earned on funds received by the claimant pursuant to the TDA were expended only for those purposes for which the funds were allocated in accordance with Public Utilities Code Sections 99234.1, 99301, 99301.5, and 99301.6,
f) Verify the amount of the claimant's operating cost for the fiscal year, the amount of fare revenues required to meet the ratios specified in Sections 6633.2 and 6633.5, and the amount of the sum of fare revenues and local support required to meet the ratios specified in the Section 6633.2,
g) Verify the amount of the claimant's actual fare revenues for the fiscal year,
h) Verify the amount of the claimant's actual local support for the fiscal year,
i) Verify the amount the claimant was eligible to receive under the TDA during the fiscal year in accordance with Sections 6634 and 6649,
j) Verify, if applicable, the amount of the operator's expenditure limitation in accordance with Section 6633.1,
k) In the case of an operator, determine whether the operator's employee retirement system or private pension plan is in conformance with the provisions of Public Utilities Code Sections 99271, 99272, and 99273,
l) In the case of an operator, determine whether the operator has had a certification by the Department of the California Highway Patrol verifying that the operator is in compliance with Section 1808.1 of the Vehicle Code, as required in Public Utilities Code Section 99251,
m) In the case of an operator, verify, if applicable, its State Transit Assistance eligibility pursuant to Public Utilities Code Section 99314.6 or 99314.7, and
n) In the case of a claimant for community transit services, determine whether it is in compliance with Public Utilities Code Sections 99155 and 99155.5.

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

Opinion on Transportation Development Act Compliance

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that are applicable to the Authority for the fiscal year ended June 30, 2020.

Purpose of this Report

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

Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 10, 2020

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

BROWN ARMSTRONG
Certified Public Accountants

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

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

Report on Compliance for Each Major Federal Program

We have audited the San Luis Obispo Regional Transit Authority's (the Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the fiscal year ended June 30, 2020. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2020.

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Report on Internal Control over Compliance

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

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

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

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

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

We have audited the financial statements of the Authority as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated November 10, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 10, 2020

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Identifying Number	Total Federal Expenditures
U.S. Department of Transportation			
Direct:			
FTA Section 5307 - Capital Assistance & Operations Assitance FY 13/14	20.507	CA-90-Z169	$ 48,000
FTA Section 5307 - Capital Assistance & Operations Assitance FY 14/15	20.507	CA-90-Z272	87,388
FTA Section 5307 - Capital Assistance & Operations Assitance FY 15/16	20.507	CA-2016-065	52,860
FTA Section 5307 - Capital Assistance & Operations Assitance FY 16/17	20.507	CA-2017-100	70,117
FTA Section 5307 - Capital Assistance (BMF Design)	20.507	CA-2018-041	137,278
FTA Section 5307 - Capital Assistance & Operations Assitance FY 17/18	20.507	CA-2016-064	7,008
FTA Section 5307 - Capital Assistance & Operations Assitance FY 17/18	20.507	CA-2018-073	36,593
CARES Act - FTA Section 5307 - Operating Assistance	20.507	CA-2020-116	3,094,252
FTA Section 5307 - Operating Assistance (July 1, 2019 - Jan. 31, 2020)	20.507	CA-2020-283	2,142,306
Total FTA Section 5307			5,675,802
Total Federal Transit Cluster			5,675,802
FTA Section 5339 - Capital Assistance (TVM)	20.509	CA-2016-064	30,728
Total FTA Section 5339			30,728
Passed-Through the State of California Department of Transportation			
FTA Section 5311 - Operating Assistance	20.509	SA 64BO19-00979	534,305
CARES Act - FTA Section 5311 - Operating Assistance	20.509	ER 64BO20-01066	591,789
Total FTA Section 5311			1,126,094
Total U.S. Department of Transportation			6,832,624
Total Expenditures of Federal Awards			$ 6,832,624

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, 2020

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.

FINDINGS AND QUESTIONED COSTS SECTION

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

I. Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Clusters
	Federal Transit Cluster
20.507	Formula Grants for Other than Urbanized Areas

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

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

None.

III. Federal Award Findings and Questioned Costs

None.

IV. State Award Findings and Questioned Costs

None.

V. Summary of Prior Audit (June 30, 2019) Findings and Current Status

None.

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BROWN ARMSTRONG
Certified Public Accountants

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, 2020. 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 May 18, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive 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. Estimated useful lives range from three to fifteen years. 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 both its net pension liability, net other postemployment benefits (OPEB) liability, and related deferred inflows of resources and deferred outflows of resources are based on actuarial valuations that involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. We evaluated the key factors and assumptions used to develop the estimates of the net pension liability, OPEB, and related deferred inflows of resources and deferred outflows of resources in determining that it is reasonable in relation to the financial statements taken as a whole.

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

> The disclosure of Capital Assets and Depreciation, Pension and OPEB in Notes 4, 9 and 10 to the financial statements.

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

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. 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 10, 2020.

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.

<u>Other Matters</u>

We applied certain limited procedures to the Schedule of Proportionate Share of the Net Pension Liability, Schedule of Pension Contributions, Schedule of Changes in the OPEB Liability, and Schedule of OPEB Contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Expenses – Budget and Actual, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 10, 2020