

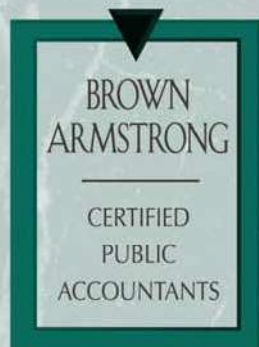
**SOUTH COUNTY TRANSIT**  
**FINANCIAL STATEMENTS**  
**FOR THE FISCAL PERIOD ENDED**  
**DECEMBER 31, 2020 AND**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2020**

**SOUTH COUNTY TRANSIT  
FOR THE FISCAL PERIOD ENDED DECEMBER 31, 2020 AND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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## **FINANCIAL SECTION**



# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
South County Transit  
San Luis Obispo, California

### Report on the Financial Statements

We have audited the accompanying basic financial statements of South County Transit (the Agency) as of and for the fiscal period ended December 31, 2020, and as of and for the fiscal year ended June 30, 2020, and the related notes to the basic financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency'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 Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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## Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency as of December 31, 2020, and June 30, 2020, and the respective changes in financial position, and cash flows thereof for the fiscal period and fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Management has omitted the 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 an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The Schedules of Expenses - Budget and Actual, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Expenses - Budget and Actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Expenses - Budget and Actual are 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 June 16, 2021, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
June 16, 2021

**SOUTH COUNTY TRANSIT  
PROPRIETARY FUND  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2020  
AND JUNE 30, 2020**

|                                  | <u>December 31, 2020</u> | <u>June 30, 2020</u> |
|----------------------------------|--------------------------|----------------------|
| <b>ASSETS</b>                    |                          |                      |
| Current Assets:                  |                          |                      |
| Cash and investments             | \$ -                     | \$ 949,571           |
| Accounts receivable              | -                        | 16,862               |
| Grants receivable                | -                        | 651,495              |
| Prepaid items                    | -                        | 3,198                |
| Deposits                         | -                        | 2,000                |
|                                  | <hr/>                    | <hr/>                |
| Total Current Assets             | -                        | 1,623,126            |
|                                  | <hr/>                    | <hr/>                |
| Capital Assets:                  |                          |                      |
| Depreciable                      |                          |                      |
| Buildings and improvements       | -                        | 152,006              |
| Equipment and vehicles           | -                        | 2,347,183            |
| Less accumulated depreciation    | -                        | (1,658,431)          |
|                                  | <hr/>                    | <hr/>                |
| Total Net Capital Assets         | -                        | 840,758              |
|                                  | <hr/>                    | <hr/>                |
| <b>Total Assets</b>              | -                        | 2,463,884            |
|                                  | <hr/>                    | <hr/>                |
| <b>LIABILITIES</b>               |                          |                      |
| Current Liabilities:             |                          |                      |
| Accounts payable                 | -                        | 39,950               |
| Accrued payroll                  | -                        | 21,200               |
| Unearned revenue                 | -                        | 230,860              |
|                                  | <hr/>                    | <hr/>                |
| Total Current Liabilities        | -                        | 292,010              |
|                                  | <hr/>                    | <hr/>                |
| Noncurrent liabilities:          |                          |                      |
| Compensated absences             | -                        | 2,878                |
|                                  | <hr/>                    | <hr/>                |
| Total Noncurrent Liabilities     | -                        | 2,878                |
|                                  | <hr/>                    | <hr/>                |
| <b>Total Liabilities</b>         | -                        | 294,888              |
|                                  | <hr/>                    | <hr/>                |
| <b>NET POSITION</b>              |                          |                      |
| Net investment in capital assets | -                        | 840,758              |
| Unrestricted                     | -                        | 1,328,238            |
|                                  | <hr/>                    | <hr/>                |
| <b>Total Net Position</b>        | \$ -                     | \$ 2,168,996         |
|                                  | <hr/>                    | <hr/>                |

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

**SOUTH COUNTY TRANSIT  
PROPRIETARY FUND  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE FISCAL PERIOD ENDED DECEMBER 31, 2020 AND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

|  | <u>December 31, 2020</u> | <u>June 30, 2020</u> |
|--|--------------------------|----------------------|
| <b>OPERATING REVENUES:</b>                               |                          |                      |
| Passenger fares  | \$ 24,745                | \$ 103,139           |
| Advertising and other income                             | -                        | 1,547                |
| Total Operating Revenues                                 | <u>24,745</u>            | <u>104,686</u>       |
| <b>OPERATING EXPENSES:</b>                               |                          |                      |
| Salaries and benefits                                    | 326,831                  | 715,951              |
| Maintenance and operation                                | 285,588                  | 624,799              |
| Administration and financial services                    | 51,285                   | 102,320              |
| Depreciation   | 86,210                   | 176,272              |
| Total Operating Expenses                                 | <u>749,914</u>           | <u>1,619,342</u>     |
| Operating Loss   | <u>(725,169)</u>         | <u>(1,514,656)</u>   |
| <b>NON-OPERATING REVENUES (EXPENSES):</b>                |                          |                      |
| Interest income  | 4,295                    | 16,596               |
| Transportation Development Act funds                     | 44,828                   | 701,649              |
| Low Carbon Transit Operations Program                    | 133,500                  | 304,571              |
| Fees and reimbursements from other governmental agencies | -                        | 45,953               |
| Federal grants   | 795,279                  | 1,107,859            |
| Gain on sale of assets                                   | 1,530                    | -                    |
| Planning expense   | (7,222)                  | (47,177)             |
| Total Non-Operating Revenues (Expenses)                  | <u>972,210</u>           | <u>2,129,451</u>     |
| <b>CAPITAL CONTRIBUTIONS:</b>                            |                          |                      |
| Federal capital grants                                   | <u>7,961</u>             | <u>35,558</u>        |
| Total Capital Contributions                              | <u>7,961</u>             | <u>35,558</u>        |
| Change in Net Position before Special Item               | 255,002                  | 650,353              |
| <b>SPECIAL ITEM</b>                                      |                          |                      |
| Loss from Dissolution                                    | <u>(2,423,998)</u>       | <u>-</u>             |
| Change in Net Position                                   | (2,168,996)              | 650,353              |
| Net Position, Beginning of Fiscal Year                   | <u>2,168,996</u>         | <u>1,518,643</u>     |
| Net Position, End of Fiscal Year                         | <u>\$ -</u>              | <u>\$ 2,168,996</u>  |

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

**SOUTH COUNTY TRANSIT  
PROPRIETARY FUND  
STATEMENTS OF CASH FLOWS  
FOR THE FISCAL PERIOD ENDED DECEMBER 31, 2020 AND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

|  | <u>December 31, 2020</u> | <u>June 30, 2020</u>     |
|--|--------------------------|--------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                         |                          |                          |
| Receipts from customers  | \$ 25,425                | \$ 108,136               |
| Payments to employees  | (349,791)                | (728,942)                |
| Payments to suppliers  | <u>(325,831)</u>         | <u>(1,009,697)</u>       |
| Net Cash Used by Operating Activities                                | <u>(650,197)</u>         | <u>(1,630,503)</u>       |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>     |                          |                          |
| Gain on capital assets   | 1,530                    | -                        |
| Capital grants received  | 7,961                    | 35,558                   |
| Disposal of operations   | <u>(1,929,848)</u>       | <u>-</u>                 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(1,920,357)</u>       | <u>35,558</u>            |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>              |                          |                          |
| Operating subsidies  | 1,623,910                | 1,576,192                |
| Fees, grants, and reimbursements received                            | -                        | 45,953                   |
| Settlement payments  | <u>(7,222)</u>           | <u>(47,177)</u>          |
| Net Cash Provided by Noncapital Financing Activities                 | <u>1,616,688</u>         | <u>1,574,968</u>         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                         |                          |                          |
| Interest income  | <u>4,295</u>             | <u>16,596</u>            |
| Net Cash Provided by Investing Activities                            | <u>4,295</u>             | <u>16,596</u>            |
| Net Decrease in Cash and Cash Equivalents                            | (949,571)                | (3,381)                  |
| Cash and Cash Equivalents, Beginning of Fiscal Year                  | <u>949,571</u>           | <u>952,952</u>           |
| Cash and Cash Equivalents, End of Fiscal Year                        | <u><u>\$ -</u></u>       | <u><u>\$ 949,571</u></u> |

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

**SOUTH COUNTY TRANSIT  
PROPRIETARY FUND  
STATEMENTS OF CASH FLOWS (Continued)  
FOR THE FISCAL PERIOD ENDED DECEMBER 31, 2020 AND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

|  | <u>December 31, 2020</u> | <u>June 30, 2020</u>  |
|--|--------------------------|-----------------------|
| <b>RECONCILIATION OF OPERATING LOSS TO NET<br/>CASH USED BY OPERATING ACTIVITIES</b> |                          |                       |
| Operating loss   | \$ (725,169)             | \$ (1,514,656)        |
| Adjustments to reconcile operating loss to net cash<br>used by                       |                          |                       |
| operating activities   |                          |                       |
| Depreciation expense   | 86,210                   | 176,272               |
| Change in operating assets and liabilities:  |                          |                       |
| Accounts receivable  | 680                      | 3,450                 |
| Prepaid items  | 3,198                    | 804                   |
| Deposits   | -                        | -                     |
| Accounts payable   | 7,844                    | (283,382)             |
| Accrued payroll  | (21,200)                 | (8,691)               |
| Compensated absences   | (1,760)                  | (4,300)               |
|  | <u>(1,760)</u>           | <u>(4,300)</u>        |
| Net Cash Used by Operating Activities  | <u>\$ (650,197)</u>      | <u>\$ (1,630,503)</u> |

**NONCASH CAPITAL AND RELATED FINANCING  
ACTIVITIES:**

Effective January 1, 2021, the Agency consolidated and transferred its operations to San Luis Obispo Regional Transit Authority (SLORTA). The Agency recognized a loss of \$2,423,998, reported as a special item on the Statement of Revenues, Expenses, and Changes in Net Position.

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

**SOUTH COUNTY TRANSIT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL PERIOD ENDED DECEMBER 31, 2020 AND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**NOTE 1 – REPORTING ENTITY**

South County Transit (the Agency) is a Joint Powers Agency created by a joint powers agreement among the Cities of Arroyo Grande, Grover Beach, and Pismo Beach and the County of San Luis Obispo (the County). The Agency's accounting and financial management affairs are maintained by San Luis Obispo Regional Transit Authority (SLORTA), as an agent of the Agency.

The purpose of the Agency is to operate a fixed route transit system within the southern part of San Luis Obispo County with services to the participating member communities.

Effective January 1, 2021, the Agency consolidated and transferred its operations to SLORTA. As of December 31, 2020, the Agency did not report any balance sheet items. Consolidation of the Agency's local-fixed route services into SLORTA has significant net financial benefits for the Agency. The principal benefit being that the consolidation would avoid a roughly \$70,000 annual penalty for failing to achieve the State of California 20% farebox recovery ratio requirement, and to realize cost efficiencies.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Agency 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 Agency distinguishes operating revenues and expenses result from non-operating items. Operating revenues and expenses generally result from providing transportation services. The principal operating revenues of the Agency 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 these definitions are reported as non-operating revenues and expenses.

- B. Fund Financial Statements – An enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Agency reported its enterprise fund as a major fund in the accompanying basic financial statements.

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

- C. Revenue Recognition – The Agency's primary source of revenues includes passenger fares, Low Carbon Transit Operations Program (LCTOP), Federal Grants, State Transit Assistance (STA) funds, and Transportation Development Act (TDA) allocations made to the participating members, but assigned by the members to this Agency for its sole use. The San Luis Obispo Council of Governments administers the STA and TDA funds, approves claims for such funds submitted by this Agency, and makes payments to the Agency based upon such claims.

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

- D. Cash and Investments – For purposes of the Statement of Cash Flows, cash and investments include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- E. Accounts Receivables – The Agency did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts, and accounts receivable are shown at full value.
- F. Capital Assets – Capital assets purchased by the Agency are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired. Capital assets are defined by the Agency as assets with initial, individual costs of more than \$1,000 and estimated useful life in excess of two years.
- G. Depreciation – Capital assets purchased by the Agency are depreciated over their estimated useful lives (ranging from 3-15 years) under the straight-line method of depreciation.
- H. Compensated Absences – Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the Agency.
- I. 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 and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted Net Position – This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."
- J. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

### **NOTE 3 – CASH AND INVESTMENTS**

On December 31, 2020, the Agency did not have any cash and investments. On June 30, 2020, the Agency had the following cash and investments on hand:

|                            | <u>June 30, 2020</u> |
|----------------------------|----------------------|
| Cash on hand and in banks  | \$ 44,171            |
| Investments                | <u>905,400</u>       |
| Total Cash and Investments | <u>\$ 949,571</u>    |

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

|   | <u>June 30, 2020</u> |
|---|----------------------|
| Cash and investments, Statement of Net Position | <u>\$ 949,571</u>    |
| Total Cash and Investments                      | <u>\$ 949,571</u>    |

#### **Investments Authorized by the California Government Code and the Agency's Investment Policy**

The table below identifies the investment types that are authorized for the Agency by the California Government Code (or the Agency's investment policy, where most restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, where most restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

| <u>Authorized Investment Type</u>   | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|-------------------------------------|-------------------------|--|---|
| U.S. Treasury Obligations           | 5 years                 | None                                   | None                                    |
| U.S. Agency Securities              | 5 years                 | 10%                                    | 5%                                      |
| Bankers' Acceptances                | 180 days                | 40%                                    | 30%                                     |
| Commercial Paper                    | 270 days                | 25%                                    | 10%                                     |
| Negotiable Certificates of Deposit  | 5 years                 | 30%                                    | None                                    |
| Repurchase Agreements               | 1 year                  | None                                   | None                                    |
| Reverse Repurchase Agreements       | 92 days                 | 20% of base value                      | None                                    |
| Medium-Term Notes                   | 5 years                 | 30%                                    | None                                    |
| Mutual Funds                        | N/A                     | 20%                                    | 10%                                     |
| Money Market Mutual Funds           | N/A                     | 20%                                    | 10%                                     |
| Mortgage Pass-Through Securities    | 5 years                 | 20%                                    | None                                    |
| Local Agency Investment Fund (LAIF) | N/A                     | None                                   | None                                    |
| County Investment Pool              | N/A                     | None                                   | None                                    |

#### **Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**NOTE 3 – CASH AND INVESTMENTS** (Continued)Disclosures Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the Agency's investments on June 30, 2020, (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table, that shows the distribution of the Agency's investments by maturity:

| June 30, 2020<br>Investment Type | Carrying Amount   | Remaining Maturity |              |              |                     |
|----------------------------------|-------------------|--------------------|--------------|--------------|---------------------|
|                                  |                   | 12 Months or Less  | 13-24 Months | 25-60 Months | More than 60 Months |
| County Investment Pool           | \$ 833,647        | \$ 833,647         | \$ -         | \$ -         | \$ -                |
| LAIF                             | 71,753            | 71,753             | -            | -            | -                   |
| Total                            | <u>\$ 905,400</u> | <u>\$ 905,400</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>         |

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 the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type at June 30, 2020.

| June 30, 2020<br>Investment Type | Carrying Amount   | Minimum Legal Rating | Exempt from Disclosure | Rating as of Fiscal Year End |             |                  |
|----------------------------------|-------------------|----------------------|------------------------|------------------------------|-------------|------------------|
|                                  |                   |                      |                        | AAA                          | AA          | Not Rated        |
| County Investment Pool           | \$ 833,647        | N/A                  | \$ -                   | \$ -                         | \$ -        | \$ 833,647       |
| LAIF                             | 71,753            | N/A                  | -                      | -                            | -           | 71,753           |
| Total                            | <u>\$ 905,400</u> |                      | <u>\$ -</u>            | <u>\$ -</u>                  | <u>\$ -</u> | <u>\$ 71,753</u> |

Concentration of Credit Risk

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

Custodial Credit Risk

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

### **NOTE 3 – CASH AND INVESTMENTS** (Continued)

#### **Custodial Credit Risk** (Continued)

The Agency may waive collateral requirements for deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as Cash held by the County).

#### **Investment in State Investment Pool**

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

#### **Fair Value Measurements**

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

**NOTE 4 – CAPITAL ASSETS**

Capital assets activity for the fiscal period ended December 31, 2020, and fiscal year ended June 30, 2020, was as follows:

|   | Balance<br>July 1, 2020 | Increases    | Decreases    | Balance<br>December 31, 2020 |
|---|-------------------------|--------------|--------------|------------------------------|
| Capital Assets Being Depreciated:           |                         |              |              |                              |
| Buildings and improvements                  | \$ 152,006              | \$ -         | \$ (152,006) | \$ -                         |
| Vehicles and equipment                      | 2,347,183               | -            | (2,347,183)  | -                            |
| Total Capital Assets Being Depreciated      | 2,499,189               | -            | (2,499,189)  | -                            |
| Less Accumulated Depreciation For:          |                         |              |              |                              |
| Buildings and improvements                  | 150,897                 | 3,542        | (154,439)    | -                            |
| Vehicles and equipment                      | 1,507,534               | 82,668       | (1,590,202)  | -                            |
| Total Accumulated Depreciation              | 1,658,431               | 86,210       | (1,744,641)  | -                            |
| Total Capital Assets Being Depreciated, Net | \$ 840,758              | \$ (86,210)  | \$ (754,548) | \$ -                         |
|   | Balance<br>July 1, 2019 | Increases    | Decreases    | Balance<br>June 30, 2020     |
| Capital Assets Being Depreciated:           |                         |              |              |                              |
| Buildings and improvements                  | \$ 152,006              | \$ -         | \$ -         | \$ 152,006                   |
| Vehicles and equipment                      | 2,650,914               | -            | (303,731)    | 2,347,183                    |
| Total Capital Assets Being Depreciated      | 2,802,920               | -            | (303,731)    | 2,499,189                    |
| Less Accumulated Depreciation For:          |                         |              |              |                              |
| Buildings and improvements                  | 149,873                 | 1,024        | -            | 150,897                      |
| Vehicles and equipment                      | 1,636,017               | 175,248      | (303,731)    | 1,507,534                    |
| Total Accumulated Depreciation              | 1,785,890               | 176,272      | (303,731)    | 1,658,431                    |
| Total Capital Assets Being Depreciated, Net | \$ 1,017,030            | \$ (176,272) | \$ -         | \$ 840,758                   |

Depreciation expense for the fiscal period ended December 31, 2020, was \$86,210. Depreciation expense for the fiscal year ended June 30, 2020, was \$176,272.

**NOTE 5 – OPERATING SUBSIDIES FROM LOCAL TRANSPORTATION AND STATE TRANSIT ASSISTANCE FUNDS**

The Agency was allocated the following funds from the Local Transportation Fund (LTF) and STA Fund for the fiscal period ended December 31, 2020, and fiscal year ended June 30, 2020:

| Allocation Assigned By/Claimant | Article/Section | Amount            |               |
|---------------------------------|-----------------|-------------------|---------------|
|                                 |                 | December 31, 2020 | June 30, 2020 |
| Local Transportation Fund:      |                 |                   |               |
| City of Arroyo Grande           | 4/99260(a)      | \$ -              | \$ 172,087    |
| City of Grover Beach            | 4/99260(a)      | -                 | 130,549       |
| City of Pismo Beach             | 4/99260(a)      | -                 | 78,968        |
| County of San Luis Obispo       | 4/99260(a)      | -                 | 74,860        |
| Total Article 4 - LTF           |                 | -                 | 456,464       |
| STA Fund:                       |                 |                   |               |
| Regional Transit Authority      | 6.5/99313       | 40,637            | 230,000       |
| Regional Transit Authority      | 6.5/99314       | 4,191             | 15,185        |
| Total Article 6.5 - STA Fund    |                 | 44,828            | 245,185       |
| Total TDA Revenue               |                 | \$ 44,828         | \$ 701,649    |

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

|  | December 31, 2020 | June 30, 2020 |
|--|-------------------|---------------|
| Operating expenses                             | \$ 749,914        | \$ 1,619,342  |
| Plus/(minus)                                   |                   |               |
| Depreciation                                   | (86,210)          | (176,272)     |
| Fare revenues                                  | (24,745)          | (103,139)     |
| Other operating revenues                       | -                 | (1,547)       |
| Maximum total allocation amount                | 638,959           | 1,338,384     |
| TDA operating allocations received and accrued | 44,828            | 701,649       |
| Allocation over/(under) maximum                | \$ (594,131)      | \$ (636,735)  |

**NOTE 6 – FARE REVENUE RATIO**

The Agency had fare revenue ratios for the fiscal period ended December 31, 2020, and fiscal year ended June 30, 2020, as computed as follows:

|   | <u>December 31, 2020</u> | <u>June 30, 2020</u> |
|---|--------------------------|----------------------|
| (a) Operating fare revenues                 | \$ 24,745                | \$ 104,686           |
| (b) Operating expenses, net of depreciation | <u>663,704</u>           | <u>1,443,070</u>     |
| (c) Fare revenue ratio [(a)/(b)]            | 3.73%                    | 7.25%                |
| Minimum ratio required                      | <u>20.00%</u>            | <u>20.00%</u>        |
| Under minimum ratio requirement             | <u>N/A</u>               | <u>N/A</u>           |

Due to COVID-19, the compliance requirement for the farebox recovery ratio was waived for the fiscal period ended December 31, 2020, and fiscal year ended June 30, 2020.

**NOTE 7 – LONG-TERM DEBT – COMPENSATED ABSENCES**

|                      | <u>Balance<br/>July 1, 2020</u> | <u>Increases</u> | <u>Decreases</u>   | <u>Balance<br/>December 31, 2020</u> |
|----------------------|---------------------------------|------------------|--------------------|--------------------------------------|
| Compensated absences | <u>\$ 2,878</u>                 | <u>\$ 8,241</u>  | <u>\$ (11,119)</u> | <u>\$ -</u>                          |

|                      | <u>Balance<br/>July 1, 2019</u> | <u>Increases</u> | <u>Decreases</u>   | <u>Balance<br/>June 30, 2020</u> |
|----------------------|---------------------------------|------------------|--------------------|----------------------------------|
| Compensated absences | <u>\$ 7,178</u>                 | <u>\$ 14,788</u> | <u>\$ (19,088)</u> | <u>\$ 2,878</u>                  |

**NOTE 8 – UNEARNED REVENUE**

Unearned revenue at December 31, 2020, and June 30, 2020, consisted of the following:

|                         | <u>December 31, 2020</u> | <u>June 30, 2020</u> |
|-------------------------|--------------------------|----------------------|
| Bus pass sales          | \$ -                     | \$ 11,452            |
| Interest                | -                        | 7,710                |
| LCTOP funding           | <u>-</u>                 | <u>211,698</u>       |
| Total Unearned Revenues | <u>\$ -</u>              | <u>\$ 230,860</u>    |

**NOTE 9 – INSURANCE**

The Agency is exposed to various risks of loss related to torts; theft, damage to, or destruction of an asset; and errors or omissions. The Agency maintains comprehensive general liability including automobile insurance of \$25 million for buses, vans, equipment, and facilities. The Agency also purchases commercial Special Liability Insurance and Special District Property Insurance with limits of \$10 million per occurrence and \$100 million annual aggregate.

#### **NOTE 10 – LCTOP**

LCTOP is one of several programs that are part of the Transit, Affordable Housing, and Sustainable Communities Program established by the California Legislature in 2014 by Senate Bill 862. LCTOP was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emission and improve mobility, with a priority on serving disadvantaged communities. Approved projects in LCTOP will support new or expanded bus or rail services; expand intermodal transit facilities; and may include equipment acquisition, fueling, maintenance, and other costs to operate those services or facilities, with each project reducing greenhouse gas emissions. For agencies whose service area includes disadvantaged communities, at least 50 percent of the total moneys received shall be expended on projects that will benefit disadvantaged communities. Senate Bill 862 continuously appropriates five percent of the annual auction proceeds in the Greenhouse Gas Reduction Fund (Fund) for LCTOP, beginning in fiscal year 2015-16.

Interest earned on funds were \$7,594 and \$12,647 as of the fiscal period ended December 31, 2020, and fiscal year ended June 30, 2020, respectively. The Agency had qualifying expenditures incurred under this program from previous allocations totaling \$133,500 and \$304,571, as of the fiscal period ended December 31, 2020, and fiscal year ended June 30, 2020, respectively, which were used for operating expenses for the new routes 27 and 28 service and are included in State operating grants in the accompanying financial statements.

#### **NOTE 11 – SUBSEQUENT EVENTS**

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.

Effective January 1, 2021, the Agency consolidated and transferred its operations to SLORTA.

Subsequent events have been evaluated through June 16, 2021, the date these financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

**SOUTH COUNTY TRANSIT  
PROPRIETARY FUND  
SCHEDULE OF EXPENSES – BUDGET AND ACTUAL  
FOR THE FISCAL PERIOD ENDED DECEMBER 31, 2020**

|   | <u>Adopted Budget</u> | <u>Actual Amounts</u> | <u>Variance with<br/>Final Budget</u> |
|---|-----------------------|-----------------------|---------------------------------------|
| <b>Administration:</b>                                      |                       |                       |                                       |
| Insurance   |                       |                       |                                       |
| Liability and Physical Damages                              | \$ 123,310            | \$ 56,108             | \$ 67,202                             |
| Workers Compensation  | 70,710                | 31,614                | 39,096                                |
| Property Insurance  | 880                   | 947                   | (67)                                  |
| Rent  | 31,060                | 15,300                | 15,760                                |
| Utilities   | 11,590                | 7,255                 | 4,335                                 |
| Radio Expense   | 1,360                 | 680                   | 680                                   |
| Legal Services  | 1,590                 | -                     | 1,590                                 |
| Payroll Processing  | 690                   | 334                   | 356                                   |
| Administration - Staff Time                                 | 82,390                | 41,195                | 41,195                                |
| Finance   | 14,560                | 7,280                 | 7,280                                 |
| Marketing   | 5,620                 | 2,810                 | 2,810                                 |
| Office Expense/Miscellaneous                                | 4,580                 | 933                   | 3,647                                 |
| Audit   | 11,420                | 8,320                 | 3,100                                 |
| Marketing/Community Relations/Printing                      | 17,180                | 2,646                 | 14,534                                |
| Uniforms/Laundry/Physicals/Ads                              | 10,040                | 3,423                 | 6,617                                 |
| <b>Operating Expenses</b>                                   |                       |                       |                                       |
| Salaries/Benefits   | 647,050               | 256,666               | 390,384                               |
| Salaries/Benefits - Road Supervision                        | 140,330               | 70,165                | 70,165                                |
| Maintenance   | 250,940               | 84,512                | 166,428                               |
| Dispatch  | 24,090                | 12,045                | 12,045                                |
| SoCo Bus Fuel   | 191,190               | 61,471                | 129,719                               |
| Contingency   | 16,370                | -                     | 16,370                                |
| <b>Total Administration and<br/>Operating Expenses</b>      | <u>1,656,950</u>      | <u>663,704</u>        | <u>993,246</u>                        |
| <b>Capital Outlay and Non-Operating Expenses</b>            |                       |                       |                                       |
| Short Range Transit Plan                                    | -                     | 7,222                 | (7,222)                               |
| Support Vehicle   | 50,000                | -                     | 50,000                                |
| Facility Improvements/Bus Stop Amenities                    | 47,860                | -                     | 47,860                                |
| Computer Upgrades   | 1,500                 | -                     | 1,500                                 |
| Vehicles/ITS  | 631,750               | -                     | 631,750                               |
| <b>Total Capital Outlay and Non-<br/>Operating Expenses</b> | <u>731,110</u>        | <u>7,222</u>          | <u>723,888</u>                        |
| <b>Total Expenses, Budgetary Basis</b>                      | <u>\$ 2,388,060</u>   | <u>\$ 670,926</u>     | <u>\$ 1,717,134</u>                   |
| <b>TOTAL EXPENSES, BUDGETARY BASIS</b>                      |                       | \$ 670,926            |                                       |
| <b>ADD:</b>   |                       |                       |                                       |
| DEPRECIATION  |                       | 86,210                |                                       |
| <b>LESS:</b>  |                       |                       |                                       |
| CAPITALIZED EXPENSES  |                       | <u>(7,222)</u>        |                                       |
| <b>TOTAL EXPENSES PER FINANCIAL STATEMENTS</b>              |                       | <u>\$ 749,914</u>     |                                       |

**SOUTH COUNTY TRANSIT  
PROPRIETARY FUND  
SCHEDULE OF EXPENSES – BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

|   | <u>Adopted Budget</u> | <u>Actual Amounts</u> | <u>Variance with<br/>Final Budget</u> |
|---|-----------------------|-----------------------|---------------------------------------|
| <b>Administration:</b>                                      |                       |                       |                                       |
| Insurance   |                       |                       |                                       |
| Liability and Physical Damages                              | \$ 118,990            | \$ 115,134            | \$ 3,856                              |
| Workers Compensation  | 59,710                | 56,864                | 2,846                                 |
| Property Insurance  | 740                   | 735                   | 5                                     |
| Rent  | 30,600                | 30,600                | -                                     |
| Utilities   | 11,270                | 12,924                | (1,654)                               |
| Radio Expense   | 1,240                 | 1,329                 | (89)                                  |
| Legal Services  | 1,590                 | 550                   | 1,040                                 |
| Payroll Processing  | 450                   | 476                   | (26)                                  |
| Administration - Staff Time                                 | 82,190                | 82,190                | -                                     |
| Finance   | 14,520                | 14,520                | -                                     |
| Marketing   | 5,610                 | 5,610                 | -                                     |
| Office Expense/Miscellaneous                                | 6,450                 | 4,352                 | 2,098                                 |
| Audit   | 3,380                 | 6,630                 | (3,250)                               |
| Marketing/Community Relations/Printing                      | 16,050                | 8,763                 | 7,287                                 |
| Uniforms/Laundry/Physicals/Ads                              | 8,270                 | 8,069                 | 201                                   |
| <b>Operating Expenses</b>                                   |                       |                       |                                       |
| Salaries/Benefits   | 586,200               | 592,061               | (5,861)                               |
| Salaries/Benefits - Road Supervision                        | 123,890               | 123,890               | -                                     |
| Maintenance   | 211,530               | 185,775               | 25,755                                |
| Dispatch  | 24,030                | 24,030                | -                                     |
| SoCo Bus Fuel   | 191,310               | 168,568               | 22,742                                |
| Contingency   | 14,980                | -                     | 14,980                                |
| <b>Total Administration and<br/>Operating Expenses</b>      | <u>1,513,000</u>      | <u>1,443,070</u>      | <u>69,930</u>                         |
| <b>Capital Outlay and Non-Operating Expenses</b>            |                       |                       |                                       |
| Support Vehicle   | 33,000                | -                     | 33,000                                |
| Short Range Transit Plan                                    | 54,265                | 47,177                | 7,088                                 |
| Facility Improvements/Bus Stop Amenities                    | 89,000                | -                     | 89,000                                |
| Transit Center Improvements                                 | 93,750                | -                     | 93,750                                |
| <b>Total Capital Outlay and Non-<br/>Operating Expenses</b> | <u>270,015</u>        | <u>47,177</u>         | <u>222,838</u>                        |
| <b>Total Expenses, Budgetary Basis</b>                      | <u>\$ 1,783,015</u>   | <u>\$ 1,490,247</u>   | <u>\$ 292,768</u>                     |
| <b>TOTAL EXPENSES, BUDGETARY BASIS</b>                      |                       | \$ 1,490,247          |                                       |
| <b>ADD:</b>   |                       |                       |                                       |
| <b>DEPRECIATION</b>   |                       | <u>176,272</u>        |                                       |
| <b>TOTAL EXPENSES PER FINANCIAL STATEMENTS</b>              |                       | <u>\$ 1,666,519</u>   |                                       |

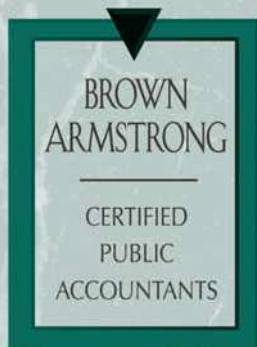
**SOUTH COUNTY TRANSIT  
COMPLIANCE REPORTS  
FOR THE PERIOD ENDED  
DECEMBER 31, 2020**

# **SOUTH COUNTY TRANSIT**

**DECEMBER 31, 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  
South County Transit  
San Luis Obispo, California

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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 South County Transit (the Agency), as of and for the period ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated June 16, 2021.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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 Agency'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*.

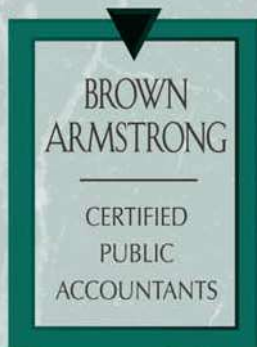
## **Purpose of this Report**

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 Agency'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 Agency's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

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

Bakersfield, California  
June 16, 2021



# BROWN ARMSTRONG

*Certified Public Accountants*

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

Board of Directors  
South County Transit  
San Luis Obispo, California

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

We have audited the South County Transit's (the Agency) 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 Agency's major federal programs for the period ended December 31, 2020. The Agency'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 Agency'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 Agency'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 Agency's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Agency 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 period ended December 31, 2020.

## Report on Internal Control over Compliance

Management of the Agency 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 Agency'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 Agency'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.

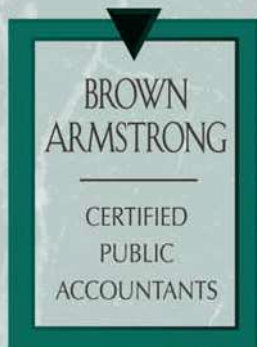
## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Agency as of and for the period ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements. We issued our report thereon dated June 16, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

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

Bakersfield, California  
June 16, 2021



# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Directors  
South County Transit  
San Luis Obispo, California

### Report on Compliance with Transportation Development Act Requirements

We have audited the South County Transit's (the Agency) compliance with Transportation Development Act (TDA) requirements that funds allocated to and received by the Agency were expended in conformance with applicable statutes, rules, and regulations of the TDA and the allocation instructions and resolutions of the San Luis Obispo Council 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 period ended December 31, 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 Agency'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 99313.3 for operators receiving funds under Article 6.5,
- 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 period, the amount of fare revenues required to meet the ratios specified in Sections 6633.2 and 6633.5, and the amount of the sum of fare revenues and local support required to meet the ratios specified in the Section 6633.2,

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- g) Verify the amount of the claimant's actual fare revenues for the fiscal period,
- h) Verify the amount of the claimant's actual local support for the fiscal period,
- i) Verify the amount the claimant was eligible to receive under the TDA during the fiscal period 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 Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

### **Opinion on Transportation Development Act Compliance**

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable to the Agency for the period ended December 31, 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.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
June 16, 2021

## **FINANCIAL STATEMENTS**

**SOUTH COUNTY TRANSIT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE PERIOD ENDED DECEMBER 31, 2020**

| Federal Grantor / Pass-Through Grantor /<br>Program or Cluster Title         | Federal<br>CFDA<br>Number | Identifying<br>Number | Total<br>Federal<br>Expenditures |
|--|---------------------------|-----------------------|----------------------------------|
| <b>U.S. Department of Transportation/<br/>Federal Transit Administration</b> |                           |                       |                                  |
| <b>Federal Transit Cluster</b>   |                           |                       |                                  |
| Operating Grants:  |                           |                       |                                  |
| CARES FTA Section 5307   | 20.507                    | CA-2020-116           | \$ 496,754                       |
| FTA Section 5307 (Operating Assistance)                                      | 20.507                    | CA-2020-283           | 298,525                          |
| Capital Grants:  |                           |                       |                                  |
| FTA Section 5307 (SCT SRTP)  | 20.507                    | CA-2018-041           | 7,961                            |
| Total Federal Transit Cluster  |                           |                       | 803,240                          |
| <b>Total Federal Transit Administration</b>                                  |                           |                       | 803,240                          |
| <b>Total Expenditures of Federal Awards</b>                                  |                           |                       | \$ 803,240                       |

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

**SOUTH COUNTY TRANSIT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE PERIOD ENDED DECEMBER 31, 2020**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all Federal award programs of the South County Transit (the Agency). 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**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as a reimbursement.

**NOTE 3 – INDIRECT COST RATE**

The Agency has not elected to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

**NOTE 4 – RELATIONSHIP TO FINANCIAL STATEMENTS**

Federal award monies are reported in the Agency's financial statements as revenues from Federal grants.

## **FINDINGS AND QUESTIONED COSTS SECTION**

**SOUTH COUNTY TRANSIT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE PERIOD ENDED DECEMBER 31, 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 ☒ No

Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

**Federal Awards**

Internal control over major federal programs:

Material weakness identified? ☐ Yes ☒ No

Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☒ 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 ☒ No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Clusters

20.507

Federal Transit Cluster  
Formula Grants

Dollar threshold used to distinguish Type A and B programs: \$750,000

Auditee qualified as low risk auditee? ☒ Yes ☐ No

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

None.

**III. Federal Award Findings and Questioned Costs**

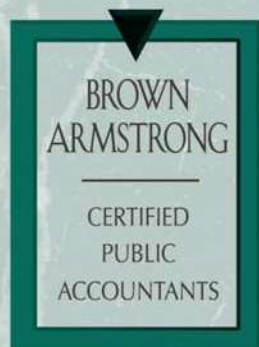
None.

**IV. State Award Findings and Questioned Costs**

None.

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

None.



## BROWN ARMSTRONG

*Certified Public Accountants*

Board of Directors  
South County Transit  
San Luis Obispo, California

We have audited the financial statements of South County Transit (the Agency) as of and for the period ended December 31, 2020. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, 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 13, 2021. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Matters**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency 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 the period ended December 31, 2020. We noted no transactions entered into by the Agency during the period 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. There were no sensitive estimates affecting the Agency's 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. Management has corrected all such misstatements. The attached material misstatements detected as a result of audit procedures were corrected by management.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

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### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 16, 2021.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency'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 Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Other Matters**

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

### **Restriction on Use**

This information is intended solely for the information and use of the Board of Directors and management of the Agency 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  
June 16, 2021