**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY**

FINANCIAL STATEMENTS

June 30, 2017

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**SUPPLEMENTARY INFORMATION SECTION**

# FINANCIAL SECTION

Moss, Levy & Hartzheim LLP
Certified Public Accountants

## INDEPENDENT AUDITORS' 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 of San Luis Obispo Regional Transit Authority (Agency) as of and for the fiscal year ended June 30, 2017, and the related notes to the 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity'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 entity'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 opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Luis Obispo Regional Transit Authority, as of June 30, 2017, 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 Funding Progress for Post Employment Benefits Other than Pensions on page 21, the Schedule of Proportionate Share of Net Pension Liability on page 22, and the Schedule of Pension Contributions on page 23 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.


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*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the San Luis Obispo Regional Transit 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 budgetary comparison schedule is the responsibility of management and was 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 budgetary comparison schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Report on Summarized Comparative Information*

We have previously audited the San Luis Obispo Regional Transit Authority 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2016, is consistent in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2017, on our consideration of the San Luis Obispo Regional Transit 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 Agency's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim LLP

December 11, 2017
Santa Maria, California

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY**
STATEMENT OF NET POSITION
JUNE 30, 2017
As of June 30, 2017

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and investments | $ 2,445,281 | $ 3,186,202 |
| Accounts receivable | 170,260 | 249,505 |
| Intergovernmental receivables | 101,030 | 230,417 |
| Grants receivable | 2,531,238 | 2,167,022 |
| Prepaid items | 56,329 | 42,878 |
| Inventory at cost | 227,491 | 207,353 |
| Total current assets | 5,531,629 | 6,083,377 |
| Capital assets: | | |
| Nondepreciable: | | |
| Land | 1,512,602 | 1,512,602 |
| Construction in progress | 286,651 | 20,093 |
| Depreciable: | | |
| Buildings and improvements | 4,754,698 | 4,754,698 |
| Equipment and vehicles | 16,812,810 | 17,248,606 |
| Less accumulated depreciation | (10,184,552) | (9,997,987) |
| Total net capital assets | 13,182,209 | 13,538,012 |
| Total assets | 18,713,838 | 19,621,389 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred pensions | 375,085 | 153,557 |
| Total deferred outflows of resources | 375,085 | 153,557 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | 185,581 | 237,675 |
| Accrued payroll | 178,142 | 147,189 |
| Unearned revenue | 3,990,863 | 4,325,762 |
| Customer deposits | 27,703 | 27,703 |
| Loan payable | 200,596 | 200,596 |
| Total current liabilities | 4,582,885 | 4,938,925 |
| Noncurrent liabilities: | | |
| Compensated absences | 161,601 | 162,889 |
| CalPERS side-fund | | |
| Other post-employment benefits | 29,521 | 19,025 |
| Net pension liability | 543,863 | 414,886 |
| Loan payable | 212,302 | 412,898 |
| Total noncurrent liabilities | 947,287 | 1,009,698 |
| Total liabilities | 5,530,172 | 5,948,623 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred pensions | 39,083 | 114,952 |
| Total deferred inflows of resources | 39,083 | 114,952 |
| **NET POSITION** | | |
| Net investment in capital assets | 12,769,311 | 12,924,518 |
| Unrestricted | 750,357 | 786,853 |
| Total net position | $ 13,519,668 | $ 13,711,371 |

The notes to 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, 2017
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | 2017 | 2016 |
|---|---|---|
| **Operating Revenues:** | | |
| Passenger fares | $ 1,324,772 | $ 1,422,568 |
| Other operating revenue | 22,200 | 43,264 |
| Total operating revenues | 1,346,972 | 1,465,832 |
| **Operating Expenses:** | | |
| Transit operating expenses | 7,415,139 | 6,958,862 |
| Administration and financial services | 1,605,972 | 1,550,345 |
| Depreciation | 1,873,538 | 1,874,939 |
| Total operating expenses | 10,894,649 | 10,384,146 |
| Operating loss | (9,547,677) | (8,918,314) |
| **Non-Operating Revenues (Expenses):** | | |
| Transportation Development Act funds | 4,553,619 | 4,078,115 |
| Federal and State grants | 3,151,480 | 3,007,851 |
| Interest income | 11,287 | 9,864 |
| Fees and reimbursements from other governmental agencies | 114,900 | 79,830 |
| Gain/(loss) on disposal of capital assets | 14,008 | (24,248) |
| Environmental planning | | (18,320) |
| Interest expense | (30,960) | (42,592) |
| Total non-operating revenues (expenses) | 7,814,334 | 7,090,500 |
| **Capital Contributions:** | | |
| Federal capital grants | 658,615 | 441,777 |
| State capital grants | 819,373 | 374,703 |
| Local capital grants | 63,652 | 403,011 |
| Total capital contributions | 1,541,640 | 1,219,491 |
| Change in net position | (191,703) | (608,323) |
| Net position, beginning of fiscal year | 13,711,371 | 14,319,694 |
| Net position, end of fiscal year | $ 13,519,668 | $ 13,711,371 |

The notes to 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, 2017
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | 2017 | 2016 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Receipts from customers | $ 1,426,217 | $ 1,327,139 |
| Payments to suppliers and wages | (9,229,508) | (8,641,438) |
| Net cash used by operating activities | (7,803,291) | (7,314,299) |
| **Cash Flows From Capital and Related Financing Activities:** | | |
| Acquisition and construction of property, plant, and equipment | (1,541,640) | (1,219,491) |
| Principal paid - loan payable | (200,596) | (200,596) |
| Interest expense | (30,960) | (42,592) |
| Environmental planning | | (18,320) |
| Capital grants received | 1,541,640 | 1,219,491 |
| Sale of capital assets | 37,913 | |
| Net cash used by capital and related financing activities | (193,643) | (261,508) |
| **Cash Flows from Noncapital Financing Activities:** | | |
| Grants received | 7,129,826 | 7,329,456 |
| Fees and reimbursements | 114,900 | 79,830 |
| Net cash provided by noncapital financing activities | 7,244,726 | 7,409,286 |
| **Cash Flows From Investing Activities:** | | |
| Interest income | 11,287 | 9,864 |
| Net cash provided by investing activities | 11,287 | 9,864 |
| Net (decrease) in cash and cash equivalents | (740,921) | (156,657) |
| Cash and cash equivalents, beginning of fiscal year | 3,186,202 | 3,342,859 |
| Cash and cash equivalents, end of fiscal year | $ 2,445,281 | $ 3,186,202 |

The notes to 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, 2017
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | 2017 | 2016 |
|---|---|---|
| **Reconciliation of operating loss to net cash used by operating activities:** | | |
| Operating loss | $ (9,547,677) | $ (8,918,314) |
| Adjustments to reconcile operating loss to net cash used by operating activities | | |
| Depreciation expense | 1,873,538 | 1,874,939 |
| Change in operating assets, deferred outflows, liabilities, and deferred inflows: | | |
| Accounts receivable | 79,245 | (138,693) |
| Prepaid items | (13,451) | 59,037 |
| Inventory | (20,138) | (7,125) |
| Deferred outflows | (221,528) | (79,143) |
| Accounts payable | (52,094) | (196,373) |
| Accrued payroll | 30,953 | 30,088 |
| Unearned revenue | 5,545 | 46,508 |
| Other post-employment benefits | 10,496 | 9,767 |
| Net pension liability | 128,977 | (10,951) |
| Compensated absences | (1,288) | 7,971 |
| Deferred Inflows | (75,869) | 7,990 |
| Net cash used by operating activities | $ (7,803,291) | $ (7,314,299) |

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

**NOTE 1 – REPORTING ENTITY**

San Luis Obispo Regional Transit Authority (the Agency) is a Joint Powers Agency 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 purpose of the Agency 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 Agency also owns, operates, and administers a countywide public demand responsive transportation system that is fully accessible for disabled riders. On August 1, 2009, the Agency began in-house vehicle operations and maintenance. Prior to August 1, 2009, a private transportation company provided these services.

The Agency 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**

A. Accounting Policies - The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants (AICPA).

B. Accounting Method - The Agency follows the accrual method of accounting, whereby revenues are recorded as earned, and expenses are recorded when incurred regardless of the timing of related cash flows.

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 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.

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

F. Property, Plant, and Equipment – 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. Revenue Recognition - The Agency'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 Agency 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 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 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 Agency recognizes as revenues the amounts allocated and approved to it by San Luis Obispo Council of Governments.

J. Net Position - GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

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

K. Use of Estimates -The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, 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.

L. 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 San Luis Obispo Regional Transit 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.

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 District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualify for reporting in this category; refer to Note 13 for a detailed listing of the deferred outflows of resources the District has reported.

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 District that is applicable to a future reporting period. The District has one item which qualify for reporting in this category; refer to Note 13 for a detailed listing of the deferred inflows of resources the District 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 Agency'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. Future Accounting Pronouncements

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

| | | |
|---|---|---|
| Statement No. 75 | "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" | The provisions of this statement are effective for fiscal years beginning after June 15, 2017. |
| Statement No. 81 | "Irrevocable Split-Interest Agreements" | The provisions of this statement are effective for fiscal years beginning after December 15, 2016. |
| Statement No. 82 | "Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73" | The provisions of this statement are effective for fiscal years beginning after June 15, 2017. |
| Statement No. 83 | "Certain Asset Retirement Obligations" | The provisions of this statement are effective for fiscal years beginning after June 15, 2018. |
| Statement No. 84 | "Fiduciary Activities" | The provisions of this statement are effective for fiscal years beginning after December 15, 2018. |
| Statement No. 85 | "Omnibus 2017" | The provisions of this statement are effective for fiscal years beginning after June 15, 2017. |

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

O. Future Accounting Pronouncements (continued)

| | | |
|---|---|---|
| Statement No. 86 | "Certain Debt Extinguishment Issues" | The provisions of this statement are effective for fiscal years beginning after June 15, 2017. |
| Statement No, 87 | "Leases" | The provisions of this statement are effective for fiscal years beginning after December 15, 2019. |

**NOTE 3 - CASH AND INVESTMENTS**

On June 30, 2017 the Agency had the following cash and investments on hand:

| | |
|---|---|
| Cash on hand and in banks | $ 642,817 |
| Investments | 1,802,464 |
| Total cash and investments | $ 2,445,281 |

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

| | |
|---|---|
| Cash and investments, statement of net position | $ 2,445,281 |

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Agency's investments are in the San Luis Obispo Investment Pool which is an external investment pool which is not valued under level 1, 2 or 3.

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the Agency by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

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

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

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.

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

| | | Remaining Maturity (in Months) | | | |
|---|---|---|---|---|---|
| Investment Type | Carrying Amount | 12 Months or Less | 13-24 Months | 25-60 Months | More than 60 Months |
| San Luis Obispo County Investment Pool | $ 1,802,464 | $ 1,802,464 | $ - | $ - | $ - |
| Total | $ 1,802,464 | $ 1,802,464 | $ - | $ - | $ - |

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 on the following page 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.

| | | | | Rating as of Fiscal Year End | | |
|---|---|---|---|---|---|---|
| Investment Type | Carrying Amount | Minimum Legal Rating | Exempt from Disclosure | AAA | AA | Not Rated |
| San Luis Obispo County Investment Pool | $ 1,802,464 | N/A | $ - | $ - | $ - | $ 1,802,464 |
| Total | $ 1,802,464 | | $ - | $ - | $ - | $ 1,802,464 |

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 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.

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 San Luis Obispo County).

## NOTE 4 – CAPITAL ASSETS

| | Balance July 1, 2016 | Increases | Decreases | Balance June 30, 2017 |
|---|---|---|---|---|
| Capital assets, not being depreciated | | | | |
| Land | $ 1,512,602 | $ - | $ - | $ 1,512,602 |
| Construction in progress | 20,093 | 266,558 | | 286,651 |
| Total capital assets, not being depreciated | $ 1,532,695 | $ 266,558 | $ - | $ 1,799,253 |
| Capital assets, being depreciated | | | | |
| Building and improvements | $ 4,754,698 | $ - | $ - | $ 4,754,698 |
| Vehicles and equipment | 17,248,606 | 1,275,082 | 1,710,878 | 16,812,810 |
| Total capital assets, being depreciated | 22,003,304 | 1,275,082 | 1,710,878 | 21,567,508 |
| Less accumulated depreciation for: | | | | |
| Building, improvements, vehicles and equipment | 9,997,987 | 1,873,538 | 1,686,973 | 10,184,552 |
| Total accumulated depreciation | 9,997,987 | 1,873,538 | 1,686,973 | 10,184,552 |
| Total capital assets, being depreciated, net | $ 12,005,317 | $ (598,456) | $ 23,905 | $ 11,382,956 |
| Governmental activities, capital assets, net | $ 13,538,012 | $ (331,898) | $ 23,905 | $ 13,182,209 |

Depreciation expense for the fiscal year ended June 30, 2017, was $1,873,538. The depreciation expense for the fiscal year ended June 30, 2016, was $1,874,939.

## NOTE 5 – UNEARNED REVENUE

| | 2017 | 2016 |
|---|---|---|
| TDA Local Transportation Funds | $ 2,807,942 | $ 3,246,928 |
| 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 | 38,688 | 38,688 |
| 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. | 234,171 | 228,626 |
| Prop 1B funding | 642,783 | 811,520 |
| Low Carbon Transit Operator Program | 267,279 | |
| Total unearned revenues | $ 3,990,863 | $ 4,325,762 |

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

The County was allocated the following funds from the Local Transportation Fund (LTF) and State Transit Assistance Fund for the fiscal years ended June 30, 2017 and 2016:

| Allocation Assigned By/Claimant | Article/ Section | Amount 2017 | Amount 2016 |
|---|---|---|---|
| Local Transportation Fund: | | | |
| City of Arroyo Grande | 4 / 99260(a) | $ 172,127 | $ 165,515 |
| City of San Luis Obispo | 4 / 99260(a) | 583,204 | 560,478 |
| County of San Luis Obispo | 4 / 99260(a) | 1,587,610 | 1,525,744 |
| City of Grover Beach | 4 / 99260(a) | 129,816 | 125,593 |
| City of Morro Bay | 4 / 99260(a) | 101,569 | 98,121 |
| City of Atascadero | 4 / 99260(a) | 288,087 | 273,806 |
| City of El Paso de Robles | 4 / 99260(a) | 875,080 | 894,056 |
| City of Pismo Beach | 4 / 99260(a) | 76,157 | 73,572 |
| Total LTF | | 3,813,650 | 3,716,885 |
| State Transit Fund: | | | |
| Regional Transit Authority | 6.5 / 99313 | 462,686 | 589,089 |
| Regional Transit Authority | 6.5 / 99314 | 56,009 | 66,089 |
| Total STF | | 518,695 | 655,178 |
| Subtotal | | 4,332,345 | 4,372,063 |
| Add: Recognition of prior fiscal year unearned revenues | | 3,246,928 | 3,127,491 |
| Less: Current fiscal year unearned revenues | | (2,807,942) | (3,246,928) |
| Total TDA Allocation | | $ 4,771,331 | $ 4,252,626 |

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:

| | 2017 | 2016 |
|---|---|---|
| Operating and interest expenses | $ 10,925,609 | $ 10,426,738 |
| Add: | | |
| Capital purchases with LTF and STF | 217,712 | 174,510 |
| Less: | | |
| Depreciation | (1,873,538) | (1,874,939) |
| Fare revenues | (1,324,772) | (1,422,568) |
| Special events and other revenues | (22,200) | (43,264) |
| Federal and state operating grants | (3,151,480) | (3,007,851) |
| Maximum total allocation amount | 4,771,331 | 4,252,626 |
| TDA allocations received and accrued | 4,332,345 | 4,372,063 |
| Change in TDA transit allocations in unearned revenues | 438,986 | (119,437) |
| Allocation over/(under) maximum | $ - | $ - |

**NOTE 7 – FARE REVENUE RATIO**

The Agency had fare revenue ratios for the fiscal year ended June 30, 2017 as computed as follows:

| | Fixed Route | Runabout | Paso Express | Paso Dial a Ride |
|---|---|---|---|---|
| (a) Operating fare revenues | $ 1,003,303 | $ 136,526 | $ 138,519 | $ 7,113 |
| (b) Operating expenses, net of depreciation | 4,671,014 | 3,131,606 | 669,146 | 136,509 |
| (c) Fare revenue ratio [ (a) / (b) ] | 21.48% | 4.36% | 20.70% | 5.21% |
| Minimum ratio required | 17.36% | N/A | 17.36% | 15.00% |
| Under minimum ratio requirement | N/A | N/A | N/A | 9.79% |

| | Nipomo | Cambria Trolley | Avila Trolley |
|---|---|---|---|
| (a) Operating fare revenues | $ 28,151 | $ - | $ 11,160 |
| (b) Operating expenses, net of depreciation | 332,009 | 4,263 | 76,564 |
| (c) Fare revenue ratio [ (a) / (b) ] | 8.47% | 0.00% | 14.58% |
| Minimum ratio required | 10.00% | 10.00% | 20.00% |
| Under minimum ratio requirement | 1.53% | 10.00% | 5.42% |

The Agency had fare revenue ratios for the fiscal year ended June 30, 2016 as computed as follows:

| | Fixed Route | Runabout | Paso Express | Paso Dial a Ride |
|---|---|---|---|---|
| (a) Operating fare revenues | $ 1,102,283 | $ 132,697 | $ 143,323 | $ 6,686 |
| (b) Operating expenses, net of depreciation | 4,131,601 | 3,162,810 | 696,376 | 110,969 |
| (c) Fare revenue ratio [ (a) / (b) ] | 26.68% | 4.20% | 20.58% | 6.02% |
| Minimum ratio required | 17.15% | N/A | 17.15% | 15.00% |
| Under minimum ratio requirement | N/A | N/A | N/A | 8.98% |

| | Nipomo | Cambria Trolley | Avila Trolley |
|---|---|---|---|
| (a) Operating fare revenues | $ 28,824 | $ - | $ 8,755 |
| (b) Operating expenses, net of depreciation | 337,986 | 1,828 | 67,637 |
| (c) Fare revenue ratio [ (a) / (b) ] | 8.53% | 0.00% | 12.95% |
| Minimum ratio required | 10.00% | 10.00% | 20.00% |
| Under minimum ratio requirement | 1.47% | 10.00% | 7.05% |

The Agency was in compliance 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. The fare revenue ratios for the Paso Dial a Ride, Nipomo, Cambria Trolley and Avila Trolley are under their various minimum required ratios. When the fare revenue ratio is under the minimum requirement for two consecutive years, there is a potential for a reduction in future TDA eligibility for the difference between the required minimum and actual fares in accordance with Public Utilities Code Section 99268.9 and CCR Section 6633.9, unless waived by the San Luis Obispo Council of Governments.

**NOTE 8 – LONG TERM DEBT**

| | Balance July 1, 2016 | Increases | Decreases | Balance at June 30, 2017 Total | Current | Long Term |
|---|---|---|---|---|---|---|
| Vacation | $ 131,616 | $ 198,415 | $ 207,422 | $ 122,609 | $ - | $ 122,609 |
| Sick leave | 31,273 | 50,711 | 42,992 | 38,992 | | 38,992 |
| Loan payable | 613,494 | | 200,596 | 412,898 | 200,596 | 212,302 |
| Other post-employment benefits | 19,025 | 16,696 | 6,200 | 29,521 | | 29,521 |
| Net pension liability | 414,886 | 183,027 | 54,050 | 543,863 | | 543,863 |
| Total | $ 1,210,294 | $ 448,849 | $ 511,260 | $ 1,147,883 | $ 200,596 | $ 947,287 |

**NOTE 9 – LOAN PAYABLE**

The Agency entered into a loan with Rabobank on June 1, 2011. The original balance of the loan was $3,082,621. A prepayment of $799,168 in principal was made on January 29, 2014. The loan was refinanced with Rabobank for $1,512,183 on March 24, 2014 with a fixed interest rate of 5.75%. Payment on the loan is due in variable monthly interest payments which began on April 1, 2014 and budgeted principal payments of $100,298 beginning April 30, 2014, with all outstanding principal plus accrued unpaid interest due on April 30, 2021. The outstanding principal balance at June 30, 2017, was $412,898.

**NOTE 10 – PENSION PLAN**

**A. General Information about the Pension Plans**

*Plan Descriptions*

All qualified permanent and probationary employees are eligible to participate in the Agency's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statue and Agency 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.

*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. Members with five years of total service are eligible to retire at age 50 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, 2017, are summarized as follows:

| | Miscellaneous | |
|---|---|---|
| Hire Date | Prior to January 1, 2013 | On or after January 1, 2013 |
| Benefit formula | 2.0% @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 | 52-67 |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.7% | 1.0% to 2.5% |
| Required employee contribution rates | 7% | 6.25% |
| Required employer contribution rates | 8.880% + $36,121 | 6.555% + $90 |

**NOTE 10 – PENSION PLAN (Continued)**

**A. General Information about the Pension Plans (Continued)**

*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 the Plan is 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 Agency 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 $108,461 for the fiscal year ended June 30, 2017.

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

At June 30, 2017, the Agency reported a liability of $543,863 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. The Agency's proportionate share of the net pension liability for the miscellaneous plan as of June 30, 2015, and 2016 was as follows:

| | Miscellaneous |
|---|---|
| Proportion - June 30, 2015 | 0.01558% |
| Proportion - June 30, 2016 | 0.01566% |
| Change - Increase (Decrease) | 0.00008% |

For the year ended June 30, 2017, the Agency recognized pension expense of $(59,959). Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| District contributions subsequent to the measurement date | $ 108,461 | $ - |
| Differences between expected and actual experience | 3,368 | 772 |
| Changes in assumptions | - | 31,865 |
| Net difference between projected and actual earnings on retirement plan investments | 165,846 | |
| Adjustment due to differences in proportions | 42,641 | 6,446 |
| Difference in actual contributions and proportionate share of contributions | 54,769 | |
| | $ 375,085 | $ 39,083 |

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.

$108,461 was reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

**NOTE 10 – PENSION PLAN (Continued)**

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

| Fiscal Year Ending June 30, | | Amount |
|---|---|---|
| 2018 | $ | 50,515 |
| 2019 | | 48,996 |
| 2020 | | 85,074 |
| 2021 | | 42,956 |
| | $ | 227,541 |

*Actuarial Assumptions*

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

| | Miscellaneous |
|---|---|
| Valuation Date | June 30, 2015 |
| Measurement Date | June 30, 2016 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Salary Increases | Varies by Entry Age and Service |
| Investment Rate of Return | 7.5% Net Pension Plan Investment and Administrative Expenses; includes Inflation |
| Mortality | Derived using CalPERS' Membership Data for all Funds (1) |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until Purchasing Power Protection Allowanc Floor on Purchasing Power applies; 2.75% thereafter |

(1) The mortality table used was developed based on CalPERs' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, 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 the testing, one of the rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly high Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

**NOTE 10 – PENSION PLAN (Continued)**

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

*Discount Rate (Continued)*

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.

The table below reflects the long-term expected real rate of return by asset class. 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.

| Asset Class | New Strategic Allocation | Real Return Years 1-10(a) | Real Return Years 11+(b) |
|---|---|---|---|
| Global Equity | 51.0% | 5.25% | 5.71% |
| Global Fixed Income | 20.0% | 0.99% | 2.43% |
| Inflation Sensitive | 6.0% | 0.45% | 3.36% |
| Private Equity | 10.0% | 6.83% | 6.95% |
| Real Estate | 10.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.0% | 4.50% | 5.09% |
| Liquidity | 1.0% | -0.55% | -1.05% |
| Total | 100.0% | | |

(a) An expected inflation of 2.5% was used for this period.
(b) An expected inflation of 3.0% was used for this period.

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate*

The following represents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65 percent) or 1- percentage point higher (8.65 percent) than the current rate:

| | Decrease 6.65% | Discount Rate 7.65% | 1% Increase 8.65% |
|---|---|---|---|
| Agency's proportionate share of the net pension plan liability | $ 844,886 | $ 543,863 | $ 295,082 |

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**C. Payable to Pension Plan**

At June 30, 2017, the Agency had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2017.

**NOTE 11– POST EMPLOYEMENT BENEFITS OTHER THAN PENSIONS**

Plan Description

In addition to the California Public Employees' Retirement System (CalPERS) pension benefits, as described in Note 10, the Agency provides post-retirement health benefits for management and director positions. The Agency agreed to pay CalPERS for the retiree and/or retiree's dependent health (medical/dental/vision) insurance premiums, disability insurance, long-term health care or life insurance premiums up to a maximum of $3,100 per year. The benefit is available upon retirement from CalPERS after the age 55, and the employee must have served for five years with the Agency. The benefit extends between the date of retirement and the date of death. Currently, there are two retirees receiving benefits and five other employees that may become eligible for benefits under this program.

Funding Policy

The Agency accounts for this benefit on a pay-as-you-go basis. No funds are set aside to pay for benefits and administrative costs. These expenditures are paid as they come due. In the fiscal year, June 30, 2017, the Agency's total contributions were $6,200.

Annual OPEB Cost and Net OPEB Obligation

The Agency's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The Agency has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Agency's annual OPEB cost for the current fiscal year, the amount actually contributed to the plan, and changes in the Agency's net OPEB obligation for the post employment healthcare benefits:

| | | |
|---|---|---|
| Annual required contribution | $ | 15,825 |
| Interest of net OPEB obligation | | 871 |
| Annual OPEB cost (expense) | | 16,696 |
| Contributions made | | (6,200) |
| Increase/(decrease) in net OPEB obligation | | 10,496 |
| Net OPEB obligation, beginning of fiscal year | | 19,025 |
| Net OPEB obligation, end of fiscal year | $ | 29,521 |

The Agency's annual OPEB cost (expense), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation, was as follows:

| Fiscal Year Ended | | Annual OPEB Cost | % of Annual OPEB Cost Contributed | | Net OPEB Obligation |
|---|---|---|---|---|---|
| June 30, 2015 | $ | 15,458 | 40.1% | $ | 9,258 |
| June 30, 2016 | $ | 15,967 | 38.8% | $ | 19,025 |
| June 30, 2017 | $ | 16,696 | 37.1% | $ | 29,521 |

Funded Status and Funding Progress

The Funded status of the plan as of July 1, 2016, the date of the latest actuarial valuation, is as follows:

| | | |
|---|---|---|
| Actuarial accrued liability (AAL) | $ | 163,227 |
| Actuarial value of plan assets | | - |
| Unfunded actuarial accrued liability (UAAL) | $ | 163,227 |
| Funded ratio (actuarial value of plan assets/AAL) | | 0% |
| Covered payroll (active plan members) | | 428,002 |
| UAAL as a percentage of covered payroll | | 38% |

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**NOTE 11 – POST EMPLOYEMENT BENEFITS OTHER THAN PENSIONS (Continued)**

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

*Retirement age for active employees* – Based on the historical average retirement age, covered group members were assumed to retire at the age of 55.

*Mortality* – All active and inactive plan members were expected to live through the age of 80.

*Turnover* – Non-group-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for development of an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

**NOTE 12 – 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 Agency Property Insurance with limits of $25 million per occurrence and $100 million annual aggregate.

**NOTE 13 – DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES**

At June 30, 2017, deferred inflows and outflows of resources, reported on the Statement of Net Position, consisted of the following:

| | |
|---|---|
| Deferred Inflows of Resources | |
| Pensions | $ 39,083 |
| Total Deferred Inflows | $ 39,083 |
| Deferred Outflows of Resources | |
| Pensions | $ 375,085 |
| Total Deferred Outflows | $ 375,085 |

**NOTE 14 – OPERATING LEASE**

The Agency has entered into an operating lease for office facilities and bus yard with lease terms in excess of one year. Future minimum lease payments under this agreement are as follows:

| Year Ended June 30 | |
|---|---|
| 2018 | 410,212 |
| | $ 410,212 |

**NOTE 15 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT**

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B in November 2006, included a program of funding in the amount of $4 billion to be deposited in the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). Of this amount, $3.6 billion in the PTMISEA was made available to project sponsors in California for allocation to eligible public transportation projects for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or rolling stock procurement, rehabilitation, expansion, or replacement. PTMISEA eligibility is based on STA allocations to each project sponsor during the fiscal years 2004-05, 2005-06, 2006-07, 2007-08, 2008-09, 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.

Interest earned on funds to date is $9,972. The Agency had qualifying expenditures incurred under this program from previous allocation totaling $574,699, which was used as Intelligent Transportation System and is included in State capital grants in the accompanying financial statements.

**NOTE 16 – THE LOW CARBON TRANSIT OPERATIONS PROGRAM (LCTOP)**

The Low Carbon Transit Operations Program (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. The 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 2015-16.

Interest earned on funds to date is $2,187. The Agency had qualifying expenditures incurred under this program from previous allocation totaling $24,023, which was used for the procurement of construction services of Paso Robles Facility Improvement and is included in State capital grants in the accompanying financial statements.

# REQUIRED SUPPLEMENTARY INFORMATION SECTION

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FUNDING PROGRESS FOR POST EMPLOYMENT BENEFITS
OTHER THAN PENSIONS
As of June 30, 2017

The following table provides required supplementary information regarding the Agency's post employment healthcare benefits.

SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percent of Covered Payroll |
|---|---|---|---|---|---|---|
| 7/1/2014 | $ - | $ 148,965 | $ 148,965 | 0% | $ 418,002 | 36% |
| 7/1/2016 | $ - | $ 163,227 | $ 163,227 | 0% | $ 428,002 | 38% |

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY**
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
Last 10 Years*
As of June 30, 2017

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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Proportion of the net pension liability | 0.00629% | 0.00604% | 0.00684% |
| Proportionate share of the net pension liability | $ 543,863 | $ 414,886 | $ 425,837 |
| Covered-employee payroll | $ 822,150 | $ 473,673 | $ 345,255 |
| Proportionate share of the net pension liability as percentage of covered-employee payroll | 66.15% | 87.59% | 123.34% |
| Plan's total pension liability | $ 33,358,627,624 | $ 31,771,217,402 | $ 30,829,966,631 |
| Plan's fiduciary net position | $ 24,705,532,291 | $ 24,907,305,871 | $ 24,607,502,515 |
| Plan fiduciary net position as a percentage of the total pension liability | 74.06% | 78.40% | 79.82% |

**Notes to Schedule:**
Changes in assumptions - In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

In 2016, the discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

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

**SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY**
SCHEDULE OF CONTRIBUTIONS
Last 10 Years*
As of June 30, 2017

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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Contractually required contribution (actuarially determined) | $ 108,461 | $ 126,258 | $ 74,414 |
| Contribution in relation to the actuarially determined contributions | (108,461) | (126,258) | (74,414) |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| Covered- employee payroll | $ 932,784 | $ 822,150 | $ 473,673 |
| Contributions as a percentage of covered-employee payroll | 11.63% | 15.36% | 15.71% |

**Notes to Schedule**

Valuation Date: 6/30/2015

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2014/2015 were derived from the June 30, 2012 funding valuation report.

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method/Period | For details, see June 30, 2016 funding valuation report. |
| Inflation | 2.75% |
| Salary Increases | Varies by entry age and service |
| Payroll Growth | 3.00% |
| Investment Rate of Return | 7.65% |
| Retirement Age | The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. |
| Mortality | The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries. |

There were no changes in methods or assumptions used to determine the legally required contributions, which are actuarially determined, from the June 30, 2015 to the June 30, 2016 funding valuation report.

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

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## SUPPLEMENTARY INFORMATION SECTION

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENSES
BUDGET AND ACTUAL
As of June 30, 2017

| | Adopted Budget | Actual | County Services Actual | Variance with Budget |
|---|---|---|---|---|
| **Administration:** | | | | |
| Labor | $ 815,700 | $ 655,459 | $ - | $ 160,241 |
| Labor - Administration Workers Comp | 71,210 | 68,662 | | 2,548 |
| Office Space Rental | 504,790 | 404,548 | | 100,242 |
| Property Insurance | 17,420 | 16,340 | | 1,080 |
| Professional Technical Services | 79,560 | 73,266 | | 6,294 |
| Professional Development | 37,850 | 38,663 | | (813) |
| Operating Expense | 255,190 | 250,847 | | 4,343 |
| Marketing and Reproduction | 93,730 | 80,617 | | 13,113 |
| Contingency | 117,020 | 17,570 | | 99,450 |
| North County Management Contract | (40,320) | (40,320) | | |
| County Management Contract | (82,110) | (82,110) | 92,110 | (92,110) |
| SCT Management Contract | (114,900) | (114,900) | | |
| **Total Administration** | 1,755,140 | 1,368,642 | 92,110 | 294,388 |
| **Service Delivery:** | | | | |
| Labor - Operations | 4,100,660 | 3,786,731 | 174,325 | 139,604 |
| Labor - Operations Worker Comp | 481,790 | 464,554 | 14,991 | 2,245 |
| Labor - Maintenance | 947,680 | 939,441 | 45,528 | (37,289) |
| Labor - Maintenance Workers Comp | 141,000 | 135,956 | 4,387 | 657 |
| Fuel | 1,164,130 | 778,888 | 17,459 | 367,783 |
| Insurance | 560,160 | 571,725 | 9,497 | (21,062) |
| Special Transportation (includes Senior Vans, Lucky Bucks, etc.) | 57,300 | 38,668 | 43,650 | (25,018) |
| Avila Trolley | 57,060 | 52,150 | 62,979 | (58,069) |
| Maintenance (parts, supplies, materials) | 465,050 | 598,140 | 10,672 | (143,762) |
| Maintenance Contract Costs | 138,910 | 48,886 | 739 | 89,285 |
| **Total Operations** | 8,113,740 | 7,415,139 | 384,227 | 314,374 |
| **Capital/Studies:** | | | | |
| Computer System Maintenance/Upgrades | 62,250 | 37,217 | | 25,033 |
| Miscellaneous Capital | | | | |
| Facility Improvements | 57,540 | | | 57,540 |
| Maintenance Software and Equipment | 57,690 | 29,103 | | 28,587 |
| Passenger Protection 1300 buses | 8,400 | 4,536 | | 3,864 |
| Specialized Maintenance Tools | 33,500 | | | 33,500 |
| Desk and Office Equipment | 10,760 | 9,595 | | 1,165 |
| Vehicle ITS/Camera System | 668,090 | 590,451 | | 77,639 |
| Bus Stop Improvements/Bus Stop Solar Lighting | 277,230 | 16,860 | | 260,370 |
| Bus Rehabilitation | 126,000 | | | 126,000 |
| RouteMatch Dispatching Software | 37,500 | 33,150 | | 4,350 |
| Vehicles | | | | |
| Support Vehicles | 60,000 | 60,618 | | (618) |
| Trolley Replacement Vehicles | 200,000 | 204,268 | 204,268 | (208,536) |
| Runabout Vehicles | 163,480 | 289,284 | | (125,804) |
| **Total Capital Outlay** | 1,762,440 | 1,275,082 | 204,268 | 283,090 |
| **Interest Expense** | 44,590 | 30,960 | | 13,630 |
| **Loan Paydown** | 200,600 | 200,596 | | 4 |
| **Elks Lane Project** | 710,480 | 126,391 | | 584,089 |
| **Paso Property Improvements** | 1,000,000 | 140,167 | | 859,833 |
| **Management Contracts** | 237,330 | 237,330 | | |
| **TOTAL FUNDING USES** | $ 13,824,320 | $ 10,794,307 | $ 680,605 | $ 2,349,408 |
| **TOTAL EXPENSES, BUDGETARY BASIS** | | $ 10,794,307 | | |
| **ADD:** | | | | |
| **DEPRECIATION** | | 1,873,538 | | |
| **LESS:** | | | | |
| **CAPITALIZED EXPENSES** | | (1,541,640) | | |
| **LOAN PRINCIPAL PAYMENTS** | | (200,596) | | |
| **NON-OPERATING EXPENSES** | | (30,960) | | |
| **TOTAL OPERATING EXPENSES PER FINANCIAL STATEMENTS** | | $ 10,894,649 | | |