SOUTH COUNTY TRANSIT
FINANCIAL STATEMENTS
June 30, 2018

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Moss, Levy & Hartzheim LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
South County Transit
San Luis Obispo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the South County Transit (Agency) as of and for the year ended June 30, 2018, and the related notes to the 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 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 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 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 respective financial position of the South County Transit, as of June 30, 2018, and the respective changes in financial position, and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the South County Transit's 2017 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with audited financial statements from which it has been derived.

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Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the South County Transit's basic financial statements. The schedule of expenses – budget and actual on page 15, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenses – budget and actual is the responsibility of management and was derived from and 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2018, on our consideration of the South County Transit'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

October 8, 2018

SOUTH COUNTY TRANSIT
STATEMENT OF NET POSITION
JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR JUNE 30, 2017

	2018	2017
ASSETS		
Current assets:		
Cash and investments	$ 555,761	$ 302,583
Accounts receivable	23,489	35,618
Prepaid items	5,303	5,997
Deposits	2,000	2,000
Total current assets	586,553	346,198
Capital assets:		
Depreciable:		
Buildings and improvements	152,006	152,006
Equipment and vehicles	2,650,914	2,690,289
Less accumulated depreciation	(1,601,957)	(1,435,731)
Total net capital assets	1,200,963	1,406,564
Total assets	1,787,516	1,752,762
LIABILITIES		
Current liabilities:		
Accounts payable	263,497	106,588
Accrued payroll	19,959	21,113
Unearned revenue	9,910	9,656
Total current liabilities:	293,366	137,357
Noncurrent liabilities:		
Compensated absences	3,910	4,386
Total noncurrent liabilities:	3,910	4,386
Total liabilities	297,276	141,743
NET POSITION		
Net investment in capital assets	1,200,963	1,406,564
Unrestricted	289,277	204,455
Total net position	$ 1,490,240	$ 1,611,019

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

SOUTH COUNTY TRANSIT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	2018	2017
Operating Revenues:		
Passenger fares	$ 162,511	$ 145,021
Advertising and other income	13,370	1,138
Total operating revenues	175,881	146,159
Operating Expenses:		
Salaries and benefits	616,662	568,810
Maintenance and operation	614,490	565,847
Administration and financial services	91,300	87,950
Depreciation	206,444	207,932
Total operating expenses	1,528,896	1,430,539
Operating income (loss)	(1,353,015)	(1,284,380)
Non-Operating Revenues (Expenses):		
Interest income	6,377	4,791
Transportation Development Act funds	554,396	235,546
Low Carbon Transit Operations Program	135,648	97,348
Fees and reimbursements from other governmental agencies	51,972	51,569
Federal grants	483,000	440,019
Gain on disposal of capital assets		3,710
Total non-operating revenues (expenses)	1,231,393	832,983
Capital Contributions:		
Federal capital grants		100,000
State capital grants	843	37,058
Total capital contributions	843	137,058
Change in net position	(120,779)	(314,339)
Net position, beginning of fiscal year	1,611,019	1,925,358
Net position, end of fiscal year	$ 1,490,240	$ 1,611,019

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

SOUTH COUNTY TRANSIT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	2018	2017
Cash Flows From Operating Activities:		
Receipts from customers	$ 188,291	$ 133,905
Payments to suppliers and wages	(1,166,479)	(1,377,735)
Net cash (used) by operating activities	(978,188)	(1,243,830)
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of property, plant, and equipment	(843)	(137,058)
Sale of capital assets		3,710
Capital grants received	816	108,308
Net cash provided (used) by capital and related financing activities	(27)	(25,040)
Cash Flows from Noncapital Financing Activities:		
Operating subsidies	690,044	235,546
Fees, grants, and reimbursements received	534,972	491,588
Net cash provided by noncapital financing activities	1,225,016	727,134
Cash Flows From Investing Activities:		
Interest income	6,377	4,791
Net cash provided by investing activities	6,377	4,791
Net increase (decrease) in cash and cash equivalents	253,178	(536,945)
Cash and cash equivalents, beginning of fiscal year	302,583	839,528
Cash and cash equivalents, end of fiscal year	$ 555,761	$ 302,583

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

SOUTH COUNTY TRANSIT
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	$ (1,353,015)	$ (1,284,380)
Adjustments to reconcile operating income to net cash used by operating activities		
Depreciation expense	206,444	207,932
Change in operating assets and liabilities:		
Accounts receivable	12,129	(17,409)
Prepaid items	694	(1,912)
Accounts payable	156,909	(161,973)
Accrued payroll	(1,154)	6,920
Compensated absences	(476)	1,837
Unearned revenue	281	5,155
Net cash (used) by operating activities	$ (978,188)	$ (1,243,830)

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

NOTE 1 – REPORTING ENTITY

The South County Transit (the Agency) is a Joint Powers Agency created by a joint powers agreement among the Cities of Arroyo Grande, Grover Beach, Pismo Beach, and the County of San Luis Obispo. 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.

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. Fund Financial Statements – The fund financial statements provide information about the Agency's fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

GASB Statement No. 34, defines major funds and requires that the Agency's major proprietary-type fund be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenses equal to ten percent of their fund-type total and five percent of the grand total. The Agency maintains one proprietary fund as follows:

Proprietary Fund Type

Enterprise Fund

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.

D. 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.

E. 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.

F. 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.

G. 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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Revenue Recognition - The South County Transit'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 County 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 to it by San Luis Obispo Council of Governments to the extent approved 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.

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. 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.

M. Future Accounting Pronouncements

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

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. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 88	"Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 89	"Accounting for Interest Cost Incurred Before the End of a Construction Period"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 90	"Majority Equity Interests-an Amendment of GASB Statements No. 14 and No. 61"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.

NOTE 3 - CASH AND INVESTMENTS

On June 30, 2018, the Agency had the following cash and investments on hand:

Cash on hand and in banks	$ 46,391
Investments	509,370
Total cash and investments	$ 555,761

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

Cash and investments, statement of net position	$ 555,761

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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	$ 440,821	$ 440,821	$ -	$ -	$ -
Local Agency Investment Fund	68,549	68,549			
Total	$ 509,370	$ 509,370	$ -	$ -	$ -

NOTE 3 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by 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.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt from Disclosure	Rating as of Fiscal Year End AAA	AA	Not Rated
San Luis Obispo County Investment Pool	$ 440,821	N/A	$ -	$ -	$ -	$ 440,821
Local Agency Investment Fund	68,549					68,549
Total	$ 509,370		$ -	$ -	$ -	$ 509,370

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. There are no investments in any one issuer that represent 5% or more of total Agency investments.

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 the San Luis Obispo County Investment Pool or LAIF).

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.

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2018, was as follows:

Business-type activities:	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, being depreciated				
Building and improvements	$ 152,006	$ -	$ -	$ 152,006
Vehicles and equipment	2,690,289	843	40,218	2,650,914
Total capital assets, being depreciated	2,842,295	843	40,218	2,802,920
Less accumulated depreciation for:				
Building and improvements	146,397	2,095		148,492
Vehicles and equipment	1,289,334	204,349	40,218	1,453,465
Total accumulated depreciation	1,435,731	206,444	40,218	1,601,957
Net depreciable capital assets	$ 1,406,564	$ (205,601)	$ -	$ 1,200,963

Depreciation expense for the fiscal year ended June 30, 2018, was $206,444. Depreciation expense for the fiscal year ended June 30, 2017, was $207,932.

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

The Agency was allocated the following funds from the Local Transportation Funds (LTF) and State Transit Assistance Fund for the fiscal years ended June 30, 2018 and 2017:

Allocation Assigned By/Claimant	Article/Section	Amount 2018	Amount 2017
Local Transportation Fund:			
City of Arroyo Grande	4 / 99260(a)	$ 166,057	$ 64,432
City of Grover Beach	4 / 99260(a)	125,426	48,577
City of Pismo Beach	4 / 99260(a)	76,404	28,505
County of San Luis Obispo	4 / 99260(a)	73,754	27,156
Total Article 4 – LTF		441,641	168,670
State Transit Fund:			
Regional Transit Authority	6.5 / 99313	68,244	66,088
Regional Transit Authority	6.5 / 99314	6,862	5,417
Total Article 6.5 – STF		75,106	71,505
Total TDA Revenue		$ 516,747	$ 240,175

NOTE 5 – OPERATING SUBSIDIES FROM LOCAL TRANSPORTATION AND STATE TRANSIT ASSISTANCE FUNDS (Continued)

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:

	Amount	
	2018	2017
Operating expenses	$ 1,528,896	$ 1,430,539
Plus/(minus):		
Capital purchases with LTF and STA	843	4,629
Depreciation	(206,444)	(207,932)
Fare revenues	(162,511)	(145,021)
Other operating revenues	(13,370)	(1,138)
Maximum total allocation	1,147,414	1,081,077
TDA operating allocations received and accrued	516,747	240,175
Allocation over/under maximum	$ (630,667)	$ (840,902)

NOTE 6 – FARE REVENUE RATIO

The Agency had fare revenue ratios for the year ended June 30, 2018 and 2017, computed as follows:

	2018	2017
(a) Operating revenues – passenger fares	$ 162,511	$ 145,021
(b) Operating costs – net of depreciation expense	1,322,452	1,222,607
(c) Fare revenue ratio [(a) / (b)]	12.29%	11.86%
Minimum ratio required	20.00%	20.00%
Under minimum ratio requirement	7.71%	8.14%

The Agency was not in compliance with applicable TDA regulations pertaining to acceptable fare revenue ratios which require a minimum ratio of 20%.

NOTE 7 – LONG TERM DEBT – COMPENSATED ABSENCES

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Compensated absences	$ 4,386	$ 11,131	$ 11,607	$ 3,910

NOTE 8 – UNEARNED REVENUE

Unearned revenue at June 30, 2018, and June 30, 2017, consisted of the following:

	June 30, 2018	June 30, 2017
Bus Pass Sales	$ 9,910	$ 9,629
Prop 1B funding		27
Total Unearned revenues	$ 9,910	$ 9,656

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 – 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, and were made available during the 2011-12 fiscal year. Qualifying expenditures must be encumbered within three years from the date of allocation and expended within three years from the date of the encumbrance.

All PTMISEA funding and interest allocated to South County Transit was used prior to the start of the fiscal year ended June 30, 2018.

NOTE 11 – 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 $1,230. The Agency had qualifying expenditures incurred under this program from previous allocation totaling $135,648, which was used for operating expenses for the new route 27 and 28 service and is included in State operating grants in the accompanying financial statements.

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SUPPLEMENTARY INFORMATION SECTION

SOUTH COUNTY TRANSIT
PROPRIETARY FUND
SCHEDULE OF EXPENSES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Administrative Expenditures			
Insurance			
Liability and Physical Damage	$ 99,200	$ 101,135	$ (1,935)
Workers Compensation	71,180	57,997	13,183
Property Insurance	740	638	102
Rent	30,600	32,555	(1,955)
Utilities	8,980	8,684	296
Radio Expense	1,240	1,133	107
Legal Services	3,000	3,875	(875)
Payroll Processing	1,280	876	404
Administration - Staff Time	77,600	77,600	
Finance	13,700	13,700	
Marketing	5,290	5,290	
Office Expense/Miscellaneous	12,790	7,207	5,583
Audit	3,150	3,105	45
Marketing/Community Relations/Printing	16,000	13,902	2,098
Uniforms/Laundry/Physicals/Ads	9,740	4,936	4,804
Operating Expenditures			
Salaries/Benefits	611,270	616,662	(5,392)
Maintenance	197,550	182,755	14,795
Dispatch	22,680	22,680	
SoCo Bus Fuel	199,280	166,972	32,308
Contingency	13,850	750	13,100
Total administration and operations	1,399,120	1,322,452	76,668
Capital Outlay			
Facility Improvements/Bus Stop Amenities	41,350		41,350
Computer Upgrade	1,500	843	657
Transit Center Improvements	120,000		120,000
Total capital outlay	162,850	843	162,007
Total expenses, budgetary basis	$ 1,561,970	$ 1,323,295	$ 238,675

TOTAL EXPENSES, BUDGETARY BASIS	$ 1,323,295
ADD:	
DEPRECIATION	206,444
LESS:	
CAPITALIZED EXPENSES	(843)
TOTAL OPERATING EXPENSES PER FINANCIAL STATEMENTS	$ 1,528,896

Moss, Levy & Hartzheim LLP
Certified Public Accountants

October 8, 2018

To the Board of Directors
South County Transit

We have audited the basic financial statements of the governmental activities of South County Transit for the fiscal year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under Generally Accepted Auditing Standards 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 June 1, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by South County Transit are described in Note 2 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting South County Transit's financial statements was:

> Management's estimate of the useful lives of capital assets is based on experience with other capital assets and on their standard table of useful lives. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 8, 2018.

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 governmental unit'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 governmental unit'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

With respect to the supplementary information accompanying the financial statements, 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.

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

Very truly yours,

Moss, Levy & Hartzheim LLP

October 8, 2018

Santa Maria, California

Moss, Levy & Hartzheim LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
South County Transit
San Luis Obispo, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the South County Transit (the Agency), as of and for the fiscal year ended June 30, 2018, and the related notes to basic financial statements, and have issued our report thereon dated October 8, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Agency's internal control over financial reporting (internal control) to determine the 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses 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 of 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 determination of financial statement amounts. Our audit was further made for purposes of determining compliance with the Transportation Development Act Section 99260, the California Administrative Code, and the rules and regulations of the San Luis Obispo Council of Governments. In our audit, we performed, to the extent applicable, the tasks contained in Section 6667 of the California Administrative Code. Also part of our audit, we performed tests of compliance to determine whether certain State bond funds were received and expended in accordance with applicable bond act and State program requirements pursuant to SB 88, Chapter 181, Article 5. Specifically, we verified receipt of funds under the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA), and allocation of interest earned on unexpended PTMISEA funds. The PTMISEA funds were received for the purpose of the South County Transit Coach Replacement. We verified appropriate expenditure of PTMISEA funds and interest earned as of June 30, 2017. Also part of our audit, we performed tests of compliance to determine whether certain State bond funds were received and expended in accordance with applicable bond act and State program requirements pursuant to SB 862. Specifically, we verified receipt of funds under the Low Carbon Transit Operations Program (LCTOP), and allocation of interest earned on unexpended LCTOP funds. The LCTOP funds were received for the purpose of operational subsidies for South County Transit Routes 27 and 28. We verified appropriate expenditure of LCTOP funds and interest earned as of June 30, 2018. 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. We did identify one non-compliance where South County Transit did not meet the minimum required fare revenue ratio as described in Finding 2018-1.

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

Moss, Levy & Hartzheim LLP

October 8, 2018
Santa Maria, California

SOUTH COUNTY TRANSIT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2018

FINDING 2018-1
Fare Revenue Ratio

Criteria:
The required fare revenue ratio for South County Transit is 20%.

Condition:
During our calculations of the fare revenue ratio, we noted that the Agency had a ratio of 12.29%.

Cause:
Not enough passenger fares are received to pay for Agency operations.

Effect:
The Agency is using more State revenue than allowed to pay for its operations and while no penalties currently apply, the Agency may potentially lose some funding in future years beginning in the fiscal year ended June 30, 2019.

Recommendation:
The Agency needs to create a plan to raise its fare revenue ratio over the minimum of 20%.

Agency's Corrective Action Plan:
The Agency had hoped that the fare and service change in July 2016 would result in attaining the farebox ratio requirement and continues to strive to increase the ratio, noting a slight increase in the ratio during fiscal year ending June 30, 2018. Staff will continue to evaluate options, including the recommendations included in the TDA performance audit presented to the SLOCOG Board on August 2, 2017.

SOUTH COUNTY TRANSIT
SCHEDULE OF PRIOR FISCAL YEAR AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2018

FINDING 2017-1
Fare Revenue Ratio

Criteria:
The required fare revenue ratio for South County Transit is 20%.

Condition:
During our calculations of the fare revenue ratio, we noted that the Agency had a ratio of 11.86%.

Cause:
Not enough passenger fares are received to pay for Agency operations.

Effect:
The Agency is using more State revenue than allowed to pay for its operations and while no penalties currently apply, the Agency may potentially lose some funding in future years beginning in the fiscal year ended June 30, 2019

Recommendation:
The Agency needs to create a plan to raise its fare revenue ratio over the minimum of 20%.

Current Status:
Not implemented.