

LASSEN TRANSIT SERVICE AGENCY

Audited Financial Statements
and Compliance Reports

June 30, 2018

LASSEN TRANSIT SERVICE AGENCY

Audited Financial Statements
and Compliance Reports

June 30, 2018

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550 Howe Avenue, Suite 210
Sacramento, California 95825
Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lassen Transit Service Agency
Susanville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Lassen Transit Service Agency (LTSA), which comprise the balance sheets as of June 30, 2018, and the related statements of revenues, expenses, changes in net position, and cash flows for the year then ended and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

To the Board of Directors
Lassen Transit Service Agency

Basis for Qualified Opinion

The financial statements of LTSA exclude the effect of certain administrative expenses and revenues from fiscal years 2016/17 and prior that were commingled with activity related to Lassen County Transportation Commission (LCTC) and reported in LCTC's financial statements, which affects the amounts reported as cash and net position in LTSA's financial statements as of June 30, 2018. The amount by which this departure would affect the cash and net position has not been determined.

Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on General Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of LTSA as of June 30, 2018 and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

LTSA 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 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2019 on our consideration of LTSA'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 including the Transportation Development Act and PTMISEA guidelines. 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 LTSA's internal control over financial reporting and compliance.

Richardson & Company, LLP

July 12, 2019

LASSEN TRANSIT SERVICE AGENCY

STATEMENT OF NET POSITION

June 30, 2018

	<u>2018</u>
ASSETS	
Cash and investments	\$ 120,782
Due from other governments	121,442
Capital assets:	
Not depreciated	43,951
Depreciated, net	<u>1,287,062</u>
TOTAL ASSETS	<u>1,573,237</u>
 LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable	70,563
Accrued payroll	4,068
Compensated absences, due within one year	<u>1,349</u>
TOTAL LIABILITIES	<u>75,980</u>
 NET POSITION	
Net investment in capital assets	1,331,013
Restricted for transit operations	<u>166,244</u>
TOTAL NET POSITION	<u>1,497,257</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u><u>\$ 1,573,237</u></u>

The accompanying notes are an integral part of these financial statements.

LASSEN TRANSIT SERVICE AGENCY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION

For the Year Ended June 30, 2018

	<u>2018</u>
OPERATING REVENUES	
Charges for services	\$ 147,063
Low carbon transit operations program subsidy for fares	4,556
TOTAL OPERATING REVENUES	<u>151,619</u>
OPERATING EXPENSES	
Professional fees	889,565
Salaries and benefits	123,960
Administrative costs	32,226
Transportation and travel	89,485
Utilities	22,567
Insurance	14,800
Depreciation	303,138
Other expense	12,024
TOTAL OPERATING EXPENSES	<u>1,487,765</u>
OPERATING LOSS	(1,336,146)
NONOPERATING REVENUES (EXPENSES)	
Local transportation fund allocation	242,557
State transit assistance fund allocation	205,855
State of good repair allocation	39,080
State grants	
CalOES	9,916
PTMISEA	7,826
Federal transit administration grants	374,662
Interest income	3,816
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>883,712</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(452,434)
CAPITAL CONTRIBUTIONS	
CalOES	62,145
TOTAL CAPITAL CONTRIBUTIONS	<u>62,145</u>
CHANGE IN NET POSITION	(390,289)
Net position, beginning of year	<u>1,887,546</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,497,257</u></u>

The accompanying notes are an integral part of these financial statements.

LASSEN TRANSIT SERVICE AGENCY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2018

	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from passengers	\$ 147,063
Operating grants and subsidies	4,556
Cash paid to suppliers for goods and services	(1,059,977)
Cash paid to employees for services	(118,543)
NET CASH USED BY OPERATING ACTIVITIES	<u>(1,026,901)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Non-operating grants and subsidies	758,454
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>758,454</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Grants received for capital acquisitions	62,145
Acquisition of capital assets	(62,145)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earnings	3,816
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,816</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(264,631)</u>
Cash and cash equivalents, beginning of year	<u>385,413</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 120,782</u>

(Continued)

LASSEN TRANSIT SERVICE AGENCY
STATEMENT OF CASH FLOWS (Continued)

For the Year Ended June 30, 2018

	2018
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$(1,336,146)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation and amortization	303,138
Changes in operating assets and liabilities:	
Due from other government agencies	(121,442)
Accounts payable	690
Accrued payroll	4,068
Compensated absences	1,349
NET CASH USED BY OPERATING ACTIVITIES	\$(1,148,343)

The accompanying notes are an integral part of these financial statements.

LASSEN TRANSIT SERVICE AGENCY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lassen Transit Service Agency (LTSA) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. LTSA follows Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of LTSA's accounting policies are described below.

Description of Reporting Entity: LTSA was created as a joint powers agreement (JPA) between Lassen County and the City of Susanville, on July 17, 2002, under provision of Article 1, Chapter 5, Division 7, Title 1 of the California Government Code section 6500. Formerly, all the transactions of LTSA were reported in the Rural Bus Fund of the County of Lassen. Effective July 1, 2002, LTSA became a separate legal entity and is no longer considered part of Lassen County. LTSA provides public transit services to the County of Lassen and the City of Susanville.

In addition to fare revenues, LTSA receives funds under the provisions of the Transportation Development Act from the Lassen County Transportation Commission's Local Transportation Fund, State Transit Assistance Fund and State of Good Repair Fund. LTSA also receives revenue from federal and state grantor agencies.

All significant activities on which LTSA exercise oversight responsibility have been included in the financial statements. Although LTSA has the same Board as the Lassen County Transportation Commission, there is no financial benefit or burden relationship, so LTSA is not considered a component unit of the Commission.

Basis of Presentation: LTSA's resources are allocated to and accounted for in these financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations 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 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 policies.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of LTSA are included on the balance sheet. Net position is segregated into amounts invested in capital assets, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

LTSA uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Non-exchange revenues are recognized when all eligibility requirements have been met. Cost reimbursement grant revenues are recognized when program expenditures are incurred in accordance with program guidelines. When such funds are received before eligibility requirements are met they are recorded as deferred revenues until earned.

LASSEN TRANSIT SERVICE AGENCY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of LTSA are charges to passengers for public transit services. Operating expenses for LTSA include the cost of transit services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is LTSA's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents: For purposes of the statement of cash flows, LTSA considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, including bank deposits. LTSA considers all amounts held in the County's Treasury pool to be cash equivalents.

Due from Other Governments: Amounts due from other governments consist mostly of amounts due from operating and capital grants. Management believes its amounts due from other governments to be fully collectible and, accordingly, no allowance for doubtful accounts is required.

Capital Assets: Capital assets are stated at historical cost or estimated historical cost if actual historical cost is not available. Capital assets are defined as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Donated capital assets are recorded at the acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Provision is made for depreciation by the straight-line method over the estimated useful lives of these assets which range from five to twenty-five years. Depreciation is recorded on the full-year convention whereby a full year of depreciation is taken in the year the asset is placed into service. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Compensated Absences: LTSA's policy allows employees to accumulate earned but unused vacation that will be paid to employees upon separation from LTSA's service, subject to a vesting policy. The cost of vacation is recorded in the period accrued.

Net Position: Net position is categorized as invested in capital assets, restricted and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation reduces the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Lassen Transit Services Agency had restricted net position of \$153,382 for transit operations as of June 30, 2018.

Unrestricted Net Position – This category represents net position of LTSA not restricted for any project or other purpose.

LASSEN TRANSIT SERVICE AGENCY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

New Pronouncements: In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). Topics that may be applicable include criteria for an enterprise fund to blend a component unit, measuring certain money market investments at amortized cost, timing of pension and OPEB liabilities and expenditures under the current financial resources measurement focus, presenting payroll related measures in RSI for OPEB plans, classifying employer paid member contributions for OPEB plans, accounting and financial reporting for multiple-employer defined benefit OPEB Plans. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

LTSA is currently analyzing the impact of the required implementation of these new statements.

NOTE B – CASH AND INVESTMENTS

Investment in the County of Lassen Investment Pool: LTSA's cash is held in the County of Lassen Treasury. The County maintains an investment pool and allocates interest to the various funds based upon the average daily cash balances. Investments held in the County's investment pool are available on demand to LTSA and are stated at cost, which approximates fair value.

Investment Policy: California statutes authorize governmental agencies to invest surplus funds in a variety of credit instruments as provided in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. LTSA follows the investment policy of the County of Lassen.

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. As of June 30, 2018, the weighted average maturity of the investments contained in the County of Lassen investment pool was approximately 611 days.

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 a rating by a nationally recognized statistical rating organization. The County of Lassen investment pool does not have a rating provided by a nationally recognized statistical rating organization.

LASSEN TRANSIT SERVICE AGENCY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE B – CASH AND INVESTMENTS HELD BY COUNTY TREASURER (Continued)

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect deposits or investment in securities through the use of government investment pools (such as the County of Lassen investment pool).

NOTE C – CAPITAL ASSETS

Capital assets consisted of the following at June 30:

	Balance at June 30, 2017 <u>As Restated</u>	<u>Additions</u>	<u>Transfers</u>	Balance at June 30, 2018
Capital assets, not being depreciated:				
Land	\$ 43,951			\$ 43,951
Total capital assets, not being depreciated	<u>43,951</u>	<u>-</u>	<u>-</u>	<u>43,951</u>
Capital assets, being depreciated:				
Buildings and infrastructure	1,484,082			1,484,082
Vehicles and equipment	2,602,445	\$ 62,145	\$ 46,481	2,711,071
Total capital assets, being depreciated	<u>4,086,527</u>	<u>62,145</u>	<u>46,481</u>	<u>4,195,153</u>
Less accumulated depreciation				
Buildings and infrastructure	(920,973)	(69,004)		(989,977)
Vehicles and equipment	(1,637,499)	(234,134)	(46,481)	(1,918,114)
Total accumulated depreciation	<u>(2,558,472)</u>	<u>(303,138)</u>	<u>(46,481)</u>	<u>(2,908,091)</u>
Total capital assets being depreciated, net	<u>1,528,055</u>	<u>(240,993)</u>	<u>-</u>	<u>1,287,062</u>
Total capital assets, net	<u>\$ 1,572,006</u>	<u>\$ (240,993)</u>	<u>\$ -</u>	<u>\$ 1,331,013</u>

LASSEN TRANSIT SERVICE AGENCY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE D – LONG-TERM LIABILITIES

Long-term liability activity consisted of the following for the years ended June 30:

	Balance at June 30, 2017	Additions	Retirements	Balance at June 30, 2018	Due Within One Year
Compensated absences	\$ -	\$ 2,083	\$ (734)	\$ 1,349	\$ 1,349

NOTE E – OTHER STATE PROGRAMS

PTMISEA: In November 2006, California Voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the State as instructed by statute as the Other State Programs. These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements or for rolling stock procurement, rehabilitation, or replacement. During the year ended June 30, 2018, LTSA received and expended \$7,826 for improvements to bus maintenance facilities and road signs that were verified in the course of the audit.

LCTOP: The Low Carbon Transit Operations Program (LCTOP) was established by the California Legislature in 2014 by Senate Bill 862. The LCTOP provides funds to transit agencies to reduce greenhouse gas emission and improve mobility through operating and capital grants. Projects approved for LCTOP will support 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. During the year ended June 30, 2018, LTSA received and expended \$4,556 of LCTOP funds for free fare days.

California Office of Emergency Services (CalOES): As approved by the voters in the November 2006 general elections, Proposition 1B enacts the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 to authorize \$19.925 billion of state general obligation bonds for specified purposes, including grants for transit system safety, security and disaster response projects. CalOES has been charged with administering the following Prop 1B California Transit Security Grant Program (CTSGP). During the year ended June 30, 2018, LTSA received and expended \$72,061 of CalOES funds for security cameras and vaults for busses.

LASSEN TRANSIT SERVICE AGENCY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE E – OTHER STATE PROGRAMS (Continued)

LTSA is required to maintain a fare revenue to operating expense ratio in accordance with the Transportation Development Act. The fare revenue to operating expenses ratio for LTSA is calculated as follows for the year ended June 30, 2018:

Fare revenues	\$ 151,619
	<u>151,619</u>
Operating expenses	1,487,765
Less allowable exclusions:	
Depreciation and amortization	<u>(303,138)</u>
Net operating expenses	<u>\$ 1,184,627</u>
Fare revenue ratio	<u>12.80%</u>

LTSA was in compliance with the required 10% fare revenue for the year ended June 30, 2018.

NOTE F – PENSION PLAN

LTSA’s employees are covered under the County’s cost sharing multiple-employer defined benefit pension plan. Information on contributions, net pension liability, deferred outflows and deferred inflows for LTSA employees only is not available so no amounts are recorded in the LTSA financial statements. Information is available about the County’s pension plans in the County’s Audited Financial Statements. Pension expense allocated to LTSA for the year ended June 30, 2018 was \$20,211, and is reported as part of salaries and benefits.

NOTE G – OTHER POSTEMPLOYMENT BENEFITS

LTSA’s employees are covered under the County of Lassen’s CalPERS Health Program to provide health benefits to eligible retirees and their eligible family members. The contribution requirements are based upon actuarial valuation and are expensed to LTSA as payroll benefits via an allocation percentage. The amount allocated to LTSA during the year ended June 30, 2018 totaled \$874. Information on the County’s contributions, member contributions, other postemployment benefit obligations and net assets available for benefits for LTSA employees only is not available, so no amounts are recorded in the LTSA financial statements. See the County’s Audited Financial Statements for more information on other postemployment benefits.

NOTE H – INSURANCE COVERAGE

LTSA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. LTSA has insurance coverage through the County of Lassen, who participates in the Trindel Insurance Fund. Information on insurance coverage can be obtained from the County’s Audited Financial Statements.

LASSEN TRANSIT SERVICE AGENCY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE I- CONCENTRATIONS

LTSA receives a substantial amount of its support from a statewide retail sales tax from the Local Transportation Fund created by the Transportation Development Act. A significant reduction in the level of this support, if this were to occur, may have a significant effect on LTSA's activities.

NOTE J – COMMITMENTS AND CONTINGENCIES

The Agency has extended the software and support subscription for bus operations for the period September 1, 2018 through August 31, 2023. The contract is for \$16,200 per year with a total amount not to exceed \$81,000.

The Agency has an ongoing contract for transit operations and maintenance for the period beginning July 1, 2016 through June 30, 2019. The maximum amounts payable for fiscal year 2018/19 is \$748,992 with an option to extend for two additional years for \$1,531,976.

LTSA receives funding for specific purposes that are subject to review and audit by the granting agencies of the funding source. Such audits could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the contracts. Management is of the opinion that no material liabilities will result from such audits.

NOTE K – SUBSEQUENT EVENTS

LTSA's Board of Directors approved the purchase of a 40-foot low floor diesel bus for \$507,886 in October 2018. The purchase will be funded by Federal funding through section 5339 and LTF funds.

COMPLIANCE REPORTS



550 Howe Avenue, Suite 210
Sacramento, California 95825
Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S 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, THE TRANSPORTATION DEVELOPMENT ACT
AND OTHER STATE PROGRAM GUIDELINES

To the Board of Directors
Lassen Transit Service Agency
Susanville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lassen Transit Service Agency (LTSA) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise LTSA's basic financial statements, and have issued our report thereon dated July 12, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LTSA'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LTSA's internal control. Accordingly, we do not express an opinion on the effectiveness of LTSA'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 LTSA'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2018-001 and 2018-002 that we consider to be material weaknesses.

To the Board of Directors
Lassen Transit Service Agency

Compliance and Other Matters (including other State program guidelines)

As part of obtaining reasonable assurance about whether LTSA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our audit was further made to determine that Transportation Development Act Funds allocated and received by LTSA were expended in conformance with the applicable statutes, rules and regulations of the Transportation Development Act and Section 6667 of the California Code of Regulations and other state program guidelines. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of performing these tasks disclosed instances of noncompliance with the applicable statutes, rules and regulations of the Transportation Development Act and which are described in the accompanying schedule of findings as items 2018-003, 2018-004 and 2018-005. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

LTSA's Response to Findings

LTSA's response to the findings identified in our audit is described in the accompanying schedule of findings. LTSA's response was not subjected to the accounting procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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 LTSA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LTSA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company, LLP

July 12, 2019

LASSEN TRANSIT SERVICE AGENCY
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2018

INTERNAL CONTROL OVER FINANCIAL REPORTING

CURRENT YEAR FINDINGS

Finding 2018-001

Criteria: In order for financial statement to be fairly presented, they need to include all revenues and expenses of the entity.

Condition: The administrative costs and some revenues of LTSA have been combined with those of the Lassen County Transportation Commission (Commission) in one single fund (Fund 128). While these costs were segregated by a business unit code starting in fiscal year 2017/18, this segregation was not done retroactively. Thus, it is not possible to determine how much of the remaining \$430,000 cash balance in Fund 128, after audit adjustments to reclassify fiscal year 2017/18 activity related to LTSA, relates to LTSA and how much relates to the Commission. Currently, this \$430,000 of cash is included in the financial statements of the Commission.

Effect: The cash and net position reported in LTSA's financial statements could be understated or overstated, depending on the extent of revenues versus expenditures related to LTSA that were recorded in Fund 128. The amount of this understatement or overstatement could not be determined.

Cause: Certain expenditures and revenues related to LTSA and the Commission have been recorded in the same fund in the County's accounting system.

Recommendation: LTSA needs to prepare an analysis to determine the extent of revenues and expenditures related to LTSA that have been recorded in Fund 128, or provide justification as to why the \$430,000 of cash in fund 128 as of June 30, 2018 (after audit adjustments) belongs entirely to the Commission.

Management's Response: Management will endeavor to account for the fund sources and expenses associated with Fund 128, but if they are not able to, a negotiated settlement agreement will be sought with the County to disperse the cash balance, and the fund will be closed.

Finding 2018-002

Criteria: Internal controls over financial reporting should be in place to ensure management has the ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Condition: LTSA revenues reflected in the general ledger omitted \$142,730 of Local Transportation Fund (LTF) revenue, \$69,500 of State Transit Assistance (STA) revenue and \$39,080 of State of Good Repair (SGR) revenue, resulting in audit adjustments to properly record this revenue. We also noted that revenues used for capital purposes were not reported separate from revenues used for operating purposes.

Effect: Audit adjustments needed to be posted to report the financial statements in accordance with generally accepted accounting principles.

Cause: Year-end reconciliations of Transportation Development Act Fund allocations made by the Lassen County Transportation Commission to revenue recorded by LTSA are not being performed.

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Recommendation: We recommend LTSA ensure procedures are in place for reconciling LTF, STA and SGR funds to allocations made by the Lassen County Transportation Commission and to allocations by the State Controller's Office. Also, revenues used for capital purposes need to be recorded in a separate general ledger account.

Management's Response: Management will ensure all required entries are posted during the closing process in the future.

COMPLIANCE AND OTHER MATTERS

CURRENT YEAR FINDINGS

Finding 2018-003

Criteria: Section 6630 and Section 6632 of the Transportation Development Act requires agencies to file a claim along with supplemental information to the transportation planning commission to receive an allocation of LTF funds.

Condition: The claim for LTF funds consisted of an email to the Executive Secretary, and did not contain all of the items required by the TDA. Also, a resolution passed by the Lassen County Transportation Commission approving the claim could not be provided, as required by the TDA.

Effect: LTSA was not in compliance with Section 6630 and Section 6632 of the Transportation Development Act requiring filing a claim with supplemental information to the transportation planning commission.

Cause: LTSA did not file a claim in accordance with Sections 6630 and 6632.

Recommendation: We recommend LTSA file claims in accordance with Sections 6630 and 6632 of the Transportation Development Act, and retain copies of all claims, supplemental information and resolutions related to LTF, STA and SGR monies.

Management's Response: Management will ensure all required claims and resolutions are submitted and retained.

Finding 2018-004

Criteria: Public Utility Code (PUC) Section 99314.6 requires that for State Transit Assistance (STA) Funds to be used for operating purposes, the transit operator must meet one of two efficiency standards.

Condition: LTSA claimed STA Funds for operating purposes, but a calculation to determine whether the efficiency standards were met has not been performed.

Effect: LTSA may have improperly used STA Funds for operating purposes if the efficiency standards were not met.

Cause: Efficiency standard calculations were not prepared and submitted with the claim

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Recommendation: LTSA needs to ensure that when STA Funds are claimed and used for operating purposes, a computation is performed to determine compliance with PUC Section 99314.6.

Management's Response: Management will strive to submit claims with all required information.

Finding 2018-005

Criteria: LTSA is required to file a Transit Operators Financial Transactions Report (State Controller's Report) with the California State Controller's Office by January 31 each year according to PUC Section 99243.

Condition: LTSA did not file its State Controller's Report by the filing deadline.

Effect: LTSA was not in compliance with the Public Utility Code requirements to file a Controller's Report by January 31. Failure to file the State Controller's Report on a timely basis could result in the withholding of Transportation Development Act funding.

Cause: LTSA did not file its State Controller's Report by the filing deadline.

Recommendation: We recommend LTSA file the State Controller's Report by the filing deadline.

Management's Response: LTSA will strive to complete the Report on a timely basis.