

LASSEN TRANSIT SERVICE AGENCY

Audited Financial Statements
and Compliance Reports

June 30, 2019

LASSEN TRANSIT SERVICE AGENCY

Audited Financial Statements
and Compliance Reports

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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, 2019 and 2018, and the related statements of revenues, expenses, changes in net position, and cash flows for the years 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, 2019 and 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, 2019 and 2018 and the results of its operations and cash flows for the years 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

Restatement

As described in Note N, the County determined pension and other postemployment benefit costs for County employees providing services to LTSA since 1972 were not previously charged to LTSA. Accordingly, adjustments have been made to liabilities, and net position at July 1, 2017 to record these liabilities.

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 May 5, 2020 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

May 5, 2020

LASSEN TRANSIT SERVICE AGENCY

BALANCE SHEETS

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and investments	\$ 361,180	\$ 120,782
Restricted cash	307,631	
Accounts receivable	8,848	
Due from other governments	54,346	121,442
Capital assets:		
Not depreciated	43,951	43,951
Depreciated, net	<u>1,008,649</u>	<u>1,287,062</u>
TOTAL ASSETS	<u><u>\$ 1,784,605</u></u>	<u><u>\$ 1,573,237</u></u>
LIABILITIES		
Accounts payable	\$ 74,192	\$ 70,563
Due to other governments	33,564	
Unearned revenue	452,672	
Accrued payroll	3,731	4,068
Compensated absences, due within one year	846	1,349
Reimbursements payable to County - pension	108,528	108,528
Reimbursements payable to County - other postemployment benefits (OPEB)	<u>51,746</u>	<u>51,746</u>
TOTAL LIABILITIES	<u><u>725,279</u></u>	<u><u>236,254</u></u>
NET POSITION		
Net investment in capital assets	1,052,600	1,331,013
Unrestricted	<u>6,726</u>	<u>5,970</u>
TOTAL NET POSITION	<u><u>1,059,326</u></u>	<u><u>1,336,983</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 1,784,605</u></u>	<u><u>\$ 1,573,237</u></u>

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

LASSEN TRANSIT SERVICE AGENCY
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Charges for services	\$ 176,626	\$ 147,063
Low carbon transit operations program subsidy for fares	10,246	4,556
TOTAL OPERATING REVENUES	186,872	151,619
OPERATING EXPENSES		
Professional fees	904,942	889,565
Salaries and benefits	114,489	123,960
Administrative costs	43,243	32,226
Transportation and travel	96,732	89,485
Utilities	23,728	22,567
Insurance	21,983	14,800
Depreciation	304,726	303,138
Other expense	3,350	12,024
TOTAL OPERATING EXPENSES	1,513,193	1,487,765
OPERATING LOSS	(1,326,321)	(1,336,146)
NONOPERATING REVENUES (EXPENSES)		
Local transportation fund allocation	612,605	242,557
State transit assistance fund allocation	216,425	205,855
State of good repair allocation		39,080
State grants		
CalOES		9,916
PTMISEA		7,826
Federal transit administration grants	192,565	374,662
Interest income		3,816
Gain on sale of assets	756	
TOTAL NONOPERATING REVENUES (EXPENSES)	1,022,351	883,712
LOSS BEFORE CAPITAL CONTRIBUTIONS	(303,970)	(452,434)
CAPITAL CONTRIBUTIONS		
CalOES		62,145
LCTOP	20,063	
PTMISEA	6,250	
TOTAL CAPITAL CONTRIBUTIONS	26,313	62,145
CHANGE IN NET POSITION	(277,657)	(390,289)
Net position, beginning of year as previously stated	1,336,983	1,887,546
Restatement		(160,274)
Net position, beginning of year as restated	1,336,983	1,727,272
NET POSITION, END OF YEAR	\$ 1,059,326	\$ 1,336,983

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

LASSEN TRANSIT SERVICE AGENCY

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passengers	\$ 176,626	\$ 147,063
Operating grants and subsidies	1,398	4,556
Cash paid to suppliers for goods and services	(1,056,785)	(1,059,977)
Cash paid to employees for services	(115,329)	(118,543)
NET CASH USED BY OPERATING ACTIVITIES	<u>(994,090)</u>	<u>(1,026,901)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Non-operating grants and subsidies	1,245,363	758,454
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>1,245,363</u>	<u>758,454</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grants received for capital acquisitions	302,250	62,145
Acquisition of capital assets	(26,313)	(62,145)
Proceeds from disposal of capital assets	756	
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>276,693</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	-	3,816
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>-</u>	<u>3,816</u>
INCREASE IN CASH AND CASH EQUIVALENTS	<u>527,966</u>	<u>(264,631)</u>
Cash and cash equivalents, beginning of year	<u>120,782</u>	<u>385,413</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 648,748</u>	<u>\$ 120,782</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE COMBINING BALANCE SHEET		
Cash and investments	\$ 361,180	\$ 120,782
Restricted cash	307,631	
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 668,811</u>	<u>\$ 120,782</u>

(Continued)

LASSEN TRANSIT SERVICE AGENCY
STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30, 2019 and 2018

	2019	2018
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (1,326,321)	\$ (1,336,146)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	304,726	303,138
Changes in operating assets and liabilities:		
Due from other government agencies		(121,442)
Accounts receivable	(8,848)	
Accounts payable	3,629	690
Accrued payroll	(337)	4,068
Due to other governments	33,564	
Compensated absences	(503)	1,349
	\$ (994,090)	\$ (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, 2019 and 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, 2019

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 no restricted net position as of June 30, 2019.

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, 2019

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.

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, 2019 and 2018, the weighted average maturity of the investments contained in the County of Lassen investment pool was approximately 520 and 611 days, respectively.

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.

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).

LASSEN TRANSIT SERVICE AGENCY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE C – CAPITAL ASSETS

Capital assets consisted of the following at June 30 2019 and 2018:

	Balance at June 30, 2018	Additions	Retirements	Balance at June 30, 2019
Capital assets, not being depreciated:				
Land	\$ 43,951			\$ 43,951
Total capital assets, not being depreciated	<u>43,951</u>			<u>43,951</u>
Capital assets, being depreciated:				
Buildings and infrastructure	1,484,082	\$ 26,313		1,510,395
Vehicles and equipment	2,711,071		\$ (209,017)	2,502,054
Total capital assets, being depreciated	<u>4,195,153</u>	<u>26,313</u>	<u>(209,017)</u>	<u>4,012,449</u>
Less accumulated depreciation				
Buildings and infrastructure	(989,977)	(71,635)		(1,061,612)
Vehicles and equipment	(1,918,114)	(233,091)	209,017	(1,942,188)
Total accumulated depreciation	<u>(2,908,091)</u>	<u>(304,726)</u>	<u>209,017</u>	<u>(3,003,800)</u>
Total capital assets being depreciated, net	<u>1,287,062</u>	<u>(278,413)</u>	<u>-</u>	<u>1,008,649</u>
Total capital assets, net	<u>\$ 1,331,013</u>	<u>\$ (278,413)</u>	<u>\$ -</u>	<u>\$ 1,052,600</u>

	Balance at June 30, 2017	Additions	Transfers	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>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, 2019

NOTE D – LONG-TERM LIABILITIES

Long-term liability activity consisted of the following for the years ended June 30 2019 and 2018:

	<u>Balance at June 30, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2019</u>	<u>Due Within One Year</u>
Compensated absences	\$ 1,349	\$ 2,285	\$ (2,788)	\$ 846	\$ 846
	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2018</u>	<u>Due Within One Year</u>
Compensated absences	\$ -	\$ 2,083	\$ (734)	\$ 1,349	\$ 1,349

NOTE E – UNEARNED REVENUE

The Local Transportation Fund (LTF) and State Transit Assistance Fund (STAF) allocates monies to the transit system to support operations and for capital expenditures. LTF and STAF allocations are considered earned when they are properly spent for operations by the transit system. Allocations in excess of this amount are recorded as unearned revenue.

A schedule of changes in unearned revenue for the year ended June 30, 2019 is as follows:

	<u>LTF- Operating</u>	<u>LTF- Capital</u>	<u>STA- Operating</u>	<u>STA- Capital</u>	<u>Total</u>
Beginning balance, July 1, 2018	\$ -	\$ -	\$ -	\$ -	\$ -
Allocations	757,646	296,000	216,425	11,631	1,281,702
Maximum eligibility Operating	<u>(612,605)</u>		<u>(216,425)</u>		<u>(829,030)</u>
Ending balance, June 30, 2019	<u>\$ 145,041</u>	<u>\$ 296,000</u>	<u>\$ -</u>	<u>\$ 11,631</u>	<u>\$ 452,672</u>

NOTE F – 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, 2019, LTSA received and expended \$6,250 for improvements to bus maintenance facilities that were verified in the course of the audit. 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.

LASSEN TRANSIT SERVICE AGENCY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE F – OTHER STATE PROGRAMS (Continued)

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, 2019, LTSA received and expended \$20,063 for bus shelters that were verified in the course of the audit. During the years ended June 30, 2019 and 2018, LTSA received and expended \$10,246 and \$4,556 of LCTOP funds for free fare days, respectively.

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). LTSA did not receive or expend and CalOES funds during the year ended June 30, 2019. During the year ended June 30, 2018, LTSA received and expended \$72,061 of CalOES funds for security cameras and vaults for busses.

NOTE G – FARE REVENUE RATIO

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 years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Fare revenues	\$ 186,872	\$ 151,619
Less: charter revenue	(4,808)	
Fare revenues excluding charter service	<u>182,064</u>	<u>151,619</u>
Operating expenses	1,513,193	1,487,765
Less allowable exclusions:		
Depreciation and amortization	(304,726)	(303,138)
Charter service expenses	<u>(2,820)</u>	
Net operating expenses	<u>\$ 1,205,647</u>	<u>\$1,184,627</u>
Fare revenue ratio	<u>15.10%</u>	<u>12.80%</u>

LTSA was in compliance with the required 10% fare revenue for the years ended June 30, 2019 and 2018.

LASSEN TRANSIT SERVICE AGENCY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE H – PENSION PLAN

LTSA's employees are covered under the County's cost sharing multiple-employer defined benefit pension plan. Pension expense allocated to LTSA for the years ended June 30, 2019 and 2018 was \$6,975 and \$20,211, respectively, and is reported as part of salaries and benefits. 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.

NOTE I – OTHER POST EMPLOYMENT 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 valuations and are expensed to LTSA as payroll benefits via an allocation percentage. The amount allocated to LTSA during the years ended June 30, 2019 and 2018 totaled \$879 and \$874, respectively. 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 J – 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.

NOTE K – 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 L – 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, 2021. The maximum amounts payable for fiscal year 2018/19 is \$748,992 and LTSA has exercised 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.

LASSEN TRANSIT SERVICE AGENCY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2019

NOTE M – SUBSEQUENT EVENTS

LTSA's Board of Directors approved the purchase of a 32-foot diesel bus for \$160,846 in September 2018. The purchase will be funded by Federal funding through section 5339, State of Good Repair, and LTF funds. The bus was received February 27, 2020 and is expected to be in service April 2020.

LTSA's Board of Directors approved the purchase of two additional busses for \$335,265 in July 2019. The purchase of these busses is to be funded by LTF and PTMISEA capital funds. The expected delivery date for the two new busses is May 2020.

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. The bus was received January 23, 2020 and is expected to be in service March 2020.

NOTE N – REIMBURSEMENT PAYABLE TO COUNTY AND RESTATEMENT OF NET POSITION

County employees performed various functions related to transit activities since 1972 but only salaries and certain benefits were charged to LTSA. The County quantified the amount of unfunded pension and OPEB liabilities and invoiced the Commission for these liabilities. Since a portion of these liabilities related to LTSA, the County provided a breakdown of the liabilities between Commission and LTSA employees. The unfunded liability and OPEB for LTSA employees include active and retired employees based upon 1) an employee's years of service for LTSA, 2) annual full time equivalent (FTE) of work for LTSA. The unfunded pension liability attributed to LTSA was \$108,528 and the unfunded OPEB liability attributed to LTSA was \$51,746. Net position as of July 1, 2017 has been reduced by \$160,274 to reflect recording of these liability balances.

COMPLIANCE REPORTS



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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, 2019, and the related notes to the financial statements, which collectively comprise LTSA's basic financial statements, and have issued our report thereon dated May 5, 2020.

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 2019-001 and 2019-002 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 2019-003 and 2019-004. 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

May 5, 2020

LASSEN TRANSIT SERVICE AGENCY
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2019

INTERNAL CONTROL OVER FINANCIAL REPORTING

CURRENT YEAR FINDINGS

Finding 2019-001

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 \$410,000 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 \$410,000 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 \$410,000 of cash in fund 128 as of June 30, 2018 (after audit adjustments) belongs entirely to the Commission. The cash in Fund 128, to the extent it is available, will be used to pay the pension and OPEB liabilities of LTSA, upon the Commission receiving and approving a request from LTSA for an additional allocation to cover this payment.

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 2019-002

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

Condition: The County's closing process did not identify required closing entries to report LTSA's financial statements on the accrual basis. In addition, restricted resources are not being tracked in separate restricted fund balance accounts.

Effect: Audit adjustments were needed to report the financial statements in accordance with generally accepted accounting principles, including entries posted to roll forward equity, transfer activity related to LTSA operations, record additional payables, record activity in the correct accounts for their specific purposes, record pension and OPEB liabilities and record restricted resources in separate restricted cash and fund balance accounts.

Cause: The closing process did not identify all required closing entries.

LASSEN TRANSIT SERVICE AGENCY
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2019

Recommendation: We recommend the County ensure transactions are reported in the proper period. If this separate tracking cannot be done within the County's accounting system, the Agency needs to consider establishing its own internal accounting system to track these various funding sources.

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 2019-003

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.

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. This computation needs to be included in the claim packet.

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

PRIOR YEAR FINDINGS

Finding 2018-001

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.

Current Status: Fund 128 still has a balance of \$410,000 of cash after adjustments during the fiscal year 2018/19 audit. See finding 2019-001 which is a continuation of this finding.

Finding 2018-002

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.

LASSEN TRANSIT SERVICE AGENCY
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2019

Current Status: This finding has been resolved in the fiscal year 2018/19 audit.

Finding 2018-003

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.

Current Status: This finding has been resolved in the fiscal year 2018/19 audit.

Finding 2018-004

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

Current Status: LTSA did not perform the calculations for efficiency standards. See finding 2019-0043 which is a continuation of this finding.

Finding 2018-005

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

Current Status: This finding has been resolved in the fiscal year 2018/19 audit