SANTA BARBARA
METROPOLITAN TRANSIT DISTRICT

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012 AND 2011

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

June 30, 2012 and 2011

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McGowan Guntermann
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Barbara Metropolitan Transit District
Santa Barbara, California

We have audited the accompanying financial statements as listed in the preceding table of contents of the Santa Barbara Metropolitan Transit District as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Santa Barbara Metropolitan Transit District as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2012, on our consideration of the Santa Barbara Metropolitan Transit District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of this 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. The report is an integral part of an audit performed in accordance with Government *Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages I through VI be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McGowan Guntermann

November 30, 2012

Management's Discussion and Analysis for Fiscal Year 2011-12

This report provides a narrative and analytical overview of the financial activities of the Santa Barbara Metropolitan Transit District (District). The District's basic financial statements are prepared using proprietary fund (enterprise fund) accounting, the same basis of accounting as private-sector business enterprises. The District operates under one enterprise fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a balance sheet, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. These are followed by notes to the financial statements.

Financial Reports

The balance sheet presents information on the assets and liabilities, with the difference between the two reported as net assets.

The statements of revenue, expenses and changes in net assets report the District's annual operating and non-operating revenue and expenses combined with any capital grants, net of depreciation expense, to determine the change in net assets for the fiscal years. That change, combined with the previous year-end net asset total, reconciles to the net asset total at the end of the fiscal years. The schedules of expenses reports the amount of operating costs incurred during the fiscal years.

The statements of cash flow report annual cash and cash equivalent activities resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year cash balance agrees to the cash and cash equivalent balance at the end of the fiscal years. Certificates of deposit that exceed ninety days on acquisition are not considered cash equivalents.

Financial Summary

The District completed fiscal year 2011-12 with an increase in Unrestricted Net Assets, of $308,669, which was attributable to better than expected sales tax revenue receipts and operating expense below what was budgeted for the year. The increase in Unrestricted Net Assets includes the estimated unfunded liability of $974,000 in Other Post Employment Retirement Benefits (OPEB) – Retiree Health Insurance expense. The increase reverses the three year trend of declining Unrestricted Net Assets, which is illustrated below:

Net Assets	2012	2011	2010	2009
Invested in capital assets	$28,707,528	$30,927,459	$26,251,083	$28,594,800
Restricted	6,494,210	501,176	4,000,489	2,646,060
Unrestricted	6,297,378	5,988,709	6,816,430	7,469,239
Total Net Assets	$41,499,116	$37,417,344	$37,068,002	$38,710,099

The increase of $5,993,034 in Restricted Net Assets reflects a cash advance of $1,356,575 for the acquisition of mobile radios and an automated vehicle location system as well as an additional cash advance of $4,616,662 for replacement buses. The remaining balance is attributable to Proposition 1B – Transit Security funds remaining for another capital project. The aforementioned replacement buses and automated vehicle location system are scheduled for completion by the end of calendar year 2013.

Assets & Liabilities

The District uses proceeds from local, state and federal grants to acquire its capital assets. Net assets serve as a useful indicator of an agency's financial position.

Statement of Net Assets
June 30

		2012	**2011**
Assets:			
Current Assets		$13,846,981	$20,552,786
Non-Current Assets		35,201,738	30,927,459
	Total Assets	$49,048,719	$51,480,245
Liabilities:			
Current Liabilities		$1,959,171	$9,199,708
Non-Current Liabilities		5,590,432	4,863,193
	Total Liabilities	$7,549,603	$14,062,901
Net Assets:			
Invested in capital assets		$28,707,528	$30,927,459
Restricted		6,494,210	501,176
Unrestricted		6,297,378	5,988,709
	Total Net Assets	$41,499,116	$37,417,344

<u>Revenue, Expense and Performance Indicators</u>

The District's three primary sources of revenue are passenger fares, federal operating assistance and Transportation Development Act (TDA) receipts. Actual passenger fares for fiscal year 2011-12 were $8,136,840 versus a prior year result of $8,149,358, resulting in a decrease of $12,518. As the table below illustrates, passenger fare revenue has declined each year since the first full year of the last fare rate change (January 2009).

	2012	2011	2010	2009
Passenger Fares	$8,136,840	$8,149,358	$8,259,939	$7,967,940

Federal 5307 Formula Operating Assistance increased by $32,484 or .7%. Non-Transportation Revenue increased by 14% or $66,911. The increase was due in part to better than anticipated property tax returns and an increase in advertising revenue and the sale of assets.

SB325 - Transportation Development Act (TDA) Local Transportation Funds (LTF) & State Transit Assistance (STA)

	Fiscal Year			
	2011-12	2010-11	2009-10	2008-09
Local Transportation Fund (SB 325):	$6,196,529	$5,749,854	$5,608,291	$6,172,289
State Transit Assistance Fund (SB 620):	259,569	513,984	305,420	566,330
	$6,456,098	$6,263,838	$5,913,711	$6,738,619
Subsidy Change:	$192,260	$350,127	($824,908)	
% Change:	2.8%	5.4%	-13.2%	

In fiscal year 2011-12 TDA funding increased by $192,260 or 2.8%. These funds constitute a significant percentage of the District's revenue and are used to balance the operating budget.

Historically, the District balanced the operating budget while managing to allocate approximately one million dollars annually to capital related expenses. TDA-LTF funds allocated to capital expenses were supplemented with TDA-STA funds to balance the capital budget. Due to the historic drop in sales tax revenue between fiscal year's 2007-08 and 2009-10, the District is no longer able to set aside significant amounts of TDA-LTF funds for its capital budget. To do so, the District would have to increase passenger fares and/or cut service levels substantially. The availability of ARRA federal stimulus, Proposition 1B and State Transit Assistance funds have satisfied the capital financing needs of the District and have temporarily offset the need to raise fares or cut service.

The use of State Transit Assistance (TDA-STA) increased by $254,415. The TDA-STA increase is a bit misleading as the figure reflects the amount of reimbursement requested for capital acquisitions. The District has approximately $3,900,000 in TDA-STA allocated for future capital purchases from which it can draw. The funds are intended to be used on planned and future bus purchases as well as other miscellaneous capital projects. The funds are held by the Santa Barbara County Association of Governments. (SBCAG)

Operating expenses, before depreciation, decreased by $517,152 or 2.3% of prior year figures. Governmental Accounting Standards Board (GASB) Statement 45 required the District to conduct an actuarial assessment of its Other Post Retirement Benefits (Health Insurance) and book the reported liability. The policy does not require the District to fund the liability but it is required to be disclosed and accrued. The unfunded liability resulted in a $974,000 expense in fiscal year 2011-12.

Wages and fringe benefits accounted for 76.4% of the District's operating costs, before depreciation, in fiscal year 2011-12. Wages and fringe benefits decreased by $431,821 in fiscal year 2011-12, due chiefly to decreases in wages of ($130,808), health insurance of ($101,917) and workers compensation ($106,009).

Santa Barbara Metropolitan Transit District
Revenue, Expense and Performance Report
Years Ended June 30, 2012 and 2011

	Actual FY 2011-12	Prior Year FY 2010-11	Actual vs. Prior % Change	Budget FY 2011-12	Actual vs. Budget % Change
Revenues:					
Passenger Fares	$8,136,840	$8,149,358	-0.2%	$8,044,770	1.1%
Local Operating Assistance	226,154	145,203	55.8%	149,555	51.2%
Measure A	1,731,182	1,544,620	-	1,544,185	12.1%
Non-Transportation Revenue (1)	799,351	732,440	9.1%	699,188	14.3%
Total :	$10,893,527	$10,571,619	3.0%	$10,437,698	4.4%
Major Subsidies:					
Operating					
TDA-LTF	$6,196,529	$5,743,904	7.9%	$5,991,150	3.4%
Federal Operating Assistance	4,607,729	4,575,245	0.7%	4,598,241	0.2%
Property Tax	898,591	866,753	3.7%	830,000	8.3%
Total :	11,702,849	11,185,902	4.6%	11,419,391	2.5%
Capital					
TDA-LTF & TDA-STA	259,569	519,934	-50.1%	1,526,868	-83.0%
Federal Grants	92,478	2,994,198	-96.9%	3,659,856	-97.5%
Measure A	321,881	479,870	-32.9%	699,000	-54.0%
Proposition 1B	6,232,228	493,238	1163.5%	6,207,718	0.4%
Miscellaneous Grants	0	26,252	-	0	-
Total :	$6,906,156	$4,513,492	53.0%	$12,093,442	-42.9%
Total Revenue	**$29,502,532**	**$26,271,013**	**12.3%**	**$33,950,531**	**-13.1%**
Expenses:					
Vehicle Operations	$12,365,230	$12,662,710	-2.3%	$12,442,048	-0.6%
Vehicle Maintenance	5,259,034	5,168,293	1.8%	5,435,993	-3.3%
Passenger Facilities	1,481,260	1,528,025	-3.1%	1,542,231	-4.0%
General Overhead	2,169,321	2,279,198	-4.8%	2,436,816	-11.0%
OPEB - Retiree Health Care	974,000	1,127,771	-13.6%	-	-
Total :	$22,248,845	$22,765,997	-2.3%	$21,857,088	1.8%
Depreciation	$3,131,657	$2,977,192			
Loss on Disposal of Assets	$40,261	$178,485			
Total :	$3,171,918	$3,155,677			
Total Expense	**$25,420,763**	**$25,921,674**			
Performance Indicators:					
Total Passengers	7,948,409	7,712,698	3.1%		
Revenue Hours	203,655	211,010	-3.5%		
Revenue Miles	2,583,253	2,630,106	-1.8%		
Farebox Ratio (2)	36.6%	38.0%	-3.8%		
Cost/Passenger	$2.80	$2.73	2.6%		
Cost/Hour	$109.25	$102.77	6.3%		
Cost/Mile	$8.61	$8.14	5.8%		
Passenger/Hour	39.03	37.65	3.7%		
Passenger/Mile	3.08	2.98	3.1%		

(1) Of the $799,351 in non-transportation revenue for fiscal year 2011-12, $484,779 was generated by advertising revenue. The District offers advertising opportunities on the inside and outside of its buses.

(2) Farebox Ratio is a standard transit performance indicator that is calculated by dividing operating expenses, less depreciation and interest, by passenger fares.

Fiscal Year 2011-12 Financial Performance

From a financial perspective, the District performed very well considering the cost of diesel fuel per gallon rose by 4% from the previous year. Despite the increase the District did well paying $2.57 per gallon, as the rate on the open market was considerably higher throughout most of the fiscal year. The District's primary goal pertaining to the fixed-price contract was to ensure price stability, the fact that the contract resulted in significant savings was an additional benefit.

The primary financial concern for the District going forward is the projected deficit between operating revenue and expense and the estimated unfunded liability associated with retiree health insurance. TDA-LTF sales tax revenue of $6,196,529 represented an increase of 7.8% or $446,676. As the table below illustrates, just four years ago the District received $6,825,407 in TDA-LTF sales tax revenue:

Sales Tax Revenue,TDA-LTF
(Reflects revenue received during fiscal year)

	Actual FY 2007-08	Actual FY 2008-09	Actual FY 2009-10	Actual FY 2010-11	Actual FY 2011-12	Change Vs. PY	
End of Year	-	-	-	-	$205,379	-	-
Jul	455,572	479,174	380,950	365,398	418,070	52,672	12.6%
Aug	608,583	639,257	512,845	487,191	557,628	70,437	12.6%
Sep	726,428	592,450	476,285	618,759	615,272	(3,487)	-0.6%
Oct	499,376	480,108	395,348	390,803	402,094	11,290	2.8%
Nov	666,708	640,933	448,250	521,319	536,746	15,427	2.9%
Dec	601,220	533,269	616,009	606,422	716,945	110,523	15.4%
Jan	525,222	476,771	403,925	421,218	443,233	22,015	5.0%
Feb	702,118	523,346	538,886	561,843	591,201	29,357	5.0%
Mar	447,241	485,681	483,064	493,126	591,919	98,793	16.7%
Apr	429,860	384,963	340,244	357,329	402,671	45,341	11.3%
May	574,228	414,082	497,508	524,276	537,303	13,027	2.4%
Jun	588,850	522,256	514,976	402,167	383,447	(18,719)	-4.9%
Sub total:	**$6,825,407**	**$6,172,289**	**$5,608,291**	**$5,749,853**	**$6,196,529**	**$446,676**	**7.8%**
	Change from PY:	**($653,118)**	**($563,998)**	**$141,562**	**$446,676**		
		-9.6%	**-9.1%**	**2.5%**	**7.8%**		

TDA-LTF sales tax revenue is relied upon to balance the operating budget and in fiscal year 2011-12 the amount received was sufficient to do so, including the estimated retiree health insurance accrual expense of $974,000. The liability remains unfunded, while the District's immediate cash position remains unaffected. As more vested employees retire, the "pay-as-you-go" approach to funding the expense is projected to put a greater strain on the District's operating budget.

<u>Financial Outlook</u>

The economic downturn experienced the past few years required the District to slightly reduce service levels and freeze employee wage rates. A sharp increase in diesel fuel prices and potential wage and benefit increases have left the District with a projected $600,000 imbalance in its operating budget for fiscal year 2012-13.

Due to the projected deficit it is imperative that the District restrain the growth in operating costs. It is also likely that a service level cut and/or a fare increase may be required if the amount of sales tax revenue does not continue to improve as it did in fiscal year 2011-12.

Capital Budget
The state of California has continued to fund the State Transit Assistance (TDA-STA) program the past few years despite critical general fund needs. Voter approval of Proposition 30 will provide the State with some relief, however, State budget deficits will likely continue to call into question the reliability of the TDA-STA funding source for MTD.

With the appropriation of various one-time federal and state grants, including the remaining balance of TDA-STA funds and the initiation of the Measure A – Transit Capital Program, the District's capital budget is projected to be made whole without the use of more TDA-LTF sales tax revenue.

Below is a list of other significant issues that will impact the District's finances in the near future:

- Electric and diesel bus acquisitions – The District is planning to acquire eight replacement electric shuttles paid for with federal and TDA-STA funds. Additional replacement buses are on order and will be paid for with Proposition 1B funds.

- TDA Subsidy – Population is a significant factor in determining the distribution of TDA funds within Santa Barbara County. If the population of southern Santa Barbara County continues to decrease, the District's share of TDA funds will shrink. This does not mean, in and of itself, that the District will see a decrease in TDA funds but it will receive less of the county-wide apportionment.

- The recent 2-year authorization of MAP-21, federal transportation spending bill, will have a significant impact on the District's operating budget. Details and guidance regarding the implementation of MAP-21 are still pending but staff is cautiously optimistic that operating assistance will increase.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

BALANCE SHEETS
June 30, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 7,406,860	$ 9,303,326
Grants receivable	4,937,131	5,646,366
Other receivable	273,941	102,047
Materials and supplies inventories	1,022,092	1,119,752
Other current assets	206,957	119,119
Total Current Assets	13,846,981	16,290,610
NON-CURRENT ASSETS		
Cash restricted for capital support	6,494,210	4,262,176
Capital assets:		
Tangible transit operating property	59,785,969	60,470,149
Less: Accumulated depreciation	(31,078,441)	(29,542,690)
Capital Assets, net	28,707,528	30,927,459
Total Non-Current Assets	35,201,738	35,189,635
TOTAL ASSETS	$ 49,048,719	$ 51,480,245

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Accounts payable	$ 665,525	7,561,686
Accrued payroll	1,005,963	1,427,221
Accrued expenses	287,683	210,801
Total Current Liabilities	1,959,171	9,199,708
NON-CURRENT LIABILITIES		
Compensated absences payable	316,094	337,022
Accrued damage, injury, and employee claims	1,633,338	1,701,171
Accrued other post employment benefits	3,641,000	2,825,000
Total Non-Current Liabilities	5,590,432	4,863,193
Total Liabilities	7,549,603	14,062,901
NET ASSETS		
Invested in capital assets	28,707,528	30,927,459
Restricted	6,494,210	4,262,176
Unrestricted	6,297,378	2,227,709
TOTAL NET ASSETS	41,499,116	37,417,344
TOTAL LIABILITIES AND NET ASSETS	$ 49,048,719	$ 51,480,245

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

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUE, NOT INCLUDING LOCAL AND FEDERAL ASSISTANCE		
Passenger fares	$ 8,136,840	$ 8,149,358
OPERATING EXPENSES		
Vehicle operations	12,365,231	12,662,711
Vehicle maintenance	5,259,036	5,168,293
Passenger facilities	1,481,261	1,528,026
General overhead	2,208,916	2,279,196
Post employment health care benefits	934,401	1,127,771
Total before Depreciation	22,248,845	22,765,997
Depreciation	3,131,657	2,977,192
Total Expenses	25,380,502	25,743,189
OPERATING LOSS	(17,243,662)	(17,593,831)
NON-OPERATING REVENUE		
Non-transportation revenue, including interest, advertising, rent and miscellaneous	799,351	732,440
Taxes levied by Santa Barbara County for Transit District	898,591	866,753
Transportation Development Act funding and allocations	6,456,098	6,263,839
Federal grants	4,700,207	7,569,444
Proposition 1B grants	6,232,228	493,238
Measure A grants	2,053,063	2,024,490
Miscellaneous grants	226,154	171,453
Loss on disposal of assets	(40,261)	(178,485)
Total Non-Operaiting Revenue	21,325,431	17,943,172
CHANGE IN NET ASSETS	4,081,769	349,341
BEGINNING OF YEAR NET ASSETS	37,417,344	37,068,003
END OF YEAR NET ASSETS	$ 41,499,113	$ 37,417,344

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

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

STATEMENTS OF EXPENSES
For the Years Ended June 30, 2012 and 2011

	2012	2011
LABOR		
Operators' wages	$ 6,213,215	$ 6,273,585
Other salaries and wages	3,746,131	3,816,569
Total Labor	9,959,346	10,090,154
FRINGE BENEFITS		
Payroll taxes	908,542	918,464
Retirement plans	1,262,095	1,312,224
Health and welfare	2,852,539	2,954,456
Workers compensation	595,243	701,252
Sick pay	222,682	262,270
Holiday pay	367,036	387,682
Vacation pay	716,814	694,466
Other paid absences	72,482	72,924
Uniforms and tool allowances	51,356	46,064
Total Fringe Benefits	7,048,789	7,349,802
SERVICES		
Professional and technical including directors' fees	394,039	418,836
Outside services	85,975	90,035
Contract maintenance services	258,330	279,122
Promotion and printing	161,284	145,926
Total Services	899,628	933,919
MATERIALS AND SUPPLIES		
Fuels and lubricants	1,969,821	1,942,145
Tires and tubes	135,475	151,107
Bus parts	646,223	607,551
Other materials and supplies	191,608	198,612
Electric bus power	84,141	88,195
Total Material and Supplies	3,027,268	2,987,610
UTILITIES AND TELEPHONE	200,576	199,889
CASUALTY AND LIABILITY COSTS	354,339	495,913
PURCHASED TRANSPORTATION	574,404	574,411
MISCELLANEOUS EXPENSES		
Dues and subscriptions	32,478	35,109
Travel, meetings and training	19,936	9,267
Purchased media	3,122	7,892
Other miscellaneous expenses	128,959	82,031
Total Miscellaneous Expenses	184,495	134,299
Total Expenses before Depreciation	22,248,845	22,765,997
DEPRECIATION	3,131,657	2,977,192
TOTAL EXPENSES	$ 25,380,502	$ 25,743,189

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

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATIONS		
Receipts from transit customers	$ 8,136,840	$ 8,129,550
Payments to suppliers and vendors	(3,975,433)	(4,902,520)
Payments to employees/benefits	(16,634,310)	(16,362,062)
NET CASH PROVIDED BY OPERATING ACTIVITIES	(12,472,903)	(13,135,032)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	11,255,333	12,325,606
Non-transportation revenue, including advertising, rental and miscellaneous	741,342	656,060
Taxes levied by Santa Barbara County	898,591	866,753
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	12,895,266	13,848,419
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(7,612,888)	(988,235)
State of California Prop 1B grant advance	259,283	259,587
State of California Prop 1B PTMISA grant advance	5,972,285	-
Federal, state and local capital grants received	1,236,516	3,494,032
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(144,804)	2,765,384
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	58,009	53,899
NET CASH PROVIDED BY INVESTING ACTIVITIES	58,009	53,899
NET INCREASE IN CASH AND EQUIVALENTS	335,568	3,532,670
CASH AND EQUIVALENTS		
BEGINNING OF YEAR	13,565,502	10,032,832
END OF YEAR	$ 13,901,070	$ 13,565,502
Cash and equivalents	$ 7,406,860	$ 9,303,326
Cash restricted for capital support	6,494,210	4,262,176
TOTAL CASH AND EQUIVALENTS	$ 13,901,070	$ 13,565,502

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

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	$ (17,243,662)	$ (17,593,831)
Charges to cost of service not requiring current expenditure of cash:		
Depreciation	3,131,657	2,977,192
Loss on disposal of assets	40,261	178,485
Changes in:		
Accounts receivable - excluding grants	(171,894)	144,012
Inventory	97,660	(38,141)
Other current assets	(87,838)	(2,258)
Accounts payable and accrued expenses net of capital acquisitions	1,033,674	(172,365)
Compensated absences payable	(20,928)	26,384
Accrued damage, injury, and employee claims	(67,833)	324,490
Accrued other post employment benefits	816,000	1,021,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ (12,472,903)	$ (13,135,032)

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

Note 1 – REPORTING ENTITY

The Santa Barbara Metropolitan Transit District, a government entity, was formed under the terms of the Santa Barbara Metropolitan Transit District Act for 1965, Part 9, of the California Public Utilities Code amended in 1967. The District provides local public transportation services to the metropolitan Santa Barbara area which encompasses the outlying communities of Goleta, Montecito and Carpinteria.

In accordance with the requirements of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14*, the financial statements must present the District (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the District, the reporting entity. The District accounts for its operations as an enterprise fund. Operating revenues and expenses result from providing transportation services. All other revenues and expenses are reported as nonoperating revenues and expenses. The accounting records of the District are subject to the uniform accounting system for transit districts as set forth by the Federal Transit Authority (FTA) and the State Controller.

The financial statements of the District are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Taxes, including homeowners' property tax relief, are remitted from the County Tax Collector. Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	January 1	
Levy Date	July 1 to June 30	
Due Date	November 1	(1st installment)
	February 1	(2nd installment)
Delinquent Date	December 10	(1st installment)
	April 10	(2nd installment)

Note 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Under California Law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the District based on complex formulas prescribed by state statutes.

The District receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of transportation facilities and equipment. In fiscal 2003, the District adopted GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, which requires capital grants to be reported as revenue rather than contributed capital. The amounts recorded as capital grant revenue and advances in fiscal 2012 and 2011 were $951,984 and $7,832,053, respectively.

For purposes of the statement of cash flows, the District considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Capital assets are stated at cost, less accumulated depreciation computed on the straight-line method over the following lives:

Buildings	20 to 40 years
Buses and equipment	3 to 12 years
Office and shop equipment	5 to 10 years
Automotive equipment	3 to 5 years

The inventories are composed of bus parts, fuels and lubricants and are valued at cost on a weighted-average basis.

The District accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2012 and 2011 was $745,468 and $771,896, respectively.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain reclassifications have been made to the prior year's financial statements to conform with the 2012 presentation.

Note 3 – DEPOSITS AND INVESTMENTS

At June 30, 2012 and 2011, the composition of cash deposits consisted of petty cash and change funds, money market accounts, and certificates of deposit as follows:

	2012 Fair Value	2011 Fair Value
Cash deposits		
Money market accounts	$ 3,831,462	$ 5,932,617
Prop 1B-OHS savings	519,896	500,495
Prop 1B-PTMISEA savings	5,974,314	3,761,681
Local Agency Investment Fund (LAIF)	3,313,695	3,301,309
Total cash deposits	13,639,367	13,496,102
Petty cash and change funds	77,038	69,400
Total	$13,716,405	$13,565,502

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District 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 does not contain legal or policy requirements that would limit the District's exposure to custodial credit risk for deposits, except that the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. All of the District's funds are held in two financial institutions, Santa Barbara Bank and Trust (Bank) and the State of California's Local Agency Investment Fund (LAIF). All of these funds are insured or collateralized. The Bank funds are collateralized by the Bank's trust department but not in the District's name. The District does not have a formal investment policy. As of June 30, 2012 the District had $519,896 of Prop 1B-OHS cash restricted for use in acquiring an AVL/Radio system for the District. The District also had $5,974,314 of Prop 1B-PTMISEA cash restricted for the acquisition of replacement buses ($5,026,917) and the AVL/Radio System ($947,397).

The District participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to the change in interest rates.

Note 3 – DEPOSITS AND INVESTMENTS (continued)

The District 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 District's investment in this pool as of June 30, 2012, $3,313,695, is reported in the accompanying financial statements at amounts based upon the District'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

Changes in transit operating property during the years ended June 30, 2012 and 2011, are as follows:

	July 1, 2011	Additions	Reclassi-fications	Disposals	June 30, 2012
Capital assets not depreciated					
Land	$ 5,596,296	$ -	$ -	$ -	$ 5,596,296
Work in process	416,584	621,806	(18,522)	-	1,019,868
Capital assets depreciated					
Buildings	12,303,401	19,610	2,800		12,325,811
Buses	38,269,936	222,313	1,185	(1,624,341)	36,869,093
Other equipment	3,724,097	88,256	14,537	(11,826)	3,815,064
Research and development	159,837	-	-	-	159,837
	$ 60,470,151	$ 951,985	$ -	$ (1,636,167)	$ 59,785,969

	July 1, 2010	Additions	Reclassi-fications	Disposals	June 30, 2011
Capital assets not depreciated					
Land	$ 5,596,297	$ -	$ -	$ -	$ 5,596,297
Work in process	422,848	353,642	(358,553)	(1,352)	416,585
Capital assets depreciated					
Buildings	12,367,599	15,435	-	(79,634)	12,303,400
Buses	31,939,508	7,315,952	150,173	(1,135,696)	38,269,937
Other equipment	3,727,129	148,483	208,380	(359,897)	3,724,095
Research and development	159,837	-	-	-	159,837
	$ 54,213,218	$ 7,833,512	$ -	$ (1,576,579)	$ 60,470,151

Note 5 – NET ASSETS

The majority of unrestricted net assets represent excess Transportation Development Act revenue received. Pursuant to Section 6634 of the California Administrative Code - Transportation Development Act, a transit claimant is precluded from receiving monies from the Local Transportation Fund and State Transit Assistance Fund in an amount which exceed that claimant's capital and operating costs, less the required fares, local support, and the amount received during the year from a city or county to which the operator provides service beyond its boundaries. The District receives its TDA allocation for the next fiscal year in February of the preceding year. The District's fiscal year extends from July to June. The District is required to submit its claim for the subsequent year by April 1st. As such, the claim is based on the District's draft budget for the coming year. As a result, actual operating expenditures and capital acquisitions tend to vary resulting in the aforementioned unrestricted net assets, formerly known as deferred credits. The funds provide working capital (cash flow) to the District throughout the year and act as a reserve for any unexpected events.

Restricted net assets represent prefunding of Prop 1B grants from the State of California for capital acquisitions (see note 3).

Note 6 – NET ASSETS INVESTED IN CAPITAL ASSETS

An analysis of the net assets invested in capital assets is as follows:

	2012	2011
State and local grants		
Local Transportaion Fund (SB 325)	$ -	$ 5,951
State Transit Assistance Fund (SB 620)	259,569	513,985
Federal Grants		
FTA Section 5307 - capital grant	92,478	2,994,199
Prop 1B grants	240,132	3,811,796
Measure A grants	321,882	479,870
Miscellaneous grants	37,926	26,252
Net grants received	951,987	7,832,053
Less: Accumulated depreciation expense - current	(3,131,657)	(2,977,192)
Less: Grant equity on disposal of assets	(40,261)	(178,485)
Net change in capital grants	(2,219,931)	4,676,376
Balance, July 1	30,927,459	26,251,083
Balance, June 30	$ 28,707,528	$ 30,927,459

An analysis of the capital funding is as follows:

	2012	2011
State and local grants		
Local Transportaion Fund (SB 325)	$ 9,147,408	$ 9,560,625
State Transit Assistance Fund (SB 620)	11,027,940	10,831,161
Federal Grants		
FTA Section 5307	23,958,099	25,014,195
FTA Section 5309	7,062,752	7,062,752
FTA Section 5312	4,001	4,001
District capital	129,329	129,329
Miscellaneous grants	7,459,808	6,871,455
CalStart grant	996,631	996,631
Total Capital Funding	59,785,968	60,470,149
Less: Accumulated depreciation expense	(31,078,440)	(29,542,690)
Net Assets Invested in Capital Assets	$ 28,707,528	$ 30,927,459

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7 – TRANSPORTATION DEVELOPMENT ACT FUNDING AND ALLOCATIONS

Transportation development act funding and allocations for the year ended June 30:

	2012	2011
Funding		
Local Transportation Fund (SB 325)	$ 6,196,529	$ 5,749,854
State Transit Assistance Fund (SB 620)	259,569	513,985
	$ 6,456,098	$ 6,263,839
Usage		
Operations	$ 6,196,529	$ 5,743,903
Capital projects	259,569	519,936
	$ 6,456,098	$ 6,263,839

Note 8 – FEDERAL GRANTS AND REIMBURSEMENTS

Federal grants and reimbursements for the year ended June 30:

	2012	2011
FTA		
Operating grants	$ 4,607,729	$ 4,575,245
Capital grants	92,478	2,994,199
Total	$ 4,700,207	$ 7,569,444

Note 9 – RECEIVABLES

Grants receivable at June 30, 2012 and 2011, are summarized as follows:

	2012	2011
Federal Transit Administration – Section 5307	$ 4,355,707	$ 4,650,536
State Transit Assistance Fund (SB 620)	259,569	513,984
Other grants	321,855	481,846
	$ 4,937,131	$ 5,646,366
Other receivables are as follows		
Trade receivables	$ 273,941	$ 102,047

Note 10 – SICK PAY

Accrued sick pay is summarized as follows:

	2012	2011
Total accrued sick pay	$ 1,499,419	$ 1,501,108
Amount of sick pay vested, in accordance with the union agreement, and recorded on the financial statements	388,651	408,993
Total	$ 1,110,768	$ 1,092,115

Note 11 – RETIREMENT PLANS

Two employee groups are covered:

Employee Group	Plan names	2012 Cost	2011 Cost
1. Union	Teamsters	$ 1,041,606	$ 1,088,579
2. Non-Union	Profit-Sharing and Salary Deferral Plan and Trust, and Money Purchase Pension Plan and Trust	220,489	221,938
		$ 1,262,095	$ 1,312,223

TEAMSTERS PENSION PLAN

This plan covers union employees and is a "cost sharing" plan. The District's total labor in fiscal year 2012 was $9,974,302 and the District's contributions were based upon a payroll of $8,910,703 for union employees. In fiscal year 2011 the District's total labor was $10,106,243 and the District's contributions were based upon a payroll of $9,028,155 for union employees. The District was required to contribute $3.18 per work hour, up to a maximum of 173 work hours per month, per union employee in fiscal years 2012 and 2011. Total pension hours were 329,909 in fiscal year 2012, and 345,135 in fiscal year 2011. Since the District is not involved with the operations or administration of the Teamsters Pension Plan, information relating to the current funding liability is not available. Based on the most recent actuarial certification the Plan is in the “green zone” for 2012, meaning the Plan is in good financial condition. More information can be found at http://www.wctpension.org/index.html.

Note 11 – RETIREMENT PLANS (Continued)

PROFIT-SHARING AND SALARY DEFERRAL PLAN AND TRUST

Effective July 1, 1985, the District established the above-named retirement plans for employees not covered by the union plan. The plans are administered by the District, which contracts the administration to HUB International.

The District contributes to the Profit-Sharing and Salary Deferral Plan an amount equal to 3% and 7%, respectively, of the compensation for all eligible participants. Contributions by the District to the Salary Deferral Plan are fully vested at the time of contribution. Contributions by the District to the Profit-Sharing Plan are vested ratably over a four-year period. The District is not obligated to make contributions to the Profit-Sharing Plan however its contributions must be regular and continuing in order for the Plan to receive favorable tax treatment under Internal Revenue Code Section 401(k).

The District's contributions for fiscal year 2012 were based upon a payroll of $2,204,871 for non-union employees. The District contributed $220,487 (10% of covered payroll) and covered employees contributed $198,529 (9% of covered payroll)

The District's contributions for fiscal year 2011 were based upon a payroll of $2,219,381 for non-union employees. The District contributed $221,938 (10% of covered payroll) and covered employees contributed $196,110 (8.8% of covered payroll).

Note 12 – RISK MANAGEMENT

The District is exposed to various risks of losses related to injuries to employees and the public, damage to and destruction of assets, and errors and omissions.

The District has Self-Insured Retention policies with general liability coverage of $10 million on any one claim, including self-insured amounts per claim as follows:

April 1, 1995 to March 31, 2001 $250,000
April 1, 2001 to March 31, 2002 $100,000
April 1, 2002 to March 31, 2013 $250,000

The District has elected to self-insure its obligations for workers' compensation claims. The District has insurance from outside carriers for individual claims in excess of $500,000 for 2003, with a $5 million limit on any one claim. As of January 1, 2004, the District increased the amount that is self-insured to $1.5 million, with a $10 million limit on any one claim. As of January 1, 2005 the District joined CSAC Excess Insurance Authority and decreased self-insurance by the District to $500,000 with a limit of $200 million limit on any one claim.

There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the four years prior.

Note 12 – RISK MANAGEMENT (continued)

Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. The District's insurance adjusters and attorneys help to determine the amount of actual or potential claims against the District. An analysis of claims activities for general liability and workers' compensation liability is presented below:

	2012	2011
Claims liability – beginning of year	$ 1,701,171	$ 1,376,681
Claims and changes in estimates	484,277	745,500
Actual claim payments	(552,110)	(417,010)
Claims liability – end of year	$ 1,633,338	$ 1,701,171

Note 13 – COMMITMENTS

Paratransit Service

For fiscal year 2013, the District has agreed to provide Easy Lift a subsidy of $574,411 for the paratransit services. The amount is to be adjusted by mutual consent if the District requests an adjustment in the amount of paratransit service to be provided, and the contract can be extended up to and including June 30, 2013. If for any reason, Easy Lift failed to provide the required ADA paratransit service, the District would continue to be responsible for the service under Federal law. The District would be required to implement a replacement service on very short notice, at a cost that would likely exceed the current subsidy.

The District is required under Federal law, the Americans with Disabilities Act of 1990 (ADA), to ensure that complementary paratransit service is available wherever and whenever the District provides fixed-route bus service. The District complies with this requirement by partially subsidizing the paratransit service provided by Easy Lift Transportation. The District signed a contract with Easy Lift in March 2003, which was amended in June 2007, for these services. Either party can terminate this agreement within 120 days of year end.

Note 13 – COMMITMENTS (continued)

Bus Tire Lease

The District has a contract with the Goodyear Tire & Rubber Company (Goodyear) to furnish the District with a sufficient quantity of tires to keep all vehicles fully equipped and to provide a reserve supply, at a maximum level determined by Goodyear, as spare stock inventory to be mounted on rims and kept in the District's garage for use in case of emergency. The District provides Goodyear with mileage for each vehicle in its fleet on a monthly basis and is billed in accordance with its agreement. Both parties have the option to terminate this agreement with 30-days' notice. The rates per tire increase by an agreed-upon percentage annually. For fiscal year 2012, the rates paid by the District for contractual amounts are as follows:

Gilligs	$.039030
MCI	$.052040
Novas/Gilligs	$.050910
Group D Novas	$.053454

Note 14 – CONTINGENCIES

Federal Grant Contracts

The terms of the federal grant contracts require the District to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and to comply with the Equal Employment Opportunity and Affirmative Action programs required by the Transportation Equity Act for the 21st Century. Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Department of Transportation. In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

Note 15 - DEFINED BENEFIT POSTEMPLOYMENT HEALTH BENEFIT PLAN

Plan Descriptions

The District provides postretirement health benefits in the form of:

- Monthly contributions towards the retiree's health plan premium for eligible union retirees (currently $285 per month); and
- Full medical and dental cost of insurance coverage for eligible staff retirees and their dependents.

Benefits for both union and non-union retirees are provided by United Healthcare group plan.

Funding Policy and Annual OPEB Cost

The Plan is funded on a pay-as-you-go basis. The District uses a June 30 measurement date and an assumed annual interest rate of 5.0 percent.

The District's annual other postemployment benefit (OPEB) cost (expense) for the Plan is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents the normal cost and amortization of unfunded actuarial liabilities over 30 years. The District's annual OPEB cost for the fiscal year 2012 and related information are as follows:

Annual required contribution	$ 955,000
Interest on net OPEB obligation	141,000
Adjustment to annual required contribution	(122,000)
Annual OPEB cost	974,000
Contributions made	(158,000)
Increase in net OPEB obligation	816,000
Net OPEB obligation (asset) beginning of year	2,825,000
Net OPEB obligation (asset) end of year	$ 3,641,000

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation, were as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/09	$ 1,017,000	13.5%	$ 880,000
6/30/10	$ 1,084,000	14.8%	$ 1,804,000
6/30/11	$ 1,154,000	11.5%	$ 2,825,000
6/30/12	$ 974,000	16.2%	$ 3,641,000

Note 15 - DEFINED BENEFIT POSTEMPLOYMENT HEALTH BENEFIT PLAN (continued)

Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2012, was as follows:

Actuarial accrued liability (a)	$ 10,725,000
Actuarial value of plan assets (b)	-
Unfunded actuarial accrued liability (funding excess) (a)-(b)	$ 10,725,000
Funded ratio (b) / (a)	0%
Covered payroll (c)	$ 11,353,314
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a)-(b)]/(c))	94.5%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the Plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the District and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	6/30/2011
Actuarial cost method	Entry Age
Amortization method	Level percentage of pay
Remaining amortization period	Open 30 years
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increase	3.25%
Healthcare inflation rate	
Initial	5%
Ultimate, # of years	5.0% after 7 years

Note 15 - DEFINED BENEFIT POSTEMPLOYMENT HEALTH BENEFIT PLAN (continued)

Postemployment Healthcare Plan Schedule of Funding Progress

The following Schedule of Funding Progress shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. The interest rate is 5% and the salary scale is 3.25% for both periods. (Amounts in thousands of dollars).

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Estimated	7/1/2008	$0	$10,192	$10,192	$0	$10,283	99.1%
Actual	7/1/2009	$0	$11,166	$11,166	$0	$10,617	105.2%
Estimated	7/1/2010	$0	$12,186	$12,186	$0	$12,186	110.9%
Actual	7/1/2011	$0	$10,725	$10,725	$0	$11,353	94.5%

Actuarial review and analysis of OPEB liability and funding status is performed every two years, or annually if there are significant changes in the plan. The next scheduled actuarial study for the District is currently in process. Funding progress is available for the July 1, 2011, with an estimate for the other years.