

**SANTA BARBARA
METROPOLITAN TRANSIT DISTRICT
FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014 AND 2013**

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

June 30, 2014 and 2013

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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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 (District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages I - VI and the schedule of funding progress of other postemployment healthcare plan on page 29, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. 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.

McGowan Guntermann

December 26, 2014

Management's Discussion and Analysis for Fiscal Year 2013-14

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 that used by 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 position, and a statement of cash flows. These are followed by notes to the financial statements and required supplementary information.

Financial Reports

The balance sheets present information on the assets and liabilities, with the difference between the two reported as net position.

The statements of revenue, expenses and changes in net position 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 position for the fiscal years. That change, combined with the previous year-end net position total, reconciles to the net position total at the end of the fiscal years. The statement of expenses reports detailed amounts 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 2013-14 with an increase in its Net Position (unrestricted) of \$1,211,709. The majority of the increase from the previous year was attributable to TDA-LTF sales tax revenue exceeding expectations by approximately \$300,000, while federal operating assistance was \$119,000 more than budgeted. Operating expense associated with Risk & Safety, which includes workers compensation and liability costs was approximately \$536,000 less than what was budgeted for the year.

Also, a one-time adjustment of \$1,299,391 to restate the 2013 Net Position (unrestricted) figure to reflect the result of an actuarially-derived "incurred but not reported" workers compensation liability adjustment is reflected in the financials. The District is self-insured for workers compensation expenditures in excess of \$250,000 per claim.

The District implemented an actuarial review of its workers' compensation self-insurance program. CSAC Excess Insurance Authority requires the District disclose the liability associated with the cost of reported claims expenses, as well as unreported claims. Based on the actuarial review, management booked the one-time adjustment of \$1,299,391 to increase the estimated

liability on the books to account for prior year activity as of June 30, 2013. The liability reflects a balance of \$3,767,000 to better reflect the revised valuation.

Assets and 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

Assets:	2014	2013
Current Assets	\$17,706,845	\$15,784,760
Non-Current Assets	32,285,000	34,882,469
Total Assets	\$49,991,845	\$50,667,229
Liabilities:		
Current Liabilities	\$1,708,927	\$1,567,548
Non-Current Liabilities	6,864,840	6,295,843
Total Liabilities	\$8,573,767	\$7,863,391
Net Position:		
Invested in capital assets	\$28,948,306	\$27,293,575
Restricted	3,336,694	7,588,894
Unrestricted	9,133,078	7,921,369
Total Net Position	\$41,418,078	\$42,803,838

The net decrease of \$4,252,200 in Restricted Net Position reflects the acquisition of eleven 40' diesel buses. The remaining balance of \$3,336,694 of Proposition 1B cash advances is committed to the acquisition of three additional 40' diesel buses and an automated vehicle location system. The automated vehicle location system is scheduled for completion in early calendar year 2016.

Revenue, Expense and Performance Indicators

The District's three primary sources of revenue are passenger fares, federal operating assistance and Transportation Development Act (TDA) receipts. Passenger fares for fiscal year 2013-14 were \$8,127,762, versus \$8,082,232 in fiscal year 2012-13, resulting in an increase of \$45,530. As the table below illustrates, passenger fare revenue has increased for the first time since the first full year of the last fare rate change (January 2009).

	Fiscal Year					
	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Passenger Fares	\$8,127,762	\$8,082,232	\$8,136,840	\$8,149,358	\$8,259,939	\$7,967,940

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

	Fiscal Year					
	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Local Transportation Fund (SB 325 - LTF):	\$7,242,771	\$6,910,477	\$6,196,529	\$5,749,854	\$5,608,291	\$6,172,289
State Transit Assistance Fund (SB 620 - STA):	123,878	84,740	259,569	513,984	305,420	566,330
	<u>\$7,366,649</u>	<u>\$6,995,217</u>	<u>\$6,456,098</u>	<u>\$6,263,838</u>	<u>\$5,913,711</u>	<u>\$6,738,619</u>

In fiscal year 2013-14, TDA funding increased by \$371,431 or 5%. These funds constitute a significant percentage of the District's revenue. The TDA-LTF funds are used to balance the operating budget, while TDA-STA funds are used for capital acquisitions.

Historically, the District managed to balance the operating budget with TDA-LTF funds while also allocating approximately one million dollars annually to capital costs. The one million in TDA-LTF funds supplemented the TDA-STA funds to balance the capital budget. Due to the historic drop in sales tax revenue between fiscal years 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. Fortunately, the availability of Proposition 1B and State Transit Assistance funds have satisfied the capital financing needs of the District, and have temporarily offset the need to reallocate TDA-LTF funds from operating activities.

The use of TDA-STA for capital acquisitions increased by \$39,138 in fiscal year 2013-14. The total reimbursement requested for capital acquisitions was \$123,878. The District has approximately \$7,549,211 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, reflected a net increase of \$2,119,625 or 10%, in fiscal year 2013-14. However, prior year operating expense included a one-time credit of \$2,006,000 to retiree health insurance expense to account for the reduced actuarially-derived estimated liability. The reduction was related to changes to retiree health insurance benefits negotiated via the collective bargaining process. Excluding the aforementioned credit, operating expense grew by approximately \$113,625 or less than 1%.

Wages and fringe benefits increased by \$1,954,138 and accounted for 76% of the District's operating costs before depreciation in fiscal year 2013-14. Excluding the one-time adjustment for the actuarially-derived estimated liability pertaining to health insurance expense (OPEB) of \$2,006,000 in fiscal year 2012-13, wages and fringe benefits decreased by approximately \$52,000.

Santa Barbara Metropolitan Transit District
Revenue, Expense and Performance Report
Years Ended June 30, 2014 and 2013

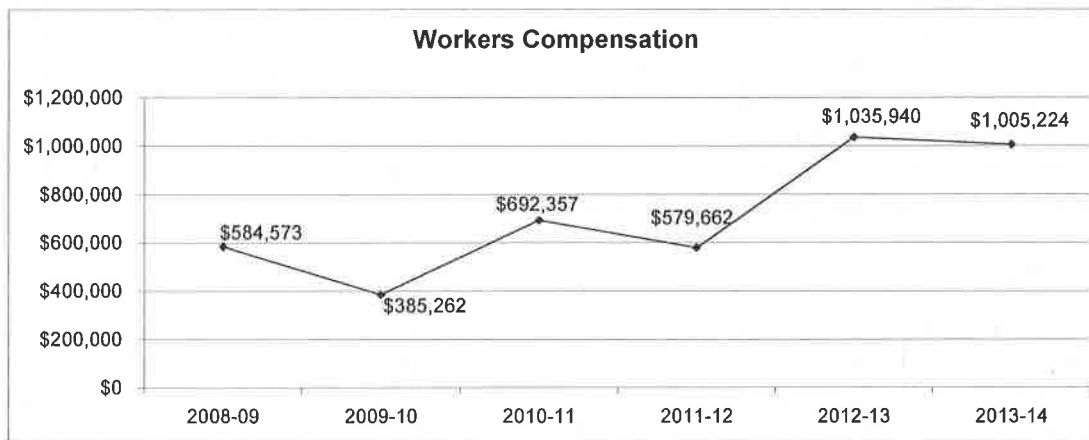
	Actual FY 2013-14	Prior Year FY 2012-13	Actual vs. Prior % Change	Budget FY 2013-14	Actual vs. Budget % Change
Revenues:					
Passenger Fares	\$8,127,765	\$8,082,232	0.6%	\$8,079,458	0.6%
Local Operating Assistance	202,483	245,270	-17.4%	89,190	127.0%
Non-Transportation Revenue ⁽¹⁾	825,217	748,942	10.2%	787,115	4.8%
Total :	\$9,155,465	\$9,076,444	0.9%	\$8,955,763	2.2%
Major Subsidies:					
Operating					
TDA-LTF	\$7,242,771	\$6,910,477	4.8%	\$6,941,974	4.3%
Federal Operating Assistance	4,943,999	4,854,006	1.9%	4,825,078	2.5%
Measure A	1,890,866	1,795,800	-	1,811,872	4.4%
Property Tax	985,328	1,080,069	-8.8%	965,000	2.1%
Total :	\$15,062,964	\$14,640,352	2.9%	\$14,543,924	3.6%
Capital					
TDA-LTF & TDA-STA	\$123,878	\$84,740	46.2%	\$3,960,918	-96.9%
Federal Grants	23,212	1,005,301	-97.7%	2,407,536	-99.0%
Measure A	190,276	342,921	-44.5%	1,932,845	-90.2%
Proposition 1B	264,214	1,616,851	-83.7%	7,965,281	-96.7%
Total :	\$601,580	\$3,049,813	-80.3%	\$16,266,580	-96.3%
Total Revenue	\$24,820,009	\$26,766,609	-7.3%	\$39,766,267	-37.6%
Expenses:					
Vehicle Operations	\$13,026,263	\$12,442,301	4.7%	\$13,641,481	-4.5%
Vehicle Maintenance	5,692,759	5,435,227	4.7%	5,785,590	-1.6%
Passenger Facilities	1,350,017	1,360,992	-0.8%	1,486,375	-9.2%
General Overhead	2,548,228	2,326,246	9.5%	2,473,164	3.0%
OPEB - Retiree Healthcare	207,974	(980,157)	-121.2%	83,077	-
Total :	\$22,825,241	\$20,584,609	10.9%	\$23,469,687	-2.7%
Depreciation	\$3,271,993	\$3,137,385			
Total Expense	\$26,097,234	\$23,721,994			
Performance Indicators:					
Total Passengers	7,623,860	7,774,329	-1.9%		
Revenue Hours	201,234	199,138	1.1%		
Revenue Miles	2,556,499	2,513,126	1.7%		
Farebox Ratio ⁽²⁾	35.6%	39.3%	-9.3%		
Cost/Passenger	\$2.99	\$2.65	13.1%		
Cost/Hour	\$113.43	\$103.37	9.7%		
Cost/Mile	\$8.93	\$8.19	9.0%		
Passenger/Hour	37.89	39.04	-3.0%		
Passenger/Mile	2.98	3.09	-3.6%		

(1) Of the \$825,217 in non-transportation revenue for fiscal year 2013-14, \$496,705 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 2013-14 Financial Performance

Financially the District performed very well in fiscal year 2013-14. Expenses related to general liability and workers compensation decreased from prior year results. The general liability cost in fiscal year 2013-14 totaled \$409,428, which increased by approximately \$77,000 from the prior year. Workers Compensation costs in fiscal year 2013-14 totaled \$1,014,524, which was a decrease of approximately \$67,000. Although workers compensation costs decreased, it is noteworthy to identify the District's concern there has been a sharp increase in workers compensation costs over the past several years. Specifically this cost has nearly doubled from \$584,573 five years ago.



The cost of fuel and lubricants, including service vehicle expense, was \$2,226,490, a decrease of \$84,000 from the prior year. The District's fixed-price diesel fuel contract, for its bus fleet, was \$3.06 per gallon for the last six months of the year, and \$3.25 during the first six months. The District's primary goal pertaining to the fixed-price diesel fuel contract is to ensure price stability. .

Sales Tax Revenue, TDA-LTF (End-of-year payments applied to fiscal year in which they were received by the County)							
	Actual / FY 2013-14	Actual / FY 2012-13	Actual FY 2011-12	Actual FY 2010-11	Actual FY 2009-10	Actual FY 2008-09	Actual FY 2007-08
EOY	\$308,621	\$528,867	\$205,379	\$0	\$0	\$0	\$0
Jul	479,991	440,842	418,070	365,398	380,950	479,174	455,572
Aug	640,102	591,246	557,628	487,191	512,845	639,257	608,583
Sep	594,593	633,225	615,272	618,759	476,285	592,450	726,428
Oct	501,987	453,220	402,094	390,803	395,348	480,108	499,376
Nov	669,665	607,944	536,746	521,319	448,250	640,933	666,708
Dec	584,360	656,868	716,945	606,422	616,009	533,269	601,220
Jan	479,468	465,684	443,233	421,218	403,925	476,771	525,222
Feb	629,406	621,072	591,201	561,843	538,886	523,346	702,118
Mar	692,255	555,128	591,919	493,126	483,064	485,681	447,241
Apr	454,330	437,868	402,671	357,329	340,244	384,963	429,860
May	605,914	583,983	537,303	524,276	497,508	414,082	574,228
Jun	602,078	334,531	178,068	402,167	514,976	522,256	588,850
Total:	\$7,242,771	\$6,910,477	\$6,196,529	\$5,749,853	\$5,608,291	\$6,172,289	\$6,825,407

TDA-LTF sales tax revenue of \$7,242,771 represented an increase of 5% or \$332,294. TDA-LTF sales tax revenue is relied upon to balance the operating budget and in fiscal year 2013-14 the amount received was sufficient to do so, including the actuarially-derived estimated liability expense associated with retiree health insurance (OPEB) of \$151,000 and workers compensation of \$356,000. Both liabilities remain unfunded “pay-as-you-go” at this time. Management plans on proposing to begin funding these liabilities in the coming year.

Financial Outlook

The District has slightly increased service levels in the current year and employee wage rates have begun to rise. This follows a prolonged period of frozen employee wage rates and a modest reduction in service levels. The steps were taken to ensure that operating expense remained flat, while sales tax revenue recovered from the sharp decline experienced as a result of the Great Recession. Financially, the approach served the District well, but the demand for additional public transit service during peak travel times has increased significantly. In fiscal year 2013-14, the Board of Directors authorized a small increase in the total number of service hours provided to address the most pressing needs. Sales tax revenue trends continue to rise but have slowed significantly from the low point of fiscal year 2009-10.

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 provided the State with some temporary relief. However, state budget deficits may become a concern again in the future, which may call into question the reliability of the TDA-STA funding source for the District. 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 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 rebuild eight replacement electric shuttles paid for with federal and TDA-STA funds. Additionally, five replacement 40' buses are budgeted and will be paid for with a combination of Proposition 1B and federal 5339 capital funds. The final allocation of Proposition 1B bond funds is in progress. The District has claimed a portion of the funds for a Smartcard project, while the remainder was requested for additional bus replacements and the refurbishment of the Transit Center.
- The two-year federal Transportation Bill (MAP-21) is valid through September 30, 2014. Management is cautiously optimistic that a new transportation spending bill will not significantly reduce the formula funding. MAP-21 legislation resulted in an increase in annual federal 5307 formula funding to \$4.8 million from \$4.3 million. The increase was due predominantly to a 50% increase in the Small Transit Intensive Cities (STIC) program, which is a component of the 5307 formula funding.
- Management budgeted 2% annual increases in sales tax revenue via the Measure A ordinance, as well as for the TDA-LTF funding program.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

STATEMENTS OF NET POSITION

June 30, 2014 and 2013

ASSETS

	2014	Restatement (note 15) 2013
CURRENT ASSETS		
Cash and equivalents	\$ 15,814,022	\$ 7,578,297
Grants receivable	333,043	6,752,291
Other receivable	169,773	145,774
Materials and supplies inventories	1,102,634	1,126,712
Other current assets	<u>287,373</u>	<u>181,686</u>
Total Current Assets	<u>17,706,845</u>	<u>15,784,760</u>
NON-CURRENT ASSETS		
Cash restricted for capital support	3,336,694	7,588,894
Capital assets:		
Tangible transit operating property	63,346,401	60,789,459
Less: Accumulated depreciation	<u>(34,398,095)</u>	<u>(33,495,884)</u>
Capital Assets, net	<u>28,948,306</u>	<u>27,293,575</u>
Total Non-Current Assets	<u>32,285,000</u>	<u>34,882,469</u>
TOTAL ASSETS	<u>\$ 49,991,845</u>	<u>\$ 50,667,229</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 408,129	\$ 327,110
Accrued payroll including compensated absences	704,667	653,522
Accrued expenses	<u>203,702</u>	<u>204,636</u>
Total Current Liabilities	<u>1,316,498</u>	<u>1,185,268</u>
NON-CURRENT LIABILITIES		
Compensated absences payable	730,720	728,928
Accrued damage, injury, and employee claims	3,783,549	3,357,195
Accrued other post employment benefits	<u>2,743,000</u>	<u>2,592,000</u>
Total Non-Current Liabilities	<u>7,257,269</u>	<u>6,678,123</u>
Total Liabilities	8,573,767	7,863,391
NET POSITION		
Invested in capital assets	28,948,306	27,293,575
Restricted	3,336,694	7,588,894
Unrestricted	<u>9,133,078</u>	<u>7,921,369</u>
TOTAL NET POSITION	<u>41,418,078</u>	<u>42,803,838</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 49,991,845</u>	<u>\$ 50,667,229</u>

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 POSITION
For the Years Ended June 30, 2014 and 2013

	2014	Restatement (note 15) 2013
OPERATING REVENUE, NOT INCLUDING LOCAL AND FEDERAL ASSISTANCE		
Passenger fares	\$ 8,127,762	\$ 8,082,232
OPERATING EXPENSES		
Vehicle operations	13,026,262	12,563,301
Vehicle maintenance	5,692,758	5,435,227
Passenger facilities	1,350,016	1,360,992
General overhead	2,548,224	2,326,246
Postemployment health care benefits (Notes 15 - 16)	207,974	(980,157)
Total before Depreciation	22,825,234	20,705,609
Depreciation	3,271,993	3,137,385
Total Expenses	26,097,227	23,842,994
OPERATING LOSS	(17,969,465)	(15,760,762)
NON-OPERATING REVENUE		
Non-transportation revenue, including interest, advertising, rent and miscellaneous	825,217	748,942
Taxes levied by Santa Barbara County for Transit District	985,328	1,080,069
Transportation Development Act funding and allocations	7,366,649	6,589,668
Federal grants	4,920,840	5,859,306
Proposition 1B grants	264,214	1,616,851
Measure A grants	2,081,142	2,140,941
Miscellaneous grants	202,483	245,270
Loss on disposal of assets	(62,168)	(37,172)
Total Non-Operating Revenue	16,583,705	18,243,875
CHANGE IN NET POSITION	(1,385,760)	2,483,113
BEGINNING OF YEAR NET POSITION	42,803,838	41,499,116
Prior period adjustment, correction of an error	-	(1,178,391)
END OF YEAR NET POSITION	\$ 41,418,078	\$ 42,803,838

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, 2014 and 2013

	2014	Restatement (note 15) 2013
LABOR		
Operators' wages	\$ 6,326,225	\$ 6,031,419
Other salaries and wages	<u>3,826,913</u>	<u>3,629,186</u>
Total Labor	<u>10,153,138</u>	<u>9,660,605</u>
FRINGE BENEFITS		
Payroll taxes	919,095	873,195
Retirement plans	1,276,958	1,251,001
Health and welfare (Notes 15 and 16)	2,399,864	860,011
Workers compensation	1,014,524	1,202,192
Sick pay	260,574	241,150
Holiday pay	378,193	373,155
Vacation pay	781,285	747,594
Other paid absences	75,099	89,121
Uniforms and tool allowances	<u>46,622</u>	<u>53,190</u>
Total Fringe Benefits	<u>7,152,214</u>	<u>5,690,609</u>
SERVICES		
Professional and technical including directors' fees	346,088	348,404
Outside services	92,369	89,847
Contract maintenance services	332,886	315,615
Promotion and printing	<u>89,515</u>	<u>156,518</u>
Total Services	<u>860,858</u>	<u>910,384</u>
MATERIALS AND SUPPLIES		
Fuels and lubricants	2,226,490	2,310,412
Tires and tubes	149,126	143,028
Bus parts	632,100	534,658
Other materials and supplies	197,174	192,742
Electric bus power	<u>81,593</u>	<u>53,853</u>
Total Material and Supplies	<u>3,286,483</u>	<u>3,234,693</u>
UTILITIES AND TELEPHONE	<u>203,370</u>	<u>196,138</u>
CASUALTY AND LIABILITY COSTS	<u>338,753</u>	<u>262,761</u>
PURCHASED TRANSPORTATION	<u>624,268</u>	<u>574,411</u>
MISCELLANEOUS EXPENSES		
Dues and subscriptions	42,907	40,751
Travel, meetings and training	21,088	17,320
Purchased media	2,852	3,625
Other miscellaneous expenses	<u>139,303</u>	<u>114,312</u>
Total Miscellaneous Expenses	<u>206,150</u>	<u>176,008</u>
Total Expenses before Depreciation	22,825,234	20,705,609
DEPRECIATION	<u>3,271,993</u>	<u>3,137,385</u>
TOTAL EXPENSES	<u>\$ 26,097,227</u>	<u>\$ 23,842,994</u>

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, 2014 and 2013

	2014	Restatement (note 15) 2013
CASH FLOWS FROM OPERATIONS		
Receipts from transit customers	\$ 8,106,340	\$ 8,082,232
Payments to suppliers and vendors	(5,116,846)	(5,151,207)
Payments to employees/benefits	(17,093,095)	(16,236,487)
NET CASH USED BY OPERATING ACTIVITIES	<u>(14,103,601)</u>	<u>(13,305,462)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	19,495,942	12,574,933
Non-transportation revenue, including advertising, rental and miscellaneous	754,911	703,419
Taxes levied by Santa Barbara County	985,328	1,080,069
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>21,236,181</u>	<u>14,358,421</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(5,038,659)	(1,769,117)
State of California Prop 1B grant advance	264,214	89,228
State of California Prop 1B PTMISA grant advance	-	973,686
Federal, state and local capital grants received	1,542,451	850,939
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,231,994)</u>	<u>144,736</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	82,938	68,427
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>82,938</u>	<u>68,427</u>
NET INCREASE IN CASH AND EQUIVALENTS	3,983,524	1,266,122
CASH AND EQUIVALENTS BEGINNING OF YEAR	<u>15,167,192</u>	<u>13,901,070</u>
END OF YEAR	<u>\$ 19,150,716</u>	<u>\$ 15,167,192</u>
Cash and equivalents	\$ 15,814,022	\$ 7,578,297
Cash restricted for capital support	3,336,694	7,588,894
TOTAL CASH AND EQUIVALENTS	<u>\$ 19,150,716</u>	<u>\$ 15,167,191</u>

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, 2014 and 2013

	<u>2014</u>	<u>Restatement (note 15) 2013</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (17,969,465)	\$ (15,760,762)
Charges to cost of service not requiring current expenditure of cash:		
Depreciation	3,271,993	3,137,385
Loss on disposal of assets	62,168	37,172
Changes in:		
Other receivable - excluding grants	(23,999)	128,167
Materials and supplies inventories	24,078	(104,620)
Other current assets	(105,687)	25,271
Accounts payable and accrued expenses net of capital acquisitions	58,165	(295,095)
Compensated absences payable	1,792	30,554
Accrued damage, injury, and employee claims	426,354	545,466
Accrued other post employment benefits	<u>151,000</u>	<u>(1,049,000)</u>
 NET CASH USED BY OPERATING ACTIVITIES	 <u>\$ (14,103,601)</u>	 <u>\$ (13,305,462)</u>

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

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO 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, 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.

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)

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.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The amounts recorded as capital grant revenue and advances in fiscal 2014 and 2013 were \$5,038,659 and \$1,769,117, 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, 2014 and 2013 was \$783,250 and \$771,292, 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.

Certain reclassifications have been made to the prior year's financial statements to conform to the 2014 presentation.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section or deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 67 – In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The District has not determined its effect on the financial statements.

GASB Statement No. 68 – In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The District has not determined its effect on the financial statements.

GASB Statement No. 71 – Subsequent to GASB Statement No 68 issuance, the GASB issued *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. These changes have the same effective date as GASB 68, and the District has not determined its effect on the financial statements.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3 – DEPOSITS AND INVESTMENTS

At June 30, 2014 and 2013, the composition of cash deposits consisted of petty cash and change funds, money market accounts, and certificates of deposit as follows:

	<u>2014 Fair Value</u>	<u>2013 Fair Value</u>
Cash deposits		
Money market accounts	\$12,415,863	\$ 2,988,265
Prop 1B-OHS savings	764,692	611,809
Prop 1B-PTMISEA savings	2,572,002	6,977,085
Local Agency Investment Fund (LAIF)	<u>3,331,694</u>	<u>3,323,673</u>
 Total cash deposits	19,084,251	13,900,832
Petty cash and change funds	<u>66,461</u>	<u>79,221</u>
 Total	<u>\$19,150,712</u>	<u>\$13,980,053</u>

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, Union Bank (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, 2014 the District had \$764,692 of Prop 1B-OHS cash restricted for use in acquiring AVL/security cameras for the District. The District also had \$2,572,002 of Prop 1B-PTMISEA cash restricted for the acquisition of replacement buses (\$1,622,103) and the AVL/security cameras (\$949,899).

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.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

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, 2014, \$3,331,694, 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 – RECEIVABLES

Grants receivable at June 30, 2014 and 2013, are summarized as follows:

	<u>2014</u>	<u>2013</u>
Federal Transit Administration	\$ 18,889	\$ 5,830,379
State Transit Assistance Fund (SB 620)	123,878	84,740
Other grants	<u>193,744</u>	<u>837,172</u>
	<u>\$ 336,511</u>	<u>\$ 6,752,291</u>
Other receivables are as follows		
Trade receivables	<u>\$ 166,305</u>	<u>\$ 145,774</u>

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5 – CAPITAL ASSETS

Changes in transit operating property during the years ended June 30, 2014 and 2013, are as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Reclassi- fications</u>	<u>Disposals</u>	<u>June 30, 2014</u>
Capital assets not depreciated					
Land	\$ 5,596,296	\$ -	\$ -	\$ -	\$ 5,596,296
Work in process	245,855	183,145	(31,547)	(40,428)	357,025
Capital assets depreciated					
Buildings	12,879,816	64,077	-	(21,999)	12,921,894
Buses	37,467,384	4,674,799	31,547	(2,229,081)	39,944,649
Other equipment	<u>4,600,108</u>	<u>116,638</u>	<u>-</u>	<u>(190,210)</u>	<u>4,526,536</u>
	<u>\$ 60,789,459</u>	<u>\$ 5,038,659</u>	<u>\$ -</u>	<u>\$ (2,481,718)</u>	<u>\$ 63,346,400</u>

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Reclassi- fications</u>	<u>Disposals</u>	<u>June 30, 2013</u>
Capital assets not depreciated					
Land	\$ 5,596,296	\$ -	\$ -	\$ -	\$ 5,596,296
Work in process	1,019,867	104,539	(869,781)	(8,771)	245,854
Capital assets depreciated					
Buildings	12,325,811	89,649	467,446	(3,090)	12,879,816
Buses	36,869,096	1,179,109	-	(580,818)	37,467,387
Other equipment	3,815,062	395,820	402,335	(13,111)	4,600,106
Research and Development	<u>159,837</u>	<u>-</u>	<u>-</u>	<u>(159,837)</u>	<u>-</u>
	<u>\$ 59,785,969</u>	<u>\$ 1,769,117</u>	<u>\$ -</u>	<u>\$ (765,627)</u>	<u>\$ 60,789,459</u>

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6 – NET POSITION

The majority of unrestricted net position represents 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 position. The funds provide working capital (cash flow) to the District throughout the year and act as a reserve for any unexpected events.

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

Capital Contributions

The District receives grants from the Federal Transit Administration (FTA), State, and local transportation funds for the acquisition of buses and other equipment and improvements. Capital contributions are recorded as revenues and the cost of the related assets are included in property and equipment. Depreciation on assets acquired with capital grant funds is included in the Statement of Revenues, Expenses and Changes in Net Position.

Capital contributions for the years ended June 30 were as follows:

	<u>2014</u>	<u>2013</u>
Federal grants	\$ 23,212	\$ 1,005,300
State grants (Prop 1B and Measure A)	4,733,166	896,858
Local assistance – sales tax	123,878	(320,809)
Miscellaneous grants	<u>108,635</u>	<u>177,038</u>
Net grants received	<u>\$4,988,891</u>	<u>\$ 1,758,387</u>

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:

	<u>2014</u>	<u>2013</u>
Funding		
Local Transportation Fund (SB 325)	\$ 7,242,771	\$ 6,910,477
State Transit Assistance Fund (SB 620)	<u>123,878</u>	<u>84,740</u>
	<u>\$ 7,366,649</u>	<u>\$ 6,995,217</u>
Usage		
Operations	\$ 7,242,771	\$ 6,910,477
Capital projects	<u>123,878</u>	<u>84,740</u>
	<u>\$ 7,366,649</u>	<u>\$ 6,995,217</u>

Note 8 – FEDERAL GRANTS AND REIMBURSEMENTS

Federal grants and reimbursements for the year ended June 30:

	<u>2014</u>	<u>2013</u>
FTA		
Operating grants	\$ 4,943,999	\$ 4,854,006
Capital grants	<u>23,212</u>	<u>1,005,300</u>
Total	<u>\$ 4,967,211</u>	<u>\$ 5,859,306</u>

Note 9 – CHANGE IN COMPENSATED ABSENCES

Employees annually accrue compensated absence time, consisting of vacation and sick time dependent on job classification and tenure ranging from 80 hours to 320 hours per year. Accrued compensated absences for vacation in fiscal years ending June 30, 2014 and 2013, were \$783,250 and \$771,292 respectively. The current portion is expected to be used within one year. Accrued sick pay vested in fiscal years ending June 30, 2014 and 2013, were \$450,176 and \$410,643 respectively.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9 – CHANGE IN COMPENSATED ABSENCES (continued)

The changes in compensated absences were as follows for fiscal year ended June 30 (in thousands):

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 771,292	\$ 745,468
Additions	728,925	716,256
Payments	<u>(716,967)</u>	<u>(690,432)</u>
Ending balance	783,250	771,292
Current portion	<u>390,821</u>	<u>389,012</u>
Noncurrent portion	<u>\$ 392,429</u>	<u>\$ 382,280</u>

Accrued sick pay is summarized as follows:

	<u>2014</u>	<u>2013</u>
Total accrued sick pay	\$1,553,726	\$1,521,215
Amount of sick pay not vested, in accordance with the union agreement and District policy	<u>(1,448,550)</u>	<u>(1,110,572)</u>
Total accrued sick pay vested and included in accrued payroll	<u>\$ 405,176</u>	<u>\$ 410,643</u>

Note 10 – RETIREMENT PLANS

Two employee groups are covered:

<u>Employee Group</u>	<u>Plan names</u>	<u>2014 Cost</u>	<u>2013 Cost</u>
1. Union	Teamsters Union	\$ 1,062,278	\$ 1,043,945
2. Non-Union	Profit-Sharing and Salary Deferral Plan and Trust, and Money Purchase Pension Plan and Trust	<u>214,679</u>	<u>207,058</u>
		<u>\$ 1,276,957</u>	<u>\$ 1,251,003</u>

TEAMSTERS PENSION PLAN

This plan covers union employees and is a "cost sharing" plan. The District had the following statistics:

	<u>2014</u>	<u>2013</u>
Total labor	\$10,166,450	\$ 9,683,658
Pensionable wages	9,120,618	8,682,108
Required work hour contribution (up to 173 hours per month)	\$3.18	\$3.18
Total pension hours	333,550	328,337

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 2014, meaning the Plan is in good financial condition. More information can be found at <http://www.wctpension.org/index.html>.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10 – 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 Meridian Retirement Plan Advisors.

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 2014 were based upon a payroll of \$2,146,794 for non-union employees. The District contributed \$214,679 (10% of covered payroll) and covered employees contributed \$215,408 (10% of covered payroll).

The District's contributions for fiscal year 2013 based upon a payroll of \$2,070,578 for non-union employees. The District contributed \$207,058 (10% of covered payroll) and covered employees contributed \$195,137 (9% of covered payroll).

Note 11 – 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, 2014	\$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.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11 – 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:

	<u>2014</u>	<u>2013</u>
Claims liability – beginning of year	\$ 2,057,804	\$ 1,633,338
Claims and changes in estimates	2,128,654	794,620
Actual claim payments	<u>(402,907)</u>	<u>(370,154)</u>
Claims liability – end of year	<u>\$ 3,783,551</u>	<u>\$ 2,057,804</u>

Note 12 – COMMITMENTS

Paratransit Service – Easy Lift

For fiscal year 2014, the District has agreed to provide Easy Lift a subsidy of \$624,268 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, 2016. 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 May 2013, for these services. Either party can terminate this agreement within 120 days of year end.

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.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12 – COMMITMENTS (continued)

For fiscal year 2014, the rates paid by the District for contractual amounts are as follows:

Gilligs	\$.041406
MCI	\$.055208
Novas/Gilligs	\$.054013
Group D Novas	\$.056708

Note 13 – 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 14 – RESTATEMENT

The June 30, 2013 financial statements have been restated based on a change due to an actuarially determined workers' compensation liability. The changes were as follows:

June 30, 2013		
Workers' compensation reserve as originally stated	\$2,041,609	
Increase	<u>1,299,391</u>	
Restated compensation reserve		\$(3,341,000)
June 30, 2012		
Workers' compensation reserve as originally stated	\$1,607,562	
Increase	<u>1,178,391</u>	
Restated compensation reserve		<u>\$2,785,953</u>

Increase in June 30, 2013 workers' compensation expense	<u>\$ (121,000)</u>
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The information for the change in 6/30/12 compensation expense is not available.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 15 - DEFINED BENEFIT POSTEMPLOYMENT HEALTH BENEFIT PLAN

Plan Descriptions

The District provides postretirement health benefits in the form of monthly reimbursement towards the retiree's health plan premium for eligible union retirees, and eligible staff retirees and their spouses of amounts not to exceed \$285 per month. 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 annual required contribution (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 2014 and related information are as follows:

	<u>2014</u>	<u>2013</u>
ARC	\$ 190,000	\$1,008,000
Interest on net OPEB obligation	130,000	181,000
Adjustment to ARC	<u>(112,000)</u>	<u>(156,000)</u>
Annual OPEB cost	208,000	1,033,000
Contributions made	<u>(57,000)</u>	<u>(76,000)</u>
Increase in net OPEB obligation	151,000	957,000
Net OPEB obligation beginning of year	2,592,000	3,641,000
Restatement of OPEB obligation due to benefit plan changes	-	<u>(2,006,000)</u>
Net OPEB obligation end of year	<u>\$ 2,743,000</u>	<u>\$2,592,000</u>

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

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>% of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/11	\$ 1,154,000	\$ 133,000	11.5%	\$ 2,825,000
6/30/12	974,000	158,000	16.2%	3,641,000
6/30/13	1,033,000	76,000	7.4%	2,592,000
6/30/14	208,000	57,000	27.4%	2,743,000

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Actuarial accrued liability (a)	\$2,743,000	\$2,592,000
Actuarial value of plan assets (b)	-	-
Unfunded actuarial accrued liability (funding excess) (a)-(b)	<u>\$2,743,000</u>	<u>\$2,592,000</u>
Funded ratio (b) / (a)	0%	0%
Covered payroll (c)	\$10,439,608	\$10,111,000
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll $[(a)-(b)]/(c)$	26.3%	25.6%

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	6/30/2013
Actuarial cost method	Entry Age
Amortization method	Level percentage of pay
Remaining amortization period	Open 30 years
Actuarial assumptions:	
Investment rate of return	5%
Projected salary increase	3.25%
Healthcare inflation rate	
Initial	5% to 14.55%,
Ultimate, # of years	5% after 11 years

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

Required Supplementary Information

Schedule of Funding Progress of Postemployment Healthcare Plan

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
Actual	7/1/2009	\$0	\$11,166	\$11,166	\$0	\$10,617	105.2%
Actual	7/1/2011	\$0	\$10,725	\$10,725	\$0	\$9,902	108.3%
Actual	7/1/2013	\$0	\$2,592	\$2,592	\$0	\$10,111	25.6%

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 in 2015.