

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT**

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

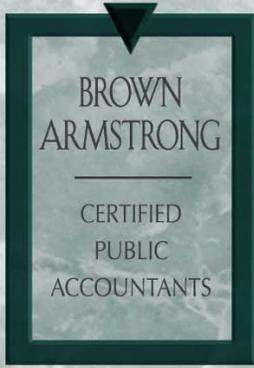
**JUNE 30, 2013 AND 2012**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
JUNE 30, 2013 AND 2012**

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## **FINANCIAL SECTION**



BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Santa Cruz Metropolitan Transit District
Santa Cruz, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprises the Santa Cruz METRO'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 audits. We conducted our audits 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.

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## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Santa Cruz METRO as of June 30, 2013 and 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, during the year ended June 30, 2013, Santa Cruz METRO adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress for Santa Cruz METRO's Defined Benefit Pension Plan and Other Postemployment Benefit (OPEB) Plan on pages 4-9 and 31-32 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 an opinion on the basic financial statements. The statements of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The statements of operating expenses and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statements of operating expenses and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2013, on our consideration of Santa Cruz METRO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Santa Cruz METRO's internal control over financial reporting and compliance.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California  
December 27, 2013

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013 AND 2012**

## **Introduction**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of Santa Cruz Metropolitan Transit District (Santa Cruz METRO) provides a narrative and analytical overview of the financial activities of Santa Cruz METRO with selected comparative information for the years ended June 30, 2013 and 2012. Following the MD&A are the basic financial statements of Santa Cruz METRO together with the notes thereto, which are essential for a full understanding of the data contained in the financial statements.

## **Activities and Highlights**

Santa Cruz METRO is an independent agency formed in 1969 by the legislature of the State of California for the purpose of providing Fixed Route bus service to the general public in Santa Cruz County (County). Santa Cruz METRO assumed direct operation of federally mandated ADA complementary paratransit (Paracruz) services in November 2004. Prior to 2004, the paratransit service was delivered under contract. Santa Cruz METRO also operates the Highway 17 (Commuter) Express bus service to Santa Clara County in cooperation with the Santa Clara Valley Transportation Authority (VTA), AMTRAK, CalTrans, and the Capitol Corridor Joint Powers Authority (CCJPA). Overseeing the employees who work in the public interest, the General Manager coordinates the operation of Santa Cruz METRO according to the policy and direction of the governing Board of Directors, composed of eleven directors and one ex-officio director as described in Note 1.A.

## **The Financial Statements**

Santa Cruz METRO's basic financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. Santa Cruz METRO reports its financial results using one enterprise fund under the accrual method of accounting which records revenue when earned and expenses when incurred.

The Statement of Net Position presents information on Santa Cruz METRO's assets and liabilities, with the difference between the two reported as net position.

The Statement of Revenues, Expenses, and Changes in Fund Net Position reports the operating revenues and expenses, non-operating revenues and expenses, and capital grant contributions. Federal capital grant expenses are listed in the Schedule of Expenditures of Federal Awards and are included in the current year increase in capital assets.

The Statement of Cash Flows reports the sources and uses of cash for the fiscal year resulting from *operating* activities, *non-capital* financing activities (operating grants and sales tax revenue), *capital* acquisitions and disposals, and related *financing* activities (non-transportation revenues). The net result of these activities, added to the cash balances at the beginning of the year, reconciles to the cash balances (current plus restricted) at the end of the current fiscal year on the Statement of Net Position.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of Santa Cruz METRO's operations and significant accounting policies as well as clarify unique financial information.

Following the basic financial statements and footnotes is the Required Supplementary Information, which provides further detail on the funding progress of Santa Cruz METRO's defined benefit pension plan and other postemployment benefits.

The Statements of Operating Expenses, located in the Supplementary Information section of the financial statements, reports expenses in greater detail.

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
JUNE 30, 2013 AND 2012**

**Financial Highlights**

The following discussion provides an overview of the financial activities related to operations (operating revenue and expense) and capital funding (contributions) received for facilities improvements and the purchase of capital equipment for the year ended June 30, 2013.

*Operating Revenue and Expense*

Santa Cruz METRO utilizes five primary sources of revenue to operate its public transit services: passenger fares, sales tax, local transportation funds (TDA), federal funds, and other non-transportation related revenues (including advertising income, investment income, and rental income). After the economic recession of 2008, and in an effort to bridge the resulting operating budget gap, two (2) sources of revenue that were used historically to fund the capital program were re-directed from the capital budget to the operating budget. These funding sources, Federal Transit Administration – Small Transit Intensive Cities (FTA-STIC) and State Transit Assistance (STA) have allowed the agency to continue to provide and maintain a consistent level of service to the public, despite operating budgetary shortfalls.

Operating expenses are classified into ten basic categories: labor and fringe benefits, services, mobile materials and supplies, other materials and supplies, utilities, insurance costs (casualty and liability), taxes, purchased transportations costs, miscellaneous expense, and leases and rental expenses. These categories are consistent with the Uniform System of Accounts (USOA) and National Transit Database (NTD) reporting.

As with many transit and public agencies across the region and throughout the state, Santa Cruz METRO continues to face financial challenges due to significant increases in operating and capital costs with no significant increase in operating or capital contributions. The FY13 Operating budget is a balanced budget using Operating revenues and Cash Reserves to fill the budget gap. However, the FY13 Operating budget is not a structurally balanced budget. This means that recurring expenses exceed recurring revenues. For a variety of reasons, true structural balance may not be possible at a given time. In such a case, using reserves to balance the budget may be considered, but only in the context of a plan to return to structural balance, replenish fund balances, and ultimately remediate the negative impacts of any other short-term balancing actions that may be taken.

*Capital Program*

In fiscal year 2013, Santa Cruz METRO spent over \$4.7 million in capital contributions on new and ongoing capital projects. These capital projects were funded by variety of sources including the Federal Transportation Administration (FTA), California Proposition 1B Transportation Bonds (PTMISEA and TSSSDRA), State Transit Assistance (STA), Air District grants (MBUAPCD), and local cash reserves. Significant capital asset activity includes:

- Construction of the new Judy K. Souza Operations Facility began in spring 2013. This new operations building and bus parking structure located at 1200 River Street will provide a permanent state of the art facility from which to deploy the fixed route fleet. This project is another phase of the transit agency's MetroBase consolidated operations in the Harvey West area of Santa Cruz. The project budget is approximately \$26 million, with the majority of funding provided by the Public Transportation Modernization, Improvement, and Service Enhancement Account Program (PTMISEA), which was established through Proposition 1B. The current estimated completion date is December, 2015. - Project in progress
- Purchase and installation of an additional 15,000-gallon liquefied/compressed natural gas (L/CNG) Storage Tank at Santa Cruz METRO's CNG Fueling Station on River Street in Santa Cruz. Partial funding for this second tank was secured through a grant with the Monterey Bay Unified Air Pollution Control District (MBUAPCD), and is supplemented with funds from PTMISEA. - Project completed October 2013

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
JUNE 30, 2013 AND 2012**

- Purchase and installation of Land Mobile Radio (LMR) equipment and agency-wide Video Surveillance and Lighting equipment – funding provided by Transit System Safety, Security, and Disaster Response Account (TSSSDRA) – The LMR project is a fully functioning fleet mobile radio system for the fixed route, paratransit and non-revenue (service) vehicles that meets the Federal Communication Commission (FCC) mandated requirement for narrowband migration by January 1, 2013. Additionally, this system will be compliant for the future narrowband migration that is required tentatively by the year 2018. The comprehensive security video surveillance portion of this project provides for video surveillance equipment to enhance safety for passengers and staff at the agency's transit centers and related facilities. The lighting equipment component of this project will install and upgrade critically needed lighting at the transit centers and agency facilities. This will enable Santa Cruz METRO to obtain low-maintenance, long life lighting (above 100,000 hours) using approximately 50% less electricity than current lighting, contributing to "greener" facilities with lower operating costs. - Project in progress
- Bus Stop Improvements – funded with State Transportation Improvement Program (STIP) funds – The Bus Stop Improvement Project provided \$500,000 for construction, repairs, and improvements to bus stops throughout the county, including additional shelters, seating, and solar lighting. - Project completed November 2013
- On-board Bus Wireless Internet (Wi-Fi) Service and Equipment Replacement – funded with State Transit Assistance (STA) – This project replaced and upgraded the existing Wi-Fi equipment and expanded service from 17 to 21 buses while allowing for faster speeds and better coverage on the Highway 17 (Commuter) Express fleet. - Project completed June 2013
- Additional Ticket Vending Machine – installed at the Cavallaro Transit Center in Scotts Valley – funded with State Transit Assistance (STA) – This project allowed the purchase of an additional ticket vending machine (TVM) to provide after-hours ticket and pass purchasing and Smart Card value loading options, and added a higher level of convenience to Santa Cruz METRO riders. This will be the fifth TVM placed in service since 2011. Other TVM locations include, Santa Cruz Metro Center, 920 Pacific Avenue, Santa Cruz, Cabrillo College, 6500 Soquel Drive, Aptos, Capitola Mall, 1855 - 41st Avenue, Capitola Mall, and the Watsonville Transit Center, 475 Rodriguez Street, Watsonville.
- Pressure Washer / Sidewalk Cleaner - funded with State Transit Assistance (STA) – Santa Cruz METRO's facilities maintenance staff maintains more than 1,000 bus stops throughout Santa Cruz County. Of these 591 have concrete pads and 218 have shelters. Pressure washing these bus stops is necessary due to their high usage. The new pressure washer collects and recycles the used water thus preventing "dirty water" from entering the storm drains. - Equipment purchased April 2013

*Ridership:*

Santa Cruz METRO provided 5,622,773 rides on both its fixed-route and paratransit services this year, an increase of 159,393 rides.

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
JUNE 30, 2013 AND 2012**

**Future Outlook**

The agency continues its emphasis on serving the public transportation needs of Santa Cruz County. Service increases are anticipated to fill service deficits that occurred as the result of service reductions in previous years. Ongoing ridership analysis and transit planning studies will provide the data necessary to identify changes in the transit needs of riders for future service enhancements that will better serve the community in the coming years.

*Short Range Transit Plan:*

The agency's last Short Range Transit Plan (SRTP) expired at the end of 2012; therefore significant planning efforts have been dedicated to the 2013 update. The SRTP is a planning document focused on transit service and capital improvements over a five year horizon. This document will guide Santa Cruz METRO in regards to service changes, capital projects, fleet management, public outreach and communication, as well as other elements like financial and legislative forecasting, and policy revisions and recommendations. The bulk of the 2013 SRTP is focused on recommending new and/or improved service planning policies. It is anticipated that the draft will be released for a formal 30 day public review period starting November 15, 2013, and ending December 16, 2013.

*Executive Recruitment:*

The current Employment Agreement with Santa Cruz METRO's General Manager Leslie R. White will expire on December 31, 2014. On April 12, 2013, Santa Cruz METRO's Board of Directors authorized the Chair to appoint a Recruitment Task Force, made up of members of the Board of Directors, for the purpose of commencing recruitment activities for the position(s) of General Manager and/or Assistant General Manager. In October 2013, a one-year contract was awarded for executive recruitment and consulting services.

*Transit Security:*

Safety and security continue to be a focus at Santa Cruz METRO. Congress passed the Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21) in June of 2012, reauthorizing public transportation funding programs for federal fiscal years 2013 and 2014. Much of the emphasis of this new legislation is the establishment of funding for increased transit safety, including crime prevention and security. Santa Cruz METRO is in the process of further developing programs in these areas, as well as community emergency planning in order to meet key national goals. Additional grant funding will be sought for many of the programs Santa Cruz METRO is pursuing in this area.

*Future Capital Projects:*

Re-design and remodel of Pacific Station in Santa Cruz - Located in the heart of downtown, Pacific Station is the City of Santa Cruz's primary multi-modal public transit center. Constructed in 1984, the existing building has endured nearly three decades of heavy use. Santa Cruz METRO and the City of Santa Cruz are partnering to redesign the downtown Pacific Station mixed use transit center. A redesigned transit center presents an opportunity to improve the experiences of both commuters and Santa Cruz METRO employees. A first round of community engagement will be conducted to gather input on needs and opportunities for Pacific Station and lower Pacific Avenue. A second phase will collect feedback on site and use options. The third and last phase will consist of a presentation of the preferred option. Each round will consist of a community meeting, an open-house, and tables at the farmers market and Pacific Station. The new Pacific Station will provide an attractive civic place that is safe, sustainable, functional, and appreciated by the whole Santa Cruz community.

Watsonville Transit Center Renovations - The Watsonville Transit Center ("WTC") serves intermodal passenger connections among Santa Cruz METRO, Monterey Salinas Transit, and Greyhound buses, as well as ParaCruz vehicles, taxis and bicycles. WTC has been serving riders in South Santa Cruz County for nearly 20 years; these aging facilities require renovation. In winter 2012, staff conducted a series of public outreach efforts which included one-on-one surveys, focus groups and public outreach meetings. With the information generated from the public outreach, Santa Cruz METRO staff was able to narrow down design options and in September 2013, a one-year contract was awarded for conceptual design services for the Watsonville Transit Center.

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
JUNE 30, 2013 AND 2012**

**Statements of Net Position:**

	2013	2012	2011	2013 to 2012		2012 to 2011	
				Increase/(Decrease) Amount	%	Increase/(Decrease) Amount	%
Total Assets	\$ 120,433,802	\$ 122,760,286	\$ 107,633,960	\$ (2,326,484)	-2%	\$ 15,126,326	14%
Total Liabilities	\$ 45,246,261	\$ 39,859,087	\$ 20,233,981	\$ 5,387,174	14%	\$ 19,625,106	97%
Total Net Position	\$ 75,187,541	\$ 82,901,199	\$ 87,399,979	\$ (7,713,658)	-9%	\$ (4,498,780)	-5%

Total Assets decreased this year due to decreased restricted cash. Grant funds received from PTMISEA and TSSSDRA in prior years were spent down during the current fiscal year. Funds received from PTMISEA were spent on the construction of the Judy K. Souza Operations Facility, while funds received from TSSSDRA were spent on the Video Surveillance and Land Mobile Radio projects.

Total Liabilities increased this year due to increases in accounts payable, deferred revenue, and long-term liabilities. Accounts payable balances increased at year-end due to ramped up construction activity on the new Operations facilities late in the fiscal year. Deferred revenue increased due to the receipt of grant funds. These funds are restricted and reported as liabilities until spent on the specific purpose for which they were awarded. Other postemployment benefit ("OPEB") long-term liabilities increased significantly during the year, and reflect the rising trend of the actuarially-determined costs of providing these benefits to retirees.

For the fiscal year ended June 30, 2013, Santa Cruz METRO's net position decreased by \$7,713,658.

**Statements of Revenues, Expenses, and Changes in Fund Net Position:**

	2013	2012	2011	2013 to 2012		2012 to 2011	
				Increase/(Decrease) Amount	%	Increase/(Decrease) Amount	%
Operating Revenues	\$ 9,204,063	\$ 8,772,949	\$ 8,616,639	\$ 431,114	5%	\$ 156,310	2%
Operating Expenses	(50,771,308)	(47,296,458)	(44,621,709)	(3,474,850)	-7%	(2,674,749)	-6%
Operating Loss	(41,567,245)	(38,523,509)	(36,005,070)	(3,043,736)	-8%	(2,518,439)	-7%
Non-Operating Revenues	29,174,631	27,085,055	29,757,700	2,089,576	8%	(2,672,645)	-9%
Capital Grant Contributions	4,678,956	6,939,674	10,469,359	(2,260,718)	-33%	(3,529,685)	-34%
Increase (Decrease) in Net Position	\$ (7,713,658)	\$ (4,498,780)	\$ 4,221,989	\$ (3,214,878)	71%	\$ (8,720,769)	-207%

Operating Revenues (Passenger Fares) increased by 5% this year due to increased ridership over the year, primarily on UCSC routes.

Operating Expenses increased by 7% overall when compared to last year due to increases in overtime costs, accrued leave payouts, medical insurance rates, and the California Public Employees' Retirement System (CalPERS) retirement rate.

Non-Operating Revenues increased by 8% over last year primarily due to increased sales tax revenues brought on by a recovering economy and receipt of retroactive tax credits for alternative fuel usage for calendar year 2012.

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
JUNE 30, 2013 AND 2012**

Capital Contributions are capital grant funds received for facilities improvements and the purchase of capital equipment including revenue vehicles. The receipt of capital grant funds can fluctuate year over year based on a variety of factors including project eligibility requirements, formula-based funding criteria, the economy, etc. Capital contributions decreased by 33% over last year due to the purchase of 11 CNG buses in the prior year with funds allocated from the FTA State of Good Repair (SGR) program.

**Statements of Cash Flows:**

	2013	2012	2011	2013 to 2012 Change	2012 to 2011 Change
Net Cash Used in Operating Activities	\$ (34,662,235)	\$ (31,551,498)	\$ (30,548,418)	\$ (3,110,737)	\$ (1,003,080)
Net Cash Provided by Non-Capital Financing Activities	28,259,642	27,233,074	28,867,864	1,026,568	(1,634,790)
Net Cash Provided by (Used in) Capital and Related Financing Activities	3,650,291	20,133,373	(1,091,853)	(16,483,082)	21,225,226
Net Cash Provided by Non-Transportation Activities	231,008	158,886	260,260	72,122	(101,374)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,521,294)	15,973,835	(2,512,147)	(18,495,129)	18,485,982
Cash and Cash Equivalents, Beginning of Year	42,662,793	26,688,958	29,201,105	15,973,835	(2,512,147)
Cash and Cash Equivalents, End of Year	<u>\$ 40,141,499</u>	<u>\$ 42,662,793</u>	<u>\$ 26,688,958</u>	<u>\$ (2,521,294)</u>	<u>\$ 15,973,835</u>

Cash and cash equivalents held by Santa Cruz METRO decreased by \$2,521,294 or 6% during the current year.

**Contacting Santa Cruz METRO's Financial Management**

Santa Cruz METRO's financial report is designed to provide Santa Cruz METRO's Board of Directors, management, and the public with an overview of Santa Cruz METRO's finances. For additional information about this report, please contact Angela Aitken, Finance Manager, at 110 Vernon Street, Santa Cruz, CA 95060.

## **BASIC FINANCIAL STATEMENTS**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
STATEMENTS OF NET POSITION  
JUNE 30, 2013 AND 2012**

	2013	2012
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 24,547,511	\$ 25,241,660
Sales Tax, Grants, and Other Receivables	6,926,596	5,091,540
Inventory	799,098	730,930
Prepays	472,975	101,586
Total Current Assets	32,746,180	31,165,716
<b>RESTRICTED ASSETS</b>		
Cash and Cash Equivalents	15,593,988	17,421,133
<b>CAPITAL ASSETS</b>		
Building and Improvements	47,449,888	48,286,039
Revenue Vehicles	49,217,862	49,218,445
Operations Equipment	3,533,295	3,290,599
Other Equipment	1,495,966	1,495,966
Other Vehicles	1,128,189	1,035,271
Office Equipment	3,580,509	3,487,487
	106,405,709	106,813,807
Less Accumulated Depreciation	(52,058,930)	(46,307,255)
	54,346,779	60,506,552
Construction-in-Progress	6,149,344	4,502,015
Land	11,597,511	9,164,870
Total Capital Assets	72,093,634	74,173,437
<b>TOTAL ASSETS</b>	<b>\$ 120,433,802</b>	<b>\$ 122,760,286</b>

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT**  
**STATEMENTS OF NET POSITION (Continued)**  
**JUNE 30, 2013 AND 2012**

	2013	2012
<b><u>LIABILITIES AND NET POSITION</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	\$ 2,130,838	\$ 915,561
Accrued Payroll and Employee Benefits	3,299,396	3,205,557
Deferred Rent	6,944	2,671
Workers' Compensation Liabilities, Current	829,717	929,598
Other Accrued Liabilities	306,089	687,954
Security Deposit	15,284	16,034
Total Current Liabilities	6,588,268	5,757,375
<b>NON-CURRENT LIABILITIES</b>		
Deferred Revenue - Settlement Agreement	1,339,537	1,336,857
Deferred Revenue - State Transit Authority Grant	6,698,643	3,610,756
Deferred Revenue - PTMISEA Grant	12,804,932	13,495,804
Deferred Revenue - Proposition 1B Grant	588,499	1,770,467
<b>OTHER LONG-TERM LIABILITIES</b>		
Workers' Compensation Liabilities, Net of Current	3,160,618	3,310,633
Other Postemployment Benefit Liabilities	14,065,764	10,577,195
Total Liabilities	45,246,261	39,859,087
<b>NET POSITION</b>		
Net Investment in Capital Assets	72,093,634	74,173,437
Unrestricted Net Position	3,093,907	8,727,762
Total Net Position	75,187,541	82,901,199
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 120,433,802</b>	<b>\$ 122,760,286</b>

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Passenger Fares	\$ 5,624,748	\$ 5,508,640
Special Transit Fares	<u>3,579,315</u>	<u>3,264,309</u>
Total Operating Revenues	<u>9,204,063</u>	<u>8,772,949</u>
<b>OPERATING EXPENSES</b>		
Wages, Salaries, and Employee Benefits	36,835,803	33,255,270
Purchased Transportation Services	185,875	260,687
Materials and Supplies	3,511,491	3,178,300
Other Expenses	3,470,646	4,160,098
Depreciation	<u>6,767,493</u>	<u>6,442,103</u>
Total Operating Expenses	<u>50,771,308</u>	<u>47,296,458</u>
Net Operating Loss	<u>(41,567,245)</u>	<u>(38,523,509)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Sales and Use Taxes	17,250,072	16,064,503
Transportation Development Act Assistance	5,507,038	5,244,964
Section 8/5303 Planning Fund	10,572	19,144
Section 9/5307 Operating Assistance	3,695,976	3,707,070
Section 18/5307 Operating Assistance	2,081,410	1,445,821
Interest Income	84,503	115,371
Rental Income	146,505	43,515
Other Revenue	423,804	475,697
Loss on Sale and Disposal of Property, Equipment, and Inventory	<u>(25,249)</u>	<u>(31,030)</u>
Total Non-Operating Revenues	<u>29,174,631</u>	<u>27,085,055</u>
Net Loss Before Capital Contributions	<u>(12,392,614)</u>	<u>(11,438,454)</u>
<b>CAPITAL CONTRIBUTIONS</b>		
Grants Restricted for Capital Expenditures	<u>4,678,956</u>	<u>6,939,674</u>
<b>NET POSITION</b>		
Decrease in Net Position	(7,713,658)	(4,498,780)
Total Net Position, Beginning of Year	<u>82,901,199</u>	<u>87,399,979</u>
Total Net Position, End of Year	<u>\$ 75,187,541</u>	<u>\$ 82,901,199</u>

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from Customers	\$ 8,722,667	\$ 8,793,524
Payments to Employees	(36,991,860)	(33,922,358)
Payments to Suppliers	(6,393,042)	(6,422,664)
	<u>(34,662,235)</u>	<u>(31,551,498)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Operating Grants Received, Including Sales and Use Taxes	<u>28,259,642</u>	<u>27,233,074</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from Sale of Property and Equipment	2,241	36,891
Capital Grants Received	8,363,223	27,506,899
Capital Expenditures	(4,715,173)	(7,410,417)
	<u>3,650,291</u>	<u>20,133,373</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment and Rental Income Received	<u>231,008</u>	<u>158,886</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,521,294)</b>	<b>15,973,835</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>42,662,793</u></b>	<b><u>26,688,958</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 40,141,499</u></b>	<b><u>\$ 42,662,793</u></b>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Net Operating Loss	\$ (41,567,245)	\$ (38,523,509)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities:		
Depreciation	6,767,493	6,442,103
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(481,396)	20,575
(Increase) Decrease in Inventory	(68,168)	85,397
(Increase) Decrease in Prepaid Expenses	(371,389)	202,550
Increase in Accounts Payable and Accrued Liabilities	1,215,277	888,574
Decrease in Other Liabilities	(156,807)	(667,188)
	<u>(34,662,235)</u>	<u>(31,551,498)</u>
Net Cash Used in Operating Activities	<u>\$ (34,662,235)</u>	<u>\$ (31,551,498)</u>

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Description of Organization

The Santa Cruz Metropolitan Transit District (Santa Cruz METRO) was formed February 9, 1969, following a favorable election in conformity with Section 9800 et. seq. of the Public Utilities Code. The transit system serves the general public in the cities of Santa Cruz, Watsonville, Scotts Valley, and Capitola and the unincorporated areas of Santa Cruz County. A Board of eleven directors and one Ex-Officio director representing the University of California, Santa Cruz governs Santa Cruz METRO. At June 30, 2013, the directors were as follows:

Chairperson:	Daniel Dodge		
Vice Chair:	Dene Bustichi		
Members:	Zach Friend	Margarita Alejo	Bruce McPherson
	Hilary Bryant	Deborah Lane	Ron Graves
	John Leopold	Lynn Robinson	Michelle Hinkle
Ex-Officio:	Donna Blitzer		

Santa Cruz METRO also serves the Highway 17 corridor into Santa Clara County to provide commuter express service through a memorandum of understanding with the California Department of Transportation, the Capitol Corridor Joint Powers Authority, and the Santa Clara Valley County Transit District (SCVCTD). Amtrak Thruway bus service is also provided by Santa Cruz METRO on the same corridor.

B. Reporting Entity

Santa Cruz METRO and the Santa Cruz Civic Improvement Corporation (the Corporation) have a financial and operational relationship, which meets the reporting entity definition criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, *The Financial Reporting Entity*, for inclusion of the Corporation as a blended component unit of Santa Cruz METRO. Accordingly, the financial activities of the Corporation have been included in the basic financial statements of Santa Cruz METRO. For the years ending June 30, 2013 and 2012, these activities were minimal.

**Scope of Public Service:**

The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State in July 1986. The Corporation was formed for the sole purpose of providing financial assistance to Santa Cruz METRO for the construction and acquisition of major capital facilities.

The following are those aspects of the relationship between Santa Cruz METRO and the Corporation which satisfy GASB Statement No. 14/39 criteria.

Accountability:

1. Santa Cruz METRO's Board of Directors appointed the Corporation's Board of Directors.

**NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. Reporting Entity (Continued)

2. Santa Cruz METRO is able to impose its will upon the Corporation based on the following:
  - All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of Santa Cruz METRO.
  - Santa Cruz METRO exercises significant influence over operations of the Corporation as it is anticipated that Santa Cruz METRO will be the sole lessee of all facilities owned by the Corporation. Likewise, it is anticipated that Santa Cruz METRO's lease payments will be the sole revenue source of the Corporation.
3. The Corporation provides specific financial benefits or imposes specific financial burdens on Santa Cruz METRO based upon the following:
  - Santa Cruz METRO has assumed a “moral obligation,” and potentially a legal obligation, for any debt incurred by the Corporation.

C. Basis of Accounting and Presentation

Santa Cruz METRO is accounted for as a Business-Type Activity, as defined by GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, and its basic financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Santa Cruz METRO adopted GASB Statement No. 34 as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, as of and for the year ended June 30, 2003, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into three net asset categories; namely, those invested in capital assets, net of related debt; restricted net position; and unrestricted net position.

**Contributed Capital/Reserved Retained Earnings:**

Santa Cruz METRO receives grants from the Federal Transit Authority (FTA) and other agencies of the U.S. Department of Transportation, state, and local transportation funds for the acquisition of transit-related equipment and improvements. Prior to July 1, 2001, capital grants were recognized as donated capital to the extent that project costs under the grant had been incurred. Capital grant funds earned, less amortization equal to accumulated depreciation of the related assets, were included in contributed capital. As required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, Santa Cruz METRO changed its method of accounting for capital grants from capital contributions to reserved non-operating revenues. In accordance with GASB Statement No. 33, capital grants are required to be included in the determination of net income (loss) resulting in an increase in net revenue of \$4,678,956 and \$6,939,674 for the fiscal years 2013 and 2012, respectively.

Under GASB Statement No. 34, contributed capital and reserved retained earnings are presented in the net position section as net position invested in capital assets.

## **NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **C. Basis of Accounting and Presentation (Continued)**

#### **Proprietary Accounting and Financial Reporting:**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Santa Cruz METRO are passenger fares and special transit fares. Operating expenses for Santa Cruz METRO include the wages, purchased transportation, materials and supplies, depreciation/amortization on capital assets, and other expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### **Net Position:**

Net position represents the residual interest in Santa Cruz METRO's assets after liabilities are deducted. In accordance with GASB Statement No. 34, the fund equity section on the statements of net position was combined to report total net position and present it in three broad components: net investment in capital assets, restricted, and unrestricted. Net position invested in capital assets includes capital assets net of accumulated depreciation. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. All other net position is unrestricted.

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

### **D. Cash and Cash Equivalents**

Santa Cruz METRO considers all highly liquid investments with a maturity date within three months of the date acquired to be cash equivalents. Santa Cruz METRO deposits funds into an external investment pool maintained by Santa Cruz County. These deposits are considered cash equivalents. The Santa Cruz County Pooled Investment Fund is authorized to invest in obligations of the U.S. Treasury agencies and instrumentalities, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool. Cash and cash equivalents are stated at fair value. For purposes of the statements of cash flows, Santa Cruz METRO considers all highly liquid investments (including restricted assets) to be cash equivalents.

### **E. Inventory**

Inventory is carried at cost using the first-in/first-out (FIFO) method. Inventory held by Santa Cruz METRO consists of spare bus parts and operating supplies that are consumed by Santa Cruz METRO and are not for resale purposes.

### **F. Restricted Assets**

Certain assets are classified as restricted assets on the statements of net position because their use is subject to externally imposed stipulations, either by laws or regulations.

**NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

F. Restricted Assets (Continued)

The cash resulting from a settlement agreement, as described in Note 8, represents proceeds restricted by the FTA. The State Transit Assistance (STA) Grant, Proposition 1B Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) Grant, and the Proposition 1B Office of Homeland Security (OHS) California Transit Security Grant Program (CTSGP) Grant are restricted for capital expenditures. Restricted assets at June 30 are as follows:

	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents		
FTA Grant	\$ 1,339,537	\$ 1,336,857
Proposition 1B PTMISEA Grant	12,804,932	13,495,804
Proposition 1B OHS CTSGP Grant	588,499	1,770,466
STA Grant	<u>861,020</u>	<u>818,006</u>
Total Restricted Assets	<u>\$ 15,593,988</u>	<u>\$ 17,421,133</u>

G. Property and Equipment

Property and equipment are recorded at cost. Depreciation for all such assets is computed on a straight-line basis. Estimated useful lives of assets are as follows:

Buildings and improvements	20-39 years
Revenue vehicles	12 years
Other vehicles and equipment	3-10 years

Depreciation expense on assets acquired with capital grant funds are transferred to net position, invested in capital assets, net of related debt, after being charged to operations.

Major improvements and betterments to existing facilities and equipment are capitalized. Costs for maintenance and repairs, which do not extend the useful lives of the applicable assets, are charged to expense as incurred. Upon disposition, costs and accumulated depreciation are removed from the accounts and resulting gains or losses are included in operations.

Santa Cruz METRO completed and capitalized the Scotts Valley Transit Center in fiscal year 1999. The cost of this facility totaled \$4,063,634, which was funded by federal, state, and local funds. The former Scotts Valley Redevelopment Agency (the Agency), a political subdivision of the State of California, was one of Santa Cruz METRO's funding sources for this project and the Successor Agency has retained an interest in the property. The title to the property is retained by both Santa Cruz METRO and the Successor Agency as tenants in common with each party holding an individual interest in proportion to each party's financial participation in the project. The Successor Agency's portion of the property is 13.87%. The Successor Agency's portion is not recorded in Santa Cruz METRO's basic financial statements.

H. Sales and Use Tax

Santa Cruz METRO receives a 0.5% sales and use tax levied on all taxable sales in Santa Cruz County, which is collected and administered by the California State Board of Equalization. Additionally, Santa Cruz METRO is allocated, through the Santa Cruz County Regional Transportation Commission, a portion of the 0.25% sales and use tax levied by the Transportation Development Act (TDA).

I. Operating Assistance Grants

Operating assistance grants are recognized as revenue in the grant period earned.

**NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

J. Self-Insurance

Santa Cruz METRO is self-insured for the first \$250,000 of general and vehicular liability. For settlements in excess of \$250,000, Santa Cruz METRO has total coverage up to \$20,000,000 per occurrence. Additionally, Santa Cruz METRO is self-insured up to \$350,000 for workers' compensation claims. Santa Cruz METRO has recorded a liability for estimated claims to be paid, including incurred but not reported claims.

K. Employee Benefits

Annual and medical leave benefits are accrued when earned and reduced when used. Any paid medical leave accrued beyond 96 hours may, at the employee's option, be converted to annual leave and credited to the employee's annual leave schedule or paid in cash, depending on the bargaining unit, at 100% of the earned rate. Employees are paid accrued and unused annual leave at the time of separation from Santa Cruz METRO service.

L. Payroll

Santa Cruz METRO contracts with the Santa Cruz County Auditor-Controller to provide payroll processing services.

M. Pension Costs

Pension costs are expensed as incurred. These costs equal the actuarially determined annual contribution amount.

N. Use of Estimates

The preparation of basic 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 basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

O. Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the classifications used in the current period. Such reclassifications had no effect on Santa Cruz METRO's financial positions or results of operations for the periods presented.

P. Implementation of Governmental Accounting Standards Board Statement

**GASB Statement No. 63** – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was implemented. The statement modifies current financial reporting. The largest change was the replacement of the Statement of Net Assets with a Statement of Net Position

Q. Future Governmental Accounting Standards Board Statements

**GASB Statement No. 65** – *Items Previously Reported as Assets and Liabilities* establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. Santa Cruz METRO has not determined the effects of the implementation of this statement on its financial statements.

**NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Q. Future Governmental Accounting Standards Board Statements (Continued)

**GASB Statement No. 66** – *Technical Corrections—2012—an Amendment of GASB Statements No. 10 and No. 62* is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. Santa Cruz METRO does not expect the implementation of this statement to have a material effect on the financial statements.

**GASB Statement No. 67** – *Financial Reporting for Pension Plans—an Amendment of GASB Statement No. 25* improves financial reporting by state and local governmental pension plans. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. Santa Cruz METRO has not determined the effects of the implementation of this statement on its financial statements.

**GASB Statement No. 68** – *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27* improves accounting and financial reporting by state and local governments for pensions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The implementation of this standard will have a material effect on Santa Cruz METRO financial statements.

**GASB Statement No. 69** – *Government Combinations and Disposals of Government Operations* provides specific accounting and financial reporting guidance for combinations in the governmental environment. This statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2013. Santa Cruz METRO has not yet determined its effect on the financial statements.

**GASB Statement No. 70** – *Accounting and Financial Reporting for Nonexchange Financial Guarantees* will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. Santa Cruz METRO has not yet determined its effect on the financial statements.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash on Hand	\$ 45,978	\$ 55,158
Demand Deposits	517,356	590,291
Deposits in Santa Cruz County Pooled Investment Fund	<u>39,578,165</u>	<u>42,017,344</u>
	<u>\$ 40,141,499</u>	<u>\$ 42,662,793</u>

**NOTE 2 – CASH AND CASH EQUIVALENTS** (Continued)

Cash on Hand and Cash in Banks

**Investments Authorized by the California Government Code and Santa Cruz METRO’s Investment Policy**

The table below identifies the **investment types** that are authorized for Santa Cruz METRO by the California Government Code (or Santa Cruz METRO’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or Santa Cruz METRO’s investment policy, where more restrictive) that address **interest rate risk**, **credit risk**, and **concentration of credit risk**.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers’ Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Negotiable Certificates of Deposit	5 years	None	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	None	None
Medium-Term Notes	5 years	None	None
Mutual Funds	N/A	None	None
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	5 years	None	None
County Pooled Investment Funds	N/A	100%	None
Local Agency Investment Fund (LAIF)	N/A	None	None

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of Santa Cruz METRO’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of Santa Cruz METRO’s investments by maturity:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
County Pooled Investment Fund	<u>\$ 39,578,165</u>	<u>\$ 39,578,165</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 2 – CASH AND CASH EQUIVALENTS** (Continued)

Cash on Hand and Cash in Banks (Continued)

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, Santa Cruz METRO's investment policy, and the actual rating as of year-end for each investment type. The column marked "exempt from disclosure" identifies those investment types for which GASB Statement No. 40 does not require disclosure as to credit risk:

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End		
				AAA	Aa	Not Rated
County Pooled Investment Fund	<u>\$39,578,165</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$39,578,165</u>

**Concentration of Credit Risk**

The investment policy of Santa Cruz METRO contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Santa Cruz METRO did not have any investments in any one issuer (other than external investment pools) that represent 5% or more of total Santa Cruz METRO's investments at June 30, 2013 or 2012.

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and Santa Cruz METRO's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

**Custodial Credit Risk**

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: None of Santa Cruz METRO's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

**Investment in Santa Cruz County Pooled Investment Fund**

Santa Cruz METRO is a voluntary participant in the Santa Cruz County Pooled Investment Fund. The fair value of Santa Cruz METRO's investment in this pool is reported in the accompanying basic financial statements at amounts based upon Santa Cruz METRO's pro-rata share of the fair value provided by the Santa Cruz County for the entire Santa Cruz County portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Santa Cruz County, which are recorded on an amortized cost basis.

**NOTE 3 – RECEIVABLES**

Receivables at June 30 are as follows:

	<u>2013</u>	<u>2012</u>
Federal Grants	\$ 226,268	\$ 23,260
State Grants	2,550,183	1,731,162
Sales Tax Revenue	2,845,300	2,644,200
Other	1,304,845	692,918
	<u>\$ 6,926,596</u>	<u>\$ 5,091,540</u>

**NOTE 4 – CHANGES IN CAPITAL ASSETS**

Facilities, property, and equipment at June 30 are summarized as follows:

June 30, 2013

	<u>Balance July 1, 2012</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>Balance June 30, 2013</u>
Non-Depreciated Assets				
Land	\$ 9,164,870	\$ 2,432,641	\$ -	\$ 11,597,511
Construction-in-Progress	4,502,015	4,715,173	(3,067,844)	6,149,344
Total Non-Depreciated Assets	13,666,885	7,147,814	(3,067,844)	17,746,855
Depreciated Assets				
Building and Improvements	48,286,039	52,143	(888,294)	47,449,888
Revenue Vehicles	49,218,445	41,661	(42,244)	49,217,862
Operations Equipment	3,290,599	347,409	(104,713)	3,533,295
Other Equipment	1,495,966	-	-	1,495,966
Other Vehicles	1,035,271	92,918	-	1,128,189
Office Equipment	3,487,487	98,991	(5,969)	3,580,509
Total Depreciated Assets	106,813,807	633,122	(1,041,220)	106,405,709
Less Accumulated Depreciation	<u>(46,307,255)</u>	<u>(6,767,493)</u>	<u>1,015,818</u>	<u>(52,058,930)</u>
Depreciated Assets Net of Accumulated Depreciation	<u>60,506,552</u>	<u>(6,134,371)</u>	<u>(25,402)</u>	<u>54,346,779</u>
Total Capital Assets	<u>\$ 74,173,437</u>	<u>\$ 1,013,443</u>	<u>\$ (3,093,246)</u>	<u>\$ 72,093,634</u>

Depreciation expense at June 30, 2013, was \$6,767,493.

**NOTE 4 – CHANGES IN CAPITAL ASSETS** (Continued)

June 30, 2012

	Balance July 1, 2011	Additions and Transfers	Retirements and Transfers	Balance June 30, 2012
Non-Depreciated Assets				
Land	\$ 9,164,870	\$ -	\$ -	\$ 9,164,870
Construction-in-Progress	4,765,935	7,410,417	(7,674,337)	4,502,015
Total Non-Depreciated Assets	13,930,805	7,410,417	(7,674,337)	13,666,885
Depreciated Assets				
Building and Improvements	48,205,230	190,725	(109,916)	48,286,039
Revenue Vehicles	46,512,808	5,626,839	(2,921,202)	49,218,445
Operations Equipment	3,174,316	239,075	(122,792)	3,290,599
Other Equipment	1,500,624	-	(4,658)	1,495,966
Other Vehicles	1,035,271	-	-	1,035,271
Office Equipment	1,886,884	1,617,698	(17,095)	3,487,487
Total Depreciated Assets	102,315,133	7,674,337	(3,175,663)	106,813,807
Less Accumulated Depreciation	(42,972,894)	(6,442,103)	3,107,742	(46,307,255)
Depreciated Assets Net of Accumulated Depreciation	59,342,239	1,232,234	(67,921)	60,506,552
Total Capital Assets	\$ 73,273,044	\$ 8,642,651	\$ (7,742,258)	\$ 74,173,437

Depreciation expense at June 30, 2012, was \$6,442,103.

**NOTE 5 – CAPITAL GRANTS**

Santa Cruz METRO receives grants from the FTA, which provides financing for the acquisition of rolling stock and construction of facilities. Santa Cruz METRO also receives grants under the State TDA primarily for the acquisition of rolling stock and support equipment, and purchase of furniture and fixtures.

A summary of federal and state grant activity for the years ended June 30 is as follows:

	2013	2012
Federal Grants	\$ 1,174,997	\$ 5,541,880
State Grants	3,503,959	1,397,794
Total Capital Grants	\$ 4,678,956	\$ 6,939,674

**NOTE 6 – COMMITMENTS**

Santa Cruz METRO leases a number of its facilities under operating leases through 2016. For the years ended June 30, 2013 and 2012, rental expense relating to the leases was \$212,684 and \$284,454, respectively. In addition, Santa Cruz METRO receives rent income from retail space in its transit centers. Minimum net lease payments and receipts for existing operating leases are as follows:

Year Ending June 30	Lease Commitments	Rental Income	Net
2014	\$ 349,938	\$ 160,315	\$ 189,623
2015	204,541	161,367	43,174
2016	122,570	85,878	36,692
2017	23,090	47,080	(23,990)
Thereafter	-	49,168	(49,168)
	<u>\$ 700,139</u>	<u>\$ 503,808</u>	<u>\$ 196,331</u>

**NOTE 7 – JOINT VENTURES (JOINT POWERS AUTHORITY WITH CalTIP)**

Santa Cruz METRO participates in a joint powers authority (JPA), the California Transit Insurance Pool (CalTIP). The relationship between Santa Cruz METRO and the JPA is such that the JPA is not a component unit of Santa Cruz METRO for financial reporting purposes.

CalTIP arranges for and provides property and liability insurance for its 34 members. CalTIP is governed by a board that controls the operations of CalTIP, including selection of management and approval of operating budgets, independent of any influence by the member districts. Each member district pays a premium commensurate with the level of coverage requested and shares in surpluses and deficits proportionate to their participation in CalTIP.

Condensed audited financial information of CalTIP for the years ended April 30 (most recent information available) is as follows:

	2013	2012
Total Assets	\$ 25,977,638	\$ 27,464,131
Total Liabilities	<u>12,658,258</u>	<u>13,027,097</u>
Fund Balance	<u>\$ 13,319,380</u>	<u>\$ 14,437,034</u>
Total Revenues	\$ 6,036,026	\$ 5,284,303
Total Expenditures	<u>7,153,680</u>	<u>6,129,880</u>
Net Decrease in Fund Balance	<u>\$ (1,117,654)</u>	<u>\$ (845,577)</u>

CalTIP has not calculated Santa Cruz METRO's share of year-end assets, liabilities, or fund balance.

**NOTE 8 – WATSONVILLE FLEET MAINTENANCE FACILITY SETTLEMENT RECEIPT**

Santa Cruz METRO's fleet maintenance facility in Watsonville was damaged in the Loma Prieta earthquake (the earthquake) in October 1989. An engineering study concluded that the demolition of the existing facility and construction of a new facility was the most practical course of action. Therefore, the net book value of the facility was written off the books in a prior year.

**NOTE 8 – WATSONVILLE FLEET MAINTENANCE FACILITY SETTLEMENT RECEIPT** (Continued)

In addition, due to design and construction deficiencies by the design and building contractors involved in the original project, Santa Cruz METRO initiated litigation against the contractors and came to a settlement agreement with said contractors on May 30, 1995. In accordance with this agreement, the contractors remitted \$4,776,858 (including \$171,538 in costs) to Santa Cruz METRO during fiscal year 1996, representing damages less attorney fees. FTA Section 3/5309 restricts the use of these proceeds, and the interest earned thereon. Accordingly, the net restricted amount of \$1,339,537 and \$1,336,857 is reflected on the statements of net position as deferred revenue at June 30, 2013 and 2012, respectively.

**NOTE 9 – CONTINGENCIES**

Santa Cruz METRO has received state and federal funds for specific purposes that are subject to review and audit by grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, Santa Cruz METRO believes that any required reimbursement will not be material.

Additionally, Santa Cruz METRO is party to various claims and litigation in the normal course of business. In the opinion of management and in-house counsel, any ultimate losses have been adequately provided for in the basic financial statements.

**NOTE 10 – DEFINED BENEFIT PENSION PLAN**

Plan Description

Santa Cruz METRO's defined benefit pension plan, the Miscellaneous Plan for Santa Cruz Metropolitan Transit District (the Plan), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers with the State of California. A menu of benefit provisions, as well as other requirements, is established by state statutes within the Public Employees' Retirement Law. Santa Cruz METRO selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board of Directors action. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

There are 318 active plan members in the Plan as of June 30, 2013, which are required to contribute a percentage of their annual covered salary. In lieu of salary increases and for employees who agreed to salary reductions in certain prior years, Santa Cruz METRO agreed to pay a portion of the employee contribution, based on formulas negotiated in their labor agreements. Santa Cruz METRO is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2013, was 17.679%. The contribution requirements of the Plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS.

**NOTE 10 – DEFINED BENEFIT PENSION PLAN** (Continued)Annual Pension Cost

For the fiscal year ended June 30, 2013, Santa Cruz METRO's annual pension cost of \$3,051,264 was equal to Santa Cruz METRO's required and actual contributions. This includes Santa Cruz METRO's contribution to the employee contribution requirement. The required contribution for the fiscal year ended June 30, 2013, was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administration expenses), (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45% for miscellaneous members, and (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three-year period. The Plan's unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on a closed basis.

Three-Year Trend Information for the Plan

Three-year trend information, with respect to Santa Cruz METRO's participation in CalPERS, is as follows:

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2011	\$ 2,156,777	100%	\$ -
6/30/2012	\$ 2,664,532	100%	\$ -
6/30/2013	\$ 3,051,264	100%	\$ -

The funded status for the prior three years to June 30, 2012, (the last available date) for Santa Cruz METRO is as follows:

<u>Valuation Date</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
6/30/2010	\$ 115,194,294	\$ 93,813,512	\$ 21,380,782	81.4%	\$ 16,109,672	132.7%
6/30/2011	\$ 124,377,660	\$ 98,667,566	\$ 25,710,094	79.3%	\$ 15,836,915	162.3%
6/30/2012	\$ 129,688,964	\$ 101,831,202	\$ 27,857,762	78.5%	\$ 16,260,443	171.3%

**NOTE 11 – DEFERRED COMPENSATION PLAN**

Santa Cruz METRO offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and provisions of the Government Code of the State of California. The plan, available to all Santa Cruz METRO employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, or unforeseeable emergency. Santa Cruz METRO employees participate in two such plans, the Great-West Life and Annuity Insurance (Great-West) plan and the other through CalPERS.

At June 30, 2013 and 2012, all amounts held under the Great-West plan and the CalPERS plan are held in trust and are not reflected on the accompanying statements of net position as required under GASB Statement No. 27, *Accounting Standards for Pensions by State and Local Governmental Employers*.

Complete financial statements for Great-West can be obtained from Great-West at PO Box 173764, Denver, CO 80217-3764. Complete financial statements for CalPERS can be obtained from CalPERS at Lincoln Plaza North, 400 Q Street, Sacramento, CA 94229.

## **NOTE 12 – RISK MANAGEMENT**

Santa Cruz METRO is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which Santa Cruz METRO carries commercial insurance. Santa Cruz METRO has also established limited risk management programs for workers' compensation, and general and vehicular liability, as described in Note 1.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The IBNR for workers' compensation was based on an actuarial study dated May 2010. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Changes in the balances of claims liabilities are as follows:

	<u>2013</u>	<u>2012</u>
Workers' Compensation Liabilities:		
Unpaid Claims, Beginning of Fiscal Year	\$ 4,240,231	\$ 4,127,497
Incurred Claims (Including IBNRs)	(1,220,337)	(1,085,912)
Claim Payments	<u>970,441</u>	<u>1,198,646</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 3,990,335</u>	<u>\$ 4,240,231</u>

## **NOTE 13 – TRANSPORTATION DEVELOPMENT ACT/CALIFORNIA ADMINISTRATIVE CODE**

Santa Cruz METRO is subject to compliance with the TDA provisions, Sections 6634 and 6637 of the California Administrative Code and Sections 99267, 99268.1, and 99314.6 of the Public Utilities Code.

### Section 6634

Pursuant to Section 6634, a transit claimant is precluded from receiving monies from the Local Transportation Fund (LTF) and the STA Fund in an amount which exceeds the claimant's capital and operating costs, less the required fares, and local support. Santa Cruz METRO did not receive TDA, STA, or LTF revenues in excess of the prescribed formula amounts.

### Section 6637

Pursuant to Section 6637, a claimant must maintain its accounts and records in accordance with the Uniform System of Accounts and Records for Transit Operators adopted by the State Controller. Santa Cruz METRO did maintain its accounts and records in accordance with the Uniform System of Accounts and Records for Transit Operators.

### Sections 99267, 99268.1, and 99314.6

Pursuant to the TDA, Santa Cruz METRO is defined as an older operator and is not required to meet the fare box ratio requirement of the TDA. Santa Cruz METRO has met the 50% expenditure limitation requirement.

**NOTE 14 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA)**

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Proposition 1B. Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the State, as instructed by the statute, as the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or for rolling stock procurement, rehabilitation, or replacement.

The audit of public transportation operator finances, pursuant to Section 99245 of the Public Utilities Code (PUC) and required under the TDA, was expanded to include verification of receipt and appropriate expenditure of PTMISEA bond funds.

The Santa Cruz County Regional Transportation Commission (SCCRTC) is responsible for allocating the Proposition 1B PUC Section 99313 funds in Santa Cruz County. In December 2007, the SCCRTC programmed 100% of its share of Section 99313 Proposition 1B PTMISEA funds (approximately \$2.1 million) to Santa Cruz METRO for the Consolidated MetroBase Project. Funds audited include the SCCRTC share of PUC Section 99313 Proposition 1B transit funds that have been passed-through to Santa Cruz METRO.

During the fiscal year ended June 30, 2013, Santa Cruz METRO applied for and received proceeds of \$0 and earned interest of \$45,560 from the State's PTMISEA account for construction funding for the Consolidated MetroBase Project. During the fiscal year ended June 30, 2013, qualifying expenditures of \$736,432 were incurred and the remaining balance of \$12,804,932 including accrued interest was deferred. Qualifying expenditures must be encumbered within three years from the date of the allocation and expended within three years from the date of encumbrance.

**Schedule of PTMISEA Proposition 1B Grants  
For the Year Ended June 30, 2013**

	<u>2013</u>
<b>Balance - beginning of the year</b>	\$ 13,495,804
<b>Receipts:</b>	
Interest accrued 7/1/2012 through 6/30/2013	45,560
<b>Expenses:</b>	
MetroBase Construction	<u>(736,432)</u>
<b>Balance - end of year</b>	<u>\$ 12,804,932</u>

**NOTE 14 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA) (Continued)**

**Schedule of PTMISEA Proposition 1B Grants  
For the Year Ended June 30, 2012**

	<u>2012</u>
<b>Balance - beginning of the year</b>	\$ 430,416
<b>Receipts:</b>	
Warrant No 66-301674 - Deposited 10/27/2011	2,491,923
Warrant No 66-830063 - Deposited 2/13/2012	11,010,047
Interest accrued 7/1/2011 through 6/30/2012	26,866
<b>Expenses:</b>	
MetroBase Construction	<u>(463,448)</u>
<b>Balance - end of year</b>	<u>\$ 13,495,804</u>

**NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

Plan Description

Santa Cruz METRO provides post-retirement CalPERS medical benefits to qualified retired employees age 50 and older (including eligible dependents) who have completed at least five years of CalPERS eligible service. Santa Cruz METRO pays medical premiums depending on bargaining union contract requirements. If the retiree has ten years of Santa Cruz METRO eligible service, Santa Cruz METRO provides post-retirement dental and vision benefits for qualified retirees (including eligible dependents), and life insurance for the retiree only, until the retiree reaches age 65. Bus operators who retired and reached the age of 65 prior to June 30, 1994, will continue to receive dental and vision coverage beyond age 65. Life insurance is not provided to management retirees who retired prior to July 1, 2005. The costs of providing these benefits are recognized when paid. Santa Cruz METRO has recognized approximately \$2,335,431 and \$2,324,583 of expense for these benefits for the years ending June 30, 2013 and 2012, respectively.

Annual OPEB Cost and Net OPEB Obligation

Santa Cruz METRO's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For fiscal year 2012-13, Santa Cruz METRO's annual OPEB cost was \$5,824,000. Santa Cruz METRO's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2013, were as follows:

Annual required contribution	\$ 5,896,000
Interest on net OPEB obligation	420,000
Adjustments to annual required contribution	<u>(492,000)</u>
Annual OPEB cost	5,824,000
Contributions made	<u>2,335,431</u>
Change in net OPEB obligation (asset)	3,488,569
Net OPEB obligation (asset) - beginning of year	<u>10,577,195</u>
Net OPEB obligation (asset) - end of year	<u>\$ 14,065,764</u>

**NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS** (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net Ending OPEB Obligation (Asset)</u>
6/30/2011	\$ 4,293,422	\$ 2,023,718	47.14%	\$ 7,387,778
6/30/2012	\$ 5,514,000	\$ 2,324,583	42.16%	\$ 10,577,195
6/30/2013	\$ 5,824,000	\$ 2,335,431	40.10%	\$ 14,065,764

Funding Policy, Funded Status, and Funding Progress

Santa Cruz METRO's required contribution is based on pay-as-you-go financing requirements. For fiscal year 2012-13, Santa Cruz METRO contributed \$2,335,431 to the plan.

As of June 30, 2011, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$59,164,000 all of which was unfunded.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and probability about the occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the annual required contributions of Santa Cruz METRO are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Calculations of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

The actuarial assumptions used for rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare inflation and interest were based on a standard set of actuarial assumptions modified as appropriate for Santa Cruz METRO. Turnover, mortality, and retirement rates were taken from the CalPERS actuarial table for miscellaneous employees, which closely matches Santa Cruz METRO experience. Healthcare inflation rates are based on the general health care environment. Actual healthcare premiums through 2013 were used and then projected to increase in future years by 8.5% (8.9% for Medicare eligible premiums) in 2014, with the increases gradually declining until reaching 5% in 2021 (5% future premiums increases assumed for all years after 2021). The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over 30 years from June 30, 2008, with 25 years remaining as of June 30, 2013.

**NOTE 16 – SUBSEQUENT EVENTS**

Subsequent events were evaluated by management through December 27, 2013, which is the date of issuance.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
SCHEDULE OF FUNDING PROGRESS  
DEFINED BENEFIT PENSION PLAN  
JUNE 30, 2013**

Supplementary information is intended to show the progress made towards funding benefit obligations. Required three-year supplemental information, available to date, for Santa Cruz METRO is as follows:

Valuation Date	Entry Age Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2010	\$ 115,194,294	\$ 93,813,512	\$ 21,380,782	81.4%	\$ 16,109,672	132.7%
6/30/2011	\$ 124,377,660	\$ 98,667,566	\$ 25,710,094	79.3%	\$ 15,836,915	162.3%
6/30/2012	\$ 129,688,964	\$ 101,831,202	\$ 27,857,762	78.5%	\$ 16,260,443	171.3%

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
SCHEDULE OF FUNDING PROGRESS  
OTHER POSTEMPLOYMENT BENEFITS  
JUNE 30, 2013**

Supplementary information is intended to show the progress made towards funding benefit obligations. Required three-year supplemental information, available to date, for Santa Cruz METRO is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
4/1/2008	\$ -	\$ 44,208,804	\$ 44,208,804	0.00%	\$ 16,065,532	275.18%
4/1/2010	\$ -	\$ 43,442,791	\$ 43,442,791	0.00%	\$ 16,109,672	269.67%
6/30/2011	\$ -	\$ 59,164,000	\$ 59,164,000	0.00%	\$ 15,925,000	371.52%

## **SUPPLEMENTARY INFORMATION**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
STATEMENTS OF OPERATING EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
Labor		
Operators' salaries and wages	\$ 8,205,568	\$ 7,124,710
Other salaries and wages	6,873,140	6,242,010
Overtime	2,646,928	1,997,538
	17,725,636	15,364,258
Fringe Benefits		
Absence with pay	3,365,073	2,951,594
Pension plans	3,051,264	2,664,532
Vision, medical, and dental plans	7,954,327	7,268,173
Workers' compensation insurance	720,545	1,311,380
Disability insurance	319,491	307,265
Other fringe benefits	210,898	198,651
Other postemployment benefits	3,488,569	3,189,417
	19,110,167	17,891,012
Services		
Accounting	75,241	77,560
Administrative and banking	282,609	275,529
Professional and technical services	402,112	496,404
Security	446,738	324,827
Outside repairs	890,197	817,411
Other services	159,147	140,309
	2,256,044	2,132,040
Materials and Supplies Consumed		
Fuels and lubricants	2,282,634	2,051,549
Tires and tubes	244,224	139,709
Vehicle parts	607,674	672,431
Other materials and supplies	376,959	314,611
	3,511,491	3,178,300
Utilities	518,566	472,076
Casualty and Liability Costs	186,736	1,096,512
Taxes and Licenses	40,531	41,987
Purchased Transportation Services		
Paratransit	185,875	260,687
Miscellaneous Expenses	239,989	185,703
Equipment and Facility Lease	228,780	231,780
Depreciation		
Property acquired with operator funds	318,679	288,640
Property acquired by federal, state, or TDA funds	6,448,814	6,153,463
	6,767,493	6,442,103
Total Operating Expenses	\$ 50,771,308	\$ 47,296,458

**OTHER SCHEDULES AND REPORTS**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA No.</u>	<u>Pass-Through Grantor's Number</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Direct Programs:			
Federal Transit Administration (FTA)			
Cluster Defined by the Department of Transportation			
<b>Section 3/5309 Consolidation</b>			
State of Good Repair (SGR) CNG Bus Purchase	20.500*	CA-04-0185	\$ 58,627
Pacific Station Expansion FY2006	20.500*	CA-04-0021	<u>6,362</u>
			<u>64,989</u>
<b>Section 9/5307</b>			
Operating Assistance	20.507*	CA-90-Z007	4,753,073
FY2009 Capital and Operating Assistance	20.507*	CA-90-Y751	<u>1,108,062</u>
			<u>5,861,135</u>
<b>Section 18/5311-5317</b>			
Rural Operating Assistance - 5311	20.509	642165	156,312
<b>Section 18/5304</b>			
SCCRTC - On-Board Transit Ridership Study	20.515	N/A	<u>572</u>
			<u>572</u>
Total Expenditures of Federal Awards			<u><u>\$ 6,083,008</u></u>

\* Major federal financial assistance program.

See accompanying notes to schedule of expenditures of federal awards.

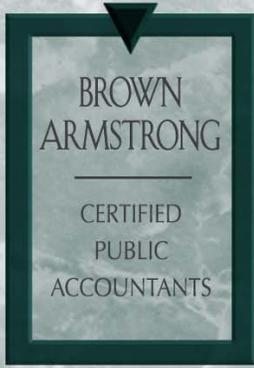
**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 1 – GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO). Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other governmental agents, is included on the schedule.

**NOTE 2 – BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. Federal capital grant funds are used to purchase property, plant, and equipment. Federal grants receivable are included in capital and operating grants receivable, which also includes receivables from state and local grant sources.



# BROWN ARMSTRONG

*Certified Public Accountants*

## **INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Santa Cruz Metropolitan Transit District  
Santa Cruz, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Santa Cruz METRO’s basic financial statements, and have issued our report thereon dated December 27, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Santa Cruz METRO’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Santa Cruz METRO’s internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Cruz METRO’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **MAIN OFFICE**

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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Cruz METRO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

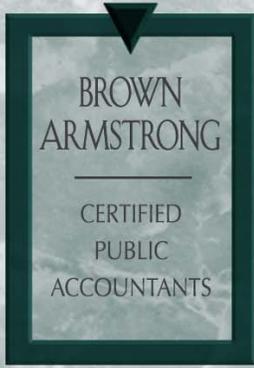
## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santa Cruz METRO's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Cruz METRO's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
December 27, 2013



# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors  
Santa Cruz Metropolitan Transit District  
Santa Cruz, California

### Report on Compliance for Each Major Federal Program

We have audited the Santa Cruz Metropolitan Transit District's (Santa Cruz METRO) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Santa Cruz METRO's major federal programs for the year ended June 30, 2013. Santa Cruz METRO's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of Santa Cruz METRO's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Santa Cruz METRO's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Santa Cruz METRO's compliance.

### Opinion on Each Major Federal Program

In our opinion, Santa Cruz METRO complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

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## Report on Internal Control Over Compliance

Management of Santa Cruz METRO is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Santa Cruz METRO's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Santa Cruz METRO's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

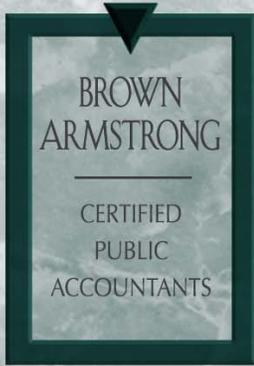
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California  
December 27, 2013



# BROWN ARMSTRONG

*Certified Public Accountants*

## **INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH THE STATUTES, RULES, AND REGULATIONS OF THE CALIFORNIA TRANSPORTATION DEVELOPMENT ACT AND THE ALLOCATION INSTRUCTIONS AND RESOLUTIONS OF THE TRANSPORTATION COMMISSION**

To the Board of Directors  
Santa Cruz Metropolitan Transit District  
Santa Cruz, California

We have audited, 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, the financial statements of the Santa Cruz Metropolitan Transit District as of and for the year ended June 30, 2013, and have issued our report thereon dated December 27, 2013.

### **Compliance**

As part of obtaining reasonable assurance about whether the Santa Cruz Metropolitan Transit District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Additionally, we performed tests to determine that allocations made and expenditures paid by the Santa Cruz Metropolitan Transit District were made in accordance with the allocation instructions and resolutions of the Transportation Commission and in conformance with the California Transportation Development Act. Specifically, we performed each of the specific tasks identified in the California Code of Regulations Sections 6666 and 6667 that are applicable to the Santa Cruz Metropolitan Transit District. In connection with our audit, nothing came to our attention that caused us to believe the Santa Cruz Metropolitan Transit District failed to comply with the Statutes, Rules, and Regulations of the California Transportation Development Act and the allocation instructions and resolutions of the Transportation Commission. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

Also as part of our audit, we performed tests of compliance to determine whether certain state funds were received and expended in accordance with the applicable bond act and state accounting requirements.

### **Other Matters**

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B). Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the State as instructed by statute as the Public

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Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or for rolling stock procurement, rehabilitation, or replacement.

During the fiscal year ended June 30, 2013, Santa Cruz Metropolitan Transit District received \$0 from the State's PTMISEA funds for the purpose of construction of the Consolidated MetroBase Project. As of June 30, 2013, PTMISEA interest received and funds expended were verified in the course of our audit as follows:

<b>Schedule of PTMISEA Proposition 1B Funds For the Year Ended June 30, 2013</b>	
<b>Description</b>	<b>Amount</b>
<b>Balance – beginning of the year</b>	\$ 13,495,804
<b>Proceeds received:</b>	
PTMISEA receipts	0
Interest earned	45,560
<b>Expenses incurred:</b>	
MetroBase Construction	(736,432)
<b>Balance – end of year</b>	<u>\$ 12,804,932</u>

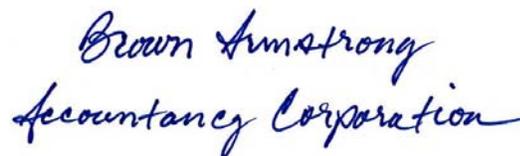
The results of our tests indicated that, with respect to the items tested, Santa Cruz Metropolitan Transit District complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Santa Cruz Metropolitan Transit District had not complied, in all material respects, with those provisions.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santa Cruz Metropolitan Transit District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Cruz Metropolitan Transit District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and use of management, the California Department of Transportation, and the State Controller's Office and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION



Bakersfield, California  
December 27, 2013

**FINDINGS AND QUESTIONED COSTS SECTION**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2013**

**I. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? Yes  No

Reportable conditions identified that are not considered to be material weaknesses? Yes  None reported

Noncompliance material to financial statements noted? Yes  No

**Federal Awards**

Internal control over major federal programs:

Material weakness identified? Yes  No

Reportable conditions identified that are not considered to be material weaknesses? Yes  None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)? Yes  No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Clusters</u>
20.500	Federal Transit Capital Investment Grants – Section 3
20.507	Federal Transit Formula Grants – Section 9

Dollar threshold used to distinguish type A and B programs: \$300,000

Auditee qualified as low risk auditee?  Yes  No

**II. Findings Relating to Financial Statements Required Under Generally Accepted Government Auditing Standards**

None.

**III. Federal Award Findings and Questioned Costs**

None.

**IV. State Award Findings and Questioned Costs**

None.

**V. A Summary of Prior Audit (all June 30, 2012) Findings and Current Year Status Follows**

None.