

**SANTA BARBARA
METROPOLITAN TRANSIT DISTRICT**

COMPLIANCE REPORTS

JUNE 30, 2014

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

JUNE 30, 2014

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

111 E. Victoria Street 2nd Floor, Santa Barbara, CA 93101, (805) 962-9175, Fax: (805) 962-8925, www.mcgowan.com

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards

Board of Directors
Santa Barbara Metropolitan Transit District

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 Santa Barbara Metropolitan Transit District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated December 26, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGowan Guntermann

December 26, 2014



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Independent Auditor's Report on State Compliance

Board of Directors
Santa Barbara Metropolitan Transit District

Report on Compliance with Transportation Development Act Requirements

We have audited the Santa Barbara Metropolitan Transit District's (the District) compliance with Transportation Development Act (TDA) requirements that funds allocated to and received by the District were expended in conformance with applicable statutes, rules, and regulations of the TDA and the allocation instructions and resolutions of the Santa Barbara County Association of Governments as required by Section 6667 of Title 21, Division 3, Chapter 2, Article 5.5 of the California Code of Regulations during the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the applicable statutes, rules, and regulations of the TDA.

Auditor's Responsibility

Our responsibility is to express an opinion for each of the District's compliance requirement referred to in Section 6667, which requires that for a transit claimant, the independent auditor shall perform at least the following tasks:

- (a) Determine whether the claimant was an entity eligible to receive the funds allocated to it,
- (b) Determine whether the claimant is maintaining its accounts and records on an enterprise fund basis and is otherwise in compliance with the uniform system of accounts and records adopted by the State Controller, pursuant to Public Utilities Code section 99234,
- (c) Determine whether the funds received by the claimant pursuant to the Act were expended in conformance with those sections of the Act specifying the qualifying purposes, including Public Utilities Code sections 99262 and 99263 for operators receiving funds under article 4, sections 99275, 99275.5 and 99277 for article 4.5 claimants, and section 99400(c), (d), and (e) for article 8 claimants for service provided under contract, and section 99405(d) for transportation services provided by cities and countries with populations of less than 5,000,
- (d) Determine whether the funds received by the claimants pursuant to the Act were expended in conformance with the applicable rules, regulations, and procedures of the transportation-planning agency and in compliance with the allocation instructions and resolutions,

- (e) Determine whether interest earned on funds received by the claimant, pursuant to the Act were expended only for those purposes for which the funds were allocated in accordance with Public Utilities Code sections 99234.1, 99301, 99301.5, 99301.6,
- (f) Verify the amount of the claimant's operating cost for the fiscal year, the amount of fare revenues required to meet the ratios specified in sections 6633.2 and 6633.5 and the amount of the sum of fare revenues and local support required to meet the ratios specified in the section 6633.2,
- (g) Verify the amount of the claimant's actual fare revenues for the fiscal year,
- (h) Verify the amount of the claimant's actual local support for the fiscal year,
- (i) Verify the amount of the claimants was eligible to receive under the Act during the fiscal year in accordance with sections 6634 and 6649,
- (j) Verify, if applicable, the amount of the operator's expenditure limitation in accordance with section 6633.1,
- (k) In the case of an operator, determine whether the operator's employee retirement system or private pension plan is in conformance with the provisions of Public Utilities Code sections 99271, 99272, 99273,
- (l) In the case of an operator, determine whether the operator has had a certification by the Department of the California Highway Patrol verifying that the operator is in compliance with section 1808.1 of the Vehicle Code, as required in Public Utilities Code section 99251,
- (m) In the case of an operator, verify, if applicable, its State Transit Assistance eligibility pursuant to Public Utilities Code section 99314.6 or 99314.7, and
- (n) In the case of a claimant for community transit services, determine whether it is in compliance with Public Utilities Code sections 99155 and 99155.5. Compliance with the requirements referred to above is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

Opinion on Transportation Development Act Compliance

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the Program for the year ended June 30, 2014.

Purpose of this Report

The purpose of this report on 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 the TDA. Accordingly, this report is not suitable for any other purpose.

Report on Public Transportation Modernization Improvement and Service Enhancement Account

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.

In November 2006, California Voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006. Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the State as instructed by the statute as the Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA).

Additionally, section 8879.23 (h) directs that \$1 billion dollars be deposited in the Transit System Safety, Security and Disaster Response Account. This section further directs that \$100 hundred million dollars be made available upon appropriation by the legislature to entities for eligible transit system safety, security and disaster response projects. These funds are available to the California Department of Transportation for intercity rail projects and to transit operations 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.

As of June 30, 2014, all Proposition 1B funds received and expended were verified in the course of our current and previous audits as follows:

	<u>PTMISEA</u>	<u>OHS</u>	<u>Total</u>
Unexpended proceeds July 1, 2013	\$ 6,977,085	\$ 611,809	\$ 7,588,894
For the year ended June 30, 2014:			
Proceeds received	-	264,214	264,214
Interest earned	18,442	2,777	21,219
Expenditures	<u>(4,423,525)</u>	<u>(114,108)</u>	<u>(4,537,634)</u>
Unexpended proceeds – year end	<u>\$ 2,572,002</u>	<u>\$ 764,692</u>	<u>\$ 3,336,694</u>

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s compliance with the applicable bond act and state accounting requirements.

McGowan Guntermann

December 26, 2014



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Independent Auditor's Report on Compliance for
Each Major Program and on Internal Control over
Compliance Required by *OMB Circular A-133* and
Schedule of Expenditures of Federal Awards

Board of Directors
Santa Barbara Metropolitan Transit District

Report on Compliance for Each Major Federal Program

We have audited the Santa Barbara Metropolitan Transit District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District'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 the District'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 the District'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 the District's compliance

Opinion on Each Major Federal Program

In our opinion, the District 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, 2014.

Report on Internal Control over Compliance

Management of the District 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 the District'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 the District'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.

Purpose of this Report

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.

Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 26, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

McGowan Guntermann

December 26, 2014

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF TRANSPORTATION – Federal Transit Administration			
Operating Grant	20.507	CA-90-Z164-00	\$ 4,943,999
Operating/Capital Grant	20.507	CA-90-Y035-02	14,953
Capital Grant	20.507	CA-04-068-02	<u>8,259</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,967,211</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Note 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Santa Barbara Metropolitan Transit District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2014

Section I—Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: **unqualified**

Internal control over financial reporting:

Material weakness identified? **No**

Significant deficiencies identified that are not considered to be material weaknesses? **none reported**

No instances of noncompliance material to financial statements were disclosed by the audit.

Federal Awards

Internal control over major programs:

Material weakness identified? **No**

Significant deficiencies identified that are not considered to be material weaknesses? **none reported**

Type of auditor’s report issued on compliance for major programs: **unqualified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? **No**

Identification of major programs:

CFDA Number

20.507

Name of Federal Program or Cluster

U.S. DEPARTMENT OF TRANSPORTATION - Federal Transit Administration

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

Auditee qualified as low-risk auditee? **Yes**

Section II—Financial Statement Findings

None

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2014

Section III—Federal Award Findings and Questioned Costs

NO FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

Section III—Federal Award Findings and Questioned Costs

NO FINDINGS FOR THE YEAR ENDED JUNE 30, 2013