

**SANTA CRUZ METROPOLITAN
TRANSIT DISTRICT
MEASURE D PROGRAM**

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

**FOR THE YEAR ENDED
JUNE 30, 2019**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
MEASURE D PROGRAM
FOR THE YEAR ENDED JUNE 30, 2019**

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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 Measure D Program of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO), as of and for the year ended June 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relating to the Measure D Program, relevant to Santa Cruz METRO'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 Santa Cruz METRO's internal control relating to the Measure D Program. 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 the Measure D Program of Santa Cruz METRO as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure D Program and do not purport to, and do not, present fairly the financial positions of Santa Cruz METRO as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Measure D Program financial statements. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the financial statements.

The budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board (GASB), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2019, on our consideration of Santa Cruz METRO's internal control over financial reporting, relating to the Measure D Program, 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, relating to the Measure D Program, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance relating to the Measure D Program. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Cruz METRO's internal control over financial reporting and compliance relating to the Measure D Program.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 23, 2019

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
MEASURE D PROGRAM
BALANCE SHEET
JUNE 30, 2019**

ASSETS

| | |
|---|-----------------------------------|
| Cash and investments | \$ 3,137,729 |
| Intergovernmental receivables | |
| Receivables from SCCRTC for Measure D Allocations | <u>546,003</u> |
| Total assets | <u><u>\$ 3,683,732</u></u> |

LIABILITIES AND FUND BALANCE

| | |
|---|-----------------------------------|
| Liabilities | |
| Unearned income | \$ 2,953,657 |
| Interfund payable | <u>730,075</u> |
| Total liabilities | <u>3,683,732</u> |
| Fund balance | |
| Restricted | <u>-</u> |
| Total net position | <u>-</u> |
| Total liabilities and fund balance | <u><u>\$ 3,683,732</u></u> |

See accompanying Notes to Financial Statements.

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
 MEASURE D PROGRAM
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED JUNE 30, 2019**

REVENUES

| | |
|-----------------------|-------------------------|
| Measure D revenue | \$ 2,038,012 |
| Interest income | <u>61,039</u> |
| Total revenues | <u>2,099,051</u> |

EXPENDITURES

| | |
|---------------------------|-------------------------|
| Transit operations | 1,368,976 |
| Transit capital | <u>730,075</u> |
| Total expenditures | <u>2,099,051</u> |

REVENUES OVER EXPENDITURES -

FUND BALANCE

| | |
|-------------------|--------------------|
| Beginning of year | <u>-</u> |
| End of year | <u><u>\$ -</u></u> |

See accompanying Notes to Financial Statements.

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
MEASURE D PROGRAM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

All transactions of the Measure D Program by the Santa Cruz Metropolitan Transit District (Santa Cruz METRO) are included as an enterprise fund in the basic financial statements of Santa Cruz METRO. These statements account for Santa Cruz METRO's share of revenues earned and expenditures incurred under Santa Cruz METRO's Transportation for Seniors and People with Disabilities Program. The accompanying financial statements are for the Measure D Program only and are not intended to fairly present the financial position or results of operations of Santa Cruz METRO.

B. Basis of Accounting and Measurement Focus

Santa Cruz METRO uses an enterprise fund format to report its activities for financial statement purposes. The accompanying financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded at the time liabilities are incurred regardless of when the related cash flows take place.

C. Use of Estimates

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

NOTE 2 – MEASURE D PROGRAM

Under Measure D, approved by the voters of Santa Cruz County in 2016, Santa Cruz METRO receives a portion of the proceeds of a one-half cent sales tax to be used for transportation-related expenditures. This measure was adopted with the intention that the funds generated by the sales tax will not fund transportation-related expenditures previously paid for by existing funds, revenues, and other resources, but rather, will be used for additional projects and programs, so as to supplement (and not replace) the revenue funds designated and used for transportation programs and expenditures.

The major project funded by Measure D was as follows:

Transportation for Seniors and People with Disabilities Program – To provide transit services to seniors and people with disabilities, and to purchase transportation capital improvements.

NOTE 3 – CASH AND INVESTMENTS

Cash and investments consisted of \$3,137,729.

See Santa Cruz METRO's basic financial statements for disclosures related to the cash and investments as prescribed by GASB Statement No. 40. The basic financial statements may be obtained from Santa Cruz METRO at 110 Vernon Street, Santa Cruz, CA 95060.

NOTE 4 – INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables of \$546,003 represent the Measure D Program sales tax allocations for fiscal year 2019 that were received from the Santa Cruz County Regional Transportation Commission (SCCRTC) after June 30, 2019.

NOTE 5 – UNEARNED INCOME

Measure D Program sales tax allocations that are allocated to Santa Cruz METRO during the fiscal year are restricted and reported as liabilities (unearned income) until spent on the specific purpose for which they were intended, as outlined in the 5-Year Program of Projects approved by the Santa Cruz METRO Board of Directors and submitted to the SCCRTC.

NOTE 6 – INTERFUND PAYABLE

Interfund payables of \$730,075 represent amounts due to Santa Cruz METRO's general operating fund, in order to reimburse the agency for the Measure D Program capital expenditures paid for with Santa Cruz METRO unrestricted monies during the fiscal year.

SUPPLEMENTARY INFORMATION

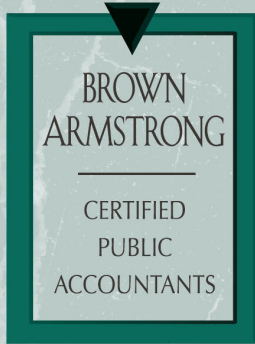
**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
MEASURE D PROGRAM
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---------------------------------------|------------------|------------------|-------------------|-------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Measure D Program revenue | \$ 3,229,124 | \$ 3,229,124 | \$ 2,038,012 | \$ (1,191,112) |
| Interest income | - | - | 61,039 | 61,039 |
| Total revenues | <u>3,229,124</u> | <u>3,229,124</u> | <u>2,099,051</u> | <u>(1,130,073)</u> |
| EXPENDITURES | | | | |
| Transit operations | 1,368,976 | 1,368,976 | 1,368,976 | - |
| Transit capital | 1,860,148 | 1,860,148 | 730,075 | 1,130,073 |
| Total expenditures | <u>3,229,124</u> | <u>3,229,124</u> | <u>2,099,051</u> | <u>1,130,073</u> |
| REVENUES OVER EXPENDITURES | - | - | - | - |
| FUND BALANCE | | | | |
| Beginning of year | - | - | - | |
| End of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |

EXPENDITURES IN EXCESS OF PROJECT BUDGET

Santa Cruz Metropolitan Transit District (Santa Cruz METRO) must receive Board approval of a 5-year Program of Projects prior to expending Measure D funding on any project or program, in accordance with the requirements of the Measure D Master Funding Agreement. The approved 5-year Program of Projects is submitted to the SCCRTC annually, and includes information about each of the projects to be funded with the estimated annual Measure D revenues, allocated according to the Measure D Ordinance and Expenditure Plan.

The fiscal year 2019 project list and expenditure plan used preliminary estimates for assigning costs of fixed-route and paratransit operator wages and benefits and vehicle consumables to various transit service improvements. Subsequent to the approval of this 5-year Program of Projects, a more accurate costing method was developed and used to identify the value of operator labor, resulting in Transit operations expenditures exceeding budget for this first year of the program.



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 Measure D Program of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Santa Cruz METRO's Measure D Program's financial statements, and have issued our report thereon dated December 23, 2019.

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), relating to the Measure D Program, 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 Santa Cruz METRO's internal control relating to the Measure D Program. Accordingly, we do not express an opinion on the effectiveness of Santa Cruz METRO's internal control relating to the Measure D Program.

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 Santa Cruz METRO's Measure D Program'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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure D Program's financial statements are free of material misstatement, we performed tests of Santa Cruz METRO's 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*.

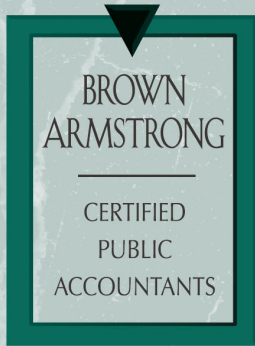
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance relating to the Measure D Program 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 relating to the Measure D Program. 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 relating to the Measure D Program. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 23, 2019



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON MEASURE D PROGRAM COMPLIANCE

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

Compliance

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 basic financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO) Measure D Program as of and for the year ended June 30, 2019, and the related notes, and have issued our report thereon dated December 23, 2019.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of Santa Cruz METRO's management.

Auditor's Responsibility

Our responsibility is to express an opinion on Santa Cruz METRO's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the agreement between Santa Cruz METRO and Santa Cruz County Regional Transportation Commission (SCCRTC). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Measure D Program occurred. An audit also 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. Our audit does not provide a legal determination of Santa Cruz METRO's compliance with those requirements.

Opinion on Measure D Program

In our opinion, Santa Cruz METRO complied, in all material respects, with the compliance requirements referred to above that are applicable to the Measure D Program for the year ended June 30, 2019.

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Internal Control Over Compliance

Management of Santa Cruz METRO is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered Santa Cruz METRO's internal control over compliance relating to the Measure D Program to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance relating to the Measure D Program. Accordingly, we do not express an opinion on the effectiveness of Santa Cruz METRO's internal control over compliance relating to the Measure D Program.

A deficiency in internal control over compliance 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, noncompliance 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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 agreement between Santa Cruz METRO and SCCRTC. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
December 23, 2019