



MetroTM

**City of Santa Monica
Annual Financial Report of its**

**Proposition A Local Return Fund
Proposition C Local Return Fund
Measure R Local Return Fund
Transportation Development Act Article 3 Fund**

**As of and for the Year Ended June 30, 2016
with Report of Independent Auditors**

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FINANCIAL SECTION

Report of Independent Auditors

To the Honorable Members of the City Council of the City of Santa Monica, California and the Los Angeles County Metropolitan Transportation Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds), of the City of Santa Monica, California (the City) which comprise the Funds' balance sheets as of June 30, 2016, and the related statements of revenues, expenditures and changes in fund balances for the year then ended, 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.

Auditors' 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 audits 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.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund of the City of Santa Monica, California, as of June 30, 2016, 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.

Other Matter

The financial statements of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund, as of and for the year ended June 30, 2015, were audited by other auditors, whose report, dated December 14, 2015, expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund of the City and do not purport to, and do not present fairly the financial position of the City as of June 30, 2016, 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on each of the Funds' financial statements as a whole. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information identified in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Funds' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Funds' 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 Funds' basic financial statements or to the Funds' 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 supplementary information is fairly stated, in all material respects, in relation to each of the Funds' 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 5, 2016 on our consideration of the City's internal control over the Funds' 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 the Funds' financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over the Funds' financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Funds' financial reporting and compliance.

Vacquez & Company LLP

Los Angeles, California
December 5, 2016

**City of Santa Monica
Proposition A Local Return Fund
Balance Sheets**

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	3,382,732	\$ 4,995,140
Total assets	\$	3,382,732	\$ 4,995,140
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	84,260	\$ 213,552
Contract retainage		60,936	16,488
Total liabilities		145,196	230,040
Fund balance			
Restricted		788,042	1,049,882
Restricted - Rail reserve		1,984,529	2,301,960
Restricted - Bus Stop and Shelter Improvement Project		464,965	1,413,258
Total fund balance		3,237,536	4,765,100
Total liabilities and fund balance	\$	3,382,732	\$ 4,995,140

See notes to Funds financial statements.

City of Santa Monica
Proposition A Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2016	2015
Revenues		
Proposition A	\$ 1,663,963	\$ 1,610,068
Investment income	37,107	44,906
Project generated revenue	256	20
Total revenues	1,701,326	1,654,994
Expenditures		
Various projects	3,228,890	3,239,209
Total expenditures	3,228,890	3,239,209
Deficiency of revenues over expenditures	(1,527,564)	(1,584,215)
Fund balance at beginning of year	4,765,100	6,349,315
Fund balance at end of year	\$ 3,237,536	\$ 4,765,100

See notes to Funds financial statements.

City of Santa Monica
Proposition A Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2016
(With Comparative Actuals for 2015)

Project Code	Project Name	2016			2015 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
110-08	Fixed Route Transit	\$ 416,161	\$ 416,161	\$ -	\$ 402,517
110-09	Fixed Route Transit - 2015	-	-	-	980,000
110-10	Fixed Route Transit - 2016	520,000	519,830	170	-
130-01	Paratransit Service	600,000	454,662	145,338	474,179
140-03	Youth Transportation	51,600	47,523	4,077	44,724
140-04	Disabled Transit	30,000	15,477	14,523	22,123
140-05	Senior Transportation	3,000	3,000	-	3,000
140-09	Arts Transportation	15,000	7,735	7,265	11,909
150-21	Bus Pads on Transit Route	-	-	-	244,503
170-01	Bus Stop Shelter Maintenance	60,000	60,000	-	60,000
250-02	Fare Subsidy Program	55,227	55,227	-	55,227
380-03	Rail Reserve: Exposition Commuter Bike Path Component	392,156	82,129	310,027	234,146
380-04	Bus Stop and Shelter Improvement Program	1,500,000	961,852	538,148	229,787
380-08	Rail Reserve: Exposition Station Area Planning	222,125	147,245	74,880	38,847
380-11	Rail Reserve: Exposition LRT Advisory Services	15,033	-	15,033	-
380-12	Expo Maintenance Yard Buffer	1,346,635	42,569	1,304,066	41,571
380-16	Expo Right of Way Tree Relocation	93,941	64,753	29,188	50,664
380-17	Expo Colorado Pedestrian Lighting	1,050,000	-	1,050,000	-
380-18	Expo Transit Village Enhancement	365,588	-	365,588	-
410-06	Rideshare Program	96,000	96,000	-	96,000
410-08	Bicycle Valet Service - Prop A	40,000	41,655	(1,655)	41,939
480-02	Direct Administration - Prop A	50,000	20,361	29,639	15,362
500-04	WISE Senior and Disabled Services	192,711	192,711	-	192,711
Total expenditures		\$ 7,115,177	\$ 3,228,890	\$ 3,886,287	\$ 3,239,209

See report of independent auditors.

**City of Santa Monica
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2016**

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
01/08/2008	2007 Starcraft Allstar Type II Paratransit Bus	\$ 10,604	\$ -	\$ -	\$ 10,604
01/25/2008	2007 Starcraft Allstar Type II Paratransit Bus	10,604	-	-	10,604
03/05/2008	2008 EIDorado Amerivan PT Paratransit Minivan	11,200	-	-	11,200
03/05/2008	2008 EIDorado Amerivan PT Paratransit Minivan	11,200	-	-	11,200
03/13/2008	2008 EIDorado Amerivan PT Paratransit Minivan	11,200	-	-	11,200
03/13/2008	2008 EIDorado Amerivan PT Paratransit Minivan	11,200	-	-	11,200
07/30/2008	Wall Mounted Brochure Holder	20,036	-	-	20,036
07/30/2008	Wall Mounted Brochure Holder	20,036	-	-	20,036
07/30/2008	3 Sided Freestanding Display	13,630	-	-	13,630
05/03/2011	Expo - Bike	360,874	-	360,874	-
06/29/2013	Expo - Maintenance Yard Buffer	258,666	42,569	-	301,235
06/29/2014	Bus PADS - Prop A Light Rail	244,503	-	-	244,503
06/29/2014	Bus Shelters	229,787	961,852	-	1,191,639
Total		<u>\$ 1,213,540</u>	<u>\$ 1,004,421</u>	<u>\$ 360,874</u>	<u>\$ 1,857,087</u>

See report of independent auditors.

**City of Santa Monica
Proposition C Local Return Fund
Balance Sheets**

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	3,164,079	\$ 3,506,785
Accounts receivable		3,683	5,607
	Total assets	\$ 3,167,762	\$ 3,512,392
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	557,586	\$ 59,343
Contract retainage		72,194	41,928
	Total liabilities	629,780	101,271
Fund balance			
Restricted		2,537,982	3,411,121
	Total fund balance	2,537,982	3,411,121
	Total liabilities and fund balance	\$ 3,167,762	\$ 3,512,392

See notes to Funds financial statements.

City of Santa Monica
Proposition C Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2016	2015
Revenues		
Proposition C	\$ 1,377,363	\$ 1,334,046
Interest income	30,028	25,322
Rent income	28,074	36,244
Total revenues	1,435,465	1,395,612
Expenditures		
Various projects	2,308,604	1,190,430
Total expenditures	2,308,604	1,190,430
Excess (deficiency) of revenues over expenditures	(873,139)	205,182
Fund balance at beginning of year	3,411,121	3,205,939
Fund balance at end of year	\$ 2,537,982	\$ 3,411,121

See notes to Funds financial statements.

City of Santa Monica
Proposition C Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2016
(With Comparative Actuals for 2015)

Project Code	Project Name	2016			2015 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
270-04	Bicycle Technology Demonstration Project - Design \$	71,673	\$ 84	\$ 71,589	\$ 198
310-02	4th St and Colorado Ave Transit Interface Project	1,180,000	1,117,969	62,031	-
370-01	Wayfinding - Call for Projects	233,700	-	233,700	-
400-02	Traffic Signal Update	-	-	-	17,759
410-02	Real Time Signs for Bus Shelters	199,620	4	199,616	2,819
410-04	No Net New Trips Rideshare Toolkit	63,871	13,913	49,958	891
430-11	Citywide Bikeshare	-	-	-	300,000
430-15	Bike Network Linkages to Expo	1,341,544	-	1,341,544	-
430-16	Safe Routes to School - SAMOHI	40,000	24,258	15,742	-
430-18	Expo Bike Path Safety Features	150,000	116,754	33,246	-
440-21	Annual Street Repair and Resurfacing	150,000	-	150,000	450,000
440-22	Moomat Ahiko Way St Resurfacing	-	-	-	247,447
440-23	Colorado Avenue Esplanade	1,092,031	1,030,394	61,637	144,833
470-01	Pavement Management System	150,000	2,308	147,692	-
480-01	Direct Administration Prop C	25,000	2,920	22,080	26,483
Total expenditures \$		4,697,439	\$ 2,308,604	\$ 2,388,835	\$ 1,190,430

See report of independent auditors.

**City of Santa Monica
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2016**

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
2/15/2011	Transit Mall Kiosk	\$ 46,662	\$ -	\$ -	\$ 46,662
6/12/2011	Train Operations and Existing Traffic Circulation	78,021	-	-	78,021
6/24/2011	Train Operations - Colorado Esplanade	97,850	-	-	97,850
6/28/2011	Citywide Bikeway Network	100,000	-	-	100,000
8/2/2011	Bike Center	633,532	-	-	633,532
6/29/2013	20th and Cloverfield Improvement Project	999,318	-	-	999,318
6/29/2013	Street Resurfacing-Ocean Park Blvd	539,339	-	-	539,339
6/29/2014	ATMS Phase 4	102,118	-	-	102,118
6/29/2015	Colorado Esplanade	144,833	1,030,394	-	1,175,227
6/29/2016	Downtown Temp Use TOD site	-	1,117,969	-	1,117,969
6/29/2016	Expo Bike Path Blue Phones	-	116,741	-	116,741
Total		\$ 2,741,673	\$ 2,265,104	\$ -	\$ 5,006,777

See report of independent auditors.

**City of Santa Monica
Measure R Local Return Fund
Balance Sheets**

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	820,231	\$ 724,037
Total assets	\$	820,231	\$ 724,037
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	81,934	\$ 54,080
Total liabilities		81,934	54,080
Fund balance			
Restricted		738,297	646,507
Unreserved - Undesignated		-	23,450
Total fund balance		738,297	669,957
Total liabilities and fund balance	\$	820,231	\$ 724,037

See notes to Funds financial statements.

City of Santa Monica
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2016	2015
Revenues		
Measure R	\$ 1,035,786	\$ 1,001,859
Interest income	7,956	1,591
Total revenues	1,043,742	1,003,450
Expenditures		
Various projects	975,402	333,493
Total expenditures	975,402	333,493
Excess of revenues over expenditures	68,340	669,957
Fund balance at beginning of year	669,957	-
Fund balance at end of year	\$ 738,297	\$ 669,957

See notes to Funds financial statements.

City of Santa Monica
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2016
(With Comparative Actuals for 2015)

Project Code	Project Name	2016			2015 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1.05	Street Repair and Maintenance	\$ 520,000	\$ 458,912	\$ 61,088	\$ 283,493
3.05	Bike/Pedestrian Facilities, Construction and Maintenance	200,000	704	199,296	50,000
4.20	Operating Subsidy to Existing Bus Operator	480,000	515,786	(35,786)	-
	Total expenditures	<u>\$ 1,200,000</u>	<u>\$ 975,402</u>	<u>\$ 224,598</u>	<u>\$ 333,493</u>

See report of independent auditors.

City of Santa Monica
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.

City of Santa Monica
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Balance Sheets

		June 30	
		2016	2015
ASSETS			
Cash	\$	-	\$ 19
Due from LACMTA		34,916	26,981
Total assets	\$	<u>34,916</u>	<u>\$ 27,000</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Cash overdraft	\$	24,916	\$ -
Accounts payable		9,658	-
Due to LACMTA		342	-
Total liabilities		<u>34,916</u>	<u>-</u>
Fund balance			
Restricted		-	<u>27,000</u>
Total fund balance		<u>-</u>	<u>27,000</u>
Total liabilities and fund balance	\$	<u>34,916</u>	<u>\$ 27,000</u>

See notes to Funds financial statements.

City of Santa Monica
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2016	2015
Revenues		
Intergovernmental Allocations:		
Article 3	\$ 34,916	\$ 26,981
Interest income	85	19
Total revenues	35,001	27,000
Expenditures		
Bikeways, lanes and paths	61,659	-
Total expenditures	61,659	-
Excess (deficiency) of revenues over expenditures	(26,658)	27,000
Other financing use		
Funds returned to LACMTA	(342)	-
Excess (deficiency) of revenues over expenditures and other financing use	(27,000)	27,000
Fund balance at beginning of year	27,000	-
Fund balance at end of year	\$ -	\$ 27,000

See notes to Funds financial statements.

City of Santa Monica
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Supplementary Information
Schedule of Transportation Development Act Allocation for Specific Projects
Year ended June 30, 2016

Project Description	Program Year	Totals to Date		Unexpended Allocations	Project Status
		Allocations	Expenditures		
Local Allocations:					
17th Street Pedestrian/Cycletrack Design	2015	\$ 9,915	\$ 9,658	\$ 257	Ongoing
4th Street Pedestrian Enhancement	2015	25,001	25,001	-	Ongoing
Bike Detection at Signalized Intersection	2014	-	27,000	(27,000)	Ongoing
Totals		<u>\$ 34,916</u>	<u>\$ 61,659</u>	(26,743)	
Interest income				85	
Funds returned to LACMTA				(342)	
Fund balance at beginning of year				<u>27,000</u>	
Fund balance at end of year				<u>\$ -</u>	

See report of independent auditors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF) and Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds) are accounted for in separate sets of self-balancing accounts that comprise their assets, liabilities, fund balance, revenues and expenditures.

PALRF and PCLRF represent 25% and 20%, respectively, of the ½ cent Proposition A and ½ cent Proposition C sales taxes which are distributed to the jurisdictions within Los Angeles County based on population and must be used exclusively for transportation related programs and projects.

MRLRF is derived from 15% of a county-wide ½ cent sales tax which is distributed to the jurisdictions within Los Angeles County based on a per capita basis and must be used exclusively for transportation purposes.

TDAA3F is a Special Revenue Fund that accounts for the City's share of the Transportation Development Act Article 3 allocations which are legally restricted for specific purposes.

Basis of Accounting and Measurement Focus

The PALRF, PCLRF, MRLRF, and TDAA3F are reported as Special Revenue Funds of the City and are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is incurred.

Special Revenue Funds are reported on a spending or "financial flow" measurement focus. This means that generally only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statements of revenues, expenditures and changes in fund balances for Special Revenue Funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Budgets and Budgetary Accounting

The budgeted amounts presented in this report for comparison to the actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which became effective for the fiscal year ended June 30, 2016, the City categorizes its fair value measurement within the fair value hierarchy that is based on the valuation inputs used to measure the fair value of the investment. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Accordingly, the City reports its investments at fair value and recognizes unrealized gain (loss) on investments.

Refer to the City's 2016 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurements.

Fund Balance Reporting

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes the fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The PALRF, PCLRF, MRLRF, and TDAA3F report the following fund balance classification as of June 30, 2016:

- Restricted - Amounts that are constrained for specific purposes, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The use of the Funds' remaining fund balances are restricted for projects approved by LACMTA.

Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to the City's Comprehensive Annual Financial Report.

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF and TDAA3F, and do not purport to, and do not present fairly the City's financial position as of June 30, 2016, 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.

NOTE 3 PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

The Proposition A Ordinance requires that Local Return (LR) funds be used exclusively to benefit public transit. Expenditures related to fixed route and paratransit services, Transportation Demand Management, Transportation Systems Management and fare subsidy programs that exclusively benefit transit are all eligible uses of Proposition A LR funds. Proposition A LR funds may also be traded with other Jurisdictions in exchange for general or other funds.

The Proposition C Ordinance directs that LR funds also be used to benefit public transit, as described above, but provides an expanded list of eligible project expenditures including Congestion Management Programs, bikeways and bike lanes, street improvements supporting public transit service, and Pavement Management System projects. Proposition C LR funds cannot be traded.

In accordance with *Proposition A and Proposition C Local Return Program Guidelines*, funds received pursuant to these guidelines may only be used for Proposition A and Proposition C Local Return approved programs. See accompanying Compliance Matrix.

NOTE 4 MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

The Measure R Ordinance specifies that LR funds be used exclusively for transportation purposes.

In accordance with *Measure R Local Return Program Guidelines*, funds received pursuant to these guidelines may only be used for Measure R Local Return approved programs. See accompanying Compliance Matrix.

NOTE 5 TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

In accordance with *Public Utilities Code Section 99234*, funds received pursuant to this Code's section may only be used for activities relating to pedestrians and bicycle facilities. See accompanying Compliance Matrix.

NOTE 6 CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF and TDAA3F cash balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average quarterly balances to the total of the pooled cash and investments.

Please refer to the City's Comprehensive Annual Financial Report (CAFR) for a full description of risks relating to cash and investments.

NOTE 7 PROJECT GENERATED REVENUES

Project generated revenues under PALRF for the years ended June 30, 2016 and 2015 amounting to \$256 and \$20, respectively, pertains to revenues generated from paratransit services.

Project generated revenue under PCLRF for the years ended June 30, 2016 and 2015 amounting to \$28,074 and \$36,244, respectively, pertains to concessionaire's rent for the City's bike transit centers.

NOTE 8 RAIL RESERVE

On March 13, 1985, Metro and City entered into a Memorandum of Understanding to establish rail reserve fund (Fund) and allocated \$504,916 of PALRF FY 1984/85 for rail development. In subsequent years, the City may annually allocate additional PALRF monies to the rail reserve fund in accordance with the Proposition A Local Return Rail Reserve Guidelines.

Per agreement, all interest accrued and placed in the Fund for use exclusively for the projects identified under the Rail Reserve Fund.

The Fund shall continue until such time as agreed upon by both parties and under the conditions set forth in the Proposition A Local Return Rail Reserve Guidelines.

For the years ended June 30, 2016 and 2015, the Rail Reserve Fund transactions were as follows:

		2016		2015
Beginning balance at July 1	\$	2,301,960	\$	2,647,826
Add: interest income		19,265		19,362
Less: Expenditures during the year		(336,696)		(365,228)
Ending balance at June 30	\$	1,984,529	\$	2,301,960

NOTE 9 CAPITAL RESERVE

On July 1, 2008, Metro and the City entered into an agreement to establish a capital reserve account (Account) for the Bus Stop and Shelter Improvement Project in the initial amount of \$1,500,000. In accordance with the second contract amendment between the City and LACMTA, the funding of the Account will continue through Proposition A allocations until June 30, 2016. LACMTA has authorized the use of the remaining capital reserve balance for future expenditures for the same project through submission of a revised project code.

NOTE 9 CAPITAL RESERVE (CONTINUED)

Per agreement, all interest is accrued and placed in the capital reserve account for use exclusively for the Bus Stop and Shelter Improvement Project.

For the years ended June 30, 2016 and 2015, the Capital reserve account transactions were as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance at July 1	\$ 1,413,257	\$ 1,631,168
Add: Interest income	13,560	11,876
Less: Expenditures during the year	(961,852)	(229,787)
Ending balance at June 30	\$ <u>464,965</u>	\$ <u>1,413,257</u>

NOTE 10 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

The revenue allocations for the years ended June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
FY 2010/11 allocation	\$ -	\$ 14,557
FY 2011/12 allocation	32,233	12,424
FY 2012/13 allocation	2,683	-
	\$ <u>34,916</u>	\$ <u>26,981</u>

NOTE 11 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds which will not be spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by LACMTA. As of June 30, 2016 and 2015, the City has funds on reserve as follows:

	<u>2016</u>	<u>2015</u>
FY 2011/12 reserve	\$ -	\$ 32,233
FY 2012/13 reserve	63,280	65,963
FY 2013/14 reserve	73,772	73,772
FY 2014/15 reserve	60,081	60,081
FY 2015/16 allocation	58,738	-
	\$ <u>255,871</u>	\$ <u>232,049</u>

For FY 2015/16, any TDA Article 3 funds left on reserve for FY 2011/12 or prior, are subject to lapse if not claimed by the City by June 30, 2016. There were no funds that lapsed in FY 2015/16.

NOTE 12 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 5, 2016, the date the financial statements were available to be issued, and concluded no events have occurred that require disclosure or adjustments to the financial statements.

**Report of Independent Auditors 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***

**To the Honorable Members of the City Council of the
City of Santa Monica, California and the
Los Angeles County Metropolitan Transportation Authority**

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 Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of Santa Monica, California (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2016.

Internal Control over Financial Reporting

In planning and performing our audits of the Funds' financial statements, we considered the City's internal control over the Funds' financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Funds' financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 Funds' 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 audits 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 City's Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 Fund 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 audits, 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.

Los Angeles, California
December 5, 2016

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

**To the Honorable Members of the City Council of the
City of Santa Monica, California and the
Los Angeles County Metropolitan Transportation Authority**

Report on Compliance

We have audited the compliance of the City of Santa Monica, California (the City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the Guidelines) for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for the City's compliance with the Guidelines.

Auditors' Responsibility

Our responsibility is to express an opinion on the City's compliance with the Guidelines based on our audit. We conducted our audit of compliance in accordance with the 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 the Guidelines. Those standards and the Guidelines 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 direct and material effect on the Proposition A Local Return Program, Proposition C Local Return Program, Measure R Local Return Program, and Transportation Development Act Article 3 Program occurred. An audit includes examining, on a test basis, evidence about the City'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 with the Guidelines. However, our audit does not provide a legal determination of the City's compliance with the Guidelines.

Opinion

In our opinion, the City of Santa Monica, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2016.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with the requirements, which is described in the accompanying Schedule of Findings and Questioned Costs as Finding #2016-001. Our opinion is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, 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 City'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 on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with the requirements, such that there is a reasonable possibility that material noncompliance 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 the requirements 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 or significant deficiencies 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 the Guidelines. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vasquez & Company LLP".

**Los Angeles, California
December 5, 2016**

**City of Santa Monica
Compliance Matrix
Year ended June 30, 2016**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
A. Proposition A and Proposition C Local Return Funds					
1. Uses the State Controller's Uniform System of Accounts and Records.	X				
2. Timely use of funds.	X				
3. Funds expended were approved and have not been substituted for property tax.	X				
4. Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A)	X				
5. Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	X				
6. All on-going and carryover projects were reported in Form B.	X				
7. Annual Project Summary Report (Form B) was submitted on time.	X				
8. Annual Expenditure Report (Form C) was submitted on time.	X				
9. Cash or cash equivalents are maintained.	X				
10. Accounting procedures, record keeping and documentation are adequate.	X				
11. Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	X				
12. Local Return Account is credited for reimbursable expenditures.			X		
13. Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.			X		
14. Assurances and Understandings form was on file.	X				
15. Recreational Transit Form was submitted on time.		X			See Finding #2016-001

**City of Santa Monica
Compliance Matrix
Year ended June 30, 2016**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
B. Measure R Local Return Fund					
1. Funds were expended for transportation purposes.	X				
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X				
3. Signed Assurances and Understandings on file.	X				
4. Separate Measure R Local Return Account was established.	X				
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X				
6. Funds were expended with LACMTA's approval.	X				
7. Expenditure Plan (Form One) was submitted on time.	X				
8. Expenditure Report (Form Two) was submitted on time.	X				
9. Timely use of funds.	X				
10. Administrative expenses are within the 20% cap.	X				
11. Fund exchanges were approved by LACMTA.			X		
12. A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.			X		
13. Recreational transit form was submitted on time.			X		
C. Transportation Development Act Article 3 Fund					
1. Timely use of funds.	X				
2. Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X				

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Santa Monica
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

PALRF: Finding #2016-001

Compliance Reference	Under Section III (A) of the Proposition A and Proposition C Local Return Guidelines, for Jurisdictions with Recreational Transit projects, Jurisdictions are required to annually submit an accounting of Recreational Transit trips, destinations and costs. This information should be submitted along with the Form C, no later than October 15 after the fiscal year.
Condition	The Recreational Transit report was submitted on October 18, 2016, which is beyond the due date of October 15, 2016.
Cause	The October 15 due date fell on a Saturday and the Form should have been submitted the following Monday. There was an oversight on the due dates that resulted in late submission of the Form on October 18, 2016.
Effect	The City was not in compliance with the reporting requirements of the Local Return Guidelines.
Recommendation	We recommend for the City to establish procedures and controls to ensure that the Annual Recreational Transit Report is submitted by October 15 as required by the Guidelines.
Management's Response	Management agrees with the finding and acknowledges that the Recreational Transit Form was filed one day after the due date. The City's program manager has revised the existing process to request and review required forms well in advance of the October 15 th submission date in order to meet Metro due dates in the future

EXIT CONFERENCE

An exit conference was held on December 5, 2016 with the City of Santa Monica representatives. Those in attendance were:

Vasquez and Company LLP representatives:
Cristy Canieda – Partner
Marialyn Salvador – Audit Manager

City of Santa Monica representatives:
Stephanie Manglaras – Accounting Manager
Imelda De Leon – Senior Grants Analyst
Jason Duvall – Accountant II

Matters discussed:

Results of the audit disclosed an instance of noncompliance with the Local Return Guidelines.

A copy of this report was forwarded to the following City of Santa Monica representatives for comments prior to the issuance of the final report:

Stephanie Manglaras – Accounting Manager
Imelda De Leon – Senior Grants Analyst
Jason Duvall – Accountant II



www.vasquezcpa.com

Vasquez & Company LLP has over 45 years of experience in performing audit, accounting & consulting services for all types of nonprofit organizations, for-profit companies, governmental entities and publicly traded companies. Vasquez is a member of the RSM US Alliance. RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/about-us for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

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