



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 Years Ended June 30, 2017 and 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, 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) which comprise the Funds' balance sheets as of June 30, 2017 and 2016, and the related statements of revenues, expenditures and changes in fund balances for the years 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, 2017 and 2016, and the respective changes in financial position 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 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, 2017 and 2016, and the changes in its financial position for the years 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 11, 2017 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 solely 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 the effectiveness of the City's 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.

**Los Angeles, California
December 11, 2017**

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

		June 30	
		2017	2016
ASSETS			
Cash and investments	\$	1,655,609	\$ 3,382,732
Interest receivable		8,836	-
Other receivables		2,600	-
Total assets	\$	1,667,045	\$ 3,382,732
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	45,439	\$ 84,260
Contract retainage		-	60,936
Total liabilities		45,439	145,196
Fund balance			
Restricted		1,047,767	788,042
Restricted - Rail Reserve		573,839	1,984,529
Restricted - Bus Stop and Shelter Improvement Project		-	464,965
Total fund balance		1,621,606	3,237,536
Total liabilities and fund balance	\$	1,667,045	\$ 3,382,732

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	
	2017	2016
Revenues		
Proposition A	\$ 1,702,168	\$ 1,663,963
Investment income	19,760	37,107
Project generated revenue	-	256
Total revenues	1,721,928	1,701,326
Expenditures		
Various projects	3,337,858	3,228,890
Total expenditures	3,337,858	3,228,890
Deficiency of revenues over expenditures	(1,615,930)	(1,527,564)
Fund balance at beginning of year	3,237,536	4,765,100
Fund balance at end of year	\$ 1,621,606	\$ 3,237,536

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, 2017
(With Comparative Actuals for 2016)

Project Code	Project Name	2017			2016 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
110-08	Fixed Route Transit	\$ 434,775	\$ 425,542	\$ 9,233	\$ 416,161
110-12	Fixed Route Transit - 2017	467,000	466,495	505	519,830
130-01	Paratransit Service	600,000	464,556	135,444	454,662
140-03	Youth Transportation	51,600	55,314	(3,714)	47,523
140-04	Disabled Transit	30,000	15,522	14,478	15,477
140-05	Senior Transportation	3,000	3,000	-	3,000
140-09	Arts Transportation	15,000	13,266	1,734	7,735
170-01	Bus Stop Shelter Maintenance	60,000	60,000	-	60,000
250-02	Fare Subsidy Program	55,227	50,027	5,200	55,227
380-03	Rail Reserve: Exposition Commuter Bike Path Component	140,997	97,128	43,869	82,129
380-04	Bus Stop and Shelter Improvement Program	308,311	1,920	306,391	961,852
380-08	Rail Reserve: Exposition Station Area Planning	74,880	16,002	58,878	147,245
380-11	Rail Reserve: Exposition LRT Advisory Services	15,033	-	15,033	-
380-12	Expo Maintenance Yard Buffer	1,334,239	1,307,065	27,174	42,569
380-16	Expo Right of Way Tree Relocation	57,271	-	57,271	64,753
410-06	Rideshare Program	96,000	96,000	-	96,000
410-08	Bicycle Valet Service - Prop A	40,000	47,787	(7,787)	41,655
480-02	Direct Administration - Prop A	50,000	25,523	24,477	20,361
500-04	WISE Senior and Disabled Services	192,711	192,711	-	192,711
Total expenditures		\$ 4,026,044	\$ 3,337,858	\$ 688,186	\$ 3,228,890

See report of independent auditors.

**City of Santa Monica
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year Ended June 30, 2017**

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</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
06/29/2013	Expo - Maintenance Yard Buffer	301,235	1,307,065	-	1,608,300
06/29/2014	Bus PADS - Prop A Light Rail	244,503	-	-	244,503
06/29/2014	Bus Shelters	1,191,639	1,920	-	1,193,559
	Total	\$ 1,857,087	\$ 1,308,985	\$ 54,808	\$ 3,111,264

See report of independent auditors.

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

		June 30	
		2017	2016
ASSETS			
Cash and investments	\$	3,783,507	\$ 3,164,079
Interest receivable		10,161	-
Accounts receivable		7,388	3,683
Total assets	\$	<u>3,801,056</u>	<u>\$ 3,167,762</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	30,054	\$ 557,586
Contract retainage		1,445	72,194
Total liabilities		<u>31,499</u>	<u>629,780</u>
Fund balance			
Restricted		3,769,557	2,537,982
Total fund balance		<u>3,769,557</u>	<u>2,537,982</u>
Total liabilities and fund balance	\$	<u>3,801,056</u>	<u>\$ 3,167,762</u>

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	
	2017	2016
Revenues		
Proposition C	\$ 1,409,137	\$ 1,377,363
Interest income	24,895	30,028
Rent income	37,004	28,074
Total revenues	1,471,036	1,435,465
Expenditures		
Various projects	239,461	2,308,604
Total expenditures	239,461	2,308,604
Excess (deficiency) of revenues over expenditures	1,231,575	(873,139)
Fund balance at beginning of year	2,537,982	3,411,121
Fund balance at end of year	\$ 3,769,557	\$ 2,537,982

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, 2017
(With Comparative Actuals for 2016)

Project Code	Project Name	2017			2016 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
210-02	LiNC Bus Lane - Phase 1	\$ 100,000	\$ 9,045	\$ 90,955	\$ -
270-04	Bicycle Technology Demonstration Project - Design	71,631	31,053	40,578	84
310-02	4th St and Colorado Ave Transit Interface Project	109,226	62,031	47,195	1,117,969
370-01	Wayfinding - Call for Projects	322,285	-	322,285	-
370-02	Expo and Localized Travel Planning Assistance	93,864	-	93,864	-
400-09	Traffic Signal Update	160,000	-	160,000	-
410-02	Real Time Signs for Bus Shelters	199,602	-	199,602	4
410-04	No Net New Trips Rideshare Toolkit	49,958	6,291	43,667	13,913
430-15	Bike Network Linkages	1,341,544	-	1,341,544	-
430-16	Safe Routes to School - SAMOHI	15,742	435	15,307	24,258
430-18	Expo Bike Path Safety Features	33,246	32,959	287	116,754
430-19	Pier and Beach Bike Path Connector	34,400	-	34,400	-
440-21	Annual Street Repair and Resurfacing	150,000	-	150,000	-
440-23	Colorado Avenue Esplanade	66,214	-	66,214	1,030,394
440-26	Annual Paving and Sidewalk Repair Project	600,000	-	600,000	-
470-01	Pavement Management System	147,692	94,218	53,474	2,308
480-01	Direct Administration Prop C	25,000	3,429	21,571	2,920
Total expenditures		\$ 3,520,404	\$ 239,461	\$ 3,280,943	\$ 2,308,604

See report of independent auditors.

**City of Santa Monica
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year Ended June 30, 2017**

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
02/15/2011	Transit Mall Kiosk	\$ 46,662	\$ -	\$ -	\$ 46,662
06/12/2011	Train Operations and Existing Traffic Circulation	78,021	-	-	78,021
06/24/2011	Train Operations - Colorado Esplanade	97,850	-	-	97,850
06/28/2011	Citywide Bikeway Network	100,000	-	-	100,000
08/02/2011	Bike Center	633,532	-	-	633,532
06/29/2013	20th and Cloverfield Improvement Project	999,318	-	-	999,318
06/29/2013	Street Resurfacing-Ocean Park Blvd	539,339	-	-	539,339
06/29/2014	ATMS Phase 4	102,118	-	-	102,118
06/29/2015	Colorado Esplanade	1,175,227	-	-	1,175,227
06/29/2016	Downtown Temp Use TOD site	1,117,969	62,031	-	1,180,000
06/29/2016	Expo Bike Path Blue Phones	116,741	32,959	-	149,700
	Total	\$ 5,006,777	\$ 94,990	\$ -	\$ 5,101,767

See report of independent auditors.

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

		June 30	
		2017	2016
ASSETS			
Cash and investments	\$	929,632	\$ 820,231
Interest receivable		3,048	-
Total assets	\$	932,680	\$ 820,231
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	5,313	\$ 81,934
Total liabilities		5,313	81,934
Fund balance			
Restricted		927,367	738,297
Total fund balance		927,367	738,297
Total liabilities and fund balance	\$	932,680	\$ 820,231

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	
	2017	2016
Revenues		
Measure R	\$ 1,059,184	\$ 1,035,786
Interest income	7,614	7,956
Total revenues	1,066,798	1,043,742
Expenditures		
Various projects	877,728	975,402
Total expenditures	877,728	975,402
Excess of revenues over expenditures	189,070	68,340
Fund balance at beginning of year	738,297	669,957
Fund balance at end of year	\$ 927,367	\$ 738,297

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, 2017
(With Comparative Actuals for 2015)

Project Code	Project Name	2017			2016 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1.05	Street Repair and Maintenance	\$ 600,000	\$ 62,658	\$ 537,342	\$ 458,912
3.05	Bikeways/Pedestrian Construction	350,000	105,886	244,114	704
3.05	Pedestrian Action Plan Implementation	200,000	-	200,000	-
4.20	Operating Subsidy to Existing Bus Operator	731,826	709,184	22,642	515,786
Total expenditures		\$ 1,881,826	\$ 877,728	\$ 1,004,098	\$ 975,402

See report of independent auditors.

City of Santa Monica
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year Ended June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</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	
		2017	2016
ASSETS			
Due from LACMTA		\$ 63,842	\$ 34,916
	Total assets	\$ 63,842	\$ 34,916
LIABILITIES AND FUND BALANCE			
Liabilities			
Cash overdraft		\$ 63,842	\$ 24,916
Accounts payable		-	9,658
Due to LACMTA		-	342
	Total liabilities	63,842	34,916
Fund balance			
Restricted		-	-
	Total fund balance	-	-
	Total liabilities and fund balance	\$ 63,842	\$ 34,916

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	
	2017	2016
Revenues		
Intergovernmental Allocations:		
Article 3	\$ 63,842	\$ 34,916
Interest income	-	85
Total revenues	63,842	35,001
Expenditures		
Bikeways, lanes and paths	63,842	61,659
Total expenditures	63,842	61,659
Deficiency of revenues over expenditures	-	(26,658)
Other financing use		
Funds returned to LACMTA	-	(342)
Deficiency of revenues over expenditures and other financing use	-	(27,000)
Fund balance at beginning of year	-	27,000
Fund balance at end of year	\$ -	\$ -

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, 2017

Project Description	Program Year	Totals to Date		Unexpended Allocations	Project Status
		Allocations	Expenditures		
Local Allocations:					
Expo/Bergamot Pedestrian and Bike Enhancements	2017	\$ 63,500	\$ 63,500	\$ -	Ongoing
Michigan Ave Neighborhood Greenway	2016	342	342	-	Ongoing
Totals		<u>\$ 63,842</u>	<u>\$ 63,842</u>	-	
Fund balance at beginning of year				-	
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), the Proposition C Local Return Fund (PCLRF), the Measure R Local Return Fund (MRLRF) and the 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*, 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 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurement disclosures.

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, 2017 and 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 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, 2017 and 2016, and the changes in its financial position for the years 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.

Proposition A and Proposition C LR funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated.

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.

Measure R LR funds must be expended within five years of the first day of the fiscal year in which funds were originally allocated or received.

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, 2017 and 2016 amounting to \$0 and \$256, respectively, pertains to revenues generated from paratransit services.

Project generated revenue under PCLRF for the years ended June 30, 2017 and 2016 amounting to \$37,004 and \$28,074, respectively, pertains to concessionaire's rent for the City's bike transit centers.

NOTE 8 RAIL RESERVE

On March 13, 1985, the City and LACMTA entered into a Memorandum of Understanding to establish rail reserve fund (Fund) and allocated \$504,916 of PALRF fiscal year 1984/85 distribution 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 shall be used 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, 2017 and 2016, the Rail Reserve Fund transactions were as follows:

		2017		2016
Beginning balance at July 1	\$	1,984,529	\$	2,301,960
Add: interest income		9,505		19,265
Less: Expenditures during the year		(1,420,195)		(336,696)
Ending balance at June 30	\$	573,839	\$	1,984,529

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 expenditures under the same project through submission of a revised project code.

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, 2017 and 2016, the capital reserve account transactions were as follows:

		2017		2016
Beginning balance at July 1	\$	464,965	\$	1,413,257
Add: Interest income		3,450		13,560
Less: Expenditures during the year		(468,415)		(961,852)
Ending balance at June 30	\$	-	\$	464,965

NOTE 10 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

The revenue allocations for the years ended June 30, 2017 and 2016 consisted of the following:

		2017		2016
FY 2011/12 allocation	\$	-	\$	32,233
FY 2012/13 allocation		63,622*		2,683
FY 2013/14 allocation		220		-
	\$	63,842	\$	34,916

* Amount includes the \$342 funds returned during FY 2017 that was not included in the reserve account as disclosed in Note 10 in FY 2016.

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, 2017 and 2016, the City has funds on reserve as follows:

		<u>2017</u>		<u>2016</u>
FY 2012/13 reserve	\$	-	\$	63,280
FY 2013/14 reserve		73,552		73,772
FY 2014/15 reserve		60,081		60,081
FY 2015/16 reserve		58,738		58,738
FY 2016/17 allocation		61,806		-
	\$	<u>254,177</u>	\$	<u>255,871</u>

For FY 2016/17, any TDA Article 3 funds left on reserve for FY 2012/13 or prior, are subject to lapse if not claimed by the City by June 30, 2017. There were no funds that lapsed in FY 2016/17.

NOTE 12 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 11, 2017, 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 years ended June 30, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2017.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Los Angeles, California
December 11, 2017

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, 2017.

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, 2017.



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 "Vaqueria & Company LLP".

Los Angeles, California
December 11, 2017

**City of Santa Monica
Compliance Matrix
Year Ended June 30, 2017**

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 report of independent auditors on compliance.

**City of Santa Monica
Compliance Matrix
Year Ended June 30, 2017**

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				

See report of independent auditors on compliance.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Santa Monica
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017**

There were no findings noted.

EXIT CONFERENCE

An exit conference was held on December 11, 2017 with the City of Santa Monica representatives. Those in attendance were:

Vasquez and Company LLP representatives:
Marialyn Salvador – Audit Senior 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 no significant compliance or financial statement issues.

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



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