CITY OF SANTA MONICA, CALIFORNIA

Big Blue Bus Fund

(An Enterprise Fund of the City of Santa Monica)

Financial Statements and Supplementary Information

Fiscal Years Ended June 30, 2016 and 2015

(With Independent Auditors' Reports Thereon)

CITY OF SANTA MONICA, CALIFORNIA
Big Blue Bus Fund
(An Enterprise Fund of the City of Santa Monica)
Fiscal Years Ended June 30, 2016 and 2015

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LSL CPAs AND ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Santa Monica, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Big Blue Bus Fund (the BBB), an enterprise fund 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, which collectively comprise the BBB's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Big Blue Bus Fund as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

203 N. Brea Blvd., Suite 203 | Brea, CA 92821 | Phone: 714.672.0022

To the Honorable Mayor and Members of the City Council
City of Santa Monica, California

Emphasis of Matters

Basis of Presentation

As discussed in Note 1, the financial statements present the financial position of only the BBB and do not present, or purport to present fairly, the financial position of the City as of June 30, 2016, and the changes in financial position and cash flows thereof 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

Comparative Financial Statements

The basic financial statements of the BBB for the year ended June 30, 2015 was audited by another auditor who expressed an unmodified opinion on those statements, on December 29, 2015.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the BBB's basic financial statements. The 50% Expenditure Limitation Tests schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 50% Expenditure Limitation Tests schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 50% Expenditure Limitation Tests schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016 on our consideration of the BBB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the BBB's internal control over financial reporting and compliance.

Lance, Soll & Lunghard, LLP

Brea, California
December 21, 2016

CITY OF SANTA MONICA, CALIFORNIA
Big Blue Bus Fund
(An Enterprise Fund of the City of Santa Monica)
Statements of Net Position
June 30, 2016 and 2015

		2016	2015 (Restated)
Assets:			
Current assets:			
Cash and investments (note 2)	$	22,105,356	21,850,655
Restricted cash and investments (note 2)		21,626,407	19,304,986
Accounts receivable		1,391,082	3,379,099
Due from other governments		8,182,490	3,997,346
Due from Los Angeles County Metropolitan Transportation Authority		6,421,624	4,240,022
Interest		121,796	84,717
Inventory		3,472,061	2,680,562
Prepaids		-	15,119
Total current assets		63,320,816	55,552,506
Noncurrent assets:			
Capital assets (note 3):			
Land		48,807,900	60,276,362
Construction in progress		3,088,006	4,607,766
Buildings		129,417,341	129,417,341
Improvements other than buildings		13,967,895	10,617,020
Machinery and equipment		151,504,644	132,926,367
Total capital assets		346,785,786	337,844,856
Less: accumulated depreciation		(137,760,470)	(126,866,656)
Net capital assets		209,025,316	210,978,200
Total noncurrent assets		209,025,316	210,978,200
Total assets		272,346,132	266,530,706
Deferred ouflows of resources:			
Deferred outflows from pensions (note 4)		5,530,093	7,645,046
Liabilities:			
Current liabilities:			
Accounts payable		1,886,336	3,434,632
Accrued liabilities		3,131,981	2,827,729
Due to other governments		-	2,648,622
Compensated absences		1,632,096	1,570,248
Contracts payable (retained percentage)		304,315	174,837
Unearned revenue (note 1)		5,343,190	9,072,663
Deposits		74,407	99,793
Total current liabilities		12,372,325	19,828,524
Noncurrent liabilities:			
Compensated absences		291,245	331,016
Net OPEB obligation (note 4)		1,236,455	1,226,970
Net pension liability (note 4)		41,600,174	40,239,083
Total noncurrent liabilities		43,127,874	41,797,069
Total liabilities		55,500,199	61,625,593
Deferred inflows of resources:			
Deferred inflows from pensions (note 4)		5,267,651	9,096,098
Net Position:			
Investment in capital assets		209,025,316	210,978,200
Restricted for:			
Rail system development		1,773,464	1,759,377
Proposition 1B projects		11,024,106	13,343,103
Unrestricted		(4,714,511)	(22,626,619)
Total net position	$	217,108,375	203,454,061

See accompanying notes to financial statements.

CITY OF SANTA MONICA, CALIFORNIA
Big Blue Bus Fund
(An Enterprise Fund of the City of Santa Monica)
Statements of Revenues, Expenses, and Changes in Fund Net Position
For the fiscal years ended June 30, 2016 and 2015

	2016	2015 (Restated)
Operating revenues:		
Fixed route service:		
Passenger revenue	$ 12,841,034	13,361,718
Advertising	2,405,018	1,925,535
Other	685,795	1,127,431
Total fixed route service revenues	15,931,847	16,414,684
Specialized transit services	463,022	478,160
Total operating revenues	16,394,869	16,892,844
Operating expenses:		
Fixed route:		
Personnel services	51,006,603	47,216,505
Administrative indirect	4,601,515	4,801,477
Contractual services	2,845,268	2,354,223
Repairs and maintenance	5,993,864	5,695,760
Materials and supplies	5,013,313	5,780,943
Utilities	431,121	483,161
Casualty property and liability costs	2,703,066	2,739,118
Other	435,157	373,976
Total fixed route expenses	73,029,907	69,445,163
Specialized transit services expenses	463,022	478,160
Total operating expenses before depreciation	73,492,929	69,923,323
Depreciation and amortization	14,987,934	13,777,667
Total operating expenses	88,480,863	83,700,990
Operating loss	(72,085,994)	(66,808,146)
Nonoperating revenues:		
Shared sales tax proceeds:		
Proposition C funds	2,497,231	2,645,766
Proposition A funds	13,191,160	13,612,150
Transportation Development Act funds	18,486,411	19,329,258
State Transit Assistance Fund sales taxes	2,897,713	2,425,957
Measure R	11,579,913	9,085,356
LCTOP funds	518,250	-
Investment income:		
Interest income	562,200	319,058
Gain on disposal of capital assets	63,303	3,800
Other	3,537,846	3,517,859
Total nonoperating revenues	53,334,027	50,939,204
Loss before capital grants, contributions and special item	(18,751,967)	(15,868,942)
Special item (note 3)	8,481,538	-
Capital grants and contributions	23,924,743	10,333,281
Changes in fund net position	13,654,314	(5,535,661)
Net position, beginning (as restated)	203,454,061	208,989,722
Net position, ending	$ 217,108,375	203,454,061

See accompanying notes to financial statements.

CITY OF SANTA MONICA, CALIFORNIA
Big Blue Bus Fund
(An Enterprise Fund of the City of Santa Monica)
Statements of Cash Flows
Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	$ 14,823,000	15,137,977
Cash received from specialized transit services	463,022	478,160
Cash payments for materials and services	(24,064,269)	(21,480,856)
Cash payments to employees for services	(51,016,786)	(49,035,397)
Other nonoperating revenues received	3,537,846	3,517,859
Net cash used in operating activities	(56,257,187)	(51,382,257)
Cash flows from noncapital financing activities:		
Sales tax proceeds:		
Proposition C funds	2,497,231	2,645,766
Proposition A funds	13,191,160	13,612,150
State Transit Assistance Fund sales taxes	2,055,345	1,819,483
Transportation Development Act funds	21,572,686	19,329,258
Measure R	8,041,644	7,861,048
Net cash provided by noncapital financing activities	47,358,066	45,267,705
Cash flows from capital and related financing activities:		
Capital contributions received	21,013,331	16,597,331
Proceeds from sales of capital assets	63,303	119,435
Acquisition and construction of capital assets	(24,503,512)	(6,969,244)
Proceeds from condemnation settlement agreement	14,377,000	
Refund from vendor for return of capital asset	-	4,469,597
Net cash provided by capital and related financing activities	10,950,122	14,217,119
Cash flows from investing activities:		
Interest received on investments	525,121	279,510
Net increase (decrease) in cash and cash equivalents	2,576,122	8,382,077
Cash and cash equivalents at beginning of year	41,155,641	32,773,564
Cash and cash equivalents at end of year	$ 43,731,763	41,155,641
Cash and investments	$ 22,105,356	21,850,655
Restricted cash and investments	21,626,407	19,304,986
Total cash and cash equivalents	$ 43,731,763	41,155,641
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (72,085,994)	(66,808,146)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	14,987,934	13,777,667
Other nonoperating revenue received	3,537,846	3,517,859
Changes in assets and liabilities:		
Increase in accounts receivable	(449,911)	(399,289)
Increase in inventory	(791,499)	(398,988)
Decrease in prepaid expense	15,119	10,197
Increase (decrease) in accounts payable and deposits	(1,444,204)	1,149,633
Increase (decrease) in compensated absences	22,077	(39,490)
Net OPEB liability	9,485	13,724
Net pension liability and related changes in deferred outflows and inflows of resources	(352,403)	(1,511,904)
Increase (decrease) in accrued liabilities	304,252	(281,222)
Increase in unearned revenue	(9,889)	(412,298)
Total adjustments	15,828,807	15,425,889
Net cash used in operating activities	$ (56,257,187)	(51,382,257)

There were no significant noncash investing or financing activities for the years ended June 30, 2016 and 2015.

See accompanying notes to financial statements.

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1. Summary of Significant Accounting Policies

The City of Santa Monica, California (City) began operating its own bus line in 1928 calling it the "Santa Monica Municipal Bus Lines." In 1999 the name was changed to "Santa Monica's Big Blue Bus". The Big Blue Bus Fund (BBB) operates a fleet of about 200 buses of various types and provides a variety of transportation services such as:

- Fixed Route Services – Daily bus service with 20 different fixed routes and various timetables, including the Mini Blue service.
- Specialized Transportation Services – The Dial-a-Ride Service, which is a low cost, shared ride service offering door-to-door transportation in Santa Monica for senior passengers.

The accounting policies of the BBB conform to accounting principles generally accepted in the United States of America. The following is a summary of the significant policies applied in the preparation of the accompanying financial statements.

Basis of Accounting

The BBB is reported as a major proprietary fund in the City's basic financial statements presented in its Comprehensive Annual Financial Report. The accompanying financial statements present the net position and changes in net position and cash flows of the BBB. These financial statements are not intended to present the financial position and the results of operations of the City, or cash flows of the City's other proprietary funds.

The financial statements of the BBB are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recorded in the period in which they are earned. Expenses are recognized in the period in which they are incurred.

For the year ended June 30, 2015 the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. GASB Statement No. 68 provides requirements on how pension costs and obligations are measured and reported in the financial statements. When an organization's pension liability exceeds the pension plan's net position available for paying benefits, there is a net pension liability which must be reported in the financial statements. In addition, GASB Statement No. 68 requires that projected benefit payments be discounted to their actuarial present value using a single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to achieve that rate and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions under (1) are not met.

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68* requires that, at transition to the new accounting standards in accordance with GASB Statement No. 68, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. However, it continues to require that the beginning balances for other deferred outflows and inflows be reported at transition only if it is practical to determine such amounts.

As a result of the implementation of GASB Statement No. 68 and GASB Statement No. 71, BBB restated the beginning net position as of July 1, 2014 by $46,165,881 to record the beginning balance of net pension liability.

For the year ended June 30, 2016 the BBB implemented the provisions of GASB statement No. 72, Fair Value Measurement. GASB Statement No. 72 prescribes how governments should define and measure fair value which is "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The GASB also requires reporting the BBB's investments by levels which correspond to how the custodians value the investments.

GASB issued Statement No. 82, *Pensions Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The BBB's principal operating revenues are charges to customers for transportation services. Operating expenses include the cost of providing transportation services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Other nonoperating revenue consists primarily of rental income.

Cash and Cash Equivalents

Cash and investments of the BBB are pooled and invested with funds of the City (see note 2). BBB's cash and investments balance represents BBB's equity share of the City's cash and investment pool. As the City places no restrictions on the deposit or withdrawal of its equity from the pool by a particular fund, the pool operates like a demand deposit account for each participating fund. The BBB's investments are stated at fair value, and the increase or decrease in the fair value of investments is included as a component of interest income.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on quarter-end balances and is adjusted at year-end.

The City's investments are carried at fair value, except for guaranteed investment contracts, which are carried at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. The fair value of equity and debt securities is determined based on sales prices or bid-and-asked quotations from Securities and Exchange Commission (SEC) registered securities exchanges or National Association of Securities Dealers Automated Quotation (NASDAQ) dealers. The fair value of the City's share of the Local Agency Investment Fund (LAIF) is reported to the City on a quarterly basis. LAIF operates in accordance with laws and regulations of the State of California. The reported value of the pool is the same as the fair value of pool shares. Changes in fair value are allocated to each pool participant on an annual basis.

For purposes of the statement of cash flows, the BBB has defined cash and cash equivalents to be change and petty cash funds and equity in the BBB's cash and investments.

Accounts Receivable

Accounts receivable represents amounts due to the BBB for services rendered as of year-end but cash had not been received as of that date. Accounts receivable are reported at their net realizable value.

Due from Other Governments

Due from other governments represents capital grant reimbursements that have been earned as of year-end but cash had not been received as of that date.

Inventory and Prepaids

Inventory consisting of spare parts, fuel, and similar items are stated at cost on a weighted average basis. The cost of prepaid items are recorded as expenses when consumed rather than when purchased.

Restricted Assets

Assets that are restricted for specific uses by grant provisions are classified as restricted because their use is limited by grant agreements.

Capital Assets

Capital assets, which include land, buildings, improvements other than buildings and machinery and equipment, are defined by the Big Blue Bus as any assets with estimated useful life in excess of one year as the Big Blue Bus follows transit funding guidelines by capitalizing any expense which is funded by capital grant subsidies not related to bus repairs and maintenance. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not increase utility of the assets or materially extend asset lives are expensed when incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Big Blue Bus are depreciated using a straight-line method, with a mid-year convention (only half a year's depreciation is recorded in the first and last year of the asset) over the following estimated useful lives:

Assets	Years
Buildings	5 to 50
Improvement other than buildings	5 to 50
Machinery and equipment	2 to 20

Interest on Unused Capital Contributions

Interest earned from unused capital grant proceeds and other restricted assets is allocated to unspent capital contribution amounts, thereby having the effect of increasing the BBB's transportation-related capital contributions.

Accounts Payable and Accrued Liabilities

Accounts payable consists primarily of liabilities for goods or services rendered to the BBB, which have not been paid by year-end. Accrued liabilities consist primarily of personnel services rendered by year-end which have been paid in the following year.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits up to a maximum determined by bargaining unit agreements. Employees are paid 100% of their accumulated vacation when they terminate employment for any reason. All vacation is accrued in the financial statements. Members of The International Association of Sheet Metal, Air, Rail and Transportation Workers – Transportation Division, Local 1785 (SMART TD), upon retirement after 10 or more years of service and having accumulated 50 or more sick days, are entitled to reimbursement for health insurance premiums up to the cumulative dollar equivalent of those sick days.

Unearned Revenue

Unearned revenue represents funds received from the Los Angeles Metropolitan Transportation Authority (MTA) not used in the current fiscal year.

Grant Revenues

Grant revenue for both state and federal grants is recognized when all eligibility requirements imposed by the provider have been met.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Big Blue Bus has one item that qualifies for reporting in this category, the deferred outflows relating to pensions. This outflow is the result of contributions made after the measurement period which are recorded as a reduction in net pension liability in the following year.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Big Blue Bus has one item that qualifies for reporting in this category in the statement of net position deferred inflows relating to pensions. These inflows are the result of adjustments due to the difference in the; projected and actual investment returns, projected and actual experience and change in assumptions. These amounts are deferred and amortized straight line over a five year period for investments and the expected remaining service time for experience and change in assumptions.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the pension plans fiduciary net position and additions to/deductions from the pension plans fiduciary net positions have been determined on the same basis as they are reported by the CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

Net position is reported in three categories: investment in capital assets, restricted net position and unrestricted net position. Investment in capital assets represents capital assets less accumulated depreciation. Restricted net position represents assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws and regulations of other governments). All other net position is considered unrestricted.

When both restricted and unrestricted resources are available for use, it is the Big Blue Bus' policy to use restricted resources first, and then use unrestricted resources as needed.

Prior Period Adjustments

The accompanying financial statements reflect adjustments in beginning net position as of June 30, 2015:

Beginning net position, as previously reported	$ 215,008,176
Restatements	6,018,454
Beginning net position, as restated	$ 208,989,722

Capital assets of $6,018,454 were written off to adjust items that had been disposed in prior fiscal years, resulting in a decrease to net position.

Use of Estimates

The preparation of basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

Reclassifications

Certain reclassifications have been made to the fiscal year 2015 amounts in order to conform to the fiscal year 2016 presentation. Such reclassifications had no effect on the previously reported change in net position.

2. Cash and Investments

Cash and Investments in City Investment Pool

The BBB has no separate bank accounts or investments other than investments in the BBB’s equity in the cash and investment pool managed by the City of Santa Monica (the Pool). The BBB is a voluntary participant in the Pool. The Pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City pursuant to the California Government Code and the Santa Monica City Charter, Section 711. The BBB has not adopted an investment policy separate from that of the City. The fair value of the BBB’s investment in this pool is reported in the accompanying financial statements at amounts based upon the BBB’s pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis. As of June 30, 2016 and 2015, the BBB’s portion of the Pool was $43,731,763 and $41,155,641, which represent approximately 5.6% and 5.9% of the Pool. The City will issue a publicly available Comprehensive Annual Financial Report that includes complete disclosures related to the entire cash and investment pool.

3. Capital Assets

Capital assets activity for the years ended June 30, 2016 and 2015 is as follows:

	Balance at July 1, 2015, as restated	Increases	Decreases	Transfers	Balance at June 30, 2016
Capital assets, not being depreciated:					
Land	$ 60,276,362	-	(11,468,462)	-	48,807,900
Construction in progress	4,607,766	5,878,470	-	(7,398,230)	3,088,006
Total capital assets, not being depreciated	64,884,128	5,878,470	(11,468,462)	(7,398,230)	51,895,906
Capital assets, being depreciated:					
Buildings	129,417,341	-	-	-	129,417,341
Improvements other than buildings	10,617,020	-	-	3,350,875	13,967,895
Machinery and equipment	132,926,367	18,625,042	(4,094,120)	4,047,355	151,504,644
Total capital assets, being depreciated	272,960,728	18,625,042	(4,094,120)	7,398,230	294,889,880
Less accumulated depreciation for:					
Buildings	(39,463,087)	(3,516,622)	-	-	(42,979,709)
Improvements other than buildings	(3,317,854)	(642,299)	-	-	(3,960,153)
Machinery and equipment	(84,085,715)	(10,829,013)	4,094,120	-	(90,820,608)
Total accumulated depreciation	(126,866,656)	(14,987,934)	4,094,120	-	(137,760,470)
Total capital assets, being depreciated, net	146,094,072	3,637,108	-	7,398,230	157,129,410
Total	$ 210,978,200	9,515,578	(11,468,462)	-	209,025,316

	July 1, 2014, as restated	Increases	Decreases	Transfers	June 30, 2015, as restated
Capital assets, not being depreciated:					
Land	$ 60,276,362	-	-	-	60,276,362
Construction in progress	10,921,365	696,681	(4,585,231)	(2,425,049)	4,607,766
Total capital assets, not being depreciated	71,197,727	696,681	(4,585,231)	(2,425,049)	64,884,128
Capital assets, being depreciated:					
Buildings	129,417,341	-	-	-	129,417,341
Improvements other than buildings	7,400,307	3,216,713	-	-	10,617,020
Machinery and equipment	134,816,281	3,055,850	(7,370,813)	2,425,049	132,926,367
Total capital assets, being depreciated	271,633,929	6,272,563	(7,370,813)	2,425,049	272,960,728
Less accumulated depreciation for:					
Buildings	(35,946,465)	(3,516,622)	-	-	(39,463,087)
Improvements other than buildings	(3,003,748)	(314,106)	-	-	(3,317,854)
Machinery and equipment	(81,509,589)	(9,946,939)	7,370,813	-	(84,085,715)
Total accumulated depreciation	(120,459,803)	(13,777,667)	7,370,813	-	(126,866,656)
Total capital assets, being depreciated, net	151,174,126	(7,505,104)	-	2,425,049	146,094,072
Total	$ 222,371,853	(6,808,423)	(4,585,231)	-	210,978,200

During the year the Metro Line Construction Authority (Expo) and the City entered into a Final Judgement in Condemnation Settlement agreement regarding property owned by the City located at the EXPO light rail terminus at 4th and Colorado Streets. The property had been purchased utilizing TDA capital grants funds. The agreement calls for payments totaling $19,950,000 to be made by Expo. The carrying value of the portion of the property disposed was $11,468,462, resulting in a gain of $8,481,538 which is reported as a special item in the Big Blue Bus Fund. As of June 30, 2016, a receivable of $5,573,000 remains due the BBB.

4. Employee Benefit Programs

Santa Monica Public Employees' Retirement Plan

General Information about the Pension Plan

The BBB's employees participate in the City's defined benefit pension plan, the Santa Monica Public Employees' Retirement Plan (Plan) which provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through City ordinance. CalPERS issues a separate comprehensive annual financial report available from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Plan Description

All full-time employees of the City and part-time employees who have worked over 1,000 hours during a fiscal year are eligible to participate in the Miscellaneous Plan. The City is authorized by statute to establish and amend all plan provisions. Related benefits vest after five years of service. Upon five years of service, employees who retire are entitled to receive an annual retirement benefit according to the following Plan provision chart:

	Miscellaneous		
Hire Date	Prior to July 1, 2012	Between July 1, 2012 and December 31, 2012	On or after January 1, 2013
Benefit formula	2.70% @ 55	2.00% @ 55	2.00% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefits payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55	50-62	52-67
Monthly benefits, as a % of eligible compensation	2.70%	1.43% to 2.42%	1.00% to 2.50%
Cost of living adjustment	2.00%	2.00%	2.00%
Required employee contribution rate	8.00%	7.00%	6.25%
Required employer contribution rate	19.36%	19.36%	19.36%

The required employer contribution rate for FY2015 was 18.51%.

Funding Policy

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS.

Active full-time members in the Plan are required to contribute 6.25% to 8.00% of their annual covered salary. The City makes such employee contributions on behalf and for employees hired before July 1, 2012. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members earned during the year with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. Members, for whom the City pays for their employee contribution, reimburse the City for the cost of an enhanced benefit at a rate of 6.70%.

Net Pension Liability

The City's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The total pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the BBB's allocation of the City's net pension liability is shown next page.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined using the actuarial methods and assumptions in the following table:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Actuarial cost method	Entry-Age Normal
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Projected salary increase	Varies by entry age and service
Investment rate of return [1]	7.65%
Mortality [2]	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protections Allowance Floor on Purchasing Power applies, 2.75% thereafter

[1] *Net of pension plan investment expenses, including inflation.*

[2] *The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report.*

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2015 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website under "Forms and Publications."

Change of Assumptions

GASB 68 paragraph 68 states that the long-term expected rate of return should be determined net of pension plan expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement data is without reduction of pension plan administrative expense.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF).The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS website under the GASB 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as the methodology is changed.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, both short- and long-term market return expectations were considered by CalPERS as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation %	Real Return % Years 1 - 10 [1]	Real Return % Years 11+ [2]
Global Equity	51.00	5.25	5.71
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	10.00	6.83	6.95
Real Estate	10.00	4.50	5.13
Infrastructure and Forestland	2.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)
Total	100.00		

[1] *An expected inflation of 2.5% used for this period*

[2] *An expected inflation of 3.0% used for this period*

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings on investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected remaining service lives of all member that are provided benefits (active, inactive, and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on members' probability of decrementing due to an event other than receiving a cash refund.

Changes in Net Pension Liability

As of June 30, 2016, the BBB's allocation of the net pension liability is $41,600,174.

The BBB's net pension liability is measured as the allocation of the net pension liability based on its share of contributions to the pension plan. The BBB's allocation of the net pension liability as of the measurement date June 30, 2014 and 2015 is as follows:

BBB's Allocation of Net Pension Liability	
Proportion - June 30, 2014	18.72%
Proportion - June 30, 2015	18.74%
Change	-0.02%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the BBB's allocation of the net pension liability of the City's Miscellaneous Plan as of the Measurement Date, calculated using the discount rate of 7.65 percent in FY 2015-16 and 7.50% in FY 2014-15, as well as the net pension liability if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

Net Pension Liability

	2016	
1% Decrease (6.65%)	Current Rate (7.65%)	1% Increase (8.65%)
$ 65,752,134	41,600,174	21,624,526

	2015	
1% Decrease (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
$ 63,360,066	40,239,083	21,029,087

Pension Plan Fiduciary Net Position

Detailed information about the City's pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

Pension Expense, Deferred Outflows and Deferred Inflows of Resources Related to Pensions

The BBB recognized $4,998,758 and $6,133,142 as the allocation of pension expense for the years ended June 30, 2016 and 2015, respectively.

The BBB's allocation of deferred outflows and deferred inflows of resources related to pensions as of June 30 are as follows:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ -	(2,428,482)	$ -	-
Differences between expected and actual experience	-	(1,839,887)	-	-
Net difference between projected and actual earnings on pension plan investments	-	(999,283)	-	(9,096,098)
Employer contributions subsequent to the measurement date	5,530,093	-	7,645,046	-
Total	$ 5,530,093	(5,267,651)	$ 7,645,046	(9,096,098)

The amounts above are net of outflows and inflows recognized in the pension expense for the fiscal year ended June 30, 2016 and 2015, respectively.

Contributions of $5,530,093 and $7,645,046 for the years ended June 30, 2016 and 2015, respectively, that were made by BBB subsequent to the measurement date are reported as deferred outflows of resources and were or will be recognized as a reduction of the net pension liability in the fiscal years ended June 30, 2017 and 2016, respectively. Other amounts reported as deferred inflows of resources will be recognized in future pension expense as follows:

	Deferred Inflows of Resources	
Fiscal Year ended June 30	2016	2015
2016		(2,274,025)
2017	(2,290,178)	(2,274,025)
2018	(2,290,178)	(2,274,025)
2019	(2,142,993)	(2,274,023)

Deferred Compensation Plans

The City offers to its employees an optional deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. This plan is available to substantially all employees and allows participants to defer a portion of their current income until future years to shelter such funds and earnings from state and federal taxation until withdrawal. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

The City offers an employer discretionary, defined contribution plan established and governed under Internal Revenue Code Section 401(a) to members of the Management Team Associates (MTA) bargaining unit. Employee only contributions are calculated based upon a percentage of employee compensation under agreements with the MTA.

The City offers to its as-needed employees a separate Section 457 deferred compensation plan under the Omnibus Budget Reconciliation Act (OBRA). This plan is available to all as-needed employees who are not eligible to participate in CalPERS. This plan requires equal employer and employee contributions based on a percentage of earnings.

These plans are administered through third-party administrators. The City does not perform the investing function and has no fiduciary accountability for the plans. Thus, plan assets and any related liabilities to plan participants have been excluded from the City's basic financial statements.

Other Postemployment Benefits

In addition to providing pension benefits through CalPERS, the BBB provides postemployment medical coverage for certain retired employees. The BBB currently has two employees, one retired and one active that qualify for this postemployment medical coverage. Additionally, retirees can opt to stay in the City's health insurance plans at the active employees' rate, thereby creating an implicit rate subsidy for retirees. The actuarial valuation for the annual required contribution is not significant for contribution disclosure and does not include separate reporting on the funded status for the BBB. The City allocated a portion of its net OPEB obligation to BBB based upon BBB's actuarially determined proportionate share of the net OPEB obligation. The allocated net OPEB obligation as of June 30, 2016 and 2015 were $1,236,455 and $1,226,970.

The BBB also contributes monies to a medical trust that provide other post-retirement medical benefits to members. During the years ended June 30, 2016 and 2015 the BBB contributed $887,065 and $799,073 respectively towards the retiree medical trust. These are administered through third-party administrators and the BBB does not perform the investing function or have any fiduciary accountability for the plans. Thus, plan assets and any related liabilities have been excluded from the BBB's basic financial statements.

5. Risk Management Program

The BBB is covered by the City's self-insurance program for workers' compensation and certain other claims such as general liability and property damage. Self-insurance coverage is provided through internal service funds maintained by the City. The BBB is charged a premium for such coverage which is adjusted periodically based on actual claim experience, the total cost to administer the self-insurance program, and other factors. Additional information on the City's self-insurance program is addressed in the City's Comprehensive Annual Financial Report for the years ended June 30, 2016 and 2015.

6. Federal, State and Local Assistance

The BBB receives funds from several sources to meet its operating, maintenance and capital requirements. The receipt of such revenues is controlled by Federal, State and Local laws, the provisions of various grant contracts and regulatory approvals and, in some instances, is dependent on the availability of grant funds and the availability of local matching funds.

These include:

State Transit Assistance Fund (STAF) – State Transit Assistance funds are derived from the Public Transportation Account and are allocated by the State Controller. Transit recipients who are eligible for Transportation Development Act (TDA) Article 4 funds are also eligible for STAF funds.

STAF funds must be allocated for capital costs unless the operator can pass the STAF efficiency test. The STAF efficiency test examines total operating cost versus the change in the Consumer Price Index (CPI).

STAF funds lapse within 3 years from the date of allocation.

TDA Article 4 – The Transportation Development Act dedicates ¼ cent of the state sales tax for transportation. TDA Article 4 funds are made available based on the Los Angeles County Metropolitan Transportation Authority (LACMTA)'s Formula Allocation Procedure (FAP), which is calculated from service miles and farebox revenue. Unused TDA funds lapse 3 years from the date of allocation. However, BBB has a general capital reserve agreement with the LACMTA so that programmed funds do not expire regardless of the year in which funding is drawn down.

Proposition (Prop) A 40% Discretionary – This revenue is generated from a ½ cent sales tax in Los Angeles County. The LACMTA sets aside 40% of these funds for operators based on Prop A 40% Discretionary Guidelines. 20% of the Discretionary Grant Program is considered "fare subsidy dollars". This amount is credited in calculating farebox recovery ratio. Additional Prop A funds used for operations is not included in calculating farebox return ratio. Only carryover funds from previous years can be programmed for capital expenses. Prop A funds lapse within 3 years from the year of allocation. Any unused carryover funds are transferred to the Proposition C 40% Fund after 2 years.

Proposition A Local Return – This revenue is generated from the same ½ cent sales tax in Los Angeles County as the Prop A 40% Discretionary Program mentioned above. Here, 25% of the Prop A Local Return revenue is distributed directly to Los Angeles County and municipalities on a per capita basis. These funds can only be used for public transit purposes.

Operators have 4 years, which is the year of allocation plus 3 years, to spend the funds allocated through this program.

Proposition A Interest Allocation – Distribution of Proposition A interest by the LACMTA as a supplemental funding source.

Proposition C Bus System Improvement Program (BSIP) – In 1997, the LACMTA Board approved the use of Proposition C Discretionary funds to help with overcrowding relief for the transit dependent. Operators may not carryover any unused funds to a subsequent year.

Proposition C Interest Allocation – Distribution of Proposition C interest by the LACMTA as a supplemental funding source.

Proposition C Transit Security – Proposition C funds for projects to improve transit security.

Proposition C Foothill Mitigation – In 1997, the LACMTA Board approved the use of Proposition C Discretionary funds to mitigate the impact of the addition of Foothill Transit as an Included Operator and maintain that mitigation annually. Operators may not carryover any unused funds to a subsequent year.

Proposition C Municipal Operators Service Improvement Program (MOSIP) – MOSIP is an ongoing funding source that is given at the discretion of the LACMTA Board of Directors. BBB's existing agreement with the LACMTA expires on June 30, 2018.

Proposition 1B – The Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) Fund is a part of the State of California's Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Bond Act), approved by California voters as Proposition 1B on November 7, 2006. A total of $19.9 billion was deposited into the PTMISEA fund, $3.6 billion of which was made available to fund grants to project sponsors in California for approved eligible public transportation projects over a 10-year period. Proposition 1B funds can be used for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements, or for rolling stock procurement, rehabilitation or replacement.

It is the BBB's practice to record as a restriction of net position any allocated or billed funds not yet received or unspent funds received prior to the incurrence of eligible expenses. Proposition 1B activity during the fiscal years ended June 30, 2016 and 2015 was as follows:

	2016	2015
Restricted Net Position, beginning	$ 13,343,103	9,917,728
Revenue	1,826,723	3,605,145
Interest	127,052	82,567
Expenses	(4,272,772)	(262,337)
Restricted Net Position, ending	$ 11,024,106	13,343,103

The above balance is composed of Safety and Security Project: $1.5 million in fiscal year 2016 and $1.8 million in fiscal year 2015 and Bus Replacement Project: $9.5 million in fiscal year 2016 and $11.5 million in fiscal year 2015.

Measure R – Measure R was authorized with the passage of Ordinance 08-01, Traffic Relief and Rail Expansion Ordinance, on November 4, 2008. It is funded by 1/2 cent sales tax imposed on the incorporated and unincorporated territory of Los Angeles County for a period of thirty (30) years. An estimated $40 billion will be raised over the 30 year period. Collections started in July 2009. Measure R provides funding for the following:

1. Transit Capital (40%) - New Rail and/or Bus Rapid Transit Capital Projects, Metrolink Capital Improvement Projects, within Los Angeles County, Metro Rail Capital-System Improvements, Rail Yards, and Rail Cars.
2. Highway Capital (20%) - Carpool Lanes, Highways, Goods Movement, Grade Separations and Sound Walls.
3. Operations (5%) - Rail Operations (New Transit Project Operations and Maintenance) and (20%) Bus Operations (Countywide Bus service Operations, maintenance and expansion).
4. Local Return (15%) - major street resurfacing, rehabilitation and reconstruction; pothole repairs; left turn signals; bikeways; pedestrian improvements; streetscapes; signal synchronization; and transit. Local return funds are allocated on a per-capita basis. Local return funds have to be spent 5 years from allocation.

Measure R transactions for the fiscal year are as follows:

	2016	2015
Unspent Measure R funds, beginning	$ 7,128,718	8,353,026
Operating funds received	7,525,858	7,861,048
Local Return funds received	515,786	-
Total Measure R funds available	15,170,362	16,214,074
Expenses	(11,579,913)	(9,085,356)
Unspent Measure R funds, ending	$ 3,590,449	7,128,718

Low Carbon Transit Operations Program (LCTOP) – LCTOP is one of several programs that are part of the Transit, Affordable Housing, and Sustainable Communities Program established by California Legislature in 2014 by Senate Bill 862. It was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emissions and improve mobility with a priority on serving disadvantaged communities. Senate Bill 862 appropriates five percent of the annual auction proceeds in the Greenhouse Gas Reduction Fund for LCTOP, beginning in fiscal year 2015-16.

LCTOP transactions for the fiscal year are as follows:

	2016	2015
LCTOP funds received	$ 518,250	-
Expenses	(518,250)	-
Ending balance	$ -	-

American Recovery and Reinvestment Act of 2009 (ARRA) – An act making supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, State and local fiscal stabilization, and for other purposes. This act took effect February 17, 2009. As of June 30, 2015, all ARRA funds have been expended.

ARRA transactions for the fiscal year are as follows:

	2016	2015
ARRA funds received	$ -	143,684
Expenses	-	(143,684)
Ending balance	$ -	-

FTA Urbanized Area Formula Program (Section 5307) – Congress allocates Section 5307 to Metropolitan Planning Areas using population-based formulas. Metro redistributes these funds to regional transit operators based on a capital allocation procedure. These funds can be used for preventive maintenance and capital expenses. Section 5307 funded projects must be included in the Federal Transportation Improvement Program (FTIP).

The time limit to obligate funds is 4 years, including the year of allocation. The time limit to spend and drawdown funds is indefinite.

FTA Transit Capital Investment Program (Section 5309) – The transit capital investment program provides capital assistance for three primary areas; (1) buses and related facilities; (2) new fixed guide way systems; and (3) modernizing rail. Although the rail funds are distributed based on formula shares, the bus and fixed guide way funds are allocated to public agencies as Congressional earmarks in the annual DOT Appropriations Act. Section 5309 funded projects must be included in the FTIP.

The time limit to obligate funds is 3 years, including the year of allocation. The time limit to spend and drawdown funds is indefinite.

A summary of the various governmental funding sources are as follows:

Federal grants	**2016**	**2015**
Capital grants:		
Federal transit formula and capital investment grants	$ 13,641,227	244,636
ARRA	-	143,684
Total federal grants	13,641,227	388,320
State and local grants and assistance		
Operating assistance grants:		
STAF Sales tax	2,897,713	2,425,957
TDA Sales tax	18,486,411	19,329,258
Prop A Local return	935,990	1,382,517
Prop A Sales tax	12,255,170	12,229,633
BSIP	769,264	754,403
Prop C Transit Security	1,171,618	1,347,559
Prop C Foothill mitigation	556,349	543,804
Measure R - Bus Operations	11,064,127	9,085,356
Measure R - Local return	515,786	-
Cap and Trade - LCTOP	518,250	-
Total operating assistance grants	49,170,678	47,098,487
Capital contributions:		
TDA	7,420,746	4,886,445
MOSIP	580,655	1,453,189
Proposition C	179	182
Proposition 1B	1,826,723	3,605,145
Measure R	455,213	-
Total capital contributions	10,283,516	9,944,961
Total operating assistance and capital grants	$ 73,095,421	57,431,768

CITY OF SANTA MONICA, CALIFORNIA

Big Blue Bus Fund

(An Enterprise Fund of the City of Santa Monica)

50% Expenditure Limitation Tests

Years ended June 30, 2016 and 2015

		2016	2015
1.	Total Operating expenses-fixed route and charter services	$ 73,029,907	69,445,163
2.	Total depreciation-fixed route and charter services	14,987,934	13,777,667
3.	Total capital outlay, net of related debt	24,803,510	6,969,244
4.	Total (lines 1, 2 and 3)	112,821,351	90,192,074
5.	Less Federal grants recognized	13,641,227	388,320
6.	Less Local Transit funds (LTF) capital intensive	10,283,516	9,944,961
7.	Less State Transit Assistance funds (STAF) recognized	2,897,713	2,425,957
8.	Total (lines 5, 6 and 7)	26,822,456	12,759,238
9.	Total (line 4 less line 8)	$ 85,998,895	77,432,836
10.	50% of line 9	42,999,448	38,716,418
11.	Add amount of LTF claimed in excess of line 9 for match to Federal operating grant	-	-
12.	Add LTF capital intensive	10,283,516	9,944,961
13.	Total permissible LTF expenditures (sum of lines 10, 11 and 12)	$ 53,282,964	48,661,379
14	Actual Sales Tax Revenue - TDA funds	$ 25,907,157	24,215,703

As line 14 is less than line 13, the Big Blue Bus Fund meets the 50% expenditure limitation test.

LSL CPAs AND ADVISORS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND THE TRANSPORTATION DEVELOPMENT ACT

To the Honorable Mayor and Members of the City Council
City of Santa Monica, 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 Big Blue Bus Fund (the BBB), an enterprise fund 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, which collectively comprise the BBB's basic financial statements, and have issued our report thereon dated December 21, 2016. Our report contained an emphasis of matters paragraph indicating that the financial statements present only the BBB's financial statements.

Internal Control over Financial Reporting

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

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

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

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LSL
CPAs AND ADVISORS

To the Honorable Mayor and Members of the City Council
City of Santa Monica, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the BBB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and applicable provisions of the Transportation Development Act, including Public Utility Code 99245, as enacted and amended by State statute, and as required by Section 6667 of the California Government Code, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the BBB'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 BBB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lunghard, LLP

Brea, California
December 21, 2016