

**CITY OF SANTA MONICA, CALIFORNIA**  
**Big Blue Bus Fund**  
**(An Enterprise Fund of the City of Santa Monica)**  
**Basic Financial Statements and Required and Other**  
**Supplementary Information**  
**Years Ended June 30, 2012 and 2011**  
**(with Independent Auditor's Reports Thereon)**



**Certified Public Accountants.**

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**CITY OF SANTA MONICA, CALIFORNIA**  
Big Blue Bus Fund  
(An Enterprise Fund of the City of Santa Monica)  
Years Ended June 30, 2012 and 2011

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable City Council  
City of Santa Monica, California

We have audited the accompanying basic financial statements of the Big Blue Bus Fund (BBB), an Enterprise Fund of the City of Santa Monica (City), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of BBB's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BBB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only BBB and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of BBB as of June 30, 2012 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012, on our consideration of BBB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2012. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. Although our opinion on the basic financial statements is not affected, the following material departure from the prescribed guidelines exists: management has not included a comparative discussion and analysis of financial information for fiscal years 2011 and 2010. We do not express an opinion or provide any assurance on the information.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of BBB as a whole. 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 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Macias Jini & O'Connell LLP*

Los Angeles, California  
December 21, 2012

**CITY OF SANTA MONICA, CALIFORNIA**  
Big Blue Bus Fund  
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Management's Discussion and Analysis  
Years Ended June 30, 2012 and 2011  
(Unaudited)

As management of the Big Blue Bus Fund ("BBB"), an enterprise fund of the City of Santa Monica, California ("City"), we offer readers this narrative overview and analysis of the financial activities of the BBB for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

***FINANCIAL HIGHLIGHTS***

- As of June 30, 2012, the BBB's assets exceeded liabilities by \$244.5 million (net assets). Of this amount, \$213.2 million is invested in capital assets, \$16.0 million is restricted, \$1.7 million for rail system and \$14.3 million for Prop 1B project; and \$15.3 million is unrestricted.
- Net assets increased by \$5.3 million primarily due to an increase in capital assets of \$4.5 million, increase in restricted Prop 1B funds of \$2.5 million and decrease in unrestricted net assets of \$1.7 million.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis is intended to serve as an introduction to the BBB's basic financial statements. The State Controller's office requires that public transportation services be accounted for as an enterprise fund. The basic financial statements include only the activities for the BBB and provide comparative information for the prior fiscal year. Information on City-Wide financial results is available in the City's Comprehensive Annual Financial Report as of June 30, 2012.

The BBB's basic financial statements are comprised of two components:

- 1) Basic financial statements
- 2) Notes to basic financial statements

The basic financial statements include the following three separate statements:

The *Statement of Net Assets* presents information of assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial condition of the BBB is improving or deteriorating.

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The *Statements of Revenues, Expenses and Changes in Fund Net Assets* presents information showing how the BBB's net assets changed during the most recent two fiscal years. Results of operations are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements using the accrual basis of accounting which is more fully described in the accompanying *Notes to Basic Financial Statements*.

The *Statement of Cash Flows* presents the cash flow events occurring during the most recent two fiscal years in cash and cash equivalents.

The *Notes to Basic Financial Statements* provide additional information that is essential to the full understanding of the data provided in the basic financial statements.

The BBB's Supplementary Information consists of the 50% Expenditure Limitation Tests. The *50% Expenditure Limitation Tests* is a funding eligibility requirement contained in the general guidelines of the Transportation Development Act (TDA). A transit operator subject to the 50% expenditure limitation may not spend Article 4 funds received from the Local Transportation Fund (LTF) in an amount that exceeds the following: 50% of the sum: operating costs, capital requirements, and debt service requirements less revenues from federal grants, LTF capital intensive, and the State Transit Assistance Fund. The Big Blue Bus passed its 50% Expenditure Limitation Tests for fiscal year 2012.

## **FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of the BBB's financial position. In the case of the BBB, assets exceed liabilities by \$244.5 million at the close of June 30, 2012.

A portion of the BBB's net assets (87%) reflects its investment in capital assets (e.g. land, buildings, buses, radio and fare box equipment, transit mall amenities, fleet management system, and other transit-related equipment), net of accumulated depreciation, less any related debt used to acquire those assets that remain outstanding. The BBB uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

The remaining portion of the BBB's net assets (13%) represents resources that are restricted for rail system development and Proposition 1B projects (7%) and unrestricted net assets (6%).



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The following is a condensed summary of BBB's net assets as of June 30, 2012 and 2011:

<b>Schedule of Net Assets</b>			
<b>(in thousands)</b>			
	<b>2012</b>	<b>2011</b>	<b>Change</b>
Current assets	\$ 38,328	\$ 36,998	\$ 1,330
Capital assets	213,152	208,620	4,532
Total assets	<u>251,480</u>	<u>245,618</u>	<u>5,862</u>
Current liabilities	6,767	5,966	801
Non-current liabilities	252	489	(237)
Total liabilities	<u>7,019</u>	<u>6,455</u>	<u>564</u>
Invested in capital assets	213,152	208,620	4,532
Restricted for rail system			
development & Prop 1B	16,043	13,527	2,516
Unrestricted	15,266	17,016	(1,750)
Total net assets	<u>\$ 244,461</u>	<u>\$ 239,163</u>	<u>\$ 5,298</u>

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**Management's Discussion and Analysis (Continued)**  
**Years Ended June 30, 2012 and 2011**  
**(Unaudited)**

The following is a condensed summary of BBB's changes in net assets for the years ended June 30, 2012 and 2011:

**Schedule of Changes in Net Assets**  
**(in thousands)**

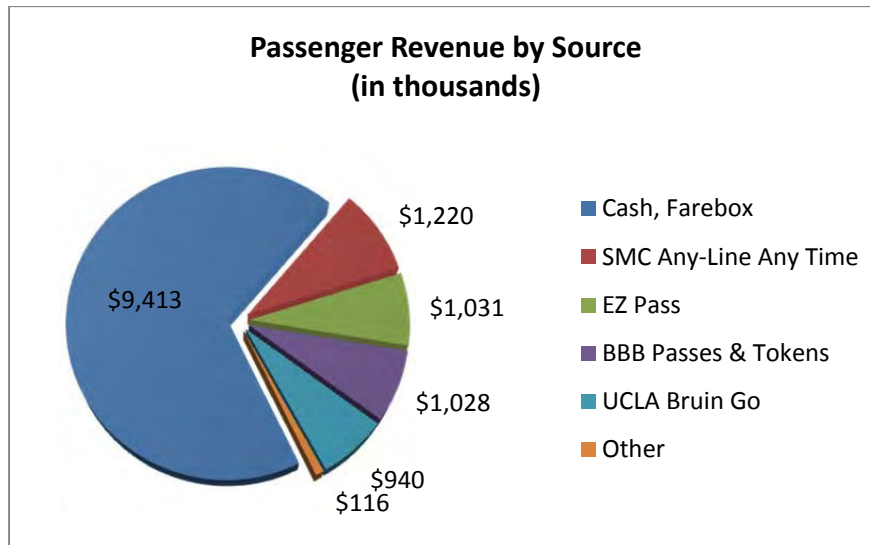
	<b>2012</b>	<b>2011</b>	<b>Change</b>
Operating revenues:			
Passenger fare revenue	\$ 13,748	\$ 13,203	\$ 545
Advertising	1,442	1,536	(94)
Charter services	74	195	(121)
Contract transit services	552	595	(43)
Other	1,306	2,624	(1,318)
Total operating revenues	<u>17,122</u>	<u>18,153</u>	<u>(1,031)</u>
Operating expenses:			
Personnel services	44,417	40,092	4,325
Administrative indirect	4,475	4,105	370
Contractual and specialized transit services	3,359	4,001	(642)
Repairs & maintenance	5,025	6,779	(1,754)
Materials and supplies	6,003	6,842	(839)
Utilities	400	427	(27)
Casualty, property and liability costs	1,030	2,992	(1,962)
Other	552	528	24
Depreciation	13,311	11,137	2,174
Total operating expenses	<u>78,572</u>	<u>76,903</u>	<u>1,669</u>
Loss from operations	<u>(61,450)</u>	<u>(58,750)</u>	<u>(2,700)</u>
Non-operating income/expense:			
Sales tax proceeds	38,398	35,834	2,564
Investment income	182	217	(35)
Homeland Training Security Grant	27	168	(141)
Other	2,532	1,718	814
Total non-operating income	<u>41,139</u>	<u>37,937</u>	<u>3,202</u>
Loss before capital contributions	<u>(20,311)</u>	<u>(20,813)</u>	<u>502</u>
Capital contributions	<u>25,609</u>	<u>32,047</u>	<u>(6,438)</u>
Changes in net assets	<u>5,298</u>	<u>11,234</u>	<u>(5,936)</u>
Beginning net assets	<u>239,163</u>	<u>227,929</u>	<u>11,234</u>
Ending net assets	<u>\$ 244,461</u>	<u>\$ 239,163</u>	<u>\$ 5,298</u>

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**Operating Revenue**

Operating revenue of \$17.1 million decreased by \$1.0 million compared to prior year's revenue of \$18.1 million. The decrease is attributed to the \$1.3 million reduction in other operating revenues, specifically revenue from alternative fuel tax credits. BBB received \$1.56 million in tax credits from the Internal Revenue Service for using alternative fuel (liquefied natural gas and compressed natural gas) for its fleet during fiscal year 2011. For the period July to December 2011, BBB received \$0.5 million. The credit ended in December 2011.

Passenger fare revenue of \$13.7 million is the primary local operating revenue source for the BBB. It represents 80% of total operating revenue and increased by \$545,104 or 4%. Of this increase, 60% came from combined increases in the UCLA "Bruin Go" program, and EZ Pass sales, which brought in increases of \$200,205 and \$124,230 respectively. The composition of current year's passenger revenue is presented below.



**Operating Expenses**

Operating expenses before depreciation of \$65.3 million decreased by 0.8%. However, some expenditure line items showed significant changes this year. Casualty, property and liability costs were \$2.0 million less than the \$3.0 million spent last year. Budget for this expenditure was reduced by \$1.8 million based on prior year's actuarial evaluation of reserves.

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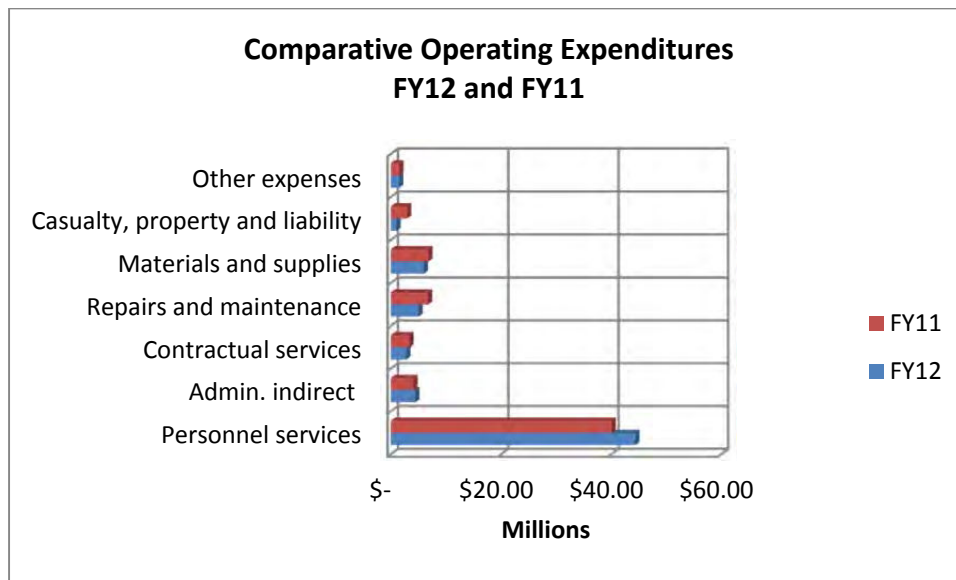
Repairs and maintenance decreased by \$1.8 million due to reduced expenditure on bus components and the replacement of fifteen diesel buses with five articulated natural gas buses and ten compressed natural gas fueled buses. Contractual services decreased by \$0.6 million partly due to the discontinuance of \$300,000 in transit mall traffic enforcement services and a \$137,100 decrease in training costs. Prior year's training was funded by a one-time federal home security grant.

Materials and supplies expenses decreased by \$0.8 million primarily due to reduced fuel expense associated with the replacement of diesel buses with alternative fueled buses. In addition, average price per gallon of liquefied natural gas (LNG) decreased by fifteen percent.

Personnel services increased by \$4.3 million or 10.8%. Personnel services of \$44.4 million represent the BBB's primary operating expense accounting for 68% of total operating expenses before depreciation. Of the \$4.3 million increase, \$1.75 million are increases in retirement, medical and workers' compensation insurance and \$1.3 million increase is attributable to the reduction in capitalized labor.

Administrative indirect expenses of \$4.5 million represent reimbursement to the City's general fund for various administrative support services. These expenses increased \$369,453 or 9% due to the increases in costs of the City to provide services to the BBB.

A graphic comparison of detailed expenditures between FY12 and FY11 is presented below.



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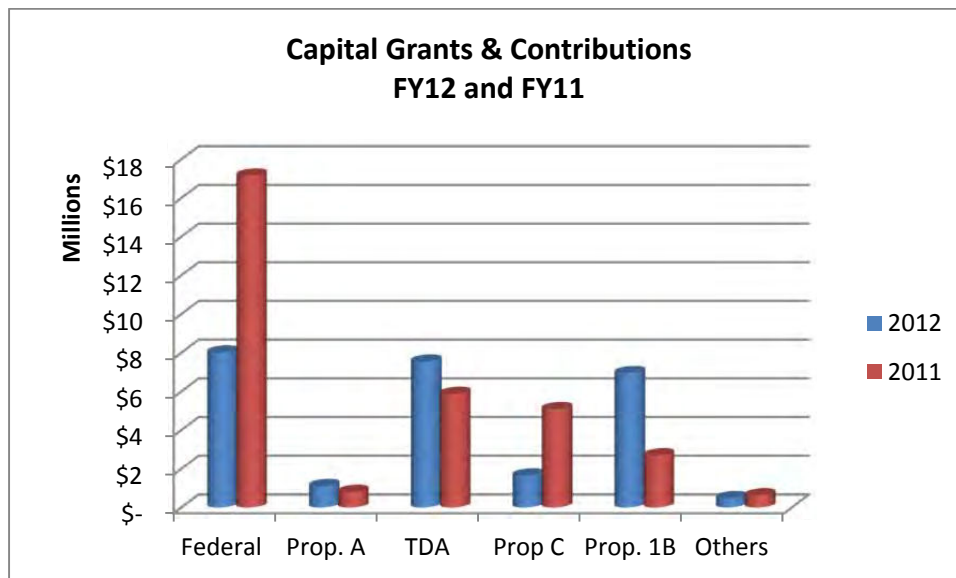
**Non-operating Revenue**

Sales tax proceeds increased by \$2.6 million or 7.1% from \$35.8 million in 2011 to \$38.4 million in 2012 primarily due to an increase in Transportation Development Act, Proposition A and Measure R allocations of \$3.9 million offset by a decrease in Proposition C and State Transportation Fund allocations of \$1.3 million.

State sales tax proceeds (Proposition C, Proposition A, Transportation Development Act, Measure R) are allocated to local jurisdictions based on a relative percentage share. Measure R is the ordinance establishing a ½ percent sales tax for better public transportation.

**Capital Grants & Contributions**

This year, BBB received \$25.6 million in capital grants and contributions. Of this amount, \$8.0 million or 31% came from federal sources, including \$2.8 million from the American Recovery and Reinvestment Act (ARRA) and \$17.7 million or 69% were from State and local sources, including \$6.9 million from Proposition 1B. In comparison, capital grants and contributions were \$6.5 million or 20% lower than the prior fiscal year. Except for Prop 1B, capital revenues are received on a reimbursement basis and more capital projects were undertaken in FY11 than this fiscal year.



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Ongoing capital projects include: the purchase of 58 40-ft. natural gas fuel buses and bus stop redevelopment project for 325 bus stops located in Santa Monica.

The State funds were mostly used as local match for federal projects, funding for miscellaneous capital projects and preventive maintenance on buses.

### **CAPITAL ASSETS**

The BBB's capital assets, net of accumulated depreciation, totaled \$213.2 million as of June 30, 2012. This includes land, facility and infrastructure improvements, vehicles, machinery and equipment, radio and fare box equipment, etc.

The \$4.5 million increase in net capital assets resulted from \$17.8 million in additions reduced by the \$13.3 million depreciation. Of the \$17.8 million additions, \$10.3 million were for new buses, \$3.3 million were for facility upgrades, \$3.1 million were work in progress and other fixed assets were \$1.1 million. Buses added this year include ten 30 ft. and five low-floor articulated compressed natural gas buses. Of the \$3.1 million work in progress, \$2.1 million is for the renovation of the administration building.



The BBB's Capital Assets as of June 30, 2012 and 2011 are as follows:

**Capital Assets**  
**(in thousands)**

	<u>2012</u>	<u>2011</u>
Land	\$ 61,086	\$ 61,086
Construction in progress	13,679	10,589
Buildings and improvements	128,234	124,933
Improvements other than buildings	5,974	5,974
Machinery and equipment	118,973	115,136
Less accumulated depreciation	<u>(114,794)</u>	<u>(109,098)</u>
Total	<u>\$ 213,152</u>	<u>\$ 208,620</u>

For additional information on capital assets, see note 3 of the notes to basic financial statements.

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**ECONOMIC FACTORS AND COMMUNITY PRIORITY**

The adopted FY 2012-2013 BBB's operating budget supports the basic responsibilities of local government, the policy interests of the City Council Members and diverse concerns of the residents. Management confirms there are adequate resources available to fund the proposed expenditures.

The following factors were considered in preparing the BBB's budget for the fiscal year 2012-2013:

- Big Blue Bus' operating subsidy allocations are estimated using funding calculations supplied by Los Angeles County Metropolitan Transportation Authority (LACMTA).
- BBB's objectives and benchmarks for the next year include:
  - Provide market-driven services that meet the needs of customers, the City's residents and visitors that we serve and that will attract discretionary riders.
  - Provide transportation services that are safe, reliable, economical and accessible in an efficient manner with innovative management practices and technological advancements.
  - Promote the value of BBB and public transportation and its impact on the quality of life in the City and the environmental rewards of utilizing public transportation including the reduction of congestion and peak vehicle trips in the City.
  - Implement the bus stop redevelopment program including biking/walking information at stops, and real time electronic signage.
  - Increase on-time pull-out from 95% to 96% by June 30, 2013.
  - Increase on-time service performance from 70% to 75% by June 30, 2013.

**REQUESTS FOR INFORMATION**

The basic financial statements are designed to provide a general overview of the BBB's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the City of Santa Monica's Finance Department at [www.santa-monica.org/finance](http://www.santa-monica.org/finance) or at (310) 458-8281.

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**CITY OF SANTA MONICA, CALIFORNIA**  
Big Blue Bus Fund  
(An Enterprise Fund of the City of Santa Monica)  
Statements of Net Assets  
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets:		
Current assets:		
Cash and investments (note 2)	\$ 25,295,730	\$ 17,934,137
Accounts receivable	10,433,143	9,035,364
Due from Los Angeles County Metropolitan Transportation Authority	852,434	8,168,721
Interest receivable	47,711	73,376
Inventory	1,611,790	1,728,437
Prepaid expense	86,859	58,163
Total current assets	<u>38,327,667</u>	<u>36,998,198</u>
Capital assets (note 3):		
Land	61,085,563	61,085,563
Buildings	128,233,725	124,933,182
Improvements other than buildings	5,974,444	5,974,444
Machinery and equipment	118,973,045	115,136,181
Construction in progress	13,679,054	10,588,724
Total capital assets	327,945,831	317,718,094
Less accumulated depreciation	<u>(114,793,712)</u>	<u>(109,098,474)</u>
Net capital assets	<u>213,152,119</u>	<u>208,619,620</u>
Total noncurrent assets	<u>213,152,119</u>	<u>208,619,620</u>
Total assets	<u>251,479,786</u>	<u>245,617,818</u>
Liabilities:		
Current liabilities:		
Accounts payable	1,581,689	2,185,236
Accrued liabilities	4,126,200	3,462,206
Unearned revenue	1,059,539	318,891
Total current liabilities	<u>6,767,428</u>	<u>5,966,333</u>
Noncurrent liabilities:		
Accrued liabilities	<u>251,565</u>	<u>488,647</u>
Total liabilities	<u>7,018,993</u>	<u>6,454,980</u>
Net assets:		
Invested in capital assets	213,152,119	208,619,620
Restricted for rail system development	1,730,988	1,717,143
Restricted for Prop 1B projects	14,312,412	11,810,095
Unrestricted	15,265,274	17,015,980
Total net assets	<u>\$ 244,460,793</u>	<u>\$ 239,162,838</u>

See accompanying notes to basic 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 Assets**  
**Years ended June 30, 2012 and 2011**

	<u><b>2012</b></u>	<u><b>2011</b></u>
Operating revenues:		
Fixed route service:		
Passenger revenue	\$ 13,748,074	\$ 13,203,322
Advertising	1,442,347	1,535,557
Other	1,305,659	2,623,926
Total fixed route service revenues	16,496,080	17,362,805
Charter service	74,164	194,816
Specialized transit services	551,863	595,221
Total operating revenues	17,122,107	18,152,842
Operating expenses:		
Fixed route and charter service:		
Personnel services	44,417,335	40,092,234
Administrative indirect charges	4,474,494	4,105,041
Contractual services	2,806,608	3,405,832
Repairs and maintenance	5,025,309	6,779,364
Materials and supplies	6,003,302	6,841,721
Utilities	399,821	426,735
Casualty, property and liability costs	1,029,914	2,991,939
Other	552,577	527,826
Total fixed route and charter service expenses	64,709,360	65,170,692
Specialized transit services	551,863	595,221
Total operating expenses before depreciation	65,261,223	65,765,913
Depreciation	13,310,913	11,136,669
Total operating expenses	78,572,136	76,902,582
Operating loss	(61,450,029)	(58,749,740)
Nonoperating revenue (expenses):		
Sales tax proceeds:		
Proposition C funds	2,278,527	3,153,036
Proposition A funds	11,702,357	11,051,286
Transportation Development Act funds	14,768,621	12,013,966
State Transit Assistance Fund sales taxes	2,791,872	3,224,170
Measure R	6,856,313	6,391,572
Homeland Security Training Grant	26,667	167,840
Investment income:		
Interest income	219,192	306,016
Unrealized gain/(loss)	(37,384)	(88,796)
Gain/(loss) on disposal of capital assets	141,594	(515,668)
Other	2,391,067	2,233,688
Total nonoperating revenue	41,138,826	37,937,110
Loss before capital contributions	(20,311,203)	(20,812,630)
Capital grants and contributions	25,609,158	32,046,976
Change in fund net assets	5,297,955	11,234,346
Net assets, beginning	239,162,838	227,928,492
Net assets, ending	<u><u>\$ 244,460,793</u></u>	<u><u>\$ 239,162,838</u></u>

See accompanying notes to basic 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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers	\$ 15,202,526	\$ 16,793,712
Cash received from specialized transit services	551,863	595,221
Cash payments for materials and services	(16,884,990)	(25,706,629)
Cash payments to employees for services	(48,464,917)	(43,971,946)
Other nonoperating revenues received	2,391,067	2,233,688
Net cash used in operating activities	<u>(47,204,451)</u>	<u>(50,055,954)</u>
Cash flows from noncapital financing activities:		
Sales tax proceeds:		
Proposition C funds	2,278,527	2,418,447
Proposition A funds	11,702,357	11,051,286
STAF sales taxes	2,093,904	3,224,170
Transportation Development Act funds	14,768,621	12,013,966
Measure R	7,530,329	6,550,913
Homeland Security Grant	26,667	167,840
Net cash provided by noncapital financing activities	<u>38,400,405</u>	<u>35,426,622</u>
Cash flows from capital and related financing activities:		
Capital contributions received	33,659,984	32,874,294
Proceeds from sales of capital assets	154,685	28,535
Acquisition and construction of capital assets	(17,856,503)	(26,502,507)
Net cash provided by (used in) capital and related financing activities	<u>15,958,166</u>	<u>6,400,322</u>
Cash flows from investing activities:		
Interest received on investments	207,473	265,823
Net cash provided by investing activities	<u>207,473</u>	<u>265,823</u>
Net decrease in cash and cash equivalents	7,361,593	(7,963,187)
Cash and cash equivalents at beginning of year	17,934,137	25,897,324
Cash and cash equivalents at end of year	<u>\$ 25,295,730</u>	<u>\$ 17,934,137</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (61,450,029)	\$ (58,749,740)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	13,310,913	11,136,669
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,434,350)	(763,909)
(Increase) decrease in inventory	116,647	(675,937)
(Increase) decrease in prepaid expense	(28,696)	34,927
Increase (decrease) in accounts payable	(603,547)	(3,496,981)
Increase (decrease) in accrued liabilities	493,544	225,329
Other nonoperating revenue received	2,391,067	2,233,688
Total adjustments	<u>14,245,578</u>	<u>8,693,786</u>
Net cash used in operating activities	<u>\$ (47,204,451)</u>	<u>\$ (50,055,954)</u>

There were no significant noncash investing or financing activities for the years ended June 30, 2012 and 2011.

See accompanying notes to basic financial statements.

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**CITY OF SANTA MONICA, CALIFORNIA**  
**Big Blue Bus Fund**  
**(An Enterprise Fund of the City of Santa Monica)**  
**Notes to Basic Financial Statements**  
**Years Ended June 30, 2012 and 2011**

**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 over 200 buses of various types and provides a variety of transportation services such as:

- Fixed Route Services – Daily bus service with 21 different fixed routes and various timetables, including the Mini Blue service.
- Charter Services – Contract for hire services with various customers and organized day trips to the Los Angeles County fair, Santa Barbara, Hollywood Bowl, Rose Parade, etc. These services were discontinued at the end of fiscal year 2011/12.
- Specialized Transportation Services – The Dial a Ride Service 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 basic financial statements.

**(a) Basis of Accounting**

The BBB is reported as a major enterprise fund in the City’s basic financial statements presented in its Comprehensive Annual Financial Report. The accompanying financial statements present the net assets and changes in net assets 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 enterprise funds.

The basic 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 and become measurable. Expenses are recognized in the period in which they are incurred. The BBB has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989. The BBB applies all applicable Government Accounting Standards Board (GASB) pronouncements as well as statements and interpretations of FASB, the Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 non-operating revenues and expenses. Other operating revenue consists primarily of rental income.

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**(b) Cash and Cash Equivalents**

Cash and investments of the BBB are pooled and invested with funds of the City (see note 2). The BBB's investments are stated at fair value, and the increase or decrease of 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 Security and Exchange Commission (SEC) -registered securities exchanges or National Association of Securities Dealers Automated Quotations (NASDAQ) dealers. The fair value of the City's share of 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 participating fund on an annual basis.

For purposes of the statement of cash flows, the City has defined cash and cash equivalents to be petty cash funds, equity in the City's cash and investment pool, and restricted, non-pooled investments with initial maturities of three months or less.

**(c) Accounts Receivable**

Accounts receivable represents amounts due to the BBB for services rendered or capital reimbursements that have been earned as of year-end but cash had not been received as of that date.

**(d) Inventory**

Inventory consisting of spare parts, fuel, and similar items are stated at cost on a weighted average basis.

**(e) Capital Assets**

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are defined by the City as assets with an initial individual cost of \$1 or more and an estimated useful life in excess of one year. Buildings and improvements other than buildings are defined by the City as assets with an initial individual cost of \$1 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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**(e) Capital Assets (Continued)**

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

Depreciation of capital assets is provided for on a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	2 to 50
Improvement other than buildings	5 to 50
Machinery and equipment	2 to 20

**(f) Investment Income**

All idle funds of the City are invested on a pooled basis. In accordance with an administrative policy of the City, interest and change in fair value of investments on such pooled resources are accrued to each fund based on the proportionate share that a particular fund has in the pooled cash.

**(g) Interest on Unused Capital Contributions**

Interest earned arising 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.

**(h) Unearned Revenue**

Funds received from the Los Angeles County Metropolitan Transportation Authority (LACMTA), and not used in the current fiscal year are carried over to the next fiscal year plus unredeemed tokens and included in unearned revenue.

**(i) Use of Estimates**

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

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**(j) Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefit 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 basic financial statements.

Members of the United Transportation Union upon retirement after ten or more years of service and having accumulated fifty or more sick days are entitled to reimbursement for health insurance premiums up to the cumulative dollar equivalent of those sick days.

The \$251,565 reported as accrued liabilities of non-current liabilities represents accrued compensated absences due more than one year from June 30, 2012.

**(k) Net Assets**

Net assets are reported in three categories: net assets invested in capital assets, restricted net assets and unrestricted net assets. Net assets invested in capital assets represents capital assets less accumulated depreciation less outstanding principal of related debt. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws and regulations of other governments) All other net assets are considered unrestricted.

When both restricted and unrestricted resources are available for use, it is BBB's policy to use restricted resources first, then unrestricted as they are needed.

**(l) 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.

**(m) Grant Revenues**

Grant revenue, for both state and federal grants, is recorded when earned.

**1. 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 that 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



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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, 2012 and 2011, the BBB's portion of the Pool was \$25,295,730 and \$17,934,137, which represent approximately 4% of the Pool in both years. 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, 2012 and 2011 is as follows:

	<b>Balance at July 1, 2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at June 30, 2012</b>
Capital assets, not being depreciated:				
Land	\$ 61,085,563	\$ -	\$ -	\$ 61,085,563
Construction in progress	10,588,724	3,090,331	-	13,679,055
Total capital assets, not being depreciated	<u>71,674,287</u>	<u>3,090,331</u>	<u>-</u>	<u>74,764,618</u>
Capital assets, being depreciated:				
Buildings	124,933,182	3,300,543	-	128,233,725
Improvements other than buildings	5,974,444	-	-	5,974,444
Machinery and equipment	115,136,181	11,465,629	(7,628,765)	118,973,045
Total capital assets, being depreciated	<u>246,043,807</u>	<u>14,766,172</u>	<u>(7,628,765)</u>	<u>253,181,214</u>
Less accumulated depreciation for:				
Buildings	(25,406,505)	(3,503,564)	-	(28,910,069)
Improvements other than buildings	(2,370,240)	(391,306)	-	(2,761,546)
Machinery and equipment	(81,321,730)	(9,416,043)	7,615,674	(83,122,099)
Total accumulated depreciation	<u>(109,098,474)</u>	<u>(13,310,913)</u>	<u>7,615,674</u>	<u>(114,793,713)</u>
Total capital assets, being depreciated, net	136,945,333	1,455,259	(13,091)	138,387,500
Total	<u>\$ 208,619,620</u>	<u>\$ 4,545,590</u>	<u>\$ (13,091)</u>	<u>\$ 213,152,119</u>

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	<b>Balance at</b>			<b>Balance at</b>
	<b>July 1, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2011</b>
Capital assets, not being depreciated:				
Land	\$ 61,085,563	\$ -	\$ -	\$ 61,085,563
Construction in progress	10,418,230	170,494	-	10,588,724
Total capital assets, not being depreciated	<u>71,503,793</u>	<u>170,494</u>	<u>-</u>	<u>71,674,287</u>
Capital assets, being depreciated:				
Buildings	121,104,817	4,225,237	(396,872)	124,933,182
Improvements other than buildings	5,974,444	-	-	5,974,444
Machinery and equipment	94,706,579	22,106,777	(1,677,175)	115,136,181
Total capital assets, being depreciated	<u>221,785,840</u>	<u>26,332,014</u>	<u>(2,074,047)</u>	<u>246,043,807</u>
Less accumulated depreciation for:				
Buildings	(21,982,241)	(3,615,057)	190,793	(25,406,505)
Improvements other than buildings	(1,633,967)	(736,273)	-	(2,370,240)
Machinery and equipment	(75,876,802)	(6,785,340)	1,340,412	(81,321,730)
Total accumulated depreciation	<u>(99,493,010)</u>	<u>(11,136,669)</u>	<u>1,531,205</u>	<u>(109,098,474)</u>
Total capital assets, being depreciated, net	<u>122,292,830</u>	<u>15,195,345</u>	<u>(542,842)</u>	<u>136,945,333</u>
Total	<u>\$ 193,796,623</u>	<u>\$15,365,839</u>	<u>\$ (542,842)</u>	<u>\$ 208,619,620</u>

#### **4. Employee Benefit Programs**

##### **Santa Monica Public Employees' Retirement Plan**

The BBB's employees participate in the City's defined benefit pension plan; Santa Monica Public Employees' Retirement Plan ("Plan") 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 Plan. Related benefits vest after five years of service. Upon five years of service, employees who retire at or after age 50 are entitled to receive an annual retirement benefit.

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The benefit is payable monthly for life, in an amount that varies from 2% at age 50 to a maximum of 2.7% at age 55 of the employee's single highest year's salary for each year of credited service. The Plan also provides death and disability benefits.

Funding Policy

Active full-time members in the Plan are required to contribute 8% of their annual covered salary. The City makes such employee contributions, on their behalf and for their account.

The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. CalPERS prepares separate actuarial valuations for miscellaneous members. The required employer contribution rate for the years ended June 30, 2012 and 2011 was 17.691% and 15.123% respectively. 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.

Annual Pension Cost

For the years ended June 30, 2012 and 2011, the City's annual pension cost and actual contributions related to the BBB were \$5,774,751 and \$4,831,493 respectively.

CalPERS does not provide data to participating organizations in such a manner as to facilitate separate disclosure for the BBB of the actuarial accrued liability; accordingly, no liability is presented herein. Additional information regarding the City's participation in CalPERS is addressed in the City's Comprehensive Annual Financial Report for the years ended June 30, 2012 and 2011.

**Deferred Compensation Plans**

The City offers to its employees an optional deferred compensation plan created in accordance with Section 457 of the Internal Revenue. 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). Employer only contributions are calculated based upon a percentage of employee compensation under agreements with employee bargaining groups and unions.

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.

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**Other Post-Employment Benefits**

In addition to providing pension benefits through CalPERS, the City, provides post employment medical coverage for certain retired employees. The BBB currently has two employees, one retired and one active, that qualifies for this postemployment medical coverage. 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 also contributes monies to a medical trust that provide other post-retirement medical benefits to members. During the year ended June 30, 2012 and 2011 the BBB contributed \$774,263 and \$682,168 respectively towards the retiree medical trust. These are administered through third-party administrators and the City 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 City's basic financial statements.

**6. Risk Management Program**

The BBB is covered by the City's self-insurance program for workers' compensation and certain other claims. 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, 2012 and 2011.

**7. 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 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 CPI.

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

**Transportation Development Act (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 MTA's Formula Allocation Procedure (FAP), which is calculated from service miles and farebox revenue. Unused TDA funds lapse three years from the date of allocation. However,

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BBB has a general capital reserve agreement with the MTA so that programmed funds do not expire regardless of the year in which funding is drawn down.

**Proposition A 40% Discretionary** – This revenue is generated from a ½ cent sales tax in LA County. The MTA sets aside 40% of these funds for operators based on Prop A 40% Discretionary Guidelines. Twenty percent 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 operating 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 LA County as the Prop A 40% Discretionary Program mentioned above; however, 25% of the Prop A Local Return revenue is distributed directly to LA County and municipalities on a per capita basis. These funds can only be used for public transit purposes.

Operators have four years, which is the year of allocation plus an additional three 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 MTA 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 MTA 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 Metro Board of Directors. BBB’s existing agreement with Metro 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,

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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 assets 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 year ended June 30, 2012 and 2011 was as follows:

	2012	2011
Unspent Proposition 1B funds, beginning	\$ 11,810,095	\$ 9,156,647
Proposition 1B funds allocated during fiscal year	6,942,808	2,690,945
Interest earned on unspent funds	66,825	77,429
Proposition 1B expenses paid	(4,507,316)	(114,926)
Unexpended project allocations, June 30	<u>\$ 14,312,412</u>	<u>\$ 11,810,095</u>

The above balance is composed of Safety and Security Project: \$1.16 million in FY12 and \$1.33 million in FY11 and Bus Replacement Project: \$13.15 million in FY12 and \$10.48 million in FY11.

**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 Soundwalls.
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.

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Measure R transactions for the fiscal year are as follows:

	2012	2011
Operating funds received	\$ 6,019,020	\$ 5,615,968
Local Return funds received	837,292	775,604
Total Measure R funds received	\$ 6,856,312	\$ 6,391,572
Expenses	(6,182,296)	(6,391,572)
Ending fund balance/Deferred Revenue	\$ 674,016	\$ -

**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, and State and local fiscal stabilization, for the fiscal year ending September 2009, and for other purposes. This act took effect February 17, 2009.

ARRA transactions for the year are as follows:

	2012	2011
ARRA funds received	\$ 2,864,336	\$ 4,527,434
Expenses	(2,864,336)	(4,527,434)
Ending fund balance	\$ -	\$ -

**FTA Urbanized Area Formula Program (Section 5307)** – Congress allocates Section 5307 to Metropolitan Planning Areas using population-based formulas. The MTA 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 four 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 three years, including the year of allocation. The time limit to spend and drawdown funds is indefinite.

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

<b>Federal grants</b>	<b>2012</b>	<b>2011</b>
<b>Capital grants:</b>		
Federal transit formula and capital investment grants	\$ 5,163,254	\$ 12,625,245
ARRA	2,845,171	4,527,434
<b>Total capital grants</b>	<b>8,008,425</b>	<b>17,152,679</b>
<b>State and local grants and assistance</b>		
<b>Operating assistance grants:</b>		
STAF Sales tax	2,791,872	3,224,170
TDA Sales tax	14,768,621	12,013,966
Prop A Local return	338,666	312,739
Prop A Sales tax	11,363,691	10,738,547
Prop C Bus Improvement Program	708,529	694,704
Prop C Transit Security	1,078,946	1,393,725
Prop C Foothill mitigation	491,052	388,135
Prop C - Local Return	-	676,472
Measure R - Bus Operations	6,019,020	5,615,968
Measure R - Local return	837,293	775,604
<b>Total operating assistance grants</b>	<b>38,397,690</b>	<b>35,834,030</b>
<b>Capital contributions:</b>		
Proposition A	1,103,927	801,440
State Transit Assistance Fund (STAF)	366,627	26,750
TDA	7,538,769	5,872,056
Prop C Municipal Operators Service Improvement Program	1,648,602	3,056,740
Proposition C	-	2,026,324
Proposition 1B	6,942,808	2,690,945
Capital Interest	113,431	175,095
Measure R	-	420,046
<b>Total capital contributions</b>	<b>17,714,164</b>	<b>15,069,396</b>
<b>Total operating assistance and capital grants</b>	<b>\$ 64,120,279</b>	<b>\$ 68,056,105</b>



**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, 2012 and 2011

	<u><b>2012</b></u>	<u><b>2011</b></u>
1. Total Operating expenses-fixed route and charter services	\$ 64,709,360	\$ 65,170,692
2. Total depreciation-fixed route and charter services	13,310,913	11,136,669
3. Total capital outlay, net of related debt	<u>17,856,503</u>	<u>26,502,507</u>
4. Total (lines 1, 2 and 3)	<u>95,876,776</u>	<u>102,809,868</u>
5. Less Federal grants received	8,008,425	17,152,679
6. Less Local Transit funds (LTF) capital intensive	17,600,733	14,894,297
7. Less State Transit Assistance funds (STAF) received	<u>2,791,872</u>	<u>3,224,170</u>
8. Total (lines 5, 6 and 7)	<u>28,401,030</u>	<u>35,271,146</u>
9. Total (line 4 less line 8)	<u><u>\$ 67,475,746</u></u>	<u><u>\$ 67,538,722</u></u>
10. 50% of line 9	\$ 33,737,873	\$ 33,769,361
11. Add amount of LTF claimed in excess of line 9 for match to Federal operating grant	-	-
12. Add LTF capital intensive	<u>17,600,733</u>	<u>14,894,297</u>
13. Total permissible LTF expenditures (sum of lines 10, 11 and 12)	<u><u>\$ 51,338,606</u></u>	<u><u>\$ 48,663,658</u></u>
14. Actual Sales Tax Revenue - TDA funds	<u><u>\$ 22,307,390</u></u>	<u><u>\$ 17,886,022</u></u>

\* Based on actual data.

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

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable City Council  
City of Santa Monica, California

We have audited the accompanying basic financial statements of the Big Blue Bus Fund (BBB), an Enterprise Fund of the City of Santa Monica (City), as of and for the year ended June 30, 2012, which included an explanatory paragraph that the financial statements present only BBB and do not purport to, and do not, present fairly the financial position, changes in financial position and cash flows of the City as of and for the year ended June 30, 2012, and have issued our report thereon dated December 21, 2012. 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.

Internal Control Over Financial Reporting

Management of BBB is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered BBB's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BBB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of BBB's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

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

This report is intended solely for the information and use of the City Council, BBB management, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Fini & O'Connell LLP*

Los Angeles, California  
December 21, 2012