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, 2015 and 2014

(with Independent Auditor's Reports Thereon)

MGO Certified Public Accountants

CITY OF SANTA MONICA, CALIFORNIA
Big Blue Bus Fund
(An Enterprise Fund of the City of Santa Monica)
Fiscal Years Ended June 30, 2015 and 2014

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Independent Auditor's Report

To the Honorable 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 (BBB), an Enterprise Fund of the City of Santa Monica (City), as of and for the years ended June 30, 2015 and 2014, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 financial position of BBB as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Basis of Presentation

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, 2015 and 2014, 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. Our opinion is not modified with respect to this matter.

Change in Accounting Principles

As discussed in Notes 1, BBB implemented Governmental Accounting Standards Board (GASB) Statement No. 68*, Accounting and Financial 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,* effective July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matter

Other Information

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

The 50% Expenditure Limitation Tests schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 50% Expenditure Limitation Tests schedule is fairly stated, in all material respects, in relation to the 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 29, 2015, on our consideration of 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 BBB's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Los Angeles, California
December 29, 2015

CITY OF SANTA MONICA, CALIFORNIA
Big Blue Bus Fund
(An Enterprise Fund of the City of Santa Monica)
Statements of Net Position
June 30, 2015 and 2014

	2015	2014 (Restated)
Assets:		
Current assets:		
Cash and investments (note 2)	$ 21,850,655	21,108,111
Restricted cash and investments (note 2)	19,304,986	11,665,453
Accounts receivable	7,376,445	5,680,775
Due from Los Angeles County Metropolitan Transportation Authority	4,240,022	6,879,350
Interest receivable	84,717	45,169
Inventory	2,680,562	2,281,574
Prepaid expense	15,119	25,318
Net pension asset	-	171,811
Total current assets	55,552,506	47,857,561
Noncurrent assets:		
Net pension asset	-	2,792,032
Capital assets (note 3):		
Land	60,276,362	60,276,362
Construction in progress	10,626,220	16,939,819
Buildings	129,417,341	129,417,341
Improvements other than buildings	10,617,020	7,400,307
Machinery and equipment	132,926,367	134,816,281
Total capital assets	343,863,310	348,850,110
Less accumulated depreciation	(126,866,656)	(120,459,803)
Net capital assets	216,996,654	228,390,307
Total noncurrent assets	216,996,654	231,182,339
Total assets	272,549,160	279,039,900
Deferred ouflows of resources:		
Deferred outflows pension (note 4)	7,645,046	-
Liabilities:		
Current liabilities:		
Accounts payable	3,434,632	2,436,235
Accrued liabilities	2,827,729	3,108,951
Due to other governments	2,648,622	-
Compensated absences	1,570,248	1,554,912
Contracts payable (retained percentage)	174,837	36,641
Unearned revenue	9,072,663	9,043,262
Deposits	99,793	86,753
Total current liabilities	19,828,524	16,266,754
Noncurrent liabilities:		
Compensated absences	331,016	385,842
Net OPEB obligation (note 4)	1,226,970	1,213,246
Net pension liability (note 4)	40,239,083	-
Total noncurrent liabilities	41,797,069	1,599,088
Total liabilities	61,625,593	17,865,842
Deferred inflows of resources:		
Deferred inflows from pension (note 4)	9,096,098	-
Net Position:		
Investment in capital assets	216,996,654	228,390,307
Restricted for:		
Rail system development	1,759,377	1,747,725
Proposition 1B projects	13,343,103	9,917,728
Unrestricted	(22,626,619)	21,118,298
Total net position	$ 209,472,515	261,174,058

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, 2015 and 2014

	2015	2014 (Restated)
Operating revenues:		
Fixed route service:		
Passenger revenue	$ 13,361,718	13,676,384
Advertising	1,925,535	2,434,924
Other	1,127,431	701,273
Total fixed route service revenues	16,414,684	16,812,581
Specialized transit services	478,160	529,831
Total operating revenues	16,892,844	17,342,412
Operating expenses:		
Fixed route:		
Personnel services	47,216,505	46,382,193
Administrative indirect charges	4,801,477	4,929,064
Contractual services	2,354,223	2,788,771
Repairs and maintenance	5,695,760	3,947,957
Materials and supplies	5,780,943	4,705,702
Utilities	483,161	436,656
Casualty, property and liability costs	2,739,118	2,754,314
Other	373,976	145,059
Total fixed route expenses	69,445,163	66,089,716
Specialized transit services expenses	478,160	529,831
Total operating expenses before depreciation	69,923,323	66,619,547
Depreciation	13,777,667	12,762,531
Total operating expenses	83,700,990	79,382,078
Operating loss	(66,808,146)	(62,039,666)
Nonoperating revenue (expenses):		
Shared sales tax proceeds:		
Proposition C funds	2,645,766	2,555,608
Proposition A funds	13,612,150	12,374,490
Transportation Development Act funds	19,329,258	18,519,320
State Transit Assistance Fund sales taxes	2,425,957	3,479,179
Measure R	9,085,356	3,742,848
Homeland Security Training Grant	-	19,650
Investment income:		
Interest income	343,444	197,213
Unrealized gain (loss)	(24,386)	75,333
Gain on disposal of capital assets	3,800	185,351
Other	3,517,859	3,300,104
Total nonoperating revenue	50,939,204	44,449,096
Loss before capital grants and contributions	(15,868,942)	(17,590,570)
Capital grants and contributions	10,333,281	28,431,734
Changes in fund net position	(5,535,661)	10,841,164
Net position, beginning (as restated)	215,008,176	250,332,894
Net position, ending	$ 209,472,515	261,174,058

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

For the fiscal years ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	$ 15,137,977	16,521,364
Cash received from specialized transit services	478,160	529,831
Cash payments for materials and services	(21,480,856)	(14,177,089)
Cash payments to employees for services	(49,035,397)	(51,171,073)
Other nonoperating revenues received	3,517,859	3,300,104
Net cash used in operating activities	(51,382,257)	(44,996,863)
Cash flows from noncapital financing activities:		
Shared sales tax proceeds:		
Proposition C funds	2,645,766	2,555,608
Proposition A funds	13,612,150	12,374,490
State Transit Assistance Fund sales taxes	1,819,483	3,479,179
Transportation Development Act funds	19,329,258	18,519,320
Measure R	7,861,048	7,474,106
Homeland Security Training Grant	-	19,650
Net cash provided by noncapital financing activities	45,267,705	44,422,353
Cash flows from capital and related financing activities:		
Capital contributions received	16,597,331	37,631,840
Proceeds from sales of capital assets	119,435	191,582
Acquisition and construction of capital assets	(6,969,244)	(25,001,893)
Refund from vendor for return of capital asset	4,469,597	-
Net cash provided by capital and related financing activities	14,217,119	12,821,529
Cash flows from investing activities:		
Interest received on investments	279,510	263,008
Net increase in cash and cash equivalents	8,382,077	12,510,027
Cash and cash equivalents at beginning of year	32,773,564	20,263,537
Cash and cash equivalents at end of year	$ 41,155,641	32,773,564
Cash and investments	$ 21,850,655	21,108,111
Restricted cash and investments	19,304,986	11,665,453
Total cash and cash equivalents	$ 41,155,641	32,773,564
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (66,808,146)	(62,039,666)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	13,777,667	12,762,531
Other nonoperating revenue received	3,517,859	3,300,104
Changes in assets and liabilities and deferred outflows and inflows of resources:		
Increase in receivables	(399,289)	(291,216)
Increase in inventory	(398,988)	(345,746)
Decrease in prepaid expense	10,197	1,463
Increase in net pension asset	-	(422,341)
Increase in accounts payable and deposits	1,149,633	433,715
Increase (decrease) in compensated absences	(39,490)	2,326
Net OPEB obligation	13,724	205,406
Net pension liability and related changes in deferred outflows and inflows of resources	(1,511,904)	-
Increase (decrease) in accrued liabilities	(281,222)	354,792
Increase (decrease) in unearned revenue	(412,298)	1,041,769
Total adjustments	15,425,889	17,042,803
Net cash used in operating activities	$ (51,382,257)	(44,996,863)

There were no significant noncash investing or financing activities for the years ended June 30, 2015 and 2014.

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.

(a) 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.

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.

(b) 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 City has defined cash and cash equivalents to be change and petty cash funds and equity in the City's cash and investment pool.

(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, improvements other than buildings and machinery and equipment, 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 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 not capitalized.

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:

Assets	Years
Buildings	5 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 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) 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.

(i) 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.

(j) Unearned Revenue

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

(k) Grant Revenues

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

(l) Net Position

Net position is reported in three categories: net investment in capital assets, restricted net position and unrestricted net position. Net investment in capital assets represents capital assets less accumulated depreciation less outstanding principal of related debt. 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.

(m) Prior Period Adjustments

The accompanying financial statements reflect adjustments in beginning net position as of June 30, 2014 and 2013 as follows:

- Decrease in net position of $46,165,881 to record beginning net pension liability as a result of the implementation of GASB Statements No. 68 and 71. The beginning of the year net position for fiscal year 2014 was not restated for net pension liability because all of the information required to restate prior year amounts was not readily available.
- Decrease in net position of $1,213,247 as of June 30, 2014 and $1,007,840 as of June 30, 2013 to record the BBB's proportionate share of the City's OPEB obligation.

The combined effect of these prior period adjustments on the BBB's financial statements is to decrease net position from $262,387,304 to $215,008,176 at June 30, 2014 and from $251,340,734 to $250,332,894 at June 30, 2013.

(n) 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.

(o) Reclassifications

Certain reclassifications have been made to the fiscal year 2014 amounts in order to conform to the fiscal year 2015 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, 2015 and 2014, the BBB's portion of the Pool was $41,155,641 and $32,773,564, which represent approximately 5.9% and 4.0% 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, 2015 and 2014 is as follows:

	Balance at July 1, 2014	Increases	Decreases	Transfers	Balance at June 30, 2015
Capital assets, not being depreciated:					
Land	$ 60,276,362	-	-	-	60,276,362
Construction in progress	16,939,819	696,681	(4,585,231)	(2,425,049)	10,626,220
Total capital assets, not being depreciated	77,216,181	696,681	(4,585,231)	(2,425,049)	70,902,582
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	(7,370,814)	2,425,049	132,926,367
Total capital assets, being depreciated	271,633,929	6,272,563	(7,370,814)	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)	7,370,814	-	(84,085,714)
Total accumulated depreciation	(120,459,803)	(13,777,667)	7,370,814	-	(126,866,656)
Total capital assets, being depreciated, net	151,174,126	(7,505,103)	-	2,425,049	146,094,072
Total	$ 228,390,307	(6,808,422)	(4,585,231)	-	216,996,654

	Balance at July 1, 2013	Increases	Decreases	Transfers	Balance at June 30, 2014
Capital assets, not being depreciated:					
Land	$ 60,276,362	-	-	-	60,276,362
Construction in progress	14,389,632	2,550,187	-	-	16,939,819
Total capital assets, not being depreciated	74,665,994	2,550,187	-	-	77,216,181
Capital assets, being depreciated:					
Buildings	129,417,340	1	-	-	129,417,341
Improvements other than buildings	7,400,307	-	-	-	7,400,307
Machinery and equipment	123,159,331	22,451,707	(10,794,757)	-	134,816,281
Total capital assets, being depreciated	259,976,978	22,451,708	(10,794,757)	-	271,633,929
Less accumulated depreciation for:					
Buildings	(32,427,591)	(2,672,150)	-	-	(35,099,741)
Improvements other than buildings	(2,846,010)	(1,004,463)	-	-	(3,850,473)
Machinery and equipment	(83,212,198)	(9,085,918)	10,788,527	-	(81,509,589)
Total accumulated depreciation	(118,485,799)	(12,762,531)	10,788,527	-	(120,459,803)
Total capital assets, being depreciated, net	141,491,179	9,689,177	(6,230)	-	151,174,126
Total	$ 216,157,173	12,239,364	(6,230)	-	228,390,307

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	After December 31, 2012
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 - FY2015	18.51%	18.51%	18.51%

The required employer contribution rate for FY2014 was 17.62%.

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 for Fiscal Year 2015

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, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the BBB's proportionate share 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, 2014 (the measurement date), the total pension liability was determined using the actuarial methods and assumptions in the following table:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Actuarial cost method	Entry-Age Normal
Actuarial assumptions:	
Discount rate	7.50%
Inflation	2.75%
Payroll growth	3.00%
Projected salary increase [1]	3.30% - 14.20%
Investment rate of return [2]	7.50%
Mortality [3]	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] *Depending on age, service and type of employment*

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

[3] *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, 2013 valuation were based on the results of a January 2014 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.”

Discount Rate

The discount rate used to measure the total pension liability was 7.50 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 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 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.

According to Paragraph 30 of GASB Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points for the City's Plan. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the City's financial statements. Refer to the information on the Sensitivity of the Net Pension Liability to Changes in the Discount Rate which calculates the net pension liability based on 1 percentage-point higher and lower than the current rate.

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	47.00	5.25	5.71
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)
Total	100.00		

[1] *An expected inflation of 2.50% used for this period*

[2] *An expected inflation of 3.00% used for this period*

Changes in Net Pension Liability

As of June 30, 2015, the BBB’s proportionate share of the net pension liability is $40,239,083.

The BBB’s net pension liability is measured as the proportionate share of the net pension liability based on its share of contributions to the pension plan. The BBB’s proportionate share of the net pension liability as of June 30, 2013 and 2014 is as follows:

BBB's Proportionate Share of Net Pension Liability	
Proportion - June 30, 2013	18.72%
Proportion - June 30, 2014	18.72%
Change	0.00%

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

The following presents the BBB's proportionate share of the net pension liability of the City's Miscellaneous Plan as of the Measurement Date, calculated using the discount rate of 7.50 percent, as well as the net pension liability if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

Discount Rate	BBB Proportionate Share
1.0% Decrease	6.50%
Net Pension Liability	$63,360,066
Current Discount Rate	7.50%
Net Pension Liability	$40,239,083
1% Increase	8.50%
Net Pension Liability	$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

For the year ended June 30, 2015, the BBB recognized $6,133,142 as the proportionate share of pension expense.

As of June 30, 2015, the BBB's proportionate share of deferred outflows and deferred inflows of resources related to pensions are as follows:

BBB Deferred Outflows and Deferred Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 7,645,046	$ -
Net difference between projected and actual earnings on pension plan investments	-	9,096,098
Total	$ 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, 2015. The $7.65 million reported as deferred outflows of resources is related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in fiscal year end 2016.

The BBB's proportionate share of the net differences between projected and actual earnings on pension plan investments will be recognized in future pension expense as follows:

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

Annual Pension Cost Fiscal Year 2014

For the years ended June 30, 2014, and 2013 the City's annual pension cost and actual contributions related to the BBB were $4,982,026 and $4,427,536 which represent 112% and 100% of the actuarially determined contribution of the employer.

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 or asset; accordingly, no liability or asset 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, 2014.

Changes in Valuation Assumptions

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will pay for all gains or losses over a fixed 30 year period with increases or decreases in the rate spread directly over a 5 year period.

Additional information on the City's pension funding can be found in note 16 in the City's Comprehensive Annual Financial Report dated June 30, 2014.

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). Employee 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.

Other Postemployment Benefits

In addition to providing pension benefits through CalPERS, the City provides postemployment medical coverage for certain retired employees. The BBB currently has 2 employees, one retired and one active that qualify 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 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, 2015 and 2014 were $1,226,970 and $1,213,246. The OPEB obligation as of June 30, 2013 as restated was $1,007,840. The restatement resulted in the adjustment of 2014 Personnel Services by $205,406.

The City also contributes monies to a medical trust that provide other post-retirement medical benefits to members. During the years ended June 30, 2015 and 2014 the BBB contributed $799,073 and $760,359 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.

5. 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, 2015 and 2014.

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, 2015 and 2014 was as follows:

	2015	2014
Restricted Net Position, beginning	$ 9,917,728	11,997,991
Revenue	3,605,145	2,074,817
Interest	82,567	62,092
Expenses	(262,337)	(4,217,172)
Restricted Net Position, ending	$ 13,343,103	9,917,728

The above balance is composed of Safety and Security Project: $1.8 million in fiscal year 2015 and $1.5 million in fiscal year 2014 and Bus Replacement Project: $11.5 million in fiscal year 2015 and $8.4 million in fiscal year 2014.

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:

	2015	2014
Unspent Measure R funds, beginning	$ 8,353,026	3,665,297
Operating funds received	7,861,048	7,474,106
Local Return funds received	-	956,471
Total Measure R funds available	16,214,074	12,095,874
Expenses	(9,085,356)	(3,742,848)
Unspent Measure R funds, ending	$ 7,128,718	8,353,026

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.

ARRA transactions for the fiscal year are as follows:

	2015	2014
ARRA funds received	$ 143,684	463,929
Expenses	(143,684)	(463,929)
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.

CITY OF SANTA MONICA, CALIFORNIA
Big Blue Bus Fund
(An Enterprise Fund of the City of Santa Monica)
Notes to Financial Statements
For the fiscal years ended June 30, 2015 and 2014

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

Federal grants	**2015**	**2014**
Capital grants:		
Federal transit formula and capital investment grants	$ 244,636	16,708,768
ARRA	143,684	463,929
Operating grants:		
Homeland Security Training Grant	-	19,650
Total federal grants	388,320	17,192,347
State and local grants and assistance		
Operating assistance grants:		
STAF Sales tax	2,425,957	3,479,179
TDA Sales tax	19,329,258	18,519,320
Prop A Local return	1,382,517	386,278
Prop A Sales tax	12,229,633	11,988,212
BSIP	754,403	737,441
Prop C Transit Security	1,347,559	1,247,158
Prop C Foothill mitigation	543,804	571,009
Measure R - Bus Operations	9,085,356	2,786,377
Measure R - Local return	-	956,471
Total operating assistance grants	47,098,487	40,671,445
Capital contributions:		
Proposition A	-	19,952
STAF sales tax	-	7,605
TDA	4,886,445	7,269,401
MOSIP	1,453,189	958,655
Proposition C	182	179
Proposition 1B	3,605,145	2,074,817
Measure R	-	928,429
Total capital contributions	9,944,961	11,259,038
Total operating assistance and capital grants	$ 57,431,768	69,122,830

CITY OF SANTA MONICA, CALIFORNIA
Big Blue Bus Fund
(An Enterprise Fund of the City of Santa Monica)
Supplementary Information
50% Expenditure Limitation Tests
For the fiscal years ended June 30, 2015 and 2014

		2015	2014
1.	Total operating expenses-fixed route and charter services	$ 69,445,163	66,089,716
2.	Total depreciation-fixed route and charter services	13,777,667	12,762,531
3.	Total capital outlay, net of related debt	6,969,244	25,001,893
4.	Total (lines 1, 2 and 3)	90,192,074	103,854,140
5.	Less Federal grants recognized	388,320	17,192,347
6.	Less Local Transit funds (LTF) capital intensive	9,944,961	11,239,388
7.	Less State Transit Assistance funds (STAF) recognized	2,425,957	3,479,179
8.	Total (lines 5, 6 and 7)	12,759,238	31,910,914
9.	Total (line 4 less line 8)	$ 77,432,836	71,943,226
10.	50% of line 9	38,716,418	35,971,613
11.	Add amount of LTF claimed in excess of line 9 for match to Federal operating grant	-	-
12.	Add LTF capital intensive	9,944,961	11,239,388
13.	Total permissible LTF expenditures (sum of lines 10, 11 and 12)	$ 48,661,379	47,211,001
14	Actual Sales Tax Revenue - TDA funds	$ 24,215,703	25,788,721

* 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* and the Transportation Development Act

To the Honorable 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 (BBB), an Enterprise Fund of the City of Santa Monica (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 29, 2015. Our report contained emphasis of matter paragraphs indicating the financial statements present only BBB's financial statements and for changes in accounting principles related to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial 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*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BBB's internal control. Accordingly, we do not express an opinion on the effectiveness of 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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Compliance and Other Matters

As part of obtaining reasonable assurance about whether BBB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California
December 29, 2015