

SANTA MONICA COMMUNITY COLLEGE DISTRICT

LOS ANGELES COUNTY

**REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2013**



SANTA MONICA COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2013

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SANTA MONICA COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Santa Monica Community College District
1900 Pico Boulevard
Santa Monica, California 90405-1628

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Santa Monica Community College District (the District) as of and for the year ended June 30, 2013, 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 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 involves performing procedures to obtain 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, we consider internal control relevant to the District'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 District'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.

Board of Trustees
Santa Monica Community College District

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 listed in the aforementioned table of contents present fairly, in all material respects, the financial position of the Santa Monica Community College District as of June 30, 2013 and the results of its operations, changes in net position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 15 to the basic financial statements, in 2013 Santa Monica Community College District adopted new accounting guidance, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of postemployment healthcare benefits funding progress be presented to supplement the basic financial statements. Such information, although not a 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Trustees
Santa Monica Community College District

Other Information

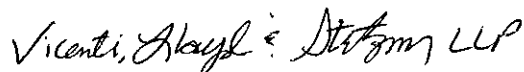
Our audit was conducted for the purpose of forming an opinion on Santa Monica Community College District financial statements as a whole. The supplementary schedules and the continuing disclosure information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of Santa Monica Community College District.

The supplementary section, including the schedule of expenditures of federal awards, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The continuing disclosure information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013 on our consideration of the Santa Monica Community College District'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 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* in considering Santa Monica Community College District's internal control over financial reporting and compliance.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
December 17, 2013

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Santa Monica Community College District (the "District") for the year ended June 30, 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

Santa Monica Community College District is the preeminent educational, cultural, and economic development institution in the City of Santa Monica. The District offers programs of the highest quality for residents of Santa Monica, Malibu, and all students who continue with their higher education studies; offers programs of remediation and reentry; is a leading community provider of programs for seniors; offers cultural and arts programs of national distinction; delivers programs of exceptional depth in professional training, job training and workforce development; and provides fee-based community service programs of personal interest.

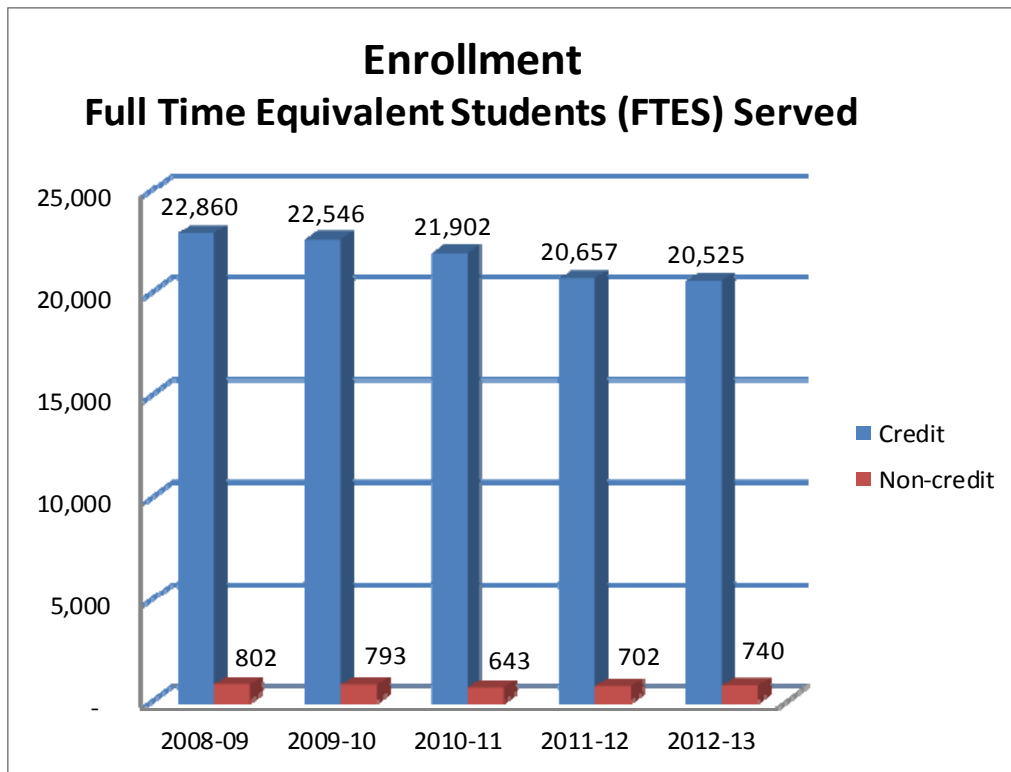
The District was required to implement the reporting standards of Governmental Accounting Standards Board Statements No. 34 and 35 during the fiscal year 2001-02 using the Business Type Activity (BTA) model. The California Community College Chancellor's Office (CCCCO), through its Fiscal and Accountability Standards Committee, recommended that all community college districts implement the new reporting standards under the BTA model. To comply with the recommendation of the Chancellor's Office and to report in a manner consistent with other California community college districts, the District has adopted the BTA reporting model for these financial statements.

Prior year data is presented in Management's Discussion and Analysis to afford a comparative analysis of data.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

Full-time Equivalent Students

During 2012-13, total Full-Time Equivalent Students (FTES) served decreased from 21,359 to 21,265 (approximately 0.44%). While the District served 94 less FTES than in the prior year, the District was able to serve approximately 599 more Full-Time Equivalent Students than funded by the State.



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Statement of Net Position

The Statement of Net Position presents the assets, liabilities and net position of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Position is a point-of-time financial statement whose purpose is to present to the readers a fiscal snapshot of the District.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Position provides a picture of the net position and their availability for expenditure by the District.

The difference between total assets and total liabilities (net position) is one indicator of the current financial condition of the District; the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allocation for depreciation expense.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

The Statements of Net Position as of June 30, 2013 and June 30, 2012 are summarized below:

	(in thousands) <u>2013</u>	(in thousands) <u>2012*</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 40,362	\$ 16,976
Receivables	21,523	35,638
Due from fiduciary funds	4,174	1,056
Inventories	2,028	2,107
Prepaid expenses	4,768	2,579
Prepaid issue costs - current portion	<u>219</u>	<u>219</u>
Total current assets	<u>72,855</u>	<u>58,575</u>
Non-current assets		
Restricted cash and cash equivalents	168,878	180,882
Prepaid issue costs - non-current portion		1,844
Long-term investments	1,056	1,065
Capital assets, net of accumulated depreciation	<u>337,039</u>	<u>334,627</u>
Total non-current assets	<u>506,973</u>	<u>518,418</u>
Total Assets	<u>579,828</u>	<u>576,993</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred charge on refunding	<u>9,819</u>	<u></u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>589,647</u>	<u>576,993</u>
LIABILITIES		
Current liabilities		
Bank overdraft	4,122	1,613
Accounts payable and accrued liabilities	18,521	20,519
Tax revenue anticipation notes (TRANS)	20,000	
Due to fiduciary funds	268	344
Unearned revenue	9,849	9,714
Compensated absences - current portion	878	1,004
Long-term liabilities - current portion	<u>16,526</u>	<u>19,868</u>
Total current liabilities	<u>70,164</u>	<u>53,062</u>
Non-current liabilities		
Long-term liabilities less current portion	<u>407,270</u>	<u>403,886</u>
Total non-current liabilities	<u>407,270</u>	<u>403,886</u>
TOTAL LIABILITIES	<u>477,434</u>	<u>456,948</u>
NET POSITION		
Invested in capital assets, net of related debt	89,832	94,386
Restricted	36,974	35,037
Unrestricted	<u>(14,593)</u>	<u>(9,378)</u>
TOTAL NET POSITION	<u>\$ 112,213</u>	<u>\$ 120,045</u>

* Prior year amounts have not been revised for GASB Statements No. 62 and 65. Prior year amounts have been reclassified to conform to current year presentation.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

- There was an increase in cash and cash equivalents. In 2012-13, the District issued a Tax and Revenue Anticipation Notes (TRANs), which was not paid off until 2013-14. Additionally, there was a reduction in deferred cash payments to the District by the State. Further discussion is located in the section labeled "Statement of Cash Flows".
- Due to the passage of Proposition 30, the State decreased its deferral of apportionment payment to the community college system from \$961 million in 2011-12 to \$775 million in 2012-13. This decrease in deferral payment resulted in the decrease in receivables. The District actually received the majority of the deferral payment in 2013-14. Also, receivable for FEMA retention was partly collected and partly written off in 2012-13.
- In 2011-12, reimbursements/transfers from Big Blue Bus and Fee Based Instruction program were received prior to June 2012. In 2012-13, these reimbursements/transfers were in transit as of June 30, 2013 and the amounts were higher from the previous year resulting in an increase in "due from" fiduciary funds.
- In 2012-13, the District prepaid the 2013-14 workers' compensation and the 2013-14 technology service fee for online education which resulted in increase in prepaid expenses.
- Restricted cash and cash equivalents decreased as a result of a decreased reserve in the bond, capital outlay and bond interest redemption fund.
- Capital assets increased due to the net effect of the implementation of GASB Statement No. 62 minus the adjustments for building duplicated from prior years.
- In 2012-13, prepaid issue costs were written off and a new deferred charge on refunding line was added due to the change in accounting principle explained in Note 15. The deferred charge amount represents the difference between the amount of refunded debt and the amount paid to an escrow agent to defease the refunded debt.

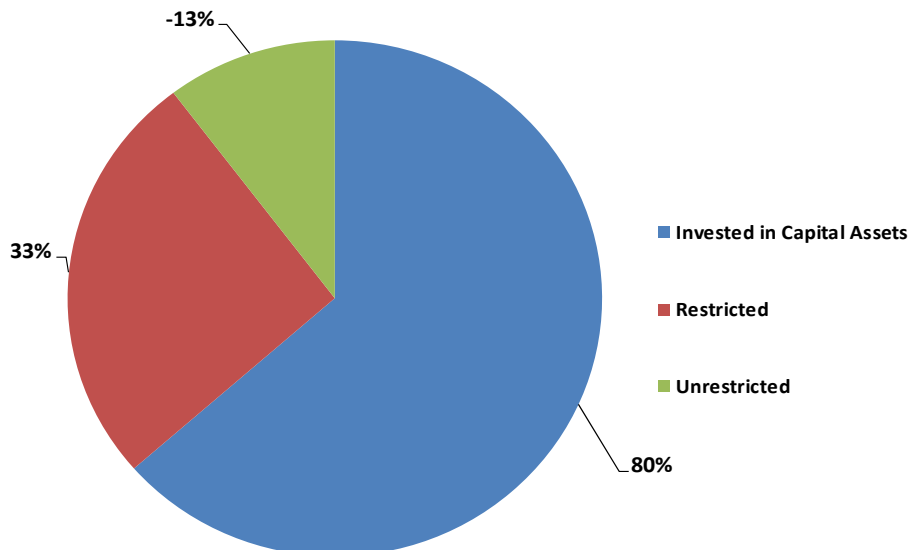
SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

- The bookstore fund has a bank overdraft balance of \$4.1 million at June 30, 2013. The overdraft, in reality, is a loan from other funds. The amount has increased from prior year as transfers from another account were not made prior to June 30, 2013.
- Accounts payables and accrued liabilities decreased from prior year as a result of a smaller balance in vendor payables for both the General Fund and Bond Building Funds.
- In 2012-13, a tax revenue anticipation notes (TRANs) was issued due to cash flow issues related to the State's schedule of intra-year deferrals. The notes matured in September 2013.
- Compensated absences decreased due to the payout of accrued vacation days for employees who resigned or retired.
- Current portion of long-term liabilities decreased as a result of overall decrease in bond principal payments related to general obligation debt.
- Non-current portion of long-term liabilities increased as a result of refunding of debt related to general obligation bonds.

Net Position 2012-13



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Statement of Revenues, Expenses and Change in Net Position

Net position as presented on the Statement of Net Position is based on the activities presented in the Statement of Revenues, Expenses and Change in Net Position. The purpose of this statement is to present the operating and non-operating revenues earned (whether received or not) by the District, the operating and non-operating expenses incurred (whether paid or not) by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this Statement represents the net results of the District's operations. Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services to fulfill the mission of the District. Non-operating revenues are those received or pledged for which goods and services are not provided. For example, State appropriations are non-operating because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

A comparison between fiscal years 2011-12 and 2012-13 is provided on the following page.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

The Statements of Revenues, Expenses and Change in Net Position for the years ended June 30, 2013 and June 30, 2012 are summarized below:

	(in thousands)	(in thousands)
	2013	2012*
Operating Revenues		
Net enrollment, tuition and other fees	\$ 47,326	\$ 44,544
Grants and contracts, non-capital	53,682	50,324
Auxiliary enterprise sales and charges, net	7,288	7,497
Total operating revenues	<u>108,296</u>	<u>102,365</u>
Operating Expenses		
Salaries and benefits	141,287	140,281
Supplies, materials and other operating expenses and services	29,946	29,561
Financial aid	33,618	34,438
Utilities	2,790	2,938
Depreciation	12,117	13,427
Total operating expenses	<u>219,758</u>	<u>220,645</u>
Operating loss	<u>(111,462)</u>	<u>(118,280)</u>
Non-operating revenues		
State apportionments, non-capital	59,849	72,535
Local property taxes	22,696	15,058
State taxes and other revenues	4,755	4,049
Investment income, net	134	231
Contributions, gifts and grants, non-capital	2,527	2,348
Total non-operating revenues	<u>89,961</u>	<u>94,221</u>
Other revenues, expenses, gains or (losses)		
Interest expense on capital-related debt	(15,999)	(18,621)
Loss on disposal of fixed assets	(176)	(2,847)
Investment income, capital	1,077	1,790
Local property taxes and revenues, capital	32,483	31,791
Total other revenues, expenses, gains or losses	<u>17,385</u>	<u>12,113</u>
Change in net position	<u>(4,116)</u>	<u>(11,946)</u>
Net position, beginning of year	120,045	131,102
Cumulative effect of change in accounting principle (see note 15)	11,416	
Adjustment for restatement (see note 15)	<u>(15,132)</u>	<u>889</u>
Net position, end of year	<u>\$ 112,213</u>	<u>\$ 120,045</u>

* Prior year amounts have not been revised for GASB Statements No. 62 and 65.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

- In 2012-13, the State mandated an increase in enrollment fees from \$36 per unit to \$46 per unit. This mandated increase coupled with an increase in non-resident tuition resulted in an increase in net enrollment, tuition and other fees over the prior year.
- Revenues from grants and contracts, non-capital, increased from prior year primarily as a result of increased funding associated with local funded programs such as F1 Insurance, SMC Performing Arts and Consolidated Contract Education.
- Due to a lower enrollment and increased competition from outside vendors, the bookstore realized a reduction in sales of approximately \$209 thousand resulting in a decline in auxiliary enterprise sales and charges, from the prior year.
- Salaries and benefits increased due to step and column increases and the increase instituted among faculty, classified employees and management during 2012-13.
- Operating expenses related to Financial Aid decreased from prior year as a result of a decreased number of eligible applicants. While the District provides a match to some financial aid programs, the majority of the funding for these programs originated from sources outside the District.
- Utility related expenditures decreased 5% from 2011-12. This decrease is a result of current and previously implemented energy conservation, renegotiated energy contracts and sustainability efforts by the District including: installation of an electric photovoltaic power supply, lighting retrofit, an upgrade to the power control systems in the Science building, increased maintenance efforts to optimize equipment efficiency and the development of a power usage schedule for lighting and climate control. The District believes these projects will continue to help mitigate some of the future escalations in utility costs.

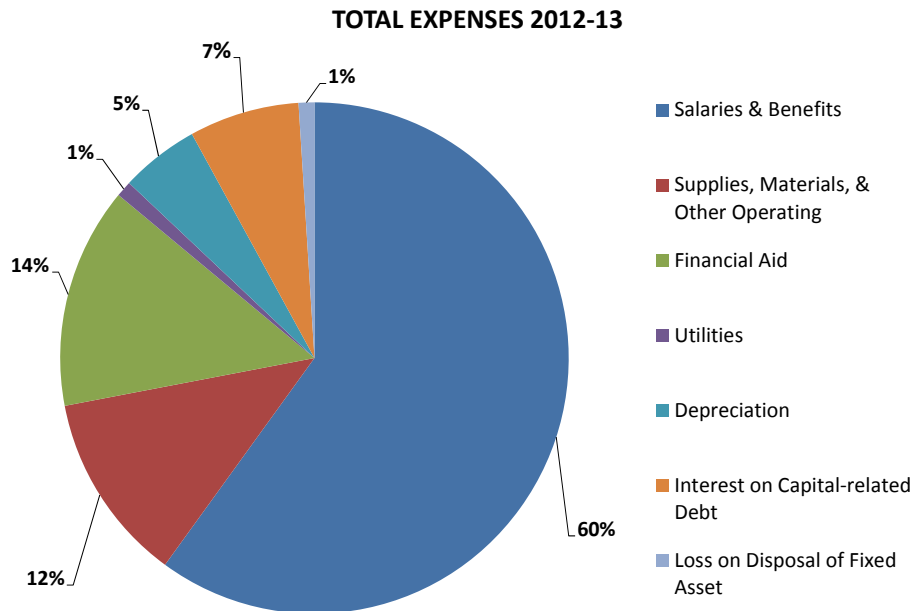
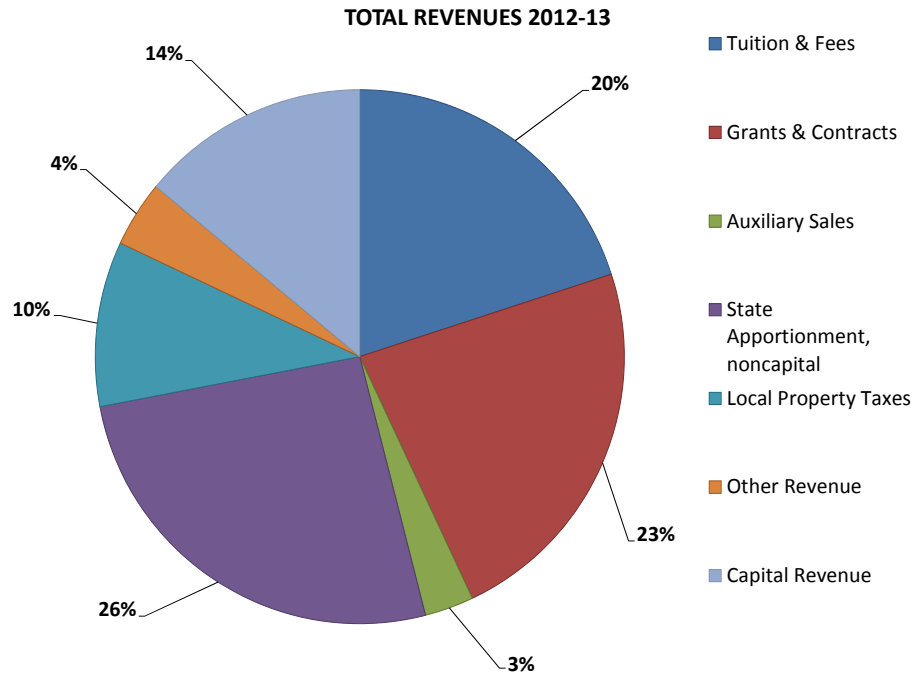
SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

- State apportionments, non-capital are generated based on the Full-Time Equivalent Students (FTES) reported to the State by the District. State principal apportionment, technically defined as total general revenue, is a workload calculation that is funded by property taxes, enrollment fees, and apportionment. If property taxes or enrollment fees decline, the apportionment increases to cover the shortage, if state funding is available. The inverse is also true, so any increase in tax receipts or enrollment fees would lower the apportionment. In 2012-13, the increase in property tax and enrollment fees resulted in the decrease of State apportionments.
- Local property taxes are received through the Auditor-Controller's Office for Los Angeles County. There was an increase in Local Property Tax revenues in 2012-13, due primarily to the liquidation of the local Redevelopment Agency and increased property tax from Educational Revenue Augmentation Fund (ERAF). In relation to State apportionment, the amount received for property taxes is deducted from the total State apportionment amount for general revenue calculated by the State for the District. Any increase/decrease in property taxes would not necessarily result in an increase/decrease in net revenue.
- As a result of the passage of Proposition 30, the District received \$15,065,153 from the Education Protection Account (EPA). The EPA funds are not new monies but are another component of the computational revenue calculations.
- Contributions, gifts and grants, non-capital increased as a result of various donations received by the District to help fund Winter 2013 session and counseling.
- Interest expense on capital-related debt decreased primarily as a result of a reduction in accreted and accrued interest associated with certificates of participation and general obligation bonds.
- Investment income, capital, decreased \$713 thousand as a result of lower returns from the prior year coupled with a reduction of principal invested as a result of the use of principal for construction and capital related expenses.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due and the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. The second part details cash received for non-operating, non-investing and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses and Change in Net Position located on page 2 of the financial statements.

	(in thousands) <u>2013</u>	(in thousands) <u>2012</u>
Cash Provided By (Used in)		
Operating activities	\$ (95,966)	\$ (94,389)
Non-capital financing activities	122,297	87,567
Capital and related financing activities	(15,170)	(16,017)
Investing activities	<u>221</u>	<u>451</u>
Net increase in cash and cash equivalents	11,382	(22,388)
Cash balance, beginning of year	<u>197,858</u>	<u>220,246</u>
Cash balance, end of year	<u>\$ 209,240</u>	<u>\$ 197,858</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

- Cash receipts from operating activities are from student tuition, auxiliary operation sales and from federal, state and local grants. Uses of cash from operating activities consist of payments to employees, vendors and students. The increase in cash used for operating activities is related to the net effect of increased funding received from local grants (\$2.3 Million), decreased payments to/on behalf of outside vendors, and decreased payments from trust and agency fund.
- Non-capital financing activities represent cash receipts from State apportionment, property taxes, state taxes, other state revenue and grants and gifts for other than capital purposes. The increase in cash provided from Non-capital Financing Activities is primarily a result of decreased cash deferrals from the State due to the passage of Proposition 30, the issuance of Tax Revenue Anticipation Notes, and the increase in property tax revenues due to the liquidation of the local Redevelopment Agency and an increased property tax from Educational Revenue Augmentation Fund (ERAF).
- Cash used by capital and related financing activities represents local revenue for capital purposes, tax revenue for payment of capital debt, purchase of capital assets and principal and interest payments on capital debt, and net proceeds from refunding bond. Cash used by capital and related financing activities decreased as a result of the net effect of the increase of tax revenue for payment of capital debt, the increase in the principal and interest paid on capital debt, the reimbursement from Federal Emergency Management Agency, the proceeds from refunding bond, net of deposit to escrow fund and a lower interest on capital investments.
- Cash from investing activities is primarily from cash invested through the Los Angeles County pool and interest earned on cash in banks. Cash from investing activities decreased due to lower interest rate.

District's Fiduciary Responsibility

The District is the trustee or fiduciary for certain amounts held on behalf of students, clubs and donors for student loans and scholarships. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2013, the District had net governmental capital assets of \$337.0 million, consisting of land, buildings and building improvements, construction in progress, vehicles, office and instructional equipment, with an accumulated depreciation of \$82.4 million. Net additions to capital assets in 2012-13 consisted mainly of site/site improvements and construction in progress as a result of the passage of Measure U, Measure S and Measure AA. The following major projects added significantly to the capital assets of the District in the form of land, site/site improvements and construction in process: Student Services Building; Madison East Wing Seismic Upgrade; Energy Efficiency Projects, Business and Facilities Infrastructure at 1510 Pico and 919 Santa Monica Blvd.; Bundy Parking Lot 2; Replacement of Health, PE, Fitness, Dance Building with Central Plant; Media Technology Complex at AET; Infrastructure and Technology Relocation Project; Community Classroom and Facility Project. It is important to recognize that all valuations are based on historical cost as required by generally accepted accounting principles (GAAP). For example, the 38 acres of the main campus would have a significantly greater value today than is reflected in the capital asset listing below.

Note 5 to the financial statements provides additional information on capital assets. Total capital assets, net of depreciation, are summarized below:

	<u>Balance June 30, 2013</u>
Land	\$ 62,525,402
Site and site improvements	279,141,608
Equipment	19,190,869
Construction in progress	<u>58,615,262</u>
Totals at historical cost	<u>419,473,141</u>
Less accumulated depreciation for:	
Site and site improvements	(67,060,595)
Equipment	<u>(15,373,835)</u>
Total accumulated depreciation	<u>(82,434,430)</u>
Governmental capital assets, net	<u>\$ 337,038,711</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Debt

At June 30, 2013, the District had approximately \$424.7 million in debt: \$7.0 million from compensated absences, \$31.2 million from GASB Statement No. 45, other post-employment health care benefit liability, \$5.8 million from capital lease, \$20.8 million from obligations under certificates of participation, \$339.0 million from general obligation bonds and \$20.9 million of accreted interest. The general obligation bonds and certificates of participation were issued to fund various projects related to construction, purchase and renovation of instructional facilities, laboratories, centers, administrative facilities and parking structures. Debt payments on the bonds will be funded through property tax receipts collected over the term of the bonds. Debt payments on the certificates of participation will be funded through parking revenues, additional funding sources related to student enrollment and other sources identified within the capital funds. The District's bond rating of AA (S&P) has not changed from prior year.

Note 10 to the financial statements provide additional information on long-term liabilities. A summary of long-term debt is presented below:

	<u>Balance June 30, 2013</u>
Compensated absences	\$ 6,977,100
Other post-employment health care benefits	31,221,850
Capital lease	5,751,759
Certificates of participation	20,750,841
General obligation bonds	339,040,274
Accreted interest	<u>20,932,733</u>
Total	<u><u>\$ 424,674,557</u></u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Budgeting for the Future

Overview

Santa Monica College is projecting an operating deficit of \$2,006,857 in 2013-14, which is less than half of the prior year operating deficit. Due partly to the passage of Proposition 30, the Governor's May Revision proposes a 1.63% access or restoration funding and 1.57% COLA increase. Expenditures for 2013-14 are budgeted at a level lower than 2009-10. In 2013-14, the College's budget continues to honor the Board's Budget Principles of maintaining full employment of permanent employees and prioritizing student access in serving around 400 full-time equivalent students beyond the number funded by the State. In the future, if the State Budget restores the workload reduction, the District anticipates to eliminate the deficit and to increase its reserve.

Budget for 2013-14 – Unrestricted General Fund

Summary

For 2013-14 adopted budget, the District is projecting revenue increases from prior year actual of approximately 5.3% or \$7,032,248 and expenditure increases of 3.2% or \$4,422,543. The net effect of the projected changes in revenue and expenditures will result in a projected operating deficit, with one-time items, of \$2,006,857 and a projected ending Unrestricted General Fund Balance of \$8,513,953 or 5.96% of total expenditures and transfers.

Revenues

Summary

The General Fund Unrestricted Revenue budget accounts for all of the District's operational revenues. Based on the State budget, the 2013-14 Adopted Budget assumes a 1.57% COLA increase of \$1,613,023 and a 1.63% Access/Restoration of \$1,539,504. It also projects an expected collection of the FY 2012-13 Property Tax shortfall of \$1,428,055, a zero deficit factor and an increase in Non-Resident Tuition of \$940,392. The net result of the changes in revenues has resulted in a projected 5.3% increase in total revenues from the prior year actual.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Revenues (continued)

State Revenue – Principal Apportionment

State funding, in the form of Principal Apportionment, constitutes 74% or \$104,353,327 of the District's operating revenue. The calculation for Principal Apportionment is based on the number of FTES (Full Time Equivalent Students) the District serves, but is capped based on the State's adopted budget. The District receives Principal Apportionment through a combination of direct state funds known as General Apportionment, Education Protection Act – Proposition 30 funds, enrollment fees and property taxes. If actual receipts of property taxes or enrollment fees differ from projections, General Apportionment funding will be adjusted, provided that state funding is available, to keep the formula constant.

The District has based its Principal Apportionment revenue projections on the State budget which has implemented a 1.63% access/restoration for 2013-14. This will result in the District being funded by the State to serve approximately 20,271 Credit FTES in 2013-14. As of the proposed adopted budget, the target is to serve approximately 20,671 Credit FTES, which is 400 FTES more than what the State is funding the District to serve. Between 2008-2009 and 2012-13 the District, using its reserves to cover instruction-related expenditures, has served approximately 4,975 Credit FTES beyond what the state has provided funding for.

Education Protection Account/Proposition 30

The Education Protection Account was created by the State to receive and disburse the revenues derived from the sales and income tax increases, as a result of the passage of Proposition 30. The District projects to receive \$13,046,096 in 2013-14, which will be used to pay for instructional related expenditures.

Property Taxes

Based on the preliminary projections, the District will receive \$19,226,383 in property taxes in 2013-14. This is a combination of property tax shift, homeowner's exemption, secured taxes, unsecured taxes, supplemental taxes, RDA pass through and prior years' taxes. If the receipt of property tax does not meet these projections, the State may impose a further workload reduction or deficit factor to offset the loss in funding.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Lottery

The State Lottery revenues are paid each year according to the annual enrollment figures. Lottery revenue is projected at estimated 2013-14 non-Prop 20 lottery rate is \$126 per FTES or a slight increase of \$1,730. If lottery sales or enrollment fall below projections, lottery revenue will be adjusted accordingly.

Local Revenues

The Local Revenue section of the budget contains the District's largest revenue sources outside of Principal Apportionment in the form of Non-resident Tuition. The non-resident tuition line item includes revenue generated from non-resident tuition and revenue from special Intensive ESL classes for international students. The District increased non-resident tuition for the 2013-14 year. This increase is expected to result in an increase in revenue of \$940,392 from prior year actual. The remaining local revenue categories include property taxes, enrollment fees, student fees, interest, rental of facilities and others.

Expenditures

Summary

The General Fund Unrestricted Expenditure budget accounts for all of the District's operational expenditures. The breakdown of expenditures is as follows: 87.8% on salaries and benefits, 10.9% on other operational expenses and services, 0.7% on supplies, 0.4% on capital, and 0.2% on transfers/financial aid. For 2013-14, the largest expenditure budget increases are for Supplies and Contracts \$1,924,663, Hourly Instruction and Non-teaching \$1,548,491, Vacancy List \$1,071,256, Salary Step and Longevity \$717,943, Other Post-Employment Benefits (OPEB) contribution \$500,000 (see page 48), Current Employee and Retiree Health and Welfare Benefits \$464,217. The largest decrease is the result of the net effect of 2012-13 full-time hiring and separation \$1,198,801.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Salary and Benefits

Salary and benefit expenditure projections reflect appropriate step, column and longevity increases for qualified employees. For the proposed adopted budget, changes in salary and benefit line items account for approximately a \$1,861,058 increase in expenditures from prior year actual. For 2013-14, salaries and benefits represent 87.8% of total expenditures and transfers for the District's unrestricted general fund.

Supplies, Services, Capital and Transfers

Supplies, Services, Capital and Transfer expenditure projections reflect departmental requests based on operational needs. For the proposed adopted budget, changes in these line items account for an increase of approximately \$2,561,485 over prior year actual expenditures. For 2013-14, supplies, services, capital and transfers represent 12.2% of total expenditures and transfers for the District's unrestricted general fund.

The largest line item of non-salary and benefit related expenditure is contracts/services. The Contracts/Services line item in the adopted budget includes: Rents/Leases (Performing Arts Center, Swimming Pool, Big Blue Bus) 21%, Bank Fees and Bad Debt 12%, Advertising 11%. Repairs and Maintenance of Equipment 8%, Other Contract Services 8%, Online Course Management System 6%, Legal Services (including Personnel Commission) 5%, Consultants 5%, Software Licensing 4%, Postage and Delivery Services 3%, Conferences and Training 3%, District Copiers 3%, Off-Campus Printing 2%, LACOE Contracts (i.e. PeopleSoft, HRS) 2%, Professional Growth 2%, Repairs/Improvement of Facilities 1%, Memberships and Dues 1%, Audit 1% and Other Services (i.e. Mileage, Fingerprinting, Board Meetings, Field Trips) 2%.

Closing

In light of the changes and challenges at both the local and state level, the District needs to be mindful of keeping its reserves at a level that is financially sound in 2013-14 and for future years. In order to explore new and innovative ideas that can help to ensure a fiscally sound reserve, while maintaining the Board budgeting principles, the District is actively engaged in the budget planning through a shared governance process. This process, along with the District's enrollment management and revenue generating efforts, should allow the District to maintain a fund balance that is financially sound.

BASIC FINANCIAL STATEMENTS

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

ASSETS

Current Assets:

Cash and cash equivalents	\$ 40,362,176
Accounts receivable, net	21,522,693
Due from fiduciary funds	4,174,549
Inventories	2,027,794
Prepaid expenses and deposits	<u>4,768,227</u>
Total Current Assets	<u>72,855,439</u>

Non-Current Assets:

Restricted cash and cash equivalents	168,877,893
Long-term investments	1,056,205
Capital assets, net of accumulated depreciation	<u>337,038,711</u>
Total Non-Current Assets	<u>506,972,809</u>

Total Assets	<u>579,828,248</u>
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DEFERRED OUTFLOW OF RESOURCES

Deferred charge on refunding	<u>9,818,668</u>
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TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 589,646,916</u>
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LIABILITIES AND NET POSITION

Current Liabilities:

Bank overdraft	\$ 4,121,988
Accounts payable	10,270,364
Accrued liabilities	8,250,789
Tax revenue anticipation notes (TRANS)	20,000,000
Due to fiduciary funds	268,204
Unearned revenue	9,848,333
Compensated absences - current portion	878,082
Capital lease payable - current portion	297,991
Certificates of participations payable - current portion	1,375,000
General obligation bonds payable - current portion	<u>14,853,586</u>
Total Current Liabilities	<u>70,164,337</u>

Non-Current Liabilities:

Compensated absences	6,099,018
Other post-employment health care benefits	31,221,850
Capital lease payable	5,453,768
Certificates of participations payable	19,375,841
General obligation bonds payable	<u>345,119,421</u>
Total Non-Current Liabilities	<u>407,269,898</u>

TOTAL LIABILITIES	<u>477,434,235</u>
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NET POSITION

Invested in capital assets, net of related debt	89,831,817
Restricted - expandable:	
Capital projects	10,195,727
Debt service	21,513,668
Specific purposes	5,264,095
Unrestricted	<u>(14,592,626)</u>

TOTAL NET POSITION	<u>112,212,681</u>
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TOTAL LIABILITIES AND NET POSITION	<u>\$ 589,646,916</u>
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See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the Fiscal Year Ended June 30, 2013

OPERATING REVENUES

Enrollment, tuition and other fees (gross)	\$ 62,564,419
Less: Scholarship discounts and allowances	<u>(15,238,443)</u>
Net enrollment, tuition and other fees	47,325,976
Grants and contracts, non-capital:	
Federal	40,508,416
State	6,981,844
Local	6,191,477
Auxiliary enterprise sales and charges, net	<u>7,287,918</u>

TOTAL OPERATING REVENUES 108,295,631

OPERATING EXPENSES

Salaries	104,258,465
Employee benefits	37,027,845
Supplies, materials and other operating expenses and services	29,945,644
Financial aid	33,618,214
Utilities	2,790,284
Depreciation	<u>12,117,309</u>

TOTAL OPERATING EXPENSES 219,757,761

OPERATING LOSS (111,462,130)

NON-OPERATING REVENUES

State apportionments, non-capital	59,848,756
Local property taxes	22,695,862
State taxes and other revenues	4,755,412
Investment income	133,649
Contributions, gifts and grants, non-capital	<u>2,526,970</u>

TOTAL NON-OPERATING REVENUES 89,960,649

LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR (LOSSES) (21,501,481)

OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)

Interest expense on capital-related debt	(15,998,614)
Loss on disposal of capital assets	(176,386)
Investment income, capital	1,077,210
Local property taxes and revenues, capital	<u>32,482,926</u>

TOTAL OTHER REVENUES, EXPENSES, GAINS OR (LOSSES) 17,385,136

DECREASE IN NET POSITION (4,116,345)

NET POSITION - BEGINNING OF YEAR AS PREVIOUSLY REPORTED 120,044,810

Cumulative effect of change in accounting principle (See Note 15) 11,416,259

Adjustment for restatement (See Note 15) (15,132,043)

NET POSITION - BEGINNING OF YEAR AFTER CUMULATIVE EFFECT 116,329,026

NET POSITION - END OF YEAR \$ 112,212,681

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Enrollment, Tuition and fees	\$ 48,031,004
Federal grants and contracts	38,579,325
State grants and contracts	6,701,026
Local grants and contracts	5,018,969
Auxiliary operation sales	7,195,211
Payments to suppliers	(28,886,405)
Payments to/on-behalf of employees	(135,814,298)
Payments to/on-behalf of students	(33,596,322)
Payments from Trust and Agency Fund	<u>(3,193,935)</u>
 Net cash used by operating activities	 <u>(95,965,425)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State apportionments and receipts	70,451,906
Property taxes	24,532,912
State taxes and other revenue	4,569,185
Grants and gifts for other than capital purposes	2,529,857
Tax revenue anticipation notes, net	<u>20,212,800</u>
 Net cash provided by non-capital financing activities	 <u>122,296,660</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Local revenue for capital purposes	2,838,498
Tax revenue for payment of capital debt	30,421,187
Purchase of capital assets	(19,787,319)
Principal paid on capital debt	(17,487,857)
Federal Funds (Build America Bond) subsidy	1,545,616
Federal Emergency Management Agency reimbursement	2,261,454
Interest paid on capital debt	(16,823,814)
Interest on capital investments	977,104
Procceds from refunding bond	145,647,043
Deposit to bond repayment escrow fund	<u>(144,762,200)</u>
 Net cash used by capital and related financing activities	 <u>(15,170,288)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>221,051</u>
 Net cash provided by investing activities	 <u>221,051</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 11,381,998

CASH BALANCE - Beginning of Year 197,858,071

CASH BALANCE - End of Year \$ 209,240,069

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013

Reconciliation of Operating Loss to
Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (111,462,130)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	12,117,309
Changes in assets and liabilities:	
Receivables, net	1,794,333
Due from fiduciary funds	(3,118,498)
Inventories	79,289
Prepaid expenses and deposits	(2,189,764)
Accounts payable	1,283,332
Accrued liabilities	193,678
Due to fiduciary funds	(75,437)
Unearned revenue	134,129
Compensated absences	(224,311)
Other post-employment health care benefits	<u>5,502,645</u>
Net cash used by operating activities	<u>\$ (95,965,425)</u>
Breakdown of ending cash balance:	
Cash and cash equivalents	\$ 40,362,176
Restricted cash and cash equivalents	<u>168,877,893</u>
Total	<u>\$ 209,240,069</u>

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2013

	Trust and Agency Fund	Associated Student Body Fund
ASSETS		
Cash on hand and in banks	\$ 15,925,259	\$ 3,263,971
Accounts receivable:		
Miscellaneous	22,576	624
Due from governmental funds	27,303	240,901
Prepaid expenses	<u>10,651</u>	<u>462</u>
TOTAL ASSETS	<u>15,985,789</u>	<u>3,505,958</u>
LIABILITIES		
Accounts payable	307,508	8,059
Due to governmental funds	3,543,739	630,810
Unearned revenue	12,796	
Funds held in trust	<u>12,121,746</u>	<u>2,763,920</u>
TOTAL LIABILITIES	<u>15,985,789</u>	<u>3,402,789</u>
NET POSITION		
Unrestricted	<u>-</u>	<u>103,169</u>
TOTAL NET POSITION	<u>\$ -</u>	<u>\$ 103,169</u>

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Year Ended June 30, 2013

	Associated Student Body Fund
ADDITIONS	
Other local revenues	\$ 389,057
TOTAL ADDITIONS	<u>389,057</u>
DEDUCTIONS	
Supplies and materials	268,928
Services and other operating expenses	<u>120,129</u>
TOTAL DEDUCTIONS	<u>389,057</u>
Change in net position	-
NET POSITION - BEGINNING OF YEAR	<u>103,169</u>
NET POSITION - END OF YEAR	<u><u>\$ 103,169</u></u>

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. REPORTING ENTITY

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Trustees.

The District considered its financial and operational relationships with potential component units under the reporting entity definition of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*.

The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Due to the nature and significance of their relationship with the District, including ongoing financial support of the District or its other component units, certain organizations warrant inclusion as part of the financial reporting entity. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.
2. The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A. REPORTING ENTITY (continued)

3. The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

Based upon the application of the criteria listed above, the following potential component unit has been included as part of the District's reporting entity through blended presentation:

Los Angeles County Schools Regionalized Business Services Corporation - The financial activity specific to the District has been blended in these financial statements. Certificates of Participation issued by the Corporation are included in the Statement of Net Position. Individually prepared financial statements are prepared for the Corporation on a comprehensive basis.

Based upon the application of the criteria listed above, the following three potential component units have been excluded from the District's reporting entity:

Santa Monica College Foundation - The Foundation is a separate not-for-profit corporation created for the benefit of the District and its students and organized for educational purposes. The Board of Directors are elected by their own Board and independent of any District Board of Trustee's appointments. The Board is responsible for approving its own budget, accounting and finance related activities.

KCRW Foundation - The Foundation is a separate not-for-profit corporation which has an affiliation in the District's KCRW-FM radio station. The Board of Directors are elected by their own Board and independent of any District Board of Trustee's appointments. The Board is responsible for approving its own budget, accounting and finance related activities.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A. REPORTING ENTITY (continued)

Madison Project Foundation – The Foundation is a separate not-for-profit corporation incorporated for the purpose of programming, presenting, and producing for the general public performances and productions for Madison Theatre. The Board of Directors are elected by their own Board and independent of any District Board of Trustee's appointments. The Board is responsible for approving its own budget, accounting and financial related activities.

The foundations are not included as a component unit because the second and third criterion was not met. Separate financial statements for the three foundations can be obtained through the District.

B. FINANCIAL STATEMENT PRESENTATION

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The entity-wide perspective replaces the fund-group perspective previously required. Fiduciary activities, with the exception of Student Financial Aid Programs, are excluded from the basic financial statements.

The District operates a payroll pass-through agency fund as a holding account for amounts collected from employees for Federal taxes, state taxes and other contributions. The District had cash in the County Treasury amounting to \$(312,694) on June 30, 2013, which represents advance payments of payroll deductions. The Warrant Pass-Through Fund is not reported in the basic financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

For financial reporting purposes, the District is considered a special-purpose government engaged in business-type activities. Accordingly, the District's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated with exception of those between the District and the Fiduciary Funds.

For internal accounting purposes, the budgetary and financial accounts of the District have been recorded and maintained in accordance with the Chancellor's Office of the California Community College's *Budget and Accounting Manual*.

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities.

By state law, the District's Governing Board must approve a budget no later than September 15. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with generally accepted accounting principles (GAAP).

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated revenue and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

2. Accounts Receivable

Accounts receivable consists primarily of amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grant and contracts and State Aid. All material receivables are considered fully collectible.

Accounts receivable from students for tuition and fees are recorded net of a provision for uncollectible amounts.

3. Inventories

Inventories are presented at the lower of cost or market on an average basis and are expensed when used. Inventory consists primarily of items held for resale in the bookstore and some expendable instructional, custodial, health and other supplies held for consumption.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

4. Prepaid Expenses and Deposits

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which goods or services are consumed.

5. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those amounts designated for disbursement for acquisition or construction of noncurrent assets or segregated for the liquidation of long term debt.

6. Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Buildings as well as renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the asset's life is recorded in operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 years for building and land improvements, 10 years for equipment, 8 years for vehicles and 5 years for technology.

Interest costs are capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of the District's general obligation bonds restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

7. Deferred Outflow of Resources

Deferred outflow of resources represent a consumption of net position that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District has a deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

8. Accounts Payable and Accrued Liabilities

Accounts payable consists of amounts due to vendors of which \$10,270,364 includes accrued interest on long-term debt of \$5,810,312. Accrued liabilities consist of salary and benefits payable of \$8,250,789.

9. Unearned Revenue

Cash received for Federal and State special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

10. Compensated Absences

In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as liabilities of the District as compensated absences in the Statement of Net Position.

The District has accrued a liability for the amounts attributable to load banking hours and vacation hours within accrued liabilities. Load banking hours consist of hours worked by instructors in excess of a full-time load for which they may carryover for future paid time off.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of the District.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

10. Compensated Absences (continued)

The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires within the constraints of the appropriate retirement systems.

11. Net Position

Invested in capital assets, net of related debt: This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net position – expendable: Restricted expendable net position includes resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties or by enabling legislation adopted by the District. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Restricted net position – nonexpendable: Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The District had no restricted net position – nonexpendable.

Unrestricted net position: Unrestricted net position represents resources available to be used for transactions relating to the general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

12. State Apportionments

Certain current year apportionments from the state are based upon various financial and statistical information of the previous year.

Any prior year corrections due to the recalculation in February of 2014 will be recorded in the year computed by the State.

13. Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31.

Real and personal property tax general revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Finance. This is generally on a cash basis. A receivable has not been recognized in the basic financial statements for general purpose property taxes due to the fact that any receivable is offset by a payable to the state for apportionment purposes. Tax revenues associated with debt service payments are accrued when levied. A receivable has been accrued in these financial statements.

14. On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers' Retirement System on behalf of all community college and school districts in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at \$1,130,000 for STRS.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

15. Classification of Revenues

The District has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as student fees, net of scholarship discounts and allowances, and Federal and most state and local grants and contracts.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as State apportionments, taxes, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

16. Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the District, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

17. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

18. Minimum Reserve Policy

The District has adopted a minimum reserve balance policy in order to protect against revenue short falls and unexpected one-time expenditures. This policy meets the minimum reserve balance recommended by the California Community College Chancellor's Office that districts provide for a minimum prudent reserve balance being 5% of unrestricted expenditures.

NOTE 2 - DEPOSITS AND INVESTMENTS:

A. Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk, but all public funds are invested in bonds or government backed (collateralized) securities at 110% on the amount of deposit. The principal (face value) does not fluctuate, only the interest received on the investment. As of June 30, 2013, \$26,108,485 of the District's bank balance of \$27,100,487 was exposed to credit risk by being uninsured and collateral held by pledging bank's trust not in the District's name.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

A. Deposits (continued)

Cash in County

In accordance with the *Budget and Accounting Manual*, the District maintains substantially all of its cash in the Los Angeles County Treasury as part of the common investment pool. These pooled funds are carried at unamortized cost which approximates fair value. The fair value of the District's deposits in this pool as of June 30, 2013, as provided by the pool sponsor, was \$195,999,281. Interest earned is deposited quarterly into participating funds, except for the Restricted General Fund, Student Financial Aid Fund, Warrant Pass-Through, and Earthquake Capital Outlay Fund, in which case interest earned is credited to the General Fund. Any investment losses are proportionately shared by all funds in the pool.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the County are either secured by federal depository insurance or are collateralized. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

B. Cash in Bank Overdraft

The Bookstore Fund has a Cash in Bank overdraft balance of \$4,121,988 at June 30, 2013. The negative cash balance, in reality, is a loan from other funds. The Bookstore Fund is one of three funds kept in pooled bank accounts and at June 30, 2013 the pooled accounts had a positive balance of \$20,435,526.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

C. Investments

Under provisions of California Government Code Sections 53601 and 53602 and District Board Policy Section 6006, the District may invest in the following types of investments:

- State of California Local Agency Investment Fund (LAIF)
- Los Angeles County Investment Pools
- U.S. Treasury notes, bonds, bills or certificates of indebtedness
- U.S. Government Agency guaranteed instruments
- Fully insured or collateralized certificates of deposit
- Fully insured and collateralized credit union accounts

The District did not violate any provisions of the California Government Code during the year ended June 30, 2013.

Investments for the governmental fund type at June 30, 2013 is presented below:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard & Poor's / Moody's Rating</u>
Federated Treasury Obligation	n/a	\$1,056,205	(1)

(1) Amount is fully invested in a U.S. government obligation; therefore, no risk is disclosed.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investment will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

C. Investments (continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Government Code Sections 16430 and 53601 allow governmental entities to invest surplus moneys in certain eligible securities. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount that may be invested in any one issuer. In accordance with Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, requirements, the District is exposed to concentration of credit risk whenever investments in any one issuer exceeds 5%. Currently the District has 100% invested in Federated Treasury Obligation.

NOTE 3 - ACCOUNTS RECEIVABLE:

The accounts receivable balance as of June 30, 2013 consist of the following:

Federal and State Grants and Apportionments	\$18,076,272
Enrollment tuition and other fees (net of allowance for doubtful accounts of \$353,149)	575,820
Miscellaneous	<u>2,870,601</u>
Total	<u>\$21,522,693</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 4 - INTERFUND TRANSACTIONS:

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund receivables and payables result when an interfund transfer is transacted after the close of the fiscal year. Interfund activity within the governmental funds has been eliminated in the basic financial statements. The remaining individual interfund receivable and payment balances at June 30, 2013 are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payable</u>
Governmental Fund (General Fund)	\$ 4,174,549	\$ 268,204
Trust and Agency Fund	27,303	3,543,739
Associated Student Body Fund	<u>240,901</u>	<u>630,810</u>
	<u>\$ 4,442,753</u>	<u>\$ 4,442,753</u>

NOTE 5 - TAX AND REVENUE ANTICIPATION NOTES (TRANS):

The District issued \$20,000,000 of tax and revenue anticipation notes dated February 28, 2013. The notes include interest at a rate of 2.00% and mature on September 30, 2013. The notes were sold by the District to supplement its cash flow.

Repayment requirements are that \$10,000,000 be deposited with the County Treasurer in August, 2013, and a final payment of \$10,000,000, plus an amount sufficient to pay interest on the notes, in September, 2013. All repayment requirements were met in the 2013-14 fiscal year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 6 – CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2013:

	Balance June 30, 2012	Adjustments*	Adjusted Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013
Non-depreciable assets:						
Land	\$ 70,566,358	\$ (8,040,956)	\$ 62,525,402	\$	\$	\$ 62,525,402
Construction in progress	<u>106,086,854</u>	<u>2,677,694</u>	<u>108,764,548</u>	<u>14,735,665</u>	<u>(64,884,951)</u>	<u>58,615,262</u>
Total non-depreciated assets:	<u>176,653,212</u>	<u>(5,363,262)</u>	<u>171,289,950</u>	<u>14,735,665</u>	<u>(64,884,951)</u>	<u>121,140,664</u>
Depreciable assets:						
Site and site improvements	206,390,242	8,262,572	214,652,814	64,884,951	(396,157)	279,141,608
Equipment	<u>18,555,130</u>	<u></u>	<u>18,555,130</u>	<u>1,621,960</u>	<u>(986,221)</u>	<u>19,190,869</u>
Total depreciable assets:	<u>224,945,372</u>	<u>8,262,572</u>	<u>233,207,944</u>	<u>66,506,911</u>	<u>(1,382,378)</u>	<u>298,332,477</u>
Less accumulated depreciation for:						
Site and site improvements	(52,401,362)	(4,551,407)	(56,952,769)	(10,400,995)	293,169	(67,060,595)
Equipment	<u>(14,570,344)</u>	<u></u>	<u>(14,570,344)</u>	<u>(1,716,314)</u>	<u>912,823</u>	<u>(15,373,835)</u>
Total accumulated depreciation	<u>(66,971,706)</u>	<u>(4,551,407)</u>	<u>(71,523,113)</u>	<u>(12,117,309)</u>	<u>1,205,992</u>	<u>(82,434,430)</u>
Total depreciable assets, net	<u>157,973,666</u>	<u>3,711,165</u>	<u>161,684,831</u>	<u>54,389,602</u>	<u>(176,386)</u>	<u>215,898,047</u>
Governmental capital assets, net	<u>\$334,626,878</u>	<u>\$ (1,652,097)</u>	<u>\$ 332,974,781</u>	<u>\$69,125,267</u>	<u>\$(65,061,337)</u>	<u>\$ 337,038,711</u>

* The beginning balance has been adjusted due to the implementation of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 and AICPA Pronouncements*. In addition, fixed assets have been adjusted due to duplication of buildings. See Note 15.

Total interest costs for the year ended June 30, 2013 was \$17,683,992 of which \$1,685,378 was capitalized. Interest revenue used to offset capitalized interest was \$947,649.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 7 – LEASES:

A. Capital Lease

The District entered into a lease with Municipal Financial Corporation for the acquisition of certain capital improvements, including a Photovoltaic Power System, valued at approximately \$7 million under an agreement which provides for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2014	\$ 550,788
2015	432,092
2016	404,929
2017	423,817
2018	443,612
2019-2023	2,549,984
2024-2028	3,208,994
2028-2029	<u>177,579</u>
Total	8,191,795
Less interest	<u>(2,440,036)</u>
Present value of net minimum lease payments	<u>\$ 5,751,759</u>

Current year expenditures for capital lease is approximately \$536,000. The District will receive no sublease rental revenues nor pay any contingent rentals for these leases.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 7 – LEASES: (continued)

B. Operating Lease

The District has entered into an operating lease for land, building, and equipment with lease terms in excess of one year for the Madison Campus. This agreement did not contain purchase option. Future minimum lease payment under these agreements are as follows.

<u>Fiscal</u> <u>Year</u>	<u>Lease Payment</u>
2014	\$ 883,600
2015	883,600
2016	883,600
2017	883,600
2018	883,600
2019-2023	4,418,000
2024-2028	4,418,000
2029-2033	4,418,000
2034-2038	4,418,000
2039-2043	4,418,000
2044-2048	4,418,000
2049-2053	4,418,000
2054-2058	<u>4,418,000</u>
Total	<u><u>\$39,762,000</u></u>

Current year expenditures for operating leases is approximately \$884,000. The District will receive no sublease rental revenues nor pay any contingent rentals for these leases.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 8 - CERTIFICATES OF PARTICIPATION:

- A. The agreement dated August 1, 2004 is between the Santa Monica Community College District as the "lessee" and the Los Angeles County Schools Regionalized Business Services Corporation as the "lessor" or "corporation". The Corporation is a legally separate entity which was formed to assist in the advance refunding the 1997 Certificates of Participation in order to acquire the Academy of Entertainment and Technology (AET) campus.

The Corporation's funds for the advance refunding were generated by the issuance of \$11,140,000 of Certificates of Participation (COPs). COPs are long-term debt instruments which are tax exempt and therefore issued at interest rates below current market levels for taxable investments which range from 3.00% to 4.375% for the length of the issuance.

Lease payments are required to be made by the District under the lease agreement on each January 15 for use and possession of the capital improvements for the period commencing January 15, 2005 and terminating January 15, 2027. Lease payments will be funded in part from the proceeds of the Certificates.

The lease requires that lease payments be deposited in the lease payment fund maintained by the trustee. Any amount held in the lease payment fund will be credited towards the lease payment due and payable. The trustee will pay from the lease payment fund the required principal and interest payments with respect to Santa Monica Community College District.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 8 - CERTIFICATES OF PARTICIPATION: (continued)

- B.** The agreement dated March 11, 2010, is between the Santa Monica Community College District as the "lessee" and the Los Angeles County Schools Regionalized Business Services Corporation as the "lessor" or "corporation". The Corporation is a legally separate entity which was formed to assist in the advance refunding the 1999 Certificates of Participation.

The Corporation's funds for the advance refunding were generated by the issuance of \$13,945,000 of Certificates of Participation (COPs). COPs are long-term debt instruments which are tax exempt and therefore issued at interest rates below current market levels for taxable investments which range from 3.0% to 5.0% for the length of the issuance.

Lease payments are required to be made by the District under the lease agreement on each June 1 for use and possession of the capital improvements for the period commencing June 1, 2011 and terminating June 1, 2023. Lease payments will be funded in part from the proceeds of the Certificates.

The lease requires that lease payments be deposited in the lease payment fund maintained by the trustee. Any amount held in the lease payment fund will be credited towards the lease payment due and payable. The trustee will pay from the lease payment fund the required principal and interest payments with respect to Santa Monica Community College District.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 8 - CERTIFICATES OF PARTICIPATION: (continued)

The following summarizes the outstanding certificates of participations at June 30, 2013:

<u>Date of Issue</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding June 30, 2013</u>
COPS 2004	1/15/2027	\$8,820,000		\$420,000	\$8,400,000
COPS 2010	6/1/2023	12,295,000		915,000	11,380,000
Premium		1,067,925		97,084	970,841
Total		<u>\$22,182,925</u>	<u>\$</u>	<u>\$1,432,084</u>	<u>\$20,750,841</u>

The annual requirement to amortize Certificate of Participations, outstanding as of June 30, 2013 , are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2014	\$1,375,000	\$930,000	\$2,305,000
2015	1,420,000	884,400	2,304,400
2016	1,475,000	825,350	2,300,350
2017	1,545,000	764,000	2,309,000
2018	1,610,000	699,700	2,309,700
2019-2023	9,320,000	2,221,187	11,541,187
2024-2027	3,035,000	392,000	3,427,000
Total	<u>\$19,780,000</u>	<u>\$6,716,637</u>	<u>\$26,496,637</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 9 – BONDS PAYABLE:

A. Proposition T

On November 3, 1992, at an election held within the boundaries of the District, the voters authorized bonds to be sold in the amount of \$23,000,000. Proceeds from the sale of the bonds were used to finance certain capital improvements.

Series A bonds were issued on August 1, 1993 for \$5,000,000. Interest rates range from 5.45% to 5.75% payable semiannually on February 1 and August 1. On November 1, 1995, the District issued Series B bonds totaling \$10,000,000. Interest rates range from 5.375% to 7.0% payable semiannually on January 1, and July 1. On February 1, 2000, the District issued Series C bonds totaling \$8,000,000. Interest rates range from 3.0% to 5.5% payable semiannually on February 1, and August 1. These bonds have been defeased either by repayment or refunding.

2007 Refunding Series B bonds were issued on January 31, 2007 for \$15,589,854 of capital appreciation bonds. The bonds have maturity dates from August 1, 2008 through August 1, 2014. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long-term debt at June 30, 2013 is \$2,223,709.

B. Measure U

On March 5, 2002, at an election held within the boundaries of the District, the voters authorized bonds to be sold in the amount of \$160,000,000. Proceeds from the sale of the bonds were used to finance the construction, acquisition, furnishing and equipping of District facilities.

Series A bonds were issued on August 1, 2002 for \$25,000,000. Interest rates range from 3.0% to 5.0% payable semiannually on February 1 and August 1.

Series B bonds were issued on May 13, 2004 for \$21,675,000 of current interest bonds and \$324,971 of capital appreciation bonds. Interest rates range from 3.0% to 5.0% payable semiannually on May 1 and November 1.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 9 – BONDS PAYABLE: (continued)

B. Measure U (continued)

Capital appreciation bonds were issued with maturity dates from May 1, 2027 through May 1, 2029. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long term debt at June 30, 2013 is \$1,350,017.

Series C bonds were issued on August 2, 2005 for \$22,690,000 of current interest bonds and \$67,309,923 of capital appreciation bonds. Interest rates range from 3.12% to 5.07% payable semi-annually on August 1 and February 1.

Capital appreciation bonds were issued with maturity dates from August 1, 2009 through August 1, 2029. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long term debt at June 30, 2013 is \$1,212,458.

Series A 2007 bonds were issued on January 31, 2007 for \$11,999,987 of capital appreciation bonds. Interest rates range from 4.20% to 4.74%. The bonds were issued with maturity dates from August 1, 2015 through August 1, 2031. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long term debt at June 30, 2013 is \$4,054,509.

Series E 2010 bonds were issued on January 26, 2010 for \$10,998,993 of capital appreciation bonds. Interest rates range from 3.92% to 5.7%. The bonds were issued with maturity dates from August 1, 2016 through August 1, 2026. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long-term debt at June 30, 2013 is \$1,786,214.

Refunding Series A 2013 bonds were issued on June 5, 2013 for \$108,405,000 of current interest bonds. The bond was issued to effect an advance refunding of a portion of the District's outstanding general obligation bonds (Series A, B and C). The interest rates range from 2.0% to 5.0% depending on the maturity date of the bond.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 9 – BONDS PAYABLE: (continued)

B. Measure U (continued)

The proceeds associated with the refunding were deposited into an irrevocable escrow account for future repayments. The outstanding debt service of the defeased debt to be paid by the escrow agent of \$122,105,868 is scheduled to be paid off on August 1, 2015. The cash flow savings from the refunding amounted to \$12,210,092 and the present value of the economic gain to the District and taxpayers is \$9,558,783.

C. Measure S

On November 2, 2004, at an election held within the boundaries of the District, the voters authorized bonds to be sold in the amount of \$135,000,000. Proceeds from the sale of the bonds were used to finance the construction, acquisition, furnishing and equipping of District facilities.

Series A bonds were issued on May 1, 2005 for \$58,000,000. Interest rates range from 3.5% to 5.25% payable semiannually on May 1 and November 1.

Refunding Series C 2007 bonds were issued for \$15,660,000 of current interest bonds and \$24,404,768 of capital appreciation bonds. The interest rate ranges from 3.71% to 5.0% payable semiannually on August 1 and February 1.

Capital appreciation bonds were issued with maturity dates from August 1, 2007 through August 1, 2014. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long term debt at June 30, 2013 is \$3,358,858.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 9 – BONDS PAYABLE: (continued)

C. Measure S (continued)

The proceeds were placed into an irrevocable escrow account and will be used to fund the future required principal and interest payments of the refunded bonds. The refunded bonds are considered in-substance defeased and are not recorded on the financial statements. The balance of the in-substance defeased debt as of June 30, 2013 is \$40,065,000. The balance of the in-substance defeased debt will be paid off on May 1, 2015.

Series C bonds were issued on February 17, 2009 for \$30,885,000 of current interest bonds and \$26,112,857 capital appreciation bonds. Interest rate ranges from 1.77% to 4.39% payable semiannually on August 1 and February 1.

Capital appreciation bonds were issued with maturity dates from August 1, 2012 through August 1, 2029. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long-term debt at June 30, 2013 is \$6,946,968.

Refunding Series B 2013 bonds were issued on June 5, 2013 for \$23,450,000 of current interest bonds. The bond was issued to effect an advance refunding of a portion of the District's outstanding general obligation bonds (Series C). The interest rates range from 0.486% to 2.205% depending on the maturity date of the bond.

The proceeds associated with the refunding were deposited into an irrevocable escrow account for future repayments. The outstanding debt service of the defeased debt to be paid by the escrow agent of \$23,349,500 is scheduled to be paid off on August 1, 2015. The cash flow savings from the refunding amounted to \$70,302 and the present value of the economic gain to the District and taxpayers is \$706,878.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 9 – BONDS PAYABLE: (continued)

D. Measure AA

1. On November 4, 2008, at an election held within the boundaries of the District, the voters authorized bonds to be sold in the amount of \$295,000,000. Proceeds from the sale of the bonds were used to finance the construction, acquisition, furnishing and equipping of District facilities.

General obligation bonds were issued on January 26, 2010 in the amount of \$100,000,000. These bonds consisted of \$33,135,000 tax-exempt Series A bonds and \$66,865,000 in federally taxable Build America Bonds Series A-1. Interest rates for Series A is 5% and for Series A-1 range from 5.728% to 5.878% payable semiannually on February 1 and August 1. The Build America Bonds program was created by the American Recovery and Reinvestment Act to assist state and local governments in financing capital projects at lower borrowing costs and to stimulate the economy and create jobs.

The District elected to treat the Series A-1 bonds as “Build America Bonds” under Section 54AA of the Tax Code, and the Series A-1 Bonds be “qualified bonds” under Section 54AA(g)(2) of the Tax Code which make the District eligible for a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the Series A-1 Bonds. The District will deposit the cash subsidy payments with the County to be credited to the Debt Service Fund for the Series A-1 Bonds. Cash subsidy payments are expected to be received contemporaneously with each interest payment date.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 9 – BONDS PAYABLE: (continued)

Payments

The following summarizes the outstanding bonds at June 30, 2013:

	Date of Issue	Maturity Date	Amount of Original Issue	Outstanding July 1, 2012	Additions	Deletions	Outstanding June 30, 2013
Proposition T							
Refunding Series B	1/31/2007	8/1/2014	\$ 15,589,854	\$ 5,599,244	\$	\$ 2,278,950	\$ 3,320,294
Measure U (2002 election)							
Series A	8/1/2002	8/1/2027	25,000,000	11,610,000		10,960,000	650,000
Series B	5/13/2004	5/1/2029	21,999,971	14,469,971		13,385,000	1,084,971
Series C	8/2/2005	8/1/2030	89,999,923	75,505,868		72,088,326	3,417,542
Series A	1/31/2007	8/1/2031	11,999,987	11,999,987			11,999,987
Series E	1/26/2010	8/1/2026	10,998,993	10,998,993			10,998,993
Refunding series A	6/5/2013	8/1/2030	108,405,000		108,405,000		108,405,000
Subtotal							<u>136,556,493</u>
Measure S (2004 election)							
Series A	5/1/2005	5/1/2015	58,000,000	5,175,000		1,635,000	3,540,000
Refunding Series C	1/31/2007	8/1/2016	40,064,768	23,820,967		21,114,824	2,706,143
Series B	2/17/2009	8/1/2029	56,997,857	56,997,857		130,000	56,867,857
Refunding Series B	6/5/2013	8/1/2019	23,450,000		23,450,000		23,450,000
Subtotal							<u>86,564,000</u>
Measure AA (2008 election)							
Series A	1/26/2010	8/1/2023	33,135,000	30,335,000		4,530,000	25,805,000
Series A-1	1/26/2010	8/1/2034	66,865,000	66,865,000			66,865,000
Subtotal							<u>92,670,000</u>
Unamortized Bond Premiums							
Proposition T			2,817,925	751,448		375,723	375,725
Measure U			15,242,152	1,053,748	13,792,043	1,053,748	13,792,043
Measure S			14,472,774	7,391,047		4,963,886	2,427,161
Measure AA			4,334,926	3,668,014		333,456	3,334,558
Subtotal							<u>19,929,487</u>
Total			<u>\$ 599,374,130</u>	<u>\$ 326,242,144</u>	<u>\$ 145,647,043</u>	<u>\$ 132,848,913</u>	<u>\$ 339,040,274</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 9 – BONDS PAYABLE: (continued)

Payments – Proposition T

The annual requirements to amortize Prop T bond payable, outstanding as of June 30, 2013, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2014	\$ 2,188,980	\$ 1,466,020	\$ 3,655,000
2015	<u>1,131,314</u>	<u>913,686</u>	<u>2,045,000</u>
Total	<u>\$ 3,320,294</u>	<u>\$ 2,379,706</u>	<u>\$ 5,700,000</u>

Payments – Measure U

The annual requirements to amortize Measure U bond payable, outstanding as of June 30, 2013, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest</u>	<u>Total</u>
2014	\$ 5,637,542	\$ 2,972,261	\$ 1,212,458	\$ 9,822,261
2015	2,115,000	4,690,350		6,805,350
2016	4,229,128	4,644,250	730,872	9,604,250
2017	5,038,586	4,568,150	656,414	10,263,150
2018	5,454,292	4,441,700	800,708	10,696,700
2019-2023	34,317,039	19,171,600	6,527,961	60,016,600
2024-2028	47,071,208	11,297,000	12,548,792	70,917,000
2029-2033	<u>32,693,698</u>	<u>1,967,400</u>	<u>5,166,302</u>	<u>39,827,400</u>
Total	<u>\$ 136,556,493</u>	<u>\$ 53,752,711</u>	<u>\$ 27,643,507</u>	<u>\$ 217,952,711</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 9 – BONDS PAYABLE: (continued)

Payments – Measure S

The annual requirements to amortize Measure S bond payable, outstanding as of June 30, 2013, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2014	\$ 4,671,142	\$ 1,911,539	\$ 3,358,858	\$ 9,941,539
2015	6,470,000	1,899,599		8,369,599
2016	5,170,000	1,778,427		6,948,427
2017	7,400,000	1,687,930		9,087,930
2018	6,935,000	1,513,515		8,448,515
2019-2023	29,805,000	3,613,637		33,418,637
2024-2028	19,222,025		32,952,975	52,175,000
2029-2030	6,890,833		17,854,167	24,745,000
Total	<u>\$ 86,564,000</u>	<u>\$ 12,404,647</u>	<u>\$ 54,166,000</u>	<u>\$ 153,134,647</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 9 – BONDS PAYABLE: (continued)

Payments – Measure AA

The annual requirements to amortize Measure AA bond payable, outstanding as of June 30, 2013, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,510,000	\$ 5,668,545	\$ 7,178,545
2015	1,650,000	5,589,545	7,239,545
2016	1,800,000	5,503,295	7,303,295
2017	1,955,000	5,409,420	7,364,420
2018	2,120,000	5,307,545	7,427,545
2019-2023	13,435,000	24,694,100	38,129,100
2024-2028	21,260,000	20,114,288	41,374,288
2029-2033	32,260,000	11,401,406	43,661,406
2034-2035	16,680,000	1,148,357	17,828,357
Total	<u>\$ 92,670,000</u>	<u>\$ 84,836,501</u>	<u>\$ 177,506,501</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 10 – LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2013 is shown below:

	Balance June 30, 2012 *	Additions	Deletions	Balance June 30, 2013	Amount Due in One Year
Compensated absences	\$ 7,201,411	\$	\$ 224,311	\$ 6,977,100	\$ 878,082
Other post-employment					
health care benefits	25,719,205	5,502,645		31,221,850	
Capital Lease	6,021,989		270,230	5,751,759	297,991
Certificates of participation	22,182,925		1,432,084	20,750,841	1,375,000
General obligation bonds	326,242,144	145,647,043	132,848,913	339,040,274	14,853,586
Accreted interest	39,065,981	4,795,440	22,928,688	20,932,733	
Total	<u>\$ 426,433,655</u>	<u>\$ 155,945,128</u>	<u>\$ 157,704,226</u>	<u>\$ 424,674,557</u>	<u>\$ 17,404,659</u>

* The beginning balances has been revised to reflect current year reclassifications under GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. See Note 15.

Liabilities are liquidated by the General Fund for governmental activities, including the capital lease, compensated absences, and net OPEB obligations. The certificates of participations are liquidated by parking revenues, additional funding sources related to student enrollment and other sources identified within the capital outlay funds. General obligation bond liabilities are liquidated through property tax collections as administered by the County Controller's office through the Bond Interest and Redemption Fund.

NOTE 11 - EMPLOYEE RETIREMENT PLANS:

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-13 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

Public Employees' Retirement System (PERS) (continued)

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The average required employer contribution for fiscal year 2012-13 was 11.417% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Contributions to STRS and PERS

The District's contributions to STRS and PERS for each of the last three fiscal years is as follows:

Year Ended <u>June 30,</u>	<u>STRS</u>		<u>PERS</u>		<u>Total</u>
	<u>Required Contribution</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>	
2011	\$4,191,863	100%	\$3,667,954	100%	7,859,817
2012	4,297,418	100%	3,793,923	100%	8,091,341
2013	4,641,198	100%	3,911,626	100%	8,552,824

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 12 – POST-EMPLOYMENT HEALTH CARE BENEFITS:

Plan Description and Funding Policy

The District administers a single-employer defined benefit plan for retiree healthcare benefits. The District provides post-employment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. The District contributes 100% of the amount of premiums, for medical, dental and vision benefits, incurred by retirees and their dependents up to the age of 65. For all retirees above the age of 65, medical benefits are paid, not-to-exceed a maximum amount determined by the District, for life. 347 retirees meet those eligibility requirements. The plan is funded on a pay-as-you go basis with discretionary contributions made to an irrevocable trust as determined by the Board of Trustees. During the year, the District contributed \$2,667,748 to the plan. Benefit provisions are established through negotiations between the District and the bargaining Unions representing employees. Separate financial statements for the plan can be obtained from CalPERS.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the OPEB obligation:

Annual required contribution (ARC)	\$ 8,122,014
Interest on net OPEB obligation	1,285,960
Adjustment to annual required contribution	<u>(1,237,581)</u>
Annual OPEB cost (expense)	8,170,393
Contributions made	<u>(2,667,748)</u>
Change in net OPEB obligation	5,502,645
Net OPEB obligation - Beginning of Year	<u>25,719,205</u>
Net OPEB obligation - End of Year	<u><u>\$ 31,221,850</u></u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 12 – POST-EMPLOYMENT HEALTH CARE BENEFITS: (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

The District's annual OPEB cost for the year, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the prior and current fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$8,715,693	26.9%	\$20,101,234
6/30/2012	\$8,150,725	31.1%	\$25,719,205
6/30/2013	\$8,170,393	32.7%	\$31,221,850

Funding Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 2.0% funded. The actuarial accrued liability for benefits is \$88,692,776 and the unfunded actuarial accrued liability (UAAL) was \$86,905,288. The covered payroll (annual payroll of active employees covered by the plan) was \$66,394,945, and the ratio of the UAAL to the covered payroll was 131.4%.

Actuarial valuations of an ongoing benefit plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of postemployment healthcare benefits funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 12 – POST-EMPLOYMENT HEALTH CARE BENEFITS: (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, if any, consistent with the long-term perspective of the calculations.

In the June 30, 2011 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses) using the “Building Block Method” as described in ASOP 27 paragraph 3.6.2, and an annual healthcare cost trend rate of 4 percent. Both rates included a 3.25 percent inflation assumption. The actuarial value of assets was determined using a 15 year smoothing formula with a 20 percent corridor around market value. The UAAL is being amortized as a level percentage of payroll over a 30 year closed period. Any residual UAAL is amortized over an open 30 year period.

NOTE 13 - JOINT POWERS AGREEMENT:

The Santa Monica Community College District participates in three joint powers agreement (JPA) entities; the Alliance of Schools for Cooperative Insurance Programs (ASCIP); the Southern California Community College District Joint Powers Agency (SCCCD-JPA); and the Statewide Association of Community Colleges (SWACC). The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes, as explained below.

ASCIP provides its member with high quality, high value employee benefit programs and related services. Payments transferred to funds maintained under the JPA are expensed when earned. Claim liabilities of the JPA are recomputed periodically by an actuary to produce current estimates that reflect trend and claim lag time.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 13 - JOINT POWERS AGREEMENT: (continued)

SCCCD JPA provides workers' compensation and retiree health insurance coverage for its seven member districts. Payments transferred to funds maintained under the JPA are expensed when earned. SCCCJPA has self-funded their workers' compensation coverage since inception as a joint banking pool, and accordingly, does not transfer risk between members. District administrators are of the opinion that the procedures for accumulating and maintaining reserves are sufficient to cover future contingencies under potential workers' compensation claims.

SWACC provides liability and property insurance for approximately nineteen community colleges. SWACC is governed by a Board comprised of a member of each of the participating districts. The board controls the operations of SWACC, including selection of management and approval of members. Each member shares surpluses and deficits proportionately to its participation in SWACC.

Separate financial statements for each JPA may be obtained from the respective entity.

Condensed financial information of ASCIP, SCCCJPA, and SWACC for the most current information available is as follows:

	ASCIP 6/30/2013 <u>(Unaudited)</u>	SCCCD-JPA 6/30/2013 <u>(Audited)</u>		SWACC 6/30/2013 <u>(Unaudited)</u>
		Workers' Compensation <u>Insurance Fund</u>	Retiree Health <u>Insurance Fund</u>	
Total assets	\$295,931,235	\$ 16,779,471	\$ 26,259,407	\$ 52,337,870
Total liabilities	<u>161,186,476</u>	<u>916,375</u>	<u>-</u>	<u>21,094,905</u>
Retained earnings	<u>\$134,744,759</u>	<u>\$ 15,863,096</u>	<u>\$ 26,259,407</u>	<u>\$ 31,242,965</u>
Total revenues	\$201,182,650	\$ 7,794,899	\$ (2,839,647)	\$ 19,012,373
Total expenditures	<u>190,821,296</u>	<u>6,981,339</u>	<u>1,525</u>	<u>15,378,001</u>
Change in retained earnings	<u>\$ 10,361,354</u>	<u>\$ 813,560</u>	<u>\$ (2,841,172)</u>	<u>\$ 3,634,372</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 14 – FUNCTIONAL EXPENSE:

	Salaries	Benefits	Supplies, Materials, Utilities, Other Expenses and Services	Financial Aid	Depreciation	Total
Instructional Activities	\$ 51,057,159	\$ 15,611,034	\$ 1,113,080	\$	\$	\$ 67,781,273
Academic Support	10,639,109	3,662,043	1,179,816			15,480,968
Student Services	16,728,270	5,399,191	5,649,123			27,776,584
Operation & Maintenance of Plant	4,912,956	2,534,567	2,593,642			10,041,165
Institutional Support Services	13,055,111	7,290,483	5,786,276			26,131,870
Community Services & Economic Development	1,682,294	468,213	236,905			2,387,412
Ancillary Services & Auxiliary Operations	5,966,659	1,982,002	3,062,944			11,011,605
Physical Property & Related Acquisitions	216,907	80,312	13,056,160			13,353,379
Student Financial Aid			57,982	33,618,214		33,676,196
Depreciation Expense					12,117,309	12,117,309
	<u>\$ 104,258,465</u>	<u>\$ 37,027,845</u>	<u>\$ 32,735,928</u>	<u>\$ 33,618,214</u>	<u>\$ 12,117,309</u>	<u>\$ 219,757,761</u>

NOTE 15 – RESTATEMENT TO BEGINNING NET POSITION:

The beginning net position of the District has been increased by \$13,479,946 to record capitalized interest net of depreciation. In accordance with GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, interest costs incurred on the District's general obligation bonds and certificates of participations during the period assets were under construction are considered part of the historical costs of acquiring the asset.

There was no effect on beginning net position for the adoption of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net position*.

The beginning net position of the District has been decreased by \$2,063,687 to write-off the balance of capitalized fees in accordance with the implementation of GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. The fees were prepaid general obligation bond issue costs that are now required to be expensed in the period incurred. In addition, deferred charges on the refunding of debt have been reclassified from a contra-liability account to a deferred outflow of resources. The amount at the June 30, 2012 was \$1,675,397.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 15 – RESTATEMENT TO BEGINNING NET POSITION: (continued)

The beginning net position of the District has been decreased by \$15,132,043; a detailed review of fixed assets to implement GASB 62 revealed that capital assets were duplicated for acquisitions made in 1996 and 1999.

NOTE 16 – COMMITMENTS AND CONTINGENCIES:

A. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Litigation

The District is a defendant in various pending liability lawsuits. The outcome of the litigation is unknown at the present time. Any estimated possible judgment(s) against the District are either immaterial or unknown and are not reflected in these financial statements.

C. Purchase Commitments

As of June 30, 2013, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$28 million. Projects will be funded through bond proceeds, State capital outlay funds and State scheduled maintenance allocations.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

**NOTE 17 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS
ISSUED, NOT YET EFFECTIVE:**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that have effective dates that may impact future financial presentations; however, the impact of the implementation of each of the statements below to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 67

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. This standard is designed to improve financial reporting by state and local governmental pension plans. This statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*. This statement is effective for fiscal year 2013-14 financial statements.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This standard is designed to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions provided by other entities. This statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*. This statement is effective for fiscal year 2014-15 financial statements.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 *Government Combinations and Disposals of Government Operations*. This statement provides guidance on the measurement of assets and liabilities in a government merger or when a government acquires another entity, or its operations, in exchange for significant consideration. This statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

**NOTE 17 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS
ISSUED, NOT YET EFFECTIVE: (continued)**

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government to recognize a liability when qualitative factors and historical data indicate that more likely than not it will be required to make a payment on a nonexchange financial guarantee; the government that issued the guaranteed obligation would recognize a revenue to the extent of the reduction in its guaranteed liabilities.

NOTE 18 – SUBSEQUENT EVENTS:

In October 2013, the District was involved in an exchange of title of land with the City of Santa Monica. For the exchanged property on Exposition Boulevard (2.2 acre of property), the District received 2.2 acre parcel of land on Bundy Drive. The property will be used as additional property for the Santa Monica Airport site.

REQUIRED SUPPLEMENTARY INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF POST-EMPLOYMENT HEALTH CARE BENEFITS FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (Unit Cost Method) (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
11/11/2008	\$ 1,496,996	\$ 68,668,113	\$ 67,171,117	2.2%	\$ 61,259,354	109.7%
5/1/2010	1,641,391	83,792,387	82,117,696	2.0%	65,579,641	125.2%
6/30/2011	1,787,488 *	88,692,776	86,905,288	2.0%	66,153,965	131.4%

* The District maintains investments in an irrevocable trust. The fair value of the trust assets as of June 30, 2013 is \$2,411,648.

Note: On 9/3/2013, the District's Board of Trustees approved a plan to fully fund the District's OPEB obligations. The plan calls for an initial contribution of \$500,000 and an additional \$500,000 each succeeding year, until the eight years, at which time the ARC is projected to be met. This plan projects full funding of the total OPEB liability by year 2033.

See the accompanying notes to the required supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2013

NOTE 1 - PURPOSE OF SCHEDULE:

A. Schedule of Post-Employment Health Care Benefits Funding Progress

This schedule is prepared to show information from the three most recent actuarial valuations in accordance with Statement No. 45 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The schedule is intended to show trends about the funding progress of the District's actuarially determined liability for post-employment benefits other than pensions.

SUPPLEMENTARY INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT

HISTORY AND ORGANIZATION

June 30, 2013

Established in 1929, Santa Monica College is the preeminent educational, cultural, and economic development institution in the City of Santa Monica. The College offers programs of the highest quality for Santa Monica, Malibu, and other students who continue on with their higher education studies; offers programs of remediation and reentry; is a leading community provider of programs for seniors; offers cultural and arts programs of national distinction; delivers programs of exceptional depth in professional training, job training and workforce development; and provides fee-based community services programs of personal interest. There were no changes in the boundaries of the District during the current year.

BOARD OF TRUSTEES

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Dr. Nancy Greenstein	Chair	November 2014
Dr. Susan Aminoff	Vice Chair	November 2016
Dr. Margaret Quiñones-Perez	Member	November 2016
Judge David B. Finkel (Ret)	Member	November 2014
Dr. Louise Jaffe	Member	November 2014
Rob Rader	Member	November 2016
Dr. Andrew Walzer	Member	November 2014
Jesse Ramirez	Student Trustee	June 2014

SENIOR ADMINISTRATION

Dr. Chui L. Tsang	Superintendent/ President
Randal Lawson	Executive Vice President
Robert Isomoto	Vice-President, Business and Administration
Jeffery Shimizu	Vice President, Academic Affairs
Michael Tuitasi	Vice President, Student Affairs
Teresita Rodriguez	Vice President, Enrollment Development
Marcia Wade	Vice President, Human Resources
Don Girard	Senior Director, Government Relations and Institutional Communications
Vanessa Butler	Senior Director, Institutional Advancement and SMC Foundation Director

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2013

	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures as of June 30, 2013
Student Financial Aid Cluster			
Direct from Department of Education:			
Financial Aid Administrative Allowances	84.000	N/A	\$ 119,435
Supplemental Education Opportunity Grant (SEOG)	84.007	N/A	573,279
Federal Work Study (FWS)	84.033	N/A	554,802
Federal Direct Student Loan	84.268	N/A	2,231,290
Pell Grant	84.063	N/A	28,675,476
Total Student Financial Aid Cluster			<u>32,154,282</u>
TRIO Cluster			
Direct from Department of Education:			
Student Support Services	84.042	N/A	295,561
Upward Bound	84.047A	N/A	237,126
Total Trio Cluster			<u>532,687</u>
Department of Commerce			
Direct:			
Corporation for Public Broadcasting	11.000	N/A	1,354,411
Total Department of Commerce			<u>1,354,411</u>
Department of Education			
Direct:			
Hispanic - Serving Institution Program (H.S.I.):			
Science, Technology, Engineering and Mathematics (STEM)	84.031C	N/A	1,319,176
Supporting Student Success in Pre-Transfer Mathematics (Title V)	84.031S	N/A	99,234
Building Foundations for Academic Career Success (Title V)	84.031S	N/A	168,672
Fostering Global Citizenship through Interdisciplinary Campus-Wide Initiati	84.016A	N/A	12,606
Center of Excellence for Veteran Student Success	84.116G	N/A	133,455
Child Care Access Means Parents in School	84.335A	N/A	160,766
Asian American and Pacific Islander	84.382B	N/A	6,663
Subtotal Direct Programs			<u>1,900,572</u>
Passed through from California Community Colleges Chancellor's Office:			
Career & Technical Education:			
Perkins, Title IV	84.048	(1)	595,937
Career Technical Education Transitions	84.048A	(1)	49,389
Subtotal Passed Through Programs			<u>645,326</u>
Total Department of Education			<u>2,545,898</u>
Department of Energy			
Passed through from Stanford Transportation Group			
Photovoltaic (PV) Sales & Marketing Grant Program	81.087	(1)	4,040
Total Department of Energy			<u>4,040</u>

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2013

	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Program Expenditures as of June 30, 2013</u>
Department of Health and Human Services			
Passed through from Los Rios Community College District:			
American Recovery and Reinvestment Act: Training for Health Information Technology	93.721	N/A	59,893
Passed through from Chancellor's Office of the California Community Colleges:			
Temporary Assistance for Needy Families (TANF)	93.558	(1)	<u>58,647</u>
Total Department of Health and Human Services			<u>118,540</u>
Department of Labor			
Direct:			
Community Based Job Training Grant - Jobs Through Recycling	17.269	N/A	<u>1,777,990</u>
Total Department of Labor			<u>1,777,990</u>
National Aeronautics and Space Administration			
Direct:			
Curriculum Improvement Partnership Award for Integration of Research	43.000	N/A	<u>169,437</u>
Total National Aeronautics and Space Administration			<u>169,437</u>
Small Business Administration			
Passed through from Long Beach Community College District:			
Small Business Development Center (SBDC)	59.037	(1)	<u>305,515</u>
Total Small Business Administration			<u>305,515</u>
Total Federal Program Expenditures			<u><u>\$ 38,962,800</u></u>
Reconciliation to Federal Revenue			
Total Federal Program Expenditures			\$ 38,962,800
Build America Bonds subsidy received but not subject to Single Audit Act			<u>1,545,616</u>
Total Federal Program Expenditures			<u><u>\$ 40,508,416</u></u>

Note: (1) Pass-through entity identifying number not readily available.
n/a Not Applicable

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS

For the Fiscal Year Ended June 30, 2013

	Program Revenues					Total Program Expenditures
	Cash Received	Prior Year Unearned Revenue	Accounts Receivable	Unearned Revenue	Total	
Matriculation (Credit)	\$ 694,148	\$	\$	\$	\$ 694,148	\$ 694,148
Matriculation (Non Credit)	21,959				21,959	21,959
Extended Opportunity Program and Services (EOPS)	828,713				828,713	828,713
Cooperative Agencies Resources for Education (CARE)	58,207				58,207	58,207
Disabled Student Program and Services (DSPS)	1,180,832				1,180,832	1,180,832
Transfer and Articulation		2,868		2,868	-	-
Equal Employment Opportunity - Faculty and Staff Diversity	8,696	6,933		14,059	1,570	1,570
Nursing Grant	99,277	7,610	44,660		151,547	151,547
CalWORKS	206,231				206,231	206,231
Child Development Training - Yosemite	5,350				5,350	5,350
Small Business Development Center			31,905		31,905	31,905
Financial Aid Administration	809,859				809,859	809,859
Basic Skills Funding	420,248	517,272		595,865	341,655	341,655
Career Technical Education Common Collaborative CTE IV	(2,472)	147,552			145,080	145,080
Instructional Equipment and Library Materials		52,497		47,723	4,774	4,774
Scheduled Maintenance and Instructional Equipment - One-time		63,237		63,237	-	-
Clean Energy Workforce Program - Employment Training Panel			182,694		182,694	182,694
Career Technical Education Common Collaborative CTE V	34,800	263,481		88,658	209,623	209,623
California Teach Program/STEM	20,000				20,000	20,000
Career Technical Education Common Collaborative CTE VI	261,000			222,513	38,487	38,487
Total State Programs	<u>\$ 4,646,848</u>	<u>\$ 1,061,450</u>	<u>\$ 259,259</u>	<u>\$ 1,034,923</u>	<u>\$ 4,932,634</u>	<u>\$ 4,932,634</u>

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURE FOR STATE GENERAL APPORTIONMENT
ANNUAL (ACTUAL) ATTENDANCE
For the Fiscal Year Ended June 30, 2013**

	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2012 only)			
1. Noncredit ¹	69.91		69.91
2. Credit	2,022.53		2,022.53
B. Summer Intersession (Summer 2013 - Prior to July 1, 2013)			
1. Noncredit ¹	N/A		N/A
2. Credit	N/A		N/A
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	12,748.35		12,748.35
(b) Daily Census Contact Hours	1,458.93		1,458.93
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit ¹	669.90		669.90
(b) Credit	43.22		43.22
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	2,787.94		2,787.94
(b) Daily Census Contact Hours	1,464.46		1,464.46
(c) Noncredit Independent Study/Distance Education Courses	N/A		N/A
D. Total FTES	<u>21,265.24</u>	<u>-</u>	<u>21,265.24</u>
Supplemental Information (subset of above information)			
E. In-Service Training Courses (FTES)	N/A		
H. Basic Skills courses and Immigrant Education			
(a) Noncredit ¹	38.78		
(b) Credit	2,089.89		
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	159.10		
Centers FTES			
(a) Noncredit	2.94		
(b) Credit	1,044.75		

¹ Including Career Development and College Preparation (CDCP) FTES

N/A - Workload Measure is not applicable

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FUND BALANCES
For the Fiscal Year Ended June 30, 2013

The financial data for the Certificates of Participations are a component part of these financial statements that are not reported in the District's Annual Financial and Budget Report (CCFS-311).

Additional entries were made to comply with the GASB 34/35 reporting requirements. These entries are not considered audit adjustments for purposes of this reconciliation.

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF 50 PERCENT LAW CALCULATION

For the Fiscal Year Ended June 30, 2013

		Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	\$ 24,175,683	\$	\$ 24,175,683	\$ 24,175,683	\$	\$ 24,175,683
Other	1300	24,640,695		24,640,695	24,640,695		24,640,695
Total Instructional Salaries		48,816,378		48,816,378	48,816,378		48,816,378
Non-Instructional Salaries							
Contract or Regular	1200			-	11,039,457		11,039,457
Other	1400			-	3,431,222		3,431,222
Total Non-Instructional Salaries					14,470,679		14,470,679
Total Academic Salaries		48,816,378	-	48,816,378	63,287,057	-	63,287,057
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status	2100			-	21,371,833		21,371,833
Other	2300			-	1,736,303		1,736,303
Total Non-Instructional Salaries		-		-	23,108,136		23,108,136
Instructional Aides							
Regular Status	2200	2,753,151		2,753,151	2,753,151		2,753,151
Other	2400	314,616		314,616	314,616		314,616
Total Instructional Aides		3,067,767		3,067,767	3,067,767		3,067,767
Total Classified Salaries		3,067,767	-	3,067,767	26,175,903	-	26,175,903
Employee Benefits	3000	13,755,271		13,755,271	27,923,649		27,923,649
Supplies and Materials	4000			-	735,546		735,546
Other Operating Expenses	5000			-	13,131,743		13,131,743
Equipment Replacement	6420			-			-
Total Expenditures Prior to Exclusions		65,639,416	-	65,639,416	131,253,898	-	131,253,898

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF 50 PERCENT LAW CALCULATION
For the Fiscal Year Ended June 30, 2013**

		Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Exclusions</u>							
<u>Activities to Exclude</u>							
Instructional Staff–Retirees’ Benefits and Retirement Incentives	5900	1,026,928		1,026,928	1,026,928		1,026,928
Student Health Services Above Amount Collected	6441			-			-
Student Transportation	6491			-	676,670		676,670
Non-instructional Staff-Retirees’ Benefits and Retirement Incentives	6740			-	1,640,820		1,640,820
<u>Objects to Exclude</u>							
Rents and Leases	5060			-	1,471,223		1,471,223
Lottery Expenditures							
Academic Salaries	1000			-			-
Classified Salaries	2000			-			-
Employee Benefits	3000			-			-
Supplies and Materials	4000			-			-
Software	4100			-			-
Books, Magazines, & Periodicals	4200			-			-
Instructional Supplies & Materials	4300			-			-
Noninstructional, Supplies & Materials	4400			-	5,417		5,417
Total Supplies and Materials							
Other Operating Expenses and Services	5000			-	3,205,359		3,205,359
Capital Outlay	6000			-			-
Library Books	6300			-			-
Equipment	6400			-			-
Equipment - Additional	6410			-			-
Equipment - Replacement	6420			-			-
Total Equipment							
Total Capital Outlay							
Other Outgo	7000			-			-
Total Exclusions		1,026,928	-	1,026,928	8,026,417	-	8,026,417
Total for ECS 84362, 50% Law		\$ 64,612,488	\$ -	\$ 64,612,488	\$ 123,227,481	\$ -	\$ 123,227,481
Percent of CEE (Instructional Salary Cost / Total CEE)		52.43%	0%	52.43%	100%	0%	100%
50% of Current Expense of Education					\$ 61,613,741	-	\$ 61,613,741

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND
For the Fiscal Year Ended June 30, 2013**

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue from Federal Sources			
Higher Education Act	\$ 4,327,534	\$ 2,988,060	\$ (1,339,474)
Workforce Investment Act	2,567,549	1,777,990	(789,559)
Temporary Assistance for Needy Families (TANF)	58,647	58,647	-
Student Financial Aid	126,921	119,436	(7,485)
Career & Technical Education	645,326	645,326	-
Other Federal Revenue	2,678,049	1,893,296	(784,753)
Revenue from State Sources			
General Apportionments	75,405,949	59,848,756	(15,557,193)
Categorical Apportionments	7,107,915	5,744,970	(1,362,945)
Other State Revenues	4,441,056	4,686,797	245,741
Revenue from Local Sources			
Property Taxes	13,849,511	24,532,912	10,683,401
Interest and Investment Income	135,000	95,099	(39,901)
Student Fees and Charges	46,733,197	47,325,976	592,779
Other Local Revenue	5,758,255	8,006,451	2,248,196
TOTAL REVENUES	<u>163,834,909</u>	<u>157,723,716</u>	<u>(6,111,193)</u>
EXPENDITURES			
Academic Salaries	70,458,512	69,329,188	1,129,324
Classified Salaries	35,259,271	34,012,849	1,246,422
Employee Benefits	32,064,104	31,274,147	789,957
Supplies and Materials	1,910,682	1,311,149	599,533
Student Financial Aid	647,791	637,174	10,617
Other Operating Expenses & Services	25,702,314	21,916,134	3,786,180
Capital Outlay	2,383,581	1,517,292	866,289
TOTAL EXPENDITURES	<u>168,426,255</u>	<u>159,997,933</u>	<u>8,428,322</u>
Excess (deficiencies) of revenues over expenditures	<u>(4,591,346)</u>	<u>(2,274,217)</u>	<u>2,317,129</u>
OTHER FINANCING SOURCES (USES)			
Interfund Transfers In	135,934	122,670	(13,264)
Interfund Transfers Out	(1,898,670)	(1,849,230)	49,440
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,762,736)</u>	<u>(1,726,560)</u>	<u>36,176</u>
Excess (deficiencies) of revenues over expenditures and other sources (uses)	<u>\$ (6,354,082)</u>	<u>(4,000,777)</u>	<u>\$ 2,353,305</u>
Fund balance, beginning of year		<u>19,785,682</u>	
Fund balance, end of year		<u>\$ 15,784,905</u>	

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2013**

NOTE 1 - PURPOSE OF SCHEDULES:

A. Schedules of Expenditures of Federal Awards and State Financial Assistance

The audit of the Santa Monica Community College District for the year ended June 30, 2013 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. This Schedule of Federal Awards and the Schedule of State Financial Assistance are presented on the modified accrual basis of accounting.

Subrecipients

Of the Federal expenditures presented in the Schedule of Expenditures of Federal Awards, the District provided Federal Awards to subrecipients as follows:

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Amount Provided to Subrecipients
U.S. Department of Education		
Asian American and Pacific Islanders	84.382B	
Santa Monica College Foundation		\$ 6,663
Supporting Student Success in Pre-Transfer Math (Title V)	84.031S	
El Camino College		98,932
Science, Technology, Engineering and Mathematics (STEM)	84.031C	
University of California Los Angeles		96,162
U.S. Department of Labor		
Community Based Job Training - Recycling	17.269	
California Resource Recovery Association		225,724
Recycling Organization of North America		13,487
Coast Community College District:		
Golden West College		236,453
South Orange County Community College District:		
Irvine Valley College		235,829
Workforce Investment Board :		
Pacific Asian Consortium in Employment		213,000
Jewish Vocational Services of Los Angeles		186,800
Orange County Workforce Investment Board		334,086
		<u>\$ 1,647,136</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2013**

NOTE 1 - PURPOSE OF SCHEDULES: (continued)

B. Schedule of Workload Measure for State General Apportionment

The Schedule of Workload Measure for State General Apportionment represents the basis of apportionment of the Santa Monica Community College District's annual source of funding.

C. Reconciliation of Annual Financial and Budget Report with Audited Fund Balances

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the Annual Financial and Budget Report (Form CCFS-311) to the audited fund balances.

D. Reconciliation of 50 Percent Law Calculation

This schedule reports any audit adjustments made to the 50 percent law calculation (Education Code Section 84362).

E. Proposition 30 Education Protection Account Expenditure Report

This schedule reports how funds received from the passage of Proposition 30 Education Protection Account were expended.

F. Schedule of Budgetary Comparison for the General Fund

Continuing disclosure for the general obligation bond requires a budgetary comparison be presented for the General Fund (combined). This schedule presents the final General Fund budget as of the fiscal year end, actual amounts at fiscal year end and the variance between the final budget and actual amounts.

OTHER INDEPENDENT AUDITOR'S REPORTS

**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**

The Board of Trustees
Santa Monica Community College District
1900 Pico Boulevard
Santa Monica, California 90405-1628

We have audited, 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, the basic financial statements of Santa Monica Community College District (the District) as of and for the year ended June 30, 2013 and have issued our report thereon dated December 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 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.

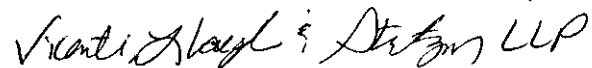
**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Monica Community College District'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 non-compliance 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.



VICENTI, LLOYD & STUTZMAN LLP

Glendora, CA

December 17, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

The Board of Trustees
Santa Monica Community College District
1900 Pico Boulevard
Santa Monica, California 90405-1628

Report on Compliance for Each Major Federal Program

We have audited Santa Monica Community College District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

Glendora, CA

December 17, 2013

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

The Board of Trustees
Santa Monica Community College District
1900 Pico Boulevard
Santa Monica, California 90405-1628

We have audited the Santa Monica Community College District's (the District) compliance with the types of compliance requirements described in the *2012-13 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office for the year ended June 30, 2013. The District's State compliance requirements are identified below.

Management's Responsibility

Management is responsible for compliance with the State laws and regulations as identified below.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit of the types of compliance requirements referred to below.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2012-13 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the District's compliance.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Compliance Requirements Tested

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

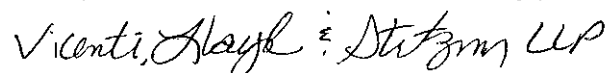
Section 421	Salaries of Classroom Instructors
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Funding System
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 431	Gann Limit Calculation
Section 433	CalWORKS
Section 435	Open Enrollment
Section 437	Student Fees – Instructional and Other Materials
Section 438	Student Fees – Health Fees and Use of Health Fee Funds
Section 474	Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged Hours (TBA)
Section 490	Proposition 1D State Bond Funded Projects
Section 491	Proposition 30 Education Protection Account Funds

Opinion on State Compliance

In our opinion, the Santa Monica Community College District complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2013.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2012-13 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office. Accordingly, this report is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP

Glendora, CA

December 17, 2013

FINDINGS AND QUESTIONED COSTS

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS**

June 30, 2013

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? Yes X No

Significant deficiencies identified not considered
to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes X No

Significant deficiencies identified not considered
to be material weaknesses? Yes X None reported

Type of auditor's report issued on compliance for
major programs: Unmodified

Any audit findings disclosed that are required to be
Reported in accordance with Circular A-133,
Section .510(a) Yes X No

Identification of major programs tested

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.000, 84.007, 84.033 84.268 and 84.063	Student Financial Aid Cluster
11.000	Corporation of Public Broadcasting

Dollar threshold used to distinguish between Type A
and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

There were no findings and questioned costs related to financial statements, federal awards or state awards for the year ended June 30, 2013.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2013

There were no prior year findings and questioned costs for the year ended June 30, 2012.

CONTINUING DISCLOSURE INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT
CONTINUING DISCLOSURE INFORMATION (UNAUDITED)
June 30, 2013

Assessed valuation for fiscal year 2012-13	\$38,020,590,546	(2)
Secured tax levies for fiscal year 2012-13	\$ 15,147,151	(1)
Secured tax delinquencies for fiscal year 2012-13	\$ 272,810	(1)
Secured tax collections for fiscal year 2012-13	\$ 14,874,341	(1)

2012-13 Largest Local Secured Taxpayers

	<u>Property Owner</u>	<u>2012-13 Primary Land Use</u>	<u>% of Assessed Valuation</u>	<u>Total (3)</u>
1.	CA Colorado Center LLC	Office Building	\$ 482,300,885	1.27%
2.	Water Garden Realty Holding LLC	Office Building	467,430,172	1.23
3.	Douglas Emmett LLC	Office Building	309,542,008	0.81
4.	Macerich Santa Monica Place LLC	Shopping Center	292,856,391	0.77
5.	SC Enterprises SMBP LLC	Office Building	265,000,000	0.70
6.	CREP 2700 Holdings LLC	Office Building	178,600,000	0.47
7.	Ocean Avenue LLC	Hotel	148,961,721	0.39
8.	LUI2 La Lantana LP	Office Building	143,104,537	0.38
9.	New Santa Monica Beach Hotel LLC	Hotel	140,417,417	0.37
10.	Equity Office Properties Trust	Office Building	124,990,000	0.33
11.	Rand Corp.	Office Building	123,550,287	0.33
12.	Shores Barrington LLC	Apartments	111,984,574	0.30
13.	Blue Devils Owner LLC	Hotel	108,324,000	0.28
14.	CLPF Arboretum	Office Building	107,711,742	0.28
15.	1299 Ocean LLC	Office Building	96,600,000	0.25
16.	Kilroy Realty LP	Office Building	85,442,437	0.22
17.	Hines 26 th Street LLC	Industrial	78,431,236	0.21
18.	DKR Malibu Village LLC	Shopping Center	77,000,000	0.20
19.	ASN Santa Monica LLC	Hotel	76,203,960	0.20
20.	Tishman Speyer Archstone Smith Santa Monica	Commercial	75,644,951	0.20
			\$3,494,096,318	9.19%

- (1) Information obtained from the Los Angeles County Auditor-Controller's Office.
(2) Information obtained from California Municipal Statistics, Inc.
(3) % of total assessed valuation for fiscal year 2012-13 of \$38,020,590,546.