

SANTA MONICA COMMUNITY COLLEGE DISTRICT

LOS ANGELES COUNTY

**REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2014**



SANTA MONICA COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2014

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AUDIT REPORT

June 30, 2014

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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, 2014, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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

Auditor's Responsibility (continued)

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, 2014, and the results of its operations, changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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.

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.

Board of Trustees
Santa Monica Community College District

Other Information (continued)

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 16, 2014 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

VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
December 16, 2014

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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, 2014. 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.

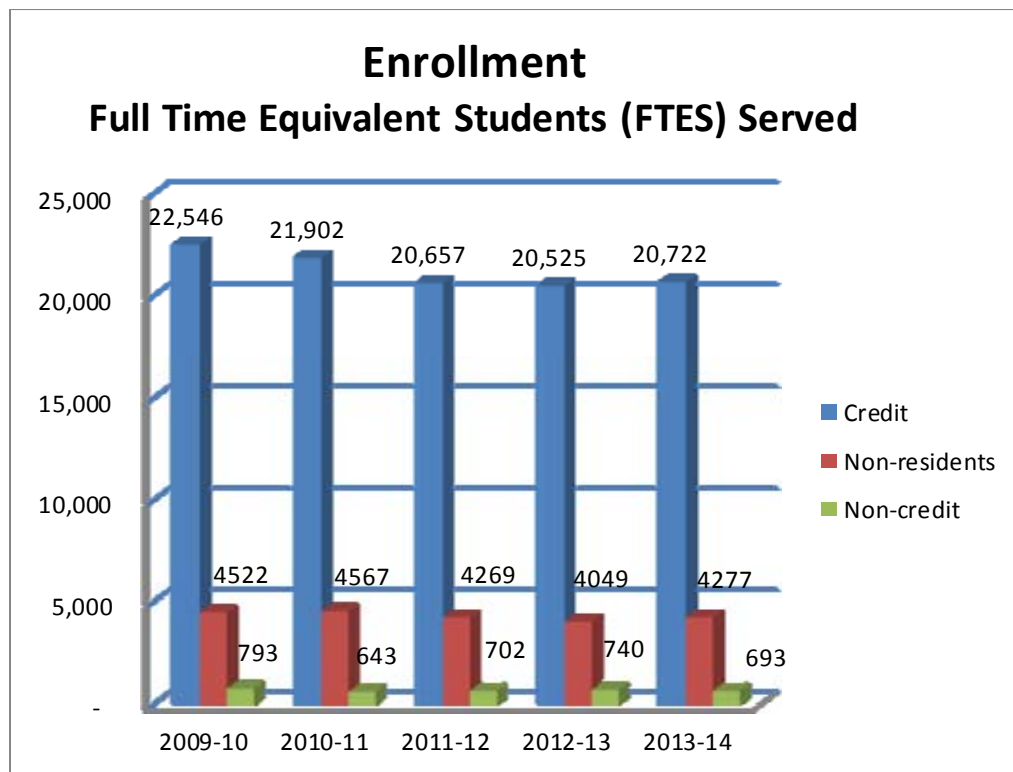
The District was required to implement the reporting standards of Governmental Accounting Standards Board Statements No. 34 and 35 during the fiscal year 2001-02 using the Business Type Activity (BTA) model. The California Community College Chancellor's Office (CCCCO), through its Fiscal and Accountability 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, 2014

Full-time Equivalent Students

During 2013-14, total Full-Time Equivalent Students (FTES) served increased from 25,314 to 25,692 (approximately 1.5%) and the District was able to serve approximately 183 more Full-Time Equivalent Students than funded by the State.



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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, 2014

The Statements of Net Position as of June 30, 2014 and June 30, 2013 are summarized below:

	(in thousands) 2014	(in thousands) 2013*
ASSETS		
Current assets		
Cash and cash equivalents	\$ 25,876	\$ 40,362
Receivables	18,512	21,523
Due from fiduciary funds	1,450	4,174
Inventories	1,540	2,028
Prepaid expenses	<u>1,244</u>	<u>4,768</u>
Total current assets	<u>48,622</u>	<u>72,855</u>
Non-current assets		
Restricted cash and cash equivalents	152,628	168,878
Long-term investments		1,056
Capital assets, net of accumulated depreciation	<u>359,252</u>	<u>337,039</u>
Total non-current assets	<u>511,880</u>	<u>506,973</u>
Total Assets	<u>560,502</u>	<u>579,828</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred charge on refunding	<u>8,559</u>	<u>9,819</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>569,061</u>	<u>589,647</u>
LIABILITIES		
Current liabilities		
Bank overdraft	607	4,122
Accounts payable, accrued interest and accrued liabilities	29,015	18,521
Tax revenue anticipation notes (TRANS)		20,000
Due to fiduciary funds	576	268
Unearned revenue	10,471	9,849
Compensated absences - current portion	944	878
Long-term liabilities - current portion	<u>14,254</u>	<u>16,526</u>
Total current liabilities	<u>55,867</u>	<u>70,164</u>
Non-current liabilities		
Long-term liabilities less current portion	<u>395,355</u>	<u>407,270</u>
Total non-current liabilities	<u>395,355</u>	<u>407,270</u>
TOTAL LIABILITIES	<u>451,222</u>	<u>477,434</u>
NET POSITION		
Invested in capital assets, net of related debt	109,004	99,650
Restricted	37,056	36,974
Unrestricted	<u>(28,221)</u>	<u>(24,411)</u>
TOTAL NET POSITION	<u>\$ 117,839</u>	<u>\$ 112,213</u>

* Certain reclassifications have been made to the 2013 amounts to conform with the 2014 presentation

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

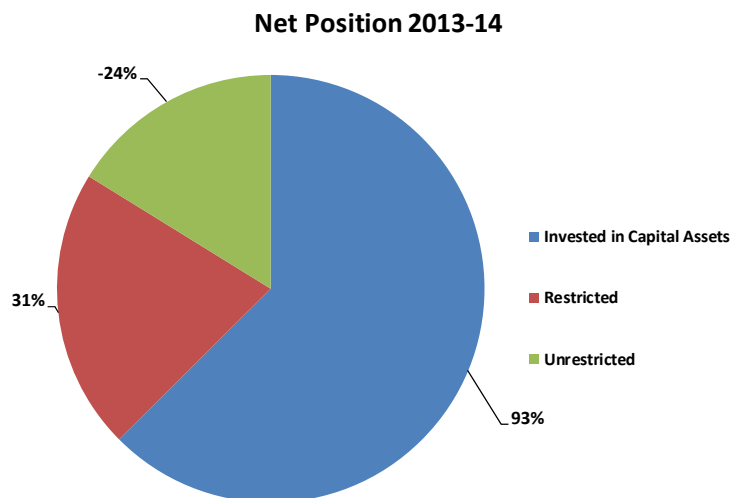
- In 2013-14, the District repaid a tax and revenue anticipation note (TRANs) in the amount of \$20 million, which was issued in 2012-13 resulting in the decrease in cash and cash equivalents. Further discussion regarding cash and cash equivalents is located in the section labeled "Statement of Cash Flows".
- As the State's budget and cash flow issues are improving the State has reduced the amount of payments it is deferring to future years. As a result of this, the Districts receivables have decreased from prior year.
- In 2012-13 reimbursements for the Big Blue Bus and the Fee Based Instruction program were in transit as of June 30. In 2013-14, the majority of these transfers were received prior to June 30 resulting in the decrease in due from fiduciary funds from prior year.
- Due to a reduction in cash reserves, the District did not prepay workers compensation and the technology service fee for online education as it had in the prior year leading to a reduction in prepaid expenses.
- Restricted cash and cash equivalents decreased primarily as a result from capital construction and planning activity during the year associated with the following major projects: Malibu Site Acquisition and Facility; Early Childhood Development and Childcare Center; Environmental Performance and Central Plant Connections; Student Services Building; Madison East Wing Seismic Upgrade; Emergency Lighting, Fire Alarm and Security; Energy Efficiency Projects, Business and Facilities Infrastructure; Bundy Parking Lot 2; Replacement of Health, PE, Fitness, Dance Building with Central Plant; Media Technology Complex at AET; and the Infrastructure and Technology Relocation Project.
- During the 2013-14 fiscal year, the District refunded the 2004 Series A Certificate of Participation eliminating the District's long-term investments that were associated with the original Certificate of Participation.
- Capital assets increased due to capital construction and planning activity that resulted in significant additions to construction in progress and site and site improvements. Refer to the Capital Asset and Debt Administration portion of the Management Discussion and Analysis for further details.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

- The bank overdraft, in reality, is a loan between Bookstore and other funds. The amount has decreased from prior year as transfers from another bookstore accounts were made prior to June 30 resulting in a reduced overdraft.
- Accounts payables and accrued liabilities mainly increased from prior year as a result of an increase in a capital construction and planning activities in the General Obligation Bond 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 were repaid in 2013-14 resulting in the elimination of liabilities related to TRANS.
- 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 decreased mainly as a result of refunding of outstanding debt and debt payments related to general obligation bonds. Refer to the Long Term Debt schedule found in the notes to the financial statement.
- Total net position increased mainly due to an increase in capital assets netted against a decrease in unrestricted assets caused primarily by an increase in unfunded liabilities related to other post-employment benefits and compensated absences.



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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 2013-14 and 2012-13 is provided on the following page.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

The Statements of Revenues, Expenses and Change in Net Position for the years ended June 30, 2014 and June 30, 2013 are summarized below:

	(in thousands) <u>2014</u>	(in thousands) <u>2013</u>
Operating Revenues		
Net enrollment, tuition and other fees	\$ 50,787	\$ 47,326
Grants and contracts, non-capital	54,002	53,682
Auxiliary enterprise sales and charges, net	<u>7,353</u>	<u>7,288</u>
Total operating revenues	<u>112,142</u>	<u>108,296</u>
Operating Expenses		
Salaries and benefits	145,476	141,287
Supplies, materials and other operating expenses and services	31,016	29,946
Financial aid	33,882	33,618
Utilities	2,953	2,790
Depreciation	<u>12,125</u>	<u>12,117</u>
Total operating expenses	<u>225,452</u>	<u>219,758</u>
Operating loss	<u>(113,310)</u>	<u>(111,462)</u>
Non-operating revenues		
State apportionments, non-capital	77,073	59,849
Local property taxes	17,575	22,696
State taxes and other revenues	5,101	4,755
Investment income, net	180	134
Contributions, gifts and grants, non-capital	<u>2,890</u>	<u>2,527</u>
Total non-operating revenues	<u>102,819</u>	<u>89,961</u>
Other revenues, expenses, gains or (losses)		
Interest expense on capital-related debt	(11,862)	(15,999)
Loss on disposal of fixed assets	(1,602)	(176)
Investment income, capital	998	1,077
Transfer to fiduciary fund	(30)	
Local property taxes and revenues, capital	<u>28,613</u>	<u>32,483</u>
Total other revenues, expenses, gains or losses	<u>16,117</u>	<u>17,385</u>
Change in net position	<u>5,626</u>	<u>(4,116)</u>
Net position, beginning of year	112,213	120,045
Cumulative effect of change in accounting principle		11,416
Adjustment for restatement		<u>(15,132)</u>
Net position, end of year	<u>\$ 117,839</u>	<u>\$ 112,213</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

- In 2013-14, the District served 378 FTES more than in the prior year. This increase in FTES served 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 the Student Success grant, the Disabled Student Programs and Services grant and local funded programs such as Parking and Health Services.
- Expenditures related to salaries and benefits increased due to step and column increases and salary increases instituted among faculty, classified employees and management during 2013-14. While the District instituted salary increases in 2013-14, the percentage of salaries and benefits to total expenditures and transfer, in the unrestricted general fund, decreased from 89.3% in 2012-13 to 88.8% in 2013-14.
- The District incurred one-time equipment expenses in 2013-14, including the implementation of a new telephone system used to improve its emergency notification systems, which resulted in increased supplies, materials and other operating expenses and services from prior year.
- Utility related expenditures increased approximately 5.8% from 2012-13. This increase is a result of increased utility use related to an increase in students served and increases in utility rates.
- State apportionments, non-capital are generated based on the Full-Time Equivalent Students (FTES) reported to the State by the District and is adjusted upwards for cost of living allowance (COLA) increases and access funding allocations. State principal apportionment, technically defined as total general revenue, is a workload calculation that is funded by property taxes, Education Protection Account (EPA) funding, enrollment fees, and apportionment. If property taxes, EPA funding 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 the 2013-14 budget, the State provided additional funding in the form of increases in COLA (1.57%) and access funding (1.63%). These increases coupled with a one-time repayment of apportionment shortfall from prior year and an increase in funding to backfill reduced property tax revenues resulted in the overall increase in state apportionments, non-capital.

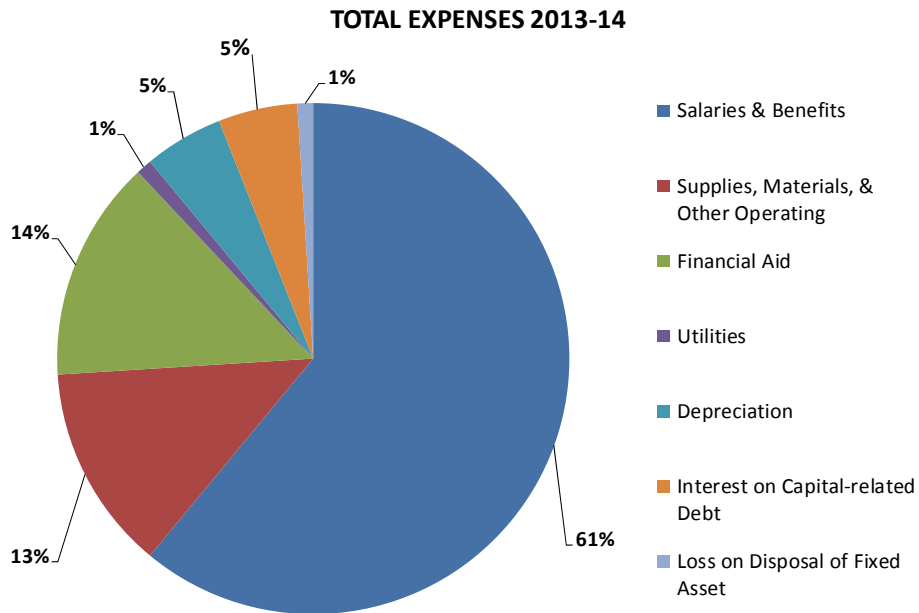
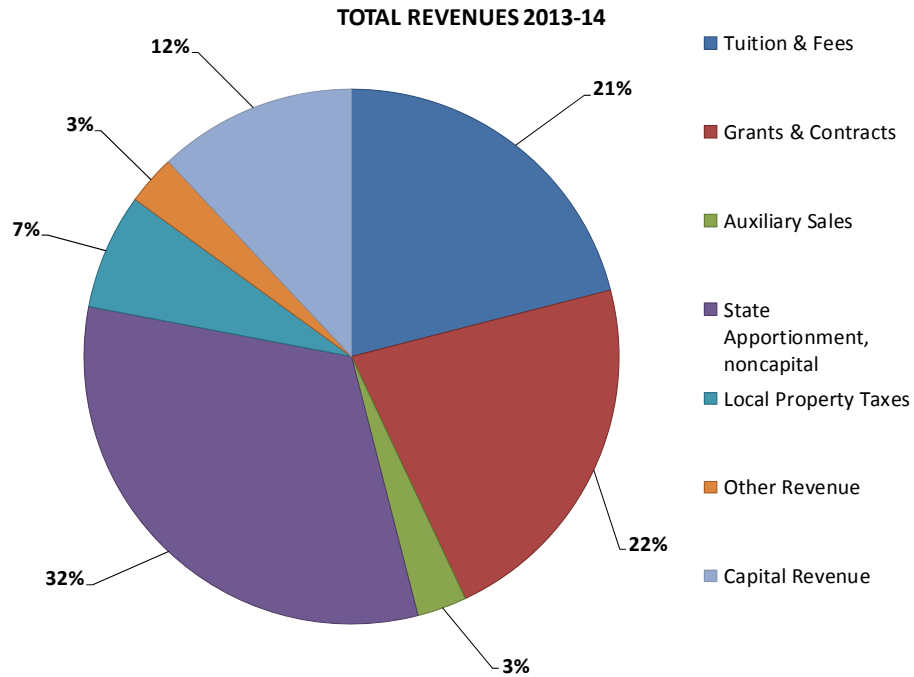
SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

- Local property taxes are received through the Auditor-Controller's Office for Los Angeles County. In 2012-13, the District received one time local property tax revenue related to the liquidation of the local Redevelopment Agency resulting in the decrease in local property tax revenue between current and prior year. 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 \$14,979,817 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 primarily as a result of increased donations related to KCRW.
- 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.
- During the fiscal year, the District entered into a land swap agreement with the Exposition Metro Line Construction Authority (Expo). Under the agreement the District and Expo exchanged ownership of a Shuttle Lot (2.35 acres owned by the District) and a Buffer Area (2.35 acres owned by Expo). The exchange resulted in the majority of the increase in loss on disposal of fixed assets.
- The primary cause of the decrease in local property taxes and revenue, capital, was a decrease in revenue in the Bond Interest Redemption Fund. The corresponding debt redemption and interest charges on general obligation debt decreased as well.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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>2014</u>	(in thousands) <u>2013</u>
Cash Provided By (Used in)		
Operating activities	\$ (79,535)	\$ (95,966)
Non-capital financing activities	83,514	122,297
Capital and related financing activities	(34,975)	(15,170)
Investing activities	<u>260</u>	<u>221</u>
Net increase/(decrease) in cash and cash equivalents	(30,736)	11,382
Cash balance, beginning of year	<u>209,240</u>	<u>197,858</u>
Cash balance, end of year	<u><u>\$ 178,504</u></u>	<u><u>\$ 209,240</u></u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

- 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 decrease in net cash used for operating activities is due primarily to increase in enrollment fee received and decreased payments to/on behalf of outside vendors.
- 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 decrease in cash provided from Non-capital Financing Activities is primarily due to the repayment of tax revenue anticipation notes.
- 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 increased as a result of the net effect of the decrease of tax revenue for payment of capital debt and the purchase of capital assets.
- 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 increased due to higher cash balances during the year.

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, 2014

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2014, the District had net governmental capital assets of \$359.2 million, consisting of land, buildings and building improvements, construction in progress, vehicles, office and instructional equipment, with an accumulated depreciation of \$94.1 million. Net additions to capital assets in 2013-14 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: Malibu Site Acquisition and Facility; Early Childhood Development and Childcare Center; Environmental Performance and Central Plant Connections; Student Services Building; Madison East Wing Seismic Upgrade; Emergency Lighting, Fire Alarm and Security; Energy Efficiency Projects, Business and Facilities Infrastructure; Bundy Parking Lot 2; Replacement of Health, PE, Fitness, Dance Building with Central Plant; Media Technology Complex at AET; and the Infrastructure and Technology Relocation 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 6 to the financial statements provides additional information on capital assets. Total capital assets, net of depreciation, are summarized below:

	<u>Balance June 30, 2014</u>
Land	\$ 60,986,212
Site and site improvements	292,166,583
Equipment	20,206,952
Construction in progress	<u>79,975,277</u>
Totals at historical cost	<u>453,335,024</u>
Less accumulated depreciation for:	
Site and site improvements	(77,685,480)
Equipment	<u>(16,397,123)</u>
Total accumulated depreciation	<u>(94,082,603)</u>
Governmental capital assets, net	<u>\$ 359,252,421</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Debt

At June 30, 2014, the District had approximately \$410.1 million in debt: \$7.8 million from compensated absences, \$36.5 million from GASB Statement No. 45, other post-employment health care benefit liability, \$5.5 million from capital lease, \$18.6 million from obligations under certificates of participation, \$323.4 million from general obligation bonds and \$18.8 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/Stable (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:

	Balance June 30, 2014
Compensated absences	\$ 7,837,131
Other post-employment health care benefits	36,528,461
Capital lease	5,453,768
Certificates of participation	18,585,057
General obligation bonds	323,375,391
Accreted interest	18,773,070
Total	<u>\$ 410,552,878</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Budget for the Future – Unrestricted General Fund – 2014-2015

Summary

For 2014-15 adopted budget, the District is projecting revenue increases from prior year actual of approximately 2.2% or \$3,251,197 and expenditure increases of 8.2% or \$11,615,914. The net effect of the projected changes in revenue and expenditures will result in a projected operating deficit, with one-time items, of \$4,913,748 and a projected ending Unrestricted General Fund Balance of \$9,058,031 or 5.92% 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 2014-15 Adopted Budget assumes a 0.85% COLA increase (\$896,634), 2.75% Access/Restoration (\$2,696,760) – approximately 564 credit FTES and a 0.55% deficit factor (\$604,987). The proposed adopted budget does not assume repayment of the 2013-2014 deficit factor of \$1,812,425 nor does it assume full repayment of the 2014-2015 apportionment deferrals (approximately \$1,800,000). The District is assuming an increase in non-resident tuition of \$3,205,452 which reflects a shift of FTES from fee based classes, an increase in new FTES of 2.75% and an increase in the fee. Additionally, fee based tuition is projected to decrease by \$902,944 as FTES moves back to non-fee based classes. The net effect of the changes in revenues has resulted in a projected 2.2% or \$3,251,197 increase in total revenues from the prior year actuals.

State Revenue – Principal Apportionment

State funding, in the form of Principal Apportionment, constitutes 73% or \$108,474,727 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 adopted budget. The District receives Principal Apportionment through a combination of direct State funds known as General Apportionment, coupled with enrollment fees, property taxes and the Education Protection Account (EPA), newly created as a result of the passage of Prop 30. These funds are combined to equal the Principal Apportionment. If actual receipts of revenue from EPA, Redevelopment Agency (RDA), property taxes and/or enrollment fees differ from estimates, the general apportionment funding will be adjusted, subject to availability of state funding, to keep the formula constant.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

State Revenues – Principal Apportionment (continued)

The District has based its Principal Apportionment revenue projections on the state budget which includes a 2.75% access funding. This will result in the District being funded by the State to serve approximately 21,104 Credit FTES in FY 2014-2015. As of the proposed adopted budget, the target is to serve approximately 21,382 Credit FTES, which is 278 FTES more than the State is funding the District to serve. Between FY 2008-2009 thru FY 2013-2014, the District, using its reserves to cover instructional related expenditures, has served approximately 5,103 Credit FTES beyond what the state has funded.

State Revenue – Other

The proposed adopted budget includes an inflationary adjustment of 0.85%. All other State Revenue categories are projected to remain at approximately the same level as FY 2013-2014.

Property Taxes

Based on preliminary projections, the District will receive \$16,673,847 in property tax in the current year. 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 resulting loss in funding.

Lottery

The State Lottery revenues are paid each year according to the annual enrollment figures. The estimated FY 2014-2015 non-Prop 20 lottery rate is \$128 per FTES. 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, Non-resident Tuition. The non-resident tuition line item includes both revenue generated from non-resident tuition and revenue from special Intensive ESL classes for international students. The District's increase in non-resident tuition fee and FTES is expected to result in revenue increase of \$3,205,452 over prior year actual. The remaining local revenue categories include property taxes, enrollment fees, fee based instruction, student fees, interest, rental of facilities, etc.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Expenditures

Summary

The General Fund Unrestricted Expenditure budget accounts for all of the District's operational expenditures. The breakdown of expenditures is as follows: 88.6% on salaries and benefits, 10.6% on other operational expenses and services, 0.6% on supplies, and 0.2% on transfers/financial aid. For FY 2014-2015, the largest projected expenditure increases are as follows: Salary increases \$2,869,247, Vacancy List \$2,458,641, Hourly Instruction and Non-teaching \$1,635,433, Supplies and Contracts \$1,615,133, Salary Step and Longevity \$1,045,457, Employment/Retirement Benefits \$865,207, Current Employee and Retiree Health and Welfare Benefits \$597,435, and Other Post-Employment Benefits (OPEB) contribution \$500,000.

Salary and Benefits

Salary and benefit expenditure projections reflect appropriate step, column and longevity increases for qualified employees. Additionally, all applicable salary categories have been increased by 2.3% for the approved compensation adjustment. For the proposed adopted budget, changes in salary, benefit and vacancy line items account for approximately a \$9,937,766 increase in expenditures from prior year actuals. For FY 2014-2015 salaries and benefits represent 88.6% of total expenditures and transfers for the District's unrestricted general fund.

Supplies, Services and Transfers

Supplies, Services, 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 \$1,678,148 over prior year actual expenditures. For FY 2014-2015, supplies, services, and transfers represent 11.4% 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) 20%, Bank Fees and Bad Debt 13%, Advertising 11%, Other Contract Services 9%, Repairs and Maintenance of Equipment 8%, Consultants 5%, Software Licensing 5%, Legal Services (including Personnel Commission) 5%, Online Course Management System 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 1%, Repairs/Improvement of Facilities 1%, Memberships and Dues 1%, Audit 1%, Recruiting-Students 1% and Other Services (i.e. Mileage, Fingerprinting, Board Meetings, Field Trips, etc.) 2%.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

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 2014-15 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, 2014

ASSETS

Current Assets:

Cash and cash equivalents	\$ 25,876,131
Accounts receivable, net	18,512,125
Due from fiduciary funds	1,449,529
Inventories	1,540,193
Prepaid expenses and deposits	<u>1,244,389</u>
Total Current Assets	<u>48,622,367</u>

Non-Current Assets:

Restricted cash and cash equivalents	152,627,621
Capital assets, net of accumulated depreciation	<u>359,252,421</u>
Total Non-Current Assets	<u>511,880,042</u>

Total Assets	<u>560,502,409</u>
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DEFERRED OUTFLOW OF RESOURCES

Deferred charge on refunding	<u>8,558,535</u>
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TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 569,060,944</u>
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LIABILITIES AND NET POSITION

Current Liabilities:

Bank overdraft	\$ 606,881
Accounts payable	14,005,363
Accrued liabilities	9,769,528
Accrued interest	5,240,547
Due to fiduciary funds	576,103
Unearned revenue	10,470,973
Compensated absences - current portion	943,700
Capital lease payable - current portion	191,276
Certificates of participations payable - current portion	1,415,000
General obligation bonds payable - current portion	<u>12,647,808</u>
Total Current Liabilities	<u>55,867,179</u>

Non-Current Liabilities:

Compensated absences	6,893,431
Other post-employment health care benefits	36,528,461
Capital lease payable	5,262,492
Certificates of participations payable	17,170,057
General obligation bonds payable	<u>329,500,653</u>
Total Non-Current Liabilities	<u>395,355,094</u>

TOTAL LIABILITIES	<u>451,222,273</u>
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NET POSITION

Invested in capital assets, net of related debt	109,004,134
Restricted - expendable:	
Capital projects	12,509,026
Debt service	18,496,414
Specific purposes	6,050,541
Unrestricted	<u>(28,221,444)</u>

TOTAL NET POSITION	<u>117,838,671</u>
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TOTAL LIABILITIES AND NET POSITION	<u>\$ 569,060,944</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, 2014

OPERATING REVENUES

Enrollment, tuition and other fees (gross)	\$ 67,052,670
Less: Scholarship discounts and allowances	<u>(16,265,430)</u>
Net enrollment, tuition and other fees	50,787,240
Grants and contracts, non-capital:	
Federal	39,228,529
State	9,241,214
Local	5,532,571
Auxiliary enterprise sales and charges, net	<u>7,352,627</u>

TOTAL OPERATING REVENUES 112,142,181

OPERATING EXPENSES

Salaries	108,695,872
Employee benefits	36,779,807
Supplies, materials and other operating expenses and services	31,016,307
Financial aid	33,882,479
Utilities	2,952,944
Depreciation	<u>12,124,625</u>

TOTAL OPERATING EXPENSES 225,452,034

OPERATING LOSS (113,309,853)

NON-OPERATING REVENUES

State apportionments, non-capital	77,073,120
Local property taxes	17,575,349
State taxes and other revenues	5,100,433
Investment income	179,807
Contributions, gifts and grants, non-capital	<u>2,890,204</u>

TOTAL NON-OPERATING REVENUES 102,818,913

LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR (LOSSES) (10,490,940)

OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)

Interest expense on capital-related debt	(11,862,266)
Loss on disposal of capital assets	(1,602,319)
Investment income, capital	998,062
Transfer to fiduciary fund	(30,000)
Local property taxes and revenues, capital	<u>28,613,453</u>

TOTAL OTHER REVENUES, EXPENSES, GAINS OR (LOSSES) 16,116,930

INCREASE IN NET POSITION 5,625,990

NET POSITION - BEGINNING OF YEAR 112,212,681

NET POSITION - END OF YEAR \$ 117,838,671

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Enrollment, Tuition and fees	\$ 51,101,457
Federal grants and contracts	38,338,758
State grants and contracts	10,101,319
Local grants and contracts	3,902,491
Auxiliary operation sales	7,450,471
Payments to suppliers	(21,807,103)
Payments to/on-behalf of employees	(137,790,298)
Payments to/on-behalf of students	(33,864,908)
Payments from Trust and Agency Fund	<u>3,032,919</u>
Net cash used by operating activities	<u>(79,534,894)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State apportionments and receipts	79,863,165
Property taxes	17,523,067
State taxes and other revenue	3,262,772
Grants and gifts for other than capital purposes	2,864,402
Tax revenue anticipation notes, net	<u>(20,000,000)</u>
Net cash provided by non-capital financing activities	<u>83,513,406</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Local revenue for capital purposes	5,063,673
Tax revenue for payment of capital debt	25,457,148
Purchase of capital assets	(35,949,445)
Principal paid on capital debt	(15,521,365)
Federal funds (Build America Bond) subsidy	1,422,740
State capital funds	868,670
Interest paid on capital debt	(17,345,804)
Interest on capital investments	1,780,571
Proceeds from refunding certificates of participations (COPs)	7,410,000
Payment to escrow agent for COPs repayment	<u>(8,161,300)</u>
Net cash used by capital and related financing activities	<u>(34,975,112)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>260,283</u>
Net cash provided by investing activities	<u>260,283</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (30,736,317)

CASH BALANCE - Beginning of Year 209,240,069

CASH BALANCE - End of Year \$ 178,503,752

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014

Reconciliation of Operating Loss to
Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (113,309,853)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	12,124,625
Changes in assets and liabilities:	
Receivables, net	(429,241)
Due from fiduciary funds	2,725,020
Inventories	487,601
Prepaid expenses and deposits	3,523,838
Accounts payable	6,727,196
Accrued liabilities	1,518,739
Due to fiduciary funds	307,899
Unearned revenue	622,640
Compensated absences	860,031
Other post-employment health care benefits	<u>5,306,611</u>
Net cash used by operating activities	<u>\$ (79,534,894)</u>
Breakdown of ending cash balance:	
Cash and cash equivalents	\$ 25,876,131
Restricted cash and cash equivalents	<u>152,627,621</u>
Total	<u>\$ 178,503,752</u>
Supplemental Disclosure:	
Non cash financing activities	
Exchange of land to Exposition Metro Line Construction Authority	\$ 16,938,190
Exchange of land from Exposition Metro Line Construction Authority	15,399,000

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2014

	Trust and Agency Fund	Associated Student Body Fund	Scholarship Trust Fund
ASSETS			
Cash on hand and in banks	\$ 13,964,548	\$ 2,689,685	\$ 15,023
Accounts receivable:			
Miscellaneous	119,759	134	55
Due from governmental funds	291,593	284,510	
Prepaid expenses	<u>10,651</u>	<u>462</u>	<u></u>
TOTAL ASSETS	<u>14,386,551</u>	<u>2,974,791</u>	<u>15,078</u>
LIABILITIES			
Accounts payable	472,427	65,583	
Due to governmental funds	1,449,529		
Funds held in trust	<u>12,464,595</u>	<u>2,715,708</u>	<u></u>
TOTAL LIABILITIES	<u>14,386,551</u>	<u>2,781,291</u>	<u>-</u>
NET POSITION			
Unrestricted	<u>-</u>	<u>193,500</u>	<u>15,078</u>
TOTAL NET POSITION	<u>\$ -</u>	<u>\$ 193,500</u>	<u>\$ 15,078</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, 2014

	Associated Student Body Fund	Scholarship Trust Fund
ADDITIONS		
Other local revenues	\$ 399,774	\$ 78
Transfer from governmental fund		30,000
TOTAL ADDITIONS	<u>399,774</u>	<u>30,078</u>
DEDUCTIONS		
Supplies and materials	132,902	
Services and other operating expenses	176,541	
Scholarships		15,000
TOTAL DEDUCTIONS	<u>309,443</u>	<u>15,000</u>
Change in net position	90,331	15,078
NET POSITION - BEGINNING OF YEAR	<u>103,169</u>	<u>-</u>
NET POSITION - END OF YEAR	<u><u>\$ 193,500</u></u>	<u><u>\$ 15,078</u></u>

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014

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, 2014

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 \$(538,601) on June 30, 2014, 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, 2014

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, 2014

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, 2014

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, 2014, 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 acquisition or construction of non-current assets or that are 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. In determining the amount to be capitalized, interest costs are offset by interest earned on proceeds of the District's tax exempt debt restricted to the acquisition of qualifying assets.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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 \$14,005,363. Accrued interest includes accrued interest on long-term debt of \$5,240,547. Accrued liabilities consist of salary and benefits payable of \$9,769,528.

9. Unearned Revenue

Cash received for students fees and 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 exceed qualified expenditures.

10. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability in the Statement of Net Position when incurred. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirement.

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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

C. BASIS OF ACCOUNTING (continued)

10. Compensated Absences (continued)

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.

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. Long-Term Obligations

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

12. 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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

C. BASIS OF ACCOUNTING (continued)

12. Net Position (continued)

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.

13. 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 2015 will be recorded in the year computed by the State.

14. 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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

C. BASIS OF ACCOUNTING (continued)

15. 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 \$3,145,000 for STRS.

16. 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*.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

C. BASIS OF ACCOUNTING (continued)

17. 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 change 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.

18. 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.

19. 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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014, \$24,915,743 of the District's bank balance of \$25,665,743 was exposed to credit risk by being uninsured and collateral held by pledging bank's trust not in the District's name.

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 amortized cost which approximates fair value. The fair market value of the District's deposits in this pool as of June 30, 2014, as provided by the County Treasurer, was \$168,283,883, as is based upon the District's pro-rata share of the fair value for the entire portfolio.

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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

B. Cash in Bank Overdraft

The Bookstore Fund has a Cash in Bank overdraft balance of \$606,881 at June 30, 2014. 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, 2014 the pooled accounts had a positive balance of \$15,621,809.

NOTE 3 - ACCOUNTS RECEIVABLE:

The accounts receivable balance as of June 30, 2014 consist of the following:

Federal and State Grants and Apportionments	\$14,671,592
Enrollment tuition and other fees (net of allowance for doubtful accounts of \$339,817)	275,453
Miscellaneous	<u>3,565,080</u>
Total	<u>\$18,512,125</u>

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, 2014 are as follows:

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 4 - INTERFUND TRANSACTIONS: (continued)

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payable</u>
Governmental Fund (General Fund)	\$ 1,449,529	\$ 576,103
Trust and Agency Fund	291,593	1,449,529
Associated Student Body Fund	<u>284,510</u>	<u> </u>
	<u>\$ 2,025,632</u>	<u>\$ 2,025,632</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 matured on September 30, 2013. The notes were sold by the District to supplement its cash flow.

Repayment requirements were 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 deposits were made with County Treasury on a timely basis.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 6 – CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
Non-depreciable assets:				
Land	\$ 62,525,402	\$ 15,399,000	(16,938,190)	\$ 60,986,212
Construction in progress	58,615,262	34,393,781	(13,033,766)	79,975,277
Total non-depreciated assets:	<u>121,140,664</u>	<u>49,792,781</u>	<u>(29,971,956)</u>	<u>140,961,489</u>
Depreciable assets:				
Site and site improvements	279,141,608	13,024,975		292,166,583
Equipment	19,190,869	1,555,664	(539,581)	20,206,952
Total depreciable assets:	<u>298,332,477</u>	<u>14,580,639</u>	<u>(539,581)</u>	<u>312,373,535</u>
Less accumulated depreciation for:				
Site and site improvements	(67,060,595)	(10,624,885)		(77,685,480)
Equipment	(15,373,835)	(1,499,740)	476,452	(16,397,123)
Total accumulated depreciation	<u>(82,434,430)</u>	<u>(12,124,625)</u>	<u>476,452</u>	<u>(94,082,603)</u>
Total depreciable assets, net	<u>215,898,047</u>	<u>2,456,014</u>	<u>(63,129)</u>	<u>218,290,932</u>
Governmental capital assets, net	<u>\$ 337,038,711</u>	<u>\$ 52,248,795</u>	<u>\$ (30,035,085)</u>	<u>\$ 359,252,421</u>

Total interest costs for the year ended June 30, 2014 was \$14,318,507 of which \$2,456,241 was capitalized. Interest revenue used to offset capitalized interest was \$829,016.

In October 2013, land located in proximity to Exposition Boulevard in Santa Monica, California was exchanged between Santa Monica Community College District and the Exposition Metro Line Construction Authority. The District received property of 66,087 square feet in exchange for giving up property of 65,744 square feet.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 191,276	\$ 240,816	\$ 432,092
2016	171,550	233,380	404,930
2017	198,709	225,108	423,817
2018	228,043	215,570	443,613
2019	259,696	204,664	464,360
2020-2024	1,865,744	803,950	2,669,694
2025-2029	<u>2,538,750</u>	<u>263,751</u>	<u>2,802,501</u>
Total	<u>\$ 5,453,768</u>	<u>\$ 2,187,239</u>	<u>\$ 7,641,007</u>

Current year expenditures for capital lease is approximately \$551,000. 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, 2014

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 and the 14th Street warehouse project. These agreements do not contain a purchase option. Future minimum lease payments under these agreements are as follows.

<u>Fiscal Year</u>	<u>Lease Payment</u>
2015	\$ 1,093,600
2016	1,093,600
2017	1,093,600
2018	988,600
2019	883,600
2020-2024	4,418,000
2025-2029	4,418,000
2030-2034	4,418,000
2035-2039	4,418,000
2040-2044	4,418,000
2045-2049	4,418,000
2050-2054	4,418,000
2055-2058	<u>3,534,400</u>
Total	<u>\$ 39,613,400</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, 2014

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.

As of June 30, 2014 this issue was in-substance defeased by the issuance of 2013 refunding Series A COPs on December 1, 2013.

- 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, 2014

NOTE 8 - CERTIFICATES OF PARTICIPATION: (continued)

- C. The agreement dated December 1, 2013, 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 2004 Certificate of Participation.

The Corporation’s funds for the advance refunding were generated by the issuance of \$7,410,000 of Certificates of Participation (COPs). COPs are long-term debt instruments which are tax exempt and therefore issued at interest rate below current market levels for taxable investments and rate of 3.6% for the length of the issuance.

Lease Payments – Lease payments are required to be made by the District under the lease agreement on February 1, and August 1 for use and possession of the capital improvements for the period commencing February 1, 2014 and terminating February 1, 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.

The proceeds were place into an irrevocable escrow account and will be used to fund the future required principal and interest payments of the refunded COPs. The refunded COPs are considered in-substance defeased and are not recorded on the financial statements. The difference in cash flow requirements related to this refunding is a savings of cash outflow of approximately \$1,695,000. The present value of the economic gain to the District amounts to approximately \$1,454,000. The balance of the in-substance defeased debt as of June 30, 2014 is \$7,965,000; approximately \$8,161,300 was in an escrow account as of June 30, 2014 to pay off this debt.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 8 - CERTIFICATES OF PARTICIPATION: (continued)

The following summarizes the outstanding certificates of participations at June 30, 2014:

<u>Date of Issue</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding June 30, 2014</u>
2004	1/15/2027	\$8,400,000	\$	\$8,400,000	\$
2010	6/1/2023	11,380,000		940,000	10,440,000
2013	2/1/2027		7,410,000	130,000	7,280,000
Premium		970,841		105,784	865,057
Total		<u>\$20,750,841</u>	<u>\$7,410,000</u>	<u>\$9,575,784</u>	<u>\$18,585,057</u>

The annual requirement to amortize Certificates of Participation, outstanding as of June 30, 2014 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2015	\$1,415,000	\$749,830	\$2,164,830
2016	1,465,000	694,920	2,159,920
2017	1,530,000	637,890	2,167,890
2018	1,590,000	578,540	2,168,540
2019	1,655,000	505,950	2,160,950
2020-2024	8,050,000	1,318,010	9,368,010
2025-2027	2,015,000	129,960	2,144,960
Total	<u>\$17,720,000</u>	<u>\$4,615,100</u>	<u>\$22,335,100</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014 is \$913,686.

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. The Bonds have been fully redeemed.

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, 2014

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, 2014 is \$1,558,400.

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. The Bonds have been fully redeemed.

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, 2014 is \$4,795,611.

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, 2014 is \$2,450,310.

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, 2014

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 refunded bonds are considered in-substance defeased and are not recorded on the financial statements.

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. The Bonds have been fully redeemed.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 9 – BONDS PAYABLE: (continued)

C. Measure S (continued)

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, 2014 is \$9,055,063.

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 refunded bonds are considered in-substance defeased and are not recorded on the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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.

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The various Series Bonds included premium. These amounts are amortized using the straight-line method. Please refer to the summary schedule on the next page for amortization amounts that were recognized during 2013-14 for each Series.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 9 – BONDS PAYABLE: (continued)

Payments

The following summarizes the outstanding bonds at June 30, 2014:

	Date of Issue	Maturity Date	Amount of Original Issue	Outstanding June 30, 2013	Additions	Deletions	Outstanding June 30, 2014
Proposition T							
Refunding Series B	1/31/2007	8/1/2014	\$ 15,589,854	\$ 3,320,294	\$	\$ 2,188,980	\$ 1,131,314
Measure U (2002 Election)							
Series A	8/1/2002	8/1/2027	25,000,000	650,000		650,000	-
Series B	5/13/2004	5/1/2029	21,999,971	1,084,971		760,000	324,971
Series C	8/2/2005	8/1/2030	89,999,923	3,417,542		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		810,000	107,595,000
Subtotal				136,556,493	-	5,637,542	130,918,951
Measure S (2004 Election)							
Series A	5/1/2005	5/1/2015	58,000,000	3,540,000		1,725,000	1,815,000
Refunding Series C	1/31/2007	8/1/2016	40,064,768	2,706,143		2,706,143	-
Series C	2/17/2009	8/1/2029	56,997,857	56,867,857		240,000	56,627,857
Refunding Series B	6/5/2013	8/1/2019	23,450,000	23,450,000			23,450,000
Subtotal				86,564,000	-	4,671,143	81,892,857
Measure AA (2008 Election)							
Series A	1/26/2010	8/1/2023	33,135,000	25,805,000		1,510,000	24,295,000
Series A-1	1/26/2010	8/1/2034	66,865,000	66,865,000			66,865,000
Subtotal				92,670,000	-	1,510,000	91,160,000
Unamortized Bond Premiums							
Proposition T			2,817,925	375,725		375,725	-
Measure U			15,242,152	13,792,043		811,297	12,980,746
Measure S			14,472,774	2,427,161		136,740	2,290,421
Measure AA			4,334,926	3,334,558		333,456	3,001,102
Subtotal				19,929,487	-	1,657,218	18,272,269
			<u>\$ 599,374,130</u>	<u>\$ 339,040,274</u>	<u>\$ -</u>	<u>\$ 15,664,883</u>	<u>\$ 323,375,391</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 9 – BONDS PAYABLE: (continued)

Payments – Proposition T

The annual requirements to amortize Prop T bond payable, outstanding as of June 30, 2014, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2015	\$ 1,131,314	\$ 913,686	\$ 2,045,000
Total	<u>\$ 1,131,314</u>	<u>\$ 913,686</u>	<u>\$ 2,045,000</u>

Payments – Measure U

The annual requirements to amortize Measure U bond payable, outstanding as of June 30, 2014, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest</u>	<u>Total</u>
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	5,881,384	4,285,500	948,616	11,115,500
2020-2024	36,937,531	17,905,375	7,492,469	62,335,375
2025-2029	48,300,395	9,331,625	12,834,605	70,466,625
2030-2033	22,962,635	913,500	2,967,365	26,843,500
Total	<u>\$ 130,918,951</u>	<u>\$ 50,780,450</u>	<u>\$ 26,431,049</u>	<u>\$ 208,130,450</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 9 – BONDS PAYABLE: (continued)

Payments – Measure S

The annual requirements to amortize Measure S bond payable, outstanding as of June 30, 2014, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest Component</u>	<u>Total</u>
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	7,360,000	1,264,603		8,624,603
2020-2024	26,417,314	2,349,035	5,172,686	33,939,035
2025-2029	18,761,492		36,373,508	55,135,000
2030	<u>3,379,051</u>		<u>9,260,949</u>	<u>12,640,000</u>
Total	<u>\$ 81,892,857</u>	<u>\$ 10,493,109</u>	<u>\$ 50,807,143</u>	<u>\$ 143,193,109</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 9 – BONDS PAYABLE: (continued)

Payments – Measure AA

The annual requirements to amortize Measure AA bond payable, outstanding as of June 30, 2014, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,295,000	5,197,170	7,492,170
2020-2024	14,475,000	23,996,350	38,471,350
2025-2029	23,415,000	18,723,921	42,138,921
2030-2034	34,810,000	9,148,549	43,958,549
2035	8,640,000	292,161	8,932,161
Total	<u>\$ 91,160,000</u>	<u>\$ 79,167,956</u>	<u>\$ 170,327,956</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 10 – LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2014 is shown below:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014	Amount Due in One Year
Compensated absences	\$ 6,977,100	\$ 860,031	\$	\$ 7,837,131	\$ 943,700
Other post-employment health care benefits	31,221,850	5,306,611		36,528,461	
Capital lease	5,751,759		297,991	5,453,768	191,276
Certificates of participation	20,750,841	7,410,000	9,575,784	18,585,057	1,415,000
General obligation bonds	339,040,274		15,664,883	323,375,391	11,366,314
Accreted interest	20,932,733	3,877,673	6,037,336	18,773,070	913,686
Total	<u>\$ 424,674,557</u>	<u>\$ 17,454,315</u>	<u>\$ 31,575,994</u>	<u>\$ 410,552,878</u>	<u>\$ 14,829,976</u>

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 Auditor-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, 2014

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 2013-14 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, 2014

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 for employees hired before January 1, 2013 and 6.0% for employees hired on or after January 1, 2013. 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 2013-14 was 11.442% 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>	
2012	\$4,297,418	100%	\$3,793,923	100%	\$8,091,341
2013	4,641,198	100%	3,911,626	100%	8,552,824
2014	4,796,354	100%	4,003,363	100%	8,799,717

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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. 391 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 \$3,179,913 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)	\$ 8,511,480
Interest on net OPEB obligation	1,561,092
Adjustment to annual required contribution	<u>(1,586,048)</u>
Annual OPEB cost (expense)	8,486,524
Contributions made	<u>(3,179,913)</u>
Change in net OPEB obligation	5,306,611
Net OPEB obligation - Beginning of Year	<u>31,221,850</u>
Net OPEB obligation - End of Year	<u><u>\$ 36,528,461</u></u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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>
6/30/2012	\$8,150,725	31.1%	\$25,719,205
6/30/2013	8,170,393	32.7%	31,221,850
6/30/2014	8,486,524	37.5%	36,528,461

Funding Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 2.3% funded. The actuarial accrued liability for benefits is \$89,242,676 and the unfunded actuarial accrued liability (UAAL) was \$87,166,553. The covered payroll (annual payroll of active employees covered by the plan) was \$68,311,598, and the ratio of the UAAL to the covered payroll was 127.6%.

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, 2014

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 July 1, 2013 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 2.75 percent inflation assumption. The actuarial value of assets was determined using a 5 year smoothing formula with a 20 percent corridor around market value. The UAAL is being amortized as a level percent, closed 30 year amortization. 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, 2014

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 6/30/2014 <u>(Unaudited)</u>	SCCCD-JPA 6/30/2014 <u>(Unaudited)</u>		SWACC 6/30/2014 <u>(Unaudited)</u>
		Workers' Compensation <u>Insurance Fund</u>	Retiree Health <u>Insurance Fund</u>	
Total assets	\$331,028,387	\$ 17,117,796	\$ 24,438,913	\$ 54,045,044
Total liabilities	<u>186,877,358</u>	<u>744,467</u>	<u>-</u>	<u>23,536,002</u>
Retained earnings	<u>\$144,151,029</u>	<u>\$ 16,373,329</u>	<u>\$ 24,438,913</u>	<u>\$ 30,509,042</u>
Total revenues	\$205,948,958	\$ 7,846,475	\$ (1,818,994)	\$ 18,715,567
Total expenditures	<u>194,648,227</u>	<u>7,336,242</u>	<u>1,500</u>	<u>19,449,490</u>
Change in retained earnings	<u>\$ 11,300,731</u>	<u>\$ 510,233</u>	<u>\$ (1,820,494)</u>	<u>\$ (733,923)</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 14 – FUNCTIONAL EXPENSE:

	Salaries	Benefits	Supplies, Materials, Utilities, Other Expenses and Services	Financial Aid	Depreciation	Total
Instructional Activities	\$ 53,710,243	\$ 15,494,515	\$ 551,643	\$	\$	\$ 69,756,401
Academic Support	10,892,210	3,605,342	1,035,636			15,533,188
Student Services	18,031,471	5,364,217	4,110,629			27,506,317
Operation & Maintenance of Plant	4,980,141	2,453,210	1,870,579			9,303,930
Institutional Support Services	13,646,074	7,455,025	4,658,760			25,759,859
Community Services & Economic Development	1,651,285	462,224	179,224			2,292,733
Ancillary Services & Auxiliary Operations	5,547,415	1,861,058	2,202,646			9,611,119
Physical Property & Related Acquisitions	237,033	84,216	19,210,674			19,531,923
Student Financial Aid			149,460	33,882,479		34,031,939
Depreciation Expense					12,124,625	12,124,625
	<u>\$ 108,695,872</u>	<u>\$ 36,779,807</u>	<u>\$ 33,969,251</u>	<u>\$ 33,882,479</u>	<u>\$ 12,124,625</u>	<u>\$ 225,452,034</u>

NOTE 15 – 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, 2014, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$82.9 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, 2014

**NOTE 16 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS
ISSUED, NOT YET EFFECTIVE:**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014 that have future effective dates. The selected pronouncements will most likely impact the District's financial reporting; 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 Statements No. 68 and No. 71

In June 2013, 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.

In November 2013, the GASB issued Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68. This statement addresses an issue regarding application of the transition provision of Statement No. 68. This statement is effective simultaneously with Statement No. 68.

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. This statement is effective for fiscal year 2014-15 financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 17 – SUBSEQUENT EVENTS:

General Obligation Bonds

The District issued \$144,995,829 in General Obligation, 2008 Election, 2014 Series B Bonds on November 13, 2014. The bonds were issued as current interest bonds in the aggregate principal amount of \$121,100,000 and Capital Appreciation Bonds in the aggregate amount of \$23,895,829. These bonds contain an interest provision ranging from 1 percent to 5 percent depending on the maturity date of the bond.

Radio Station Swap

In August 2014, an agreement was finalized where the District purchased the assets including studio equipment of radio station KDB(FM), Santa Barbara, California owned by the Santa Barbara Foundation/Pacific Broadcasting Company for \$1.3 million. The agreement also included the transfer of radio station frequencies and signals as follows:

- Station KDB(FM) owned by the Santa Barbara Foundation was transferred to the University of Southern California (USC).
- Station KQSC(FM) owned by the University of California (USC) was transferred to the Santa Monica Community College District.

REQUIRED SUPPLEMENTARY INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF POST-EMPLOYMENT HEALTH CARE BENEFITS FUNDING PROGRESS

For the Fiscal Year Ended June 30, 2014

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
5/1/2010	\$ 1,641,391	\$ 83,792,387	\$ 82,150,996	2.0%	\$ 65,579,641	125.3%
6/30/2011	1,787,488	88,692,776	86,905,288	2.0%	66,153,965	131.4%
7/1/2013	2,076,123 *	89,242,676	87,166,553	2.3%	68,311,598	127.6%

* The District maintains investments in an irrevocable trust. The fair value of the trust assets as of June 30, 2014 is \$3,381,152.

Note: On 9/3/2013, the District's Board of Trustees approved a plan to fund the District's OPEB obligations. The plan calls for an initial contribution of \$500,000 and an additional \$500,000 each succeeding year for 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, 2014

NOTE 1 - PURPOSE OF SCHEDULE:

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

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, 2014

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. Susan Aminoff	Chair	November 2016
Rob Rader	Vice Chair	November 2016
Dr. Nancy Greenstein	Member	November 2014
Dr. Louise Jaffe	Member	November 2014
Dr. Margaret Quinones-Perez	Member	November 2016
Barry Snell	Member	November 2014
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, 2014**

	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Program Expenditures as of June 30, 2014</u>
Student Financial Aid Cluster			
Direct from Department of Education:			
Financial Aid Administrative Allowances	84.000	N/A	\$ 118,830
Supplemental Education Opportunity Grant (SEOG)	84.007	N/A	459,748
Federal Work Study (FWS)	84.033	N/A	578,918
Federal Direct Student Loan	84.268	N/A	2,072,634
Pell Grant	84.063	N/A	<u>29,111,722</u>
Total Student Financial Aid Cluster			<u>32,341,852</u>
TRIO Cluster			
Direct from Department of Education:			
Student Support Services	84.042	N/A	263,307
Upward Bound	84.047A	N/A	<u>260,603</u>
Total Trio Cluster			<u>523,910</u>
Department of Commerce			
Direct:			
Corporation for Public Broadcasting	11.000	N/A	<u>1,056,506</u>
Total Department of Commerce			<u>1,056,506</u>
Department of Education			
Direct:			
Hispanic - Serving Institution Program (H.S.I.):			
Science, Technology, Engineering and Mathematics (STEM)	84.031C	N/A	1,145,274
Building Foundations for Academic Career Success (Title V)	84.031S	N/A	632,030
Project School Emergency Response to Violence (SERV)	84.184S	N/A	66,249
Child Care Access Means Parents in School	84.335A	N/A	<u>74,722</u>
Subtotal Direct Programs			<u>1,918,275</u>
Passed through from California Community Colleges Chancellor's Office:			
Career & Technical Education:			
Perkins, Title IV	84.048	(1)	588,662
Career Technical Education Transitions	84.048A	(1)	<u>43,355</u>
Subtotal Passed Through Programs			<u>632,017</u>
Total Department of Education			<u>2,550,292</u>
Department of Energy			
Passed through from Stanford Transportation Group			
Photovoltaic (PV) Sales & Marketing Grant Program	81.087	(1)	6,302
Spanish Language Photovoltaic Installation Course	81.087	(1)	<u>11,660</u>
Total Department of Energy			<u>17,962</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, 2014

	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Program Expenditures as of June 30, 2014</u>
Department of Health and Human Services			
Passed through from Chancellor's Office of the California Community Colleges:			
Temporary Assistance for Needy Families (TANF)	93.558	(1)	<u>59,745</u>
Total Department of Health and Human Services			<u>59,745</u>
Department of Labor			
Direct:			
Community Based Job Training Grant - Jobs Through Recycling	17.269	N/A	<u>759,168</u>
Total Department of Labor			<u>759,168</u>
National Aeronautics and Space Administration			
Direct:			
Curriculum Improvement Partnership Award for Integration of Research	43.000	N/A	<u>119,927</u>
Total National Aeronautics and Space Administration			<u>119,927</u>
Small Business Administration			
Passed through from Long Beach Community College District:			
Small Business Development Center (SBDC)	59.037	(1)	<u>376,427</u>
Total Small Business Administration			<u>376,427</u>
Total Federal Program Expenditures			<u>\$ 37,805,789</u>
Reconciliation to Federal Revenue			
Total Federal Program Expenditures			\$ 37,805,789
Build America Bonds subsidy received but not subject to Single Audit Act			<u>1,422,740</u>
Total Federal Program Revenue			<u>\$ 39,228,529</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, 2014

	Program Revenues					Total Program Expenditures
	Cash Received	Prior Year Unearned Revenue	Accounts Receivable	Unearned Revenue	Total	
Student Success and Support Program (SSSP) - Credit	\$ 1,316,603	\$	\$	\$ 104,920	\$ 1,211,683	\$ 1,211,683
Student Success and Support Program (SSSP) - Non-credit	45,940				45,940	45,940
Extended Opportunity Program and Services (EOPS)	1,020,673			48,132	972,541	972,541
Cooperative Agencies Resources for Education (CARE)	55,879				55,879	55,879
Disabled Student Program and Services (DSPS)	1,540,342				1,540,342	1,540,342
Transfer and Articulation		2,868		2,868	-	-
Equal Employment Opportunity - Faculty and Staff Diversity	8,318	14,059		14,940	7,437	7,437
Nursing Grant	185,640		33,928		219,568	219,568
Instructional Equipment and Library Materials	218,732	47,723		104,670	161,785	161,785
CalWORKS	300,667			10,736	289,931	289,931
Child Development Training - Yosemite	8,400				8,400	8,400
Small Business Development Center	12,922				12,922	12,922
Financial Aid Administration	809,428				809,428	809,428
Basic Skills Funding	412,970	595,865		520,785	488,050	488,050
Scheduled Maintenance & Repairs	218,736			96,870	121,866	121,866
Scheduled Maintenance and Instructional Equipment - One-time		63,237		33,755	29,482	29,482
Clean Energy Workforce Program - Employment Training Panel	133,413				133,413	133,413
Career Technical Education Common Collaborative CTE V	32,836	88,658			121,494	121,494
Career Technical Education Common Collaborative CTE VI		222,513		73,448	149,065	149,065
Prop 39 - Energy Projects	746,804				746,804	746,804
Total State Programs	<u>\$ 7,068,303</u>	<u>\$ 1,034,923</u>	<u>\$ 33,928</u>	<u>\$ 1,011,124</u>	<u>\$ 7,126,030</u>	<u>\$ 7,126,030</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, 2014**

	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2013 only)			
1. Noncredit ¹	62.18		62.18
2. Credit	1,893.77		1,893.77
B. Summer Intersession (Summer 2014 - Prior to July 1, 2014)			
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	12,623.48		12,623.48
(b) Daily Census Contact Hours	1,705.37		1,705.37
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit ¹	630.35		630.35
(b) Credit	42.91		42.91
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	2,885.39		2,885.39
(b) Daily Census Contact Hours	1,571.41		1,571.41
(c) Noncredit Independent Study/Distance Education Courses	N/A		N/A
D. Total FTES	<u>21,414.86</u>	<u>-</u>	<u>21,414.86</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	41.10		
(b) Credit	2,092.02		
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	155.18		
Centers FTES			
(a) Noncredit	-		
(b) Credit	1,093.99		

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 FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

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, 2014

		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	\$ 23,649,047	\$	\$ 23,649,047	\$ 23,649,047	\$	\$ 23,649,047
Other	1300	27,093,826		27,093,826	27,093,826		27,093,826
Total Instructional Salaries		50,742,873		50,742,873	50,742,873		50,742,873
Non-Instructional Salaries							
Contract or Regular	1200			-	11,527,294		11,527,294
Other	1400			-	3,576,441		3,576,441
Total Non-Instructional Salaries					15,103,735		15,103,735
Total Academic Salaries		50,742,873	-	50,742,873	65,846,608	-	65,846,608
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status	2100			-	21,501,297		21,501,297
Other	2300			-	1,844,607		1,844,607
Total Non-Instructional Salaries		-		-	23,345,904		23,345,904
Instructional Aides							
Regular Status	2200	2,797,082		2,797,082	2,797,082		2,797,082
Other	2400	317,438		317,438	317,438		317,438
Total Instructional Aides		3,114,520		3,114,520	3,114,520		3,114,520
Total Classified Salaries		3,114,520	-	3,114,520	26,460,424	-	26,460,424
Employee Benefits		3000	13,563,493	13,563,493	27,435,989		27,435,989
Supplies and Materials		4000		-	790,947		790,947
Other Operating Expenses		5000		-	14,262,444		14,262,444
Equipment Replacement		6420		-			-
Total Expenditures Prior to Exclusions		67,420,886	-	67,420,886	134,796,412	-	134,796,412

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, 2014

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		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	1,325,999		1,325,999	1,325,999		1,325,999
Student Health Services Above Amount Collected	6441			-			-
Student Transportation	6491			-	793,338		793,338
Non-instructional Staff-Retirees’ Benefits and Retirement Incentives	6740			-	1,853,913		1,853,913
<u>Objects to Exclude</u>							
Rents and Leases	5060			-	1,463,469		1,463,469
Lottery Expenditures							
Academic Salaries	1000			-			-
Classified Salaries	2000	34,048		34,048	34,048		34,048
Employee Benefits	3000	10,766		10,766	10,766		10,766
Supplies and Materials	4000			-			-
Software	4100			-			-
Books, Magazines, & Periodicals	4200			-			-
Instructional Supplies & Materials	4300			-			-
Noninstructional, Supplies & Materials	4400			-			-
Total Supplies and Materials							
Other Operating Expenses and Services	5000			-	3,302,280		3,302,280
Capital Outlay	6000			-			-
Library Books	6300			-			-
Equipment	6400			-			-
Equipment - Additional	6410			-			-
Equipment - Replacement	6420			-			-
Total Equipment							
Total Capital Outlay							
Other Outgo	7000			-			-
Total Exclusions		1,370,813	-	1,370,813	8,783,813	-	8,783,813
Total for ECS 84362, 50% Law		\$66,050,073	\$ -	\$66,050,073	\$126,012,599	\$ -	\$126,012,599
Percent of CEE (Instructional Salary Cost / Total CEE)		52.42%	0%	52.42%	100%	0%	100%
50% of Current Expense of Education					\$ 63,006,300	-	\$ 63,006,300

See the accompanying notes to the supplementary information.

PROPOSITION 30 EDUCATION PROTECTION ACCOUNT EXPENDITURE REPORT
For the Fiscal Year Ended June 30, 2014

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, 2014**

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue from Federal Sources			
Higher Education Act	\$ 4,400,800	\$ 3,021,104	\$ (1,379,696)
Workforce Investment Act	789,559	759,168	(30,391)
Temporary Assistance for Needy Families (TANF)	61,317	59,745	(1,572)
Student Financial Aid	126,654	118,830	(7,824)
Career & Technical Education	632,730	632,017	(713)
Other Federal Revenue	1,768,112	1,570,822	(197,290)
Revenue from State Sources			
General Apportionments	73,237,615	77,073,120	3,835,505
Categorical Apportionments	9,061,307	7,035,857	(2,025,450)
Other State Revenues	4,675,387	4,976,996	301,609
Revenue from Local Sources			
Property Taxes	19,125,789	17,523,067	(1,602,722)
Interest and Investment Income	67,600	171,118	103,518
Student Fees and Charges	49,337,814	50,787,240	1,449,426
Other Local Revenue	6,985,044	6,617,403	(367,641)
TOTAL REVENUES	<u>170,269,728</u>	<u>170,346,487</u>	<u>76,759</u>
EXPENDITURES			
Academic Salaries	74,213,059	72,682,604	1,530,455
Classified Salaries	34,867,505	34,229,194	638,311
Employee Benefits	31,827,594	31,015,300	812,294
Supplies and Materials	1,889,622	1,430,333	459,289
Student Financial Aid	658,364	585,524	72,840
Other Operating Expenses & Services	25,454,956	23,208,249	2,246,707
Capital Outlay	3,143,853	1,496,464	1,647,389
TOTAL EXPENDITURES	<u>172,054,953</u>	<u>164,647,668</u>	<u>7,407,285</u>
Excess (deficiencies) of revenues over expenditures	<u>(1,785,225)</u>	<u>5,698,819</u>	<u>7,484,044</u>
OTHER FINANCING SOURCES (USES)			
Interfund Transfers In	555,965	453,305	102,660
Interfund Transfers Out	<u>(1,873,095)</u>	<u>(1,914,709)</u>	<u>(41,614)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,317,130)</u>	<u>(1,461,404)</u>	<u>61,046</u>
Excess (deficiencies) of revenues over expenditures and other sources (uses)	<u>\$ (3,102,355)</u>	<u>4,237,415</u>	<u>\$ 7,339,770</u>
Fund balance, beginning of year		<u>15,784,905</u>	
Fund balance, end of year		<u>\$ 20,022,320</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, 2014**

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, 2014 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 prepared on the modified accrual basis of accounting.

Subrecipients

Of the federal expenditures present 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		
Science, Technology, Engineering and Mathematics (STEM)	84.031C	
The Regents of the University of California		\$ 218,694
U.S. Department of Labor		
Community Based Job Training - Recycling	17.269	
Workforce Investment Board :		
Jewish Vocational Services of Los Angeles		399,124
Orange County Workforce Investment Board		72,351
		<u>\$ 690,169</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2014**

NOTE 1 - PURPOSE OF SCHEDULES: (continued)

B. Schedule of Workload Measure for State General Apportionment Annual (Actual) Attendance

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 Financial Statements

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, 2014 and have issued our report thereon dated December 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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, California
December 16, 2014

**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, 2014. 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, 2014.

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, California
December 16, 2014

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 *2013-14 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office for the year ended June 30, 2014. 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 *2013-14 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 (50 Percent Law)
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 430	Scheduled Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
Section 438	Student Fees – Health Fees and Use of Health Fee Funds
Section 439	Proposition 39 Clean Energy 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, 2014.

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 *2013-14 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

VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
December 16, 2014

FINDINGS AND QUESTIONED COSTS

SANTA MONICA COMMUNITY COLLEGE DISTRICT

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

June 30, 2014

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
84.048	Career and Technical Education: Perkins, Title IV
17.269	Community Based Job Training - Jobs Through Recycling
84.031S	Building Foundations for Academic Career Success (Title V)
84.042 and 84.047A	TRIO Cluster

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, 2014

There were no findings and questioned costs related to the basic financial statements, federal awards or state awards for the year ended June 30, 2014.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2014

There were no prior year findings and questioned costs for the year ended June 30, 2013.

CONTINUING DISCLOSURE INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT
CONTINUING DISCLOSURE INFORMATION (UNAUDITED)
June 30, 2014

Secured tax levies for fiscal year 2013-14	\$ 12,459,365	(1)
Secured tax delinquencies for fiscal year 2013-14	\$ 393,084	(1)
Secured tax collections for fiscal year 2013-14	\$ 12,066,281	(1)

Summary of Assessed Valuation

Local Security	\$ 40,553,638,610	
Utility	742,365	
Unsecured	<u>1,019,369,137</u>	
Total	\$ 41,573,750,112	(2)

2013-14 Largest Local Secured Taxpayers

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2013-14 Assessed Valuation</u>	<u>% of Total (3)</u>
1.	CA Colorado Center LLC	Office Building	\$ 491,946,902	1.21%
2.	Water Garden Realty Holding LLC	Office Building	476,778,771	1.18
3.	SC Enterprises SMBP LLC	Commercial	330,751,385	0.82
4.	Douglas Emmett LLC	Office Building	315,732,839	0.78
5.	Macerich Santa Monica Place LLC	Shopping Center	298,713,517	0.74
6.	CREP 2700 Holdings LLC	Office Building	178,600,000	0.44
7.	Hart Arboretum LLC	Apartments	167,750,000	0.41
8.	Ocean Avenue LLC	Hotel	152,046,385	0.37
9.	Lui2 La Lantana LP	Office Building	145,966,606	0.36
10.	New Santa Monica Beach Hotel LLC	Hotel	143,566,659	0.35
11.	Equity Office Properties Trust	Office Building	135,285,897	0.33
12.	Rand Corp.	Office Building	126,968,700	0.31
13.	1299 Ocean LLC	Office Building	114,239,801	0.28
14.	Shores Barrington LLC	Apartments	114,124,588	0.28
15.	CLPF Arboretum LP	Office Building	109,862,452	0.27
16.	Blue Devils Owner LLC	Hotel	107,914,450	0.27
17.	ASN Santa Monica LLC	Apartments	85,652,290	0.21
18.	Hines 26 th Street LLC	Industrial	79,999,858	0.20
19.	DKR Malibu Village LLC	Shopping Center	78,540,000	0.19
20.	Tishman Speyer Archstone Smith Santa Monica	Commercial	<u>74,830,850</u>	<u>0.18</u>
			\$3,729,271,950	9.20%

(1) Information obtained from the Los Angeles County Auditor-Controller's Office.

(2) Information obtained from California Municipal Statistics, Inc.

(3) % of local secured valuation for fiscal year 2013-14 of \$40,553,638,610.