

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

- In 2014-15, the District served 628 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 the recognition of the State contribution to the state pension systems plan on behalf of the District as required by GASB Statements No. 68 and No. 71 and increased funding associated with the Student Success and Support Program grant, Student Equity grant, Basic Skills Initiative grant, Disabled Student Programs and Services, Physical Plant and Instructional Support grant and Federal Financial Aid.
- Expenditures related to salaries and benefits increased due to an increase in adjunct faculty to achieve access funding, step and column increases and salary increases instituted among faculty, classified employees and management during 2014-15. As a result of the instituted salary increases in 2014-15, the percentage of salaries and benefits to total expenditures and transfer, in the unrestricted general fund, increased from approximately 88.8% in 2013-14 to 89.2% in 2014-15.
- Financial Aid expenditures increased due to an approximate 8% increase in Federal Financial Aid disbursements and an approximate 59% increase in Cal Grant disbursements.
- Supplies, materials and other operating expenses and services increased predominantly as a result of new funding related to the Physical Plant and Instructional Equipment grant.
- 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, EPA or enrollment fees would lower the apportionment.

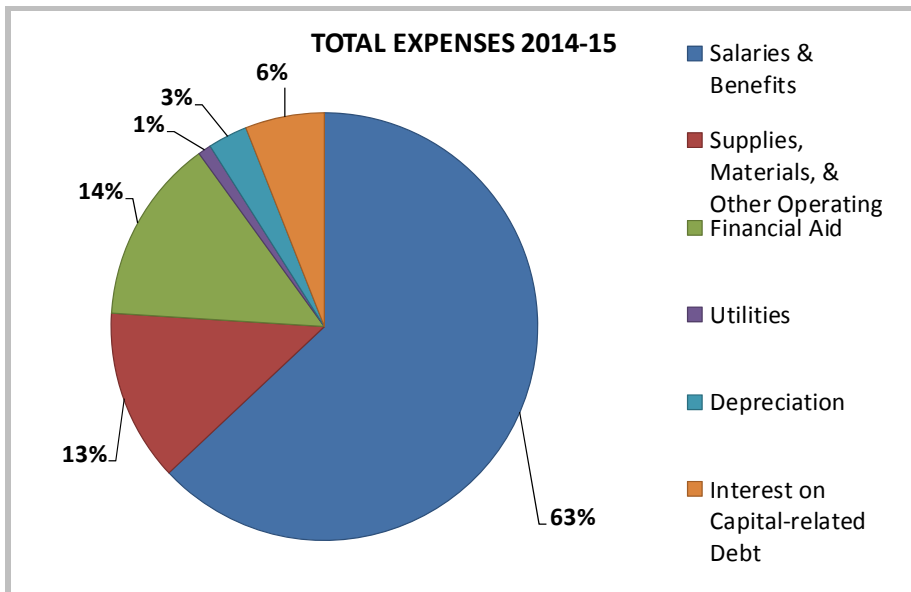
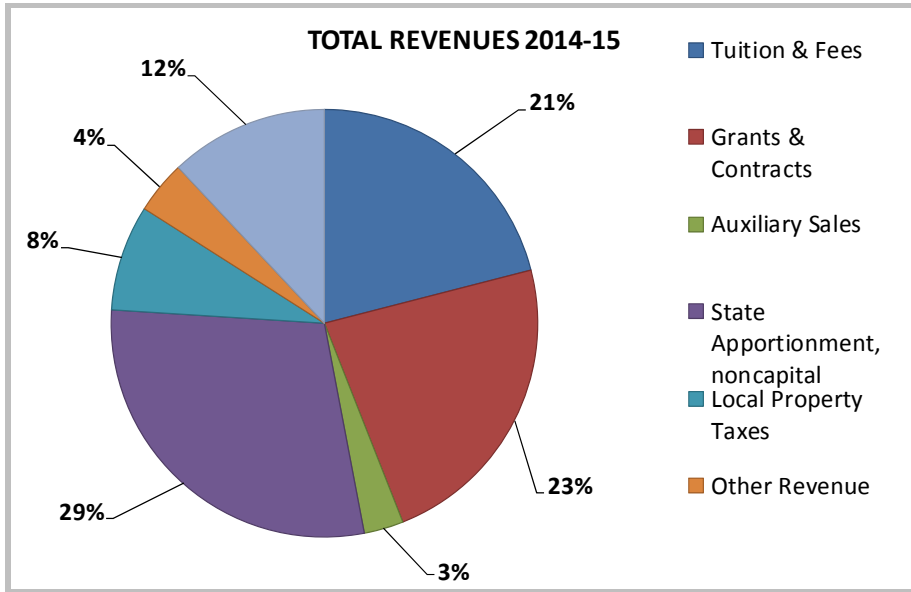
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- Local property taxes are received through the Auditor-Controller's Office for Los Angeles County. In 2014-15, local property taxes received by the District increased from prior year by approximately 12% as a result of the strengthening state and local economy. This increase in property taxes was offset by a decrease in the state funded apportionment payment and did not result in additional funding for the District.
- As a result of the passage of Proposition 30, the District received \$18,331,702 from the Education Protection Account (EPA), an increase of approximately 24% from the prior year. The EPA funds are another component of the computational revenue calculation and were offset by a decrease in the state funded apportionment payment.
- Interest expense on capital-related debt increased primarily as a result of an increase in accreted and accrued interest associated with certificates of participation and general obligation bonds.
- In 2014-15 the District issued \$145.0 million in general obligation bonds related to Measure AA which lead to the increase in investment income, capital.
- The District implemented Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71 which require the District to reflect on the financial statements its proportional share of the unfunded liability of the statewide pension funds, CalSTRS and CalPERS. This implementation has resulted in an accounting principle change which has resulted in the reduction of net position by approximately \$140.4 million. Had the District not implemented the standard the District's net position would have increased by \$5.5 million.

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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)	(in thousands)
	<u>2015</u>	<u>2014</u>
Cash Provided By (Used in)		
Operating activities	\$ (100,536)	\$ (79,535)
Non-capital financing activities	115,242	83,514
Capital and related financing activities	111,943	(34,975)
Investing activities	<u>1,302</u>	<u>260</u>
Net increase/(decrease) in cash and cash equivalents	127,951	(30,736)
Cash balance, beginning of year	<u>178,504</u>	<u>209,240</u>
Cash balance, end of year	<u>\$ 306,455</u>	<u>\$ 178,504</u>

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- Cash receipts from operating activities are from student tuition, auxiliary operation sales and from federal, state and local grants. Uses of cash from operating activities consist of payments to employees, vendors and students. The increase in net cash used for operating activities is due primarily to increased payments to/on behalf of employees as a result of salary adjustments, to/on behalf of outside vendors needed to meet the obligations of new grants and to/on behalf of students related to more financial aid being appropriated.
- 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. Cash provided is primarily from the collection of apportionment deferrals of approximately \$11.1 million from 2013-14 collected in 2014-15. The state did not defer apportionment payments for fiscal year 2014-15.
- Cash provided 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. Cash provided by capital and related financing activities increased as a result of the issuance of \$145.0 million in general obligation bonds related to Measure AA.
- 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.