



**SANTA MONICA  
COMMUNITY COLLEGE  
DISTRICT**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2016**

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2016

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Santa Monica Community College District  
Santa Monica, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, and the aggregate remaining fund information of Santa Monica Community College District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic 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 misstatements, 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, and the 2015-2016 *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position and cash flows thereof 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 the Management's Discussion and Analysis, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 76 through 77 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates 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 basic 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the District's internal control over financial reporting and compliance.

Vannex, Time, Day & Co., LLP

Rancho Cucamonga, California  
December 19, 2016



## **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, 2016. 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 any students who continue with their higher education studies. The District offers programs of remediation and reentry; provides exemplary 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 Santa Monica Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statements No. 34 and 35 using the Business Type Activity (BTA) model. The California Community College Chancellor's Office (CCCCO), through its Fiscal Standards and Accountability Committee, recommended that all community college districts use the 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 its 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

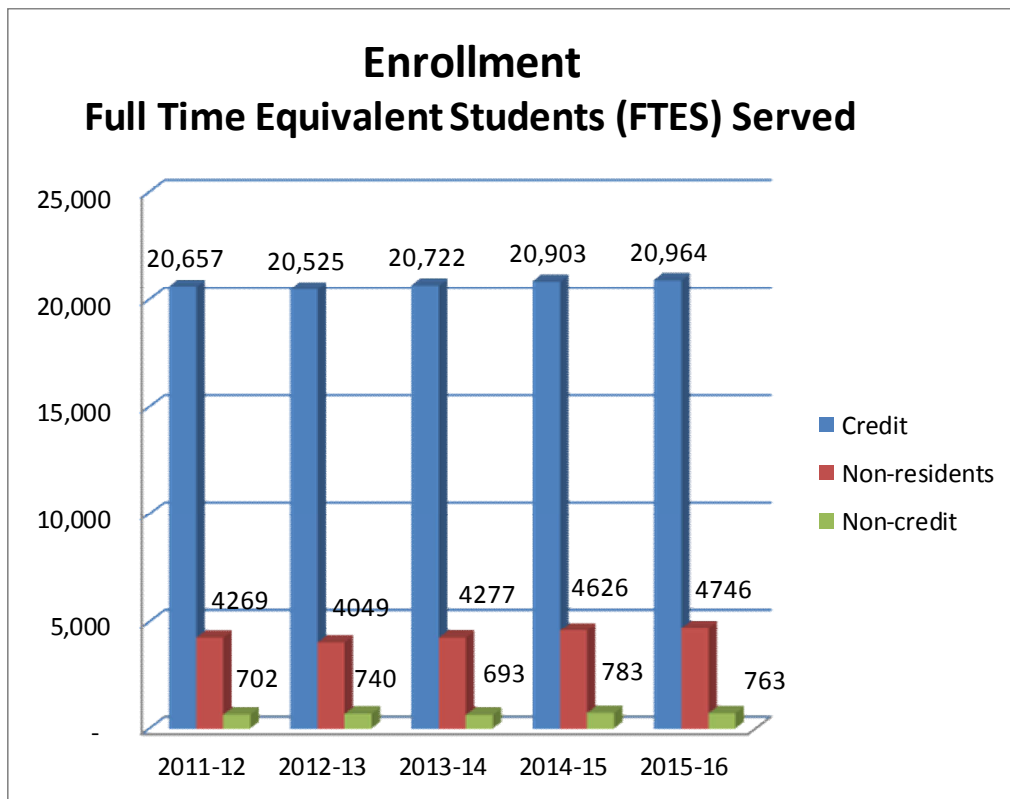
## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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### Selected Highlights

- The District's primary funding sources are "State Apportionment" received from the State of California and fees generated by serving non-resident students. The primary basis of both of these funding sources is how many Full-Time Equivalent Students (FTES) the District serves. During 2015-2016, total FTES served increased from 26,312 to 26,473 (approximately 0.6 percent). For 2016-2017, the District plans to serve 200 FTES (approximately 0.8 percent) less than the 2015-2016 level of FTES due to a reduction in demand.



- As reported to the State Chancellor's Office on the Annual Financial and Budget Report (CCFS-311), the District ended the 2015-2016 fiscal year with an Unrestricted General Fund balance of \$23,925,591 or 14.4 percent of total expenditures and transfers.
- During 2015-2016, the District made significant progress on the following major capital construction projects: Malibu Site Acquisition and Facility; Early Childhood Development and Childcare Facility; Student Services Building; Madison East Wing Seismic Upgrade; Emergency Lighting, Fire Alarm and Security System Upgrade; Health, PE, Fitness, Dance Building Replacement with Central Plant; Center for Media and Design; Environmental Performance Improvements - Central Plant Connections; Energy Efficiency and the Infrastructure and Technology Relocation Project.



# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2016**

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### **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 accumulated depreciation.

The Net Position is divided into three major categories. The first category, invested in capital assets, which is the equity amount in property, plant and equipment owned by the District. The second category, restricted net position, which is equity that must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use. The final category, unrestricted net position, which is available to the District for any lawful purpose of the District.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

The Statement of Net Position as of June 30, 2016 and June 30, 2015 are summarized below:

(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Current Assets		
Cash and investments	\$ 259,000	\$ 306,455
Accounts receivable (net)	9,967	8,903
Other current assets	4,043	4,063
Total Current Assets	<u>273,010</u>	<u>319,421</u>
Capital Assets (net)	<u>473,825</u>	<u>403,775</u>
Total Assets	<u>746,835</u>	<u>723,196</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charge on refunding	7,205	7,882
Deferred outflows related to pension	37,806	10,508
Total Deferred Outflows of resources	<u>45,011</u>	<u>18,390</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	62,378	48,130
Current portion of long-term debt	21,064	19,979
Total Current Liabilities	<u>83,442</u>	<u>68,109</u>
Long-Term Obligations	<u>674,037</u>	<u>657,689</u>
Total Liabilities	<u>757,479</u>	<u>725,798</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to pension	<u>32,431</u>	<u>32,902</u>
<b>NET POSITION</b>		
Net investment in capital assets	123,193	107,186
Restricted	48,607	49,776
Unrestricted	(169,864)	(174,076)
Total Net Position	<u>\$ 1,936</u>	<u>\$ (17,114)</u>

- Approximately 97 percent of the cash balance is deposited with or in process of being transferred to, the Los Angeles County Treasury. The remaining balance consists of deposits with various financial institutions.
- Capital assets, net of accumulated depreciation increased due to the capital construction and planning activity associated with the following major projects: Malibu Site Acquisition and Facility; Early Childhood Development and Childcare Facility; Student Services Building; Madison East Wing Seismic Upgrade; Emergency Lighting, Fire Alarm and Security System Upgrade; Health, PE, Fitness, Dance Building Replacement with Central Plant; Center for Media and Design; Environmental Performance Improvements - Central Plant Connections; Energy Efficiency and the Infrastructure and Technology Relocation Project. 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, 2016**

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- Deferred Outflow of Resources Related to Pensions increased primarily due to increased District contributions and a positive difference between the projected and actual investment earnings of the State pension program.
- Accounts Payable increased primarily as a result of increased capital construction activity. Please refer to the Capital Assets section for more information.
- Long-term obligations increased predominantly as a result of the recognition of increases in the unfunded liability of postemployment health care benefits and net pension obligations.
- In 2014-2015, the District implemented GASB Statements No. 68 and No. 71, which were issued with the "primary objective to improve accounting and financial reporting by State and local governments for pensions." The statement requires the District to reflect on the financial statements its proportional share of the unfunded liability of the Statewide pension funds, CalSTRS and CalPERS, by recording deferred outflows of resources, net pension obligation and deferred inflows of resources. Deferred outflows of resources represent contributions made during the fiscal year that are removed from expenses and are recorded as deferred outflows of resources. This amount will be recognized as a reduction of the net pension liability in the subsequent year. The liability of employers and non-employers contributing to employees for benefits provided through a defined benefit pension plan is recorded as net pension obligation. Deferred inflows of resources represent an acquisition of net assets by the District that is applicable to a future reporting period. The deferred inflows of resources result from the difference between the estimated and actual return on pension plan investments. This amount is deferred and amortized over 5 years. Due mainly to an increase in the net pension liability at the State level, the District's Net Pension Obligation, which represents the District's portion of the State liability, has increased by approximately 23.2 percent from the prior year.

Net Pension Obligation is categorized as follows:

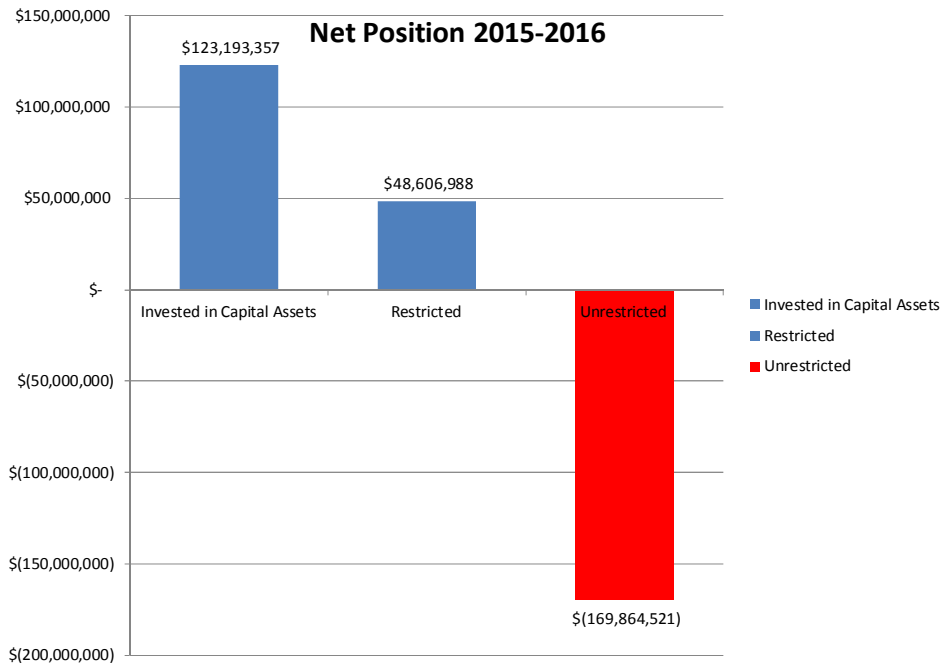
<b>Santa Monica College Net Pension Obligation</b>	
<b>Pension Fund</b>	<b>Obligation</b>
<b>CalSTRS</b>	\$ 97,899,000
<b>CalPERS</b>	\$ 45,285,610
<b>CalPERS Safety</b>	\$ 2,480,980
<b>Total</b>	<b>\$ 145,665,590</b>

- Total net position increased mainly due to an increase in both capital assets and the Unrestricted General Fund ending fund balance.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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### 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 2015-2016 and 2014-2015 is provided on the following page.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2016**

The Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2016 and June 30, 2015 are summarized below:

(Amounts in thousands)

	2016	2015
Operating Revenues		
Tuition and fees	\$ 60,441	\$ 55,162
Auxiliary sales and charges	6,452	7,816
Total Operating Revenues	66,893	62,978
Operating Expenses		
Salaries and benefits	169,938	160,111
Supplies, maintenance, equipment and repairs	36,824	36,310
Student Financial Aid	34,906	37,116
Depreciation	9,493	6,926
Total Operating Expenses	251,161	240,463
Loss on Operations	(184,268)	(177,485)
Nonoperating Revenues (Expenses)		
State apportionments	76,663	76,018
Property taxes	54,491	48,681
Grants and contracts	53,531	57,778
State revenues	22,141	6,038
Net interest expense	(15,533)	(13,242)
Other nonoperating revenues	7,743	6,755
Total Nonoperating Revenue (Expenses)	199,036	182,028
Other Revenues		
State and local capital income	4,282	908
Change in Net Position	\$ 19,050	\$ 5,451

- In 2015-2016, the District served 161 more FTES than in the prior year. This increase in FTES served, coupled with an increase in non-resident tuition, resulted in an increase in tuition and fees over the prior year.
- Financial Aid expenses decreased due to an improved economy resulting in a decrease in students who qualified for financial aid.
- Total operating expenses increased primarily as a result of increases in salaries and benefits. These increases were principally due to increased hiring of both academic and classified personnel, negotiated increases to the salary schedule, a State mandated increase in the contribution rates to the pension systems (CalSTRS and CalPERS), recognition of State on-behalf payments to the pension systems in accordance with GASB Statement No. 68 and an increased deposit into the District's irrevocable trust for other postemployment benefits (OPEB) in accordance with the District's funding plan to address GASB Statement No. 45 retiree health and welfare related liabilities. While there were increases in the expenses related to salary and benefits from the prior year, the percentage of salaries and benefits to total expenses and transfers, in the unrestricted general fund, decreased from approximately 89.2 percent in 2014-2015 to 88.6 percent in 2015-2016.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2016**

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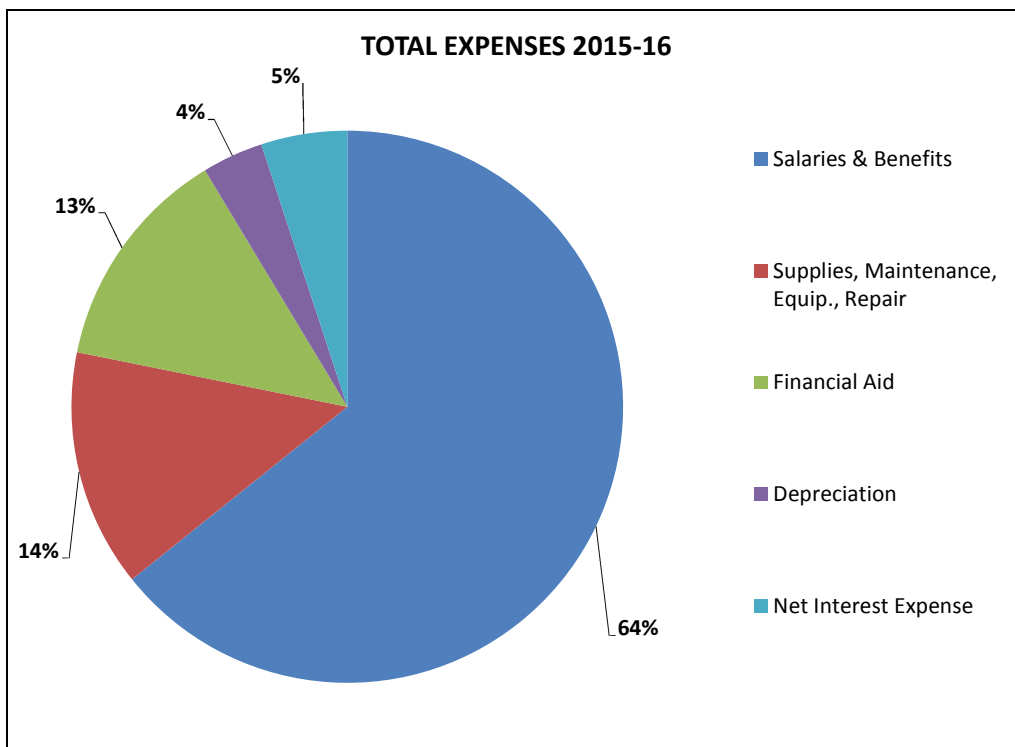
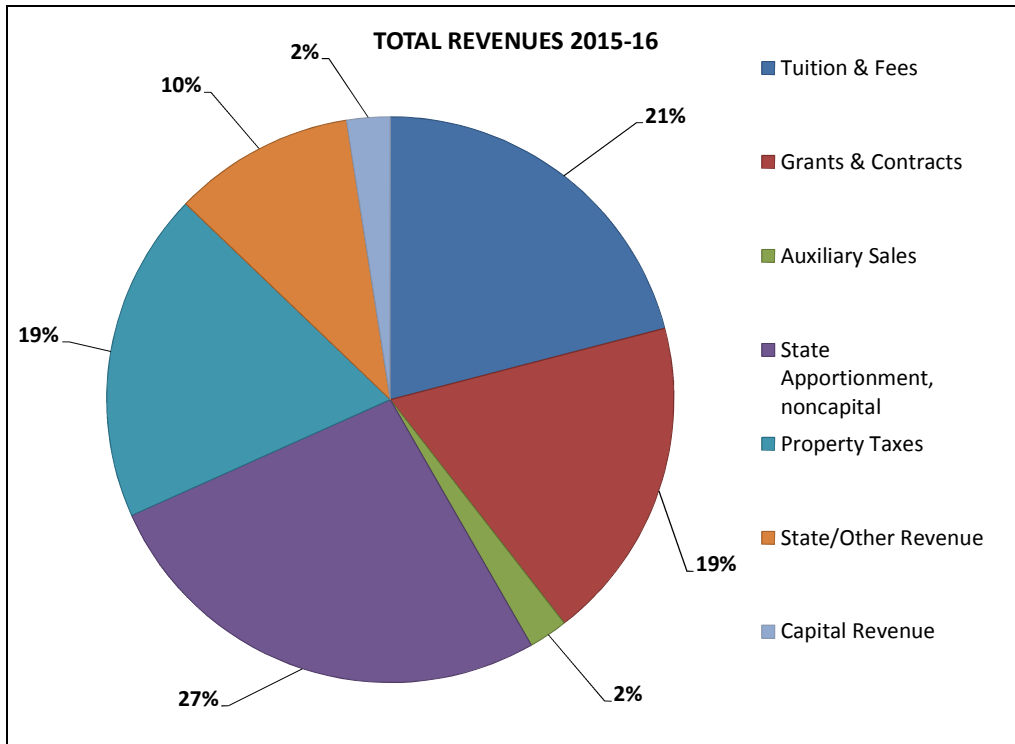
- In 2014-2015, the District recognized the payments made by the State to the pension systems on behalf of the District in Grants and contracts. For 2015-2016, the District made a classification change and these payments are now recognized as State Revenues. This change in presentation is the primary reason for the decrease in revenue related to Grants and contracts.
- State apportionments are generated based on the Full-Time Equivalent Students (FTES) reported to the State by the District and is adjusted upward 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.
- Local property taxes are received through the Auditor-Controller's Office for Los Angeles County. In 2015-2016, local property taxes received by the District increased from prior year by approximately 12 percent 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.
- In 2015-2016 the District received approximately \$12 million in one-time funding from the State in the form of a Mandated Cost Block Grant. This one-time funding coupled with the change in classification related to the State on-behalf payments to the pension systems has resulted in the year over year increase in State revenues.
- 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.
- State and local capital income increased primarily as a result of capital construction projects related to State provided Scheduled Maintenance and Prop 39 - Clean Energy Project funding.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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### Statement of Functional Expense

Operating expenses are reported by natural classification in the statement of revenues, expenses and change in net position. A schedule of expenses by function is show below:

	Salaries	Employee Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	\$ 60,921	\$ 20,958	\$ 810	\$ -	\$ -	\$ 82,689
Academic support	12,036	3,861	605	-	-	16,502
Student services	22,313	6,698	2,977	-	-	31,988
Plant operations and maintenance	5,139	2,343	1,277	-	-	8,759
Instructional support services	15,236	9,304	3,553	-	-	28,093
Community services and economic development	1,214	385	107	-	-	1,706
Ancillary services and auxiliary operations	6,699	2,305	3,136	-	-	12,140
Student aid	-	-	-	34,906	-	34,906
Physical property and related acquisitions	392	135	24,359	-	-	24,886
Unallocated depreciation	-	-	-	-	9,493	9,493
Total	<u>\$ 123,950</u>	<u>\$ 45,989</u>	<u>\$ 36,824</u>	<u>\$ 34,906</u>	<u>\$ 9,493</u>	<u>\$ 251,162</u>

### 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 22 of the financial statements.



# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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(Amounts in thousands)

	<u>2016</u>	<u>2015</u>
Cash Provided by (Used in)		
Operating activities	\$ (166,001)	\$ (167,591)
Noncapital financing activities	188,618	182,297
Capital financing activities	(71,912)	111,943
Investing activities	<u>1,840</u>	<u>1,302</u>
Net Increase (Decrease) in Cash	(47,455)	127,951
Cash, Beginning of Year	306,455	178,504
Cash, End of Year	<u>\$ 259,000</u>	<u>\$ 306,455</u>

- 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 and an increased workforce; to/on behalf of employees as a result of increased benefit costs; and to/on behalf of outside vendors needed to meet the obligations of increased grant activity.
- 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 net increase in cash provided by noncapital financing activities is primarily a result of increased property taxes and one-time funding from the State for the Mandate Cost Block Grant.
- 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 decreased as a result of an increase in capital construction activity.
- Cash from investing activities is primarily from cash invested through the Los Angeles County Investment Pool and interest earned on cash in banks. Cash from investing activities increased mainly due to higher interest rates.

### **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 a 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, 2016

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### Capital Assets

As of June 30, 2016, the District has governmental capital assets of \$584.1 million, consisting of land, buildings and building improvements, construction in progress, vehicles, office and instructional equipment, with an accumulated depreciation of \$110.3 million for net governmental capital assets of \$473.8 million. Net additions to capital assets in 2015-2016 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 site/site improvements and construction in process: Malibu Site Acquisition and Facility; Early Childhood Development and Childcare Facility; Student Services Building; Madison East Wing Seismic Upgrade; Emergency Lighting, Fire Alarm and Security System Upgrade; Health, PE, Fitness, Dance Building Replacement with Central Plant; Center for Media and Design; Environmental Performance Improvements – Central Plant Connections; Energy Efficiency 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:

(Amounts in thousands)

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Land and construction in progress	\$ 189,738	\$ 77,950	\$ (1,452)	\$ 266,236
Buildings and improvements	293,215	1,401	-	294,616
Furniture and equipment	21,722	1,644	(62)	23,304
Subtotal	504,675	80,995	(1,514)	584,156
Accumulated depreciation	(100,900)	(9,493)	62	(110,331)
	<u>\$ 403,775</u>	<u>\$ 71,502</u>	<u>\$ (1,452)</u>	<u>\$ 473,825</u>

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2016**

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### Debt

At June 30, 2016, the District had approximately \$695.1 million in debt: \$8.1 million from compensated absences/load banking, \$46.2 million from GASB Statement No. 45, other postemployment health care benefit liability, \$5.2 million from capital lease, \$15.5 million from obligations under certificates of participation, \$474.4 million from general obligation bonds, and \$145.7 million from GASB Statements No. 68 and No. 71, pension liability. 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:

(Amounts in thousand)

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
General obligation bonds	\$ 487,297	\$ 4,461	\$ (17,345)	\$ 474,413
Certificates of Participation	17,073	-	(1,553)	15,520
Other liabilities	173,297	42,213	(10,342)	205,168
Total Long-Term Debt	<u>\$ 677,667</u>	<u>\$ 46,674</u>	<u>\$ (29,240)</u>	<u>\$ 695,101</u>
Amount due within one year				<u>\$ 21,064</u>

### **Budget for the Future - Unrestricted General Fund – 2016-2017**

In this section, the District highlights some of the major budgetary assumptions presented in the 2016-2017 Adopted Budget to assist the reader in understanding the long-term fiscal stability of the Institution.

#### **Overview**

For 2016-2017, the District is projecting a revenue decrease from prior year actual of approximately 5.3 percent or \$9,352,432. Expenditures are projected to increase 4.3 percent or \$7,132,934. The net effect of the projected changes in revenue and expenditures will result in a projected operating deficit, with one-time items, of \$6,341,352 and a projected ending Unrestricted General Fund Balance of \$17,584,239, including designated reserves, or 10.16 percent of total expenditures and transfers.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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### Revenues

#### Summary

The Unrestricted General Fund Revenue budget accounts for all of the District's operational revenues. Based on the 2015-2016 State adopted budget, updated with the latest information provided by the Chancellor's Office as of September, the District's Adopted Budget assumes a 0.00 percent inflationary adjustment (*COLA*) increase (\$0.00), a 1.0 percent Access/Growth which will not be achieved due to declining enrollment, and an increase in base of \$1,427,229 for ongoing operating expenditures. The District also assumes receiving one-time funding of \$2,002,249 from the State as payment for prior-year State mandate claims. The net effect of the changes in revenues has resulted in a projected revenue decrease from prior year actual of approximately 5.3 percent or \$9,352,432 with the single largest factor for the year over year decline in revenue being the non-reoccurrence of \$13,004,230 in one-time revenue that was received in 2015-2016.

#### State Revenue – Principal Apportionment

State funding, in the form of Principal Apportionment, constitutes 71 percent (\$117,697,824) 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. The District receives Principal Apportionment through a combination of direct State funds known as General Apportionment, coupled with enrollment fees, property taxes (*including Redevelopment Agency Funds*) and the Education Protection Account (*EPA*), which was 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.

The District projects to serve a total of 20,763.86 Credit FTES in 2016-2017, a decrease of 200 Credit FTES from the prior year, due to lower demand.

#### State Revenue - Other

The adopted budget includes an increase related to the "*State On-behalf Pension Contribution to STRS*" and a decrease related to one-time funding received in 2015-2016 for the establishment of a baccalaureate pilot program which will not repeat in 2016-2017. All other State Revenue categories are projected to remain at approximately the same level as fiscal year 2015-2016.

#### Property Taxes

Based on preliminary projections, the District will receive \$24,523,953 in property tax receipts in 2016-2017. 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 projected fiscal year 2016-2017 non-Prop 20 lottery rate is \$144 per FTES.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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### Non-Resident Tuition

The District's largest revenue source, outside of Principal Apportionment, is Non-resident Tuition/Intensive ESL. For 2016-2017, the District did not increase the fees related to Non-resident Tuition and is projecting the same enrollment level as the prior year. While there is not a projected increase in revenue related to Non-resident Tuition/Intensive ESL, the District is projecting to receive approximately \$33 million in related revenue. This revenue provides the District with financial stability not enjoyed by many other Districts as this funding is locally generated and not subject to the budget changes of the State.

### Expenditures

#### Summary

The Unrestricted General Fund Expenditure budget accounts for all of the District's operational expenditures. The District is projecting expenditure increases of approximately \$7,132,934 or 4.3 percent compared with prior year actuals. The breakdown of expenditures is as follows: 88.4 percent on salaries and benefits, 10.4 percent on contracts and services, 0.6 percent on supplies, 0.4 percent on equipment, technology replacement and total cost of ownership (TCO), and 0.2 percent on transfers/financial aid. For fiscal year 2016-2017, the largest projected expenditure increases are as follows: Employment/Retirement Benefits (\$1,998,664), Net Effect of Hiring, Termination, and Adjustments (\$1,841,084), Salary Step and Longevity (\$1,081,303), Current Employee and Retiree Health and Welfare Benefits (\$1,004,384), Supplies, contracts and equipment (\$894,272), Vacancy List (\$779,417), Other Postemployment Benefits (OPEB) contribution (\$500,000) and increase in State *on-behalf* pension contribution to STRS (\$448,037).

#### Salary and Benefits

Salary and benefit expenditure projections reflect appropriate step, column and longevity increases for qualified employees. The changes in salary, benefit and vacancy line items account for approximately \$6,038,219 of the increase in expenditures from prior year actuals. For fiscal year 2016-2017, salaries and benefits represent 88.4 percent of total expenditures and transfers for the District's unrestricted general fund, a 0.2 percent decrease from the prior year actuals.

#### Supplies, Services and Transfers

For fiscal year 2016-2017, supplies, services, capital, and transfers represent 11.6 percent 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 percent, Bank Fees and Bad Debt 11 percent, Repairs and Maintenance of Equipment 10 percent, Advertising 9 percent, Other Contract Services 9 percent, Software Licensing 7 percent, Consultants 5 percent, Legal Services (*including Personnel Commission*) 4 percent, Online Course Management System 4 percent, District Copiers 3 percent, Postage and Delivery Services 3 percent, Conferences and Training 3 percent, Off-Campus Printing 3 percent, LACOE Contracts (*i.e. PeopleSoft, HRS*) 2 percent, Professional Growth 1 percent, Memberships and Dues 1 percent, Audit 1 percent, Recruiting-Students 1 percent and Other Services (*i.e. Repair-Facility, Field Trips, Fingerprinting, Board Meetings, etc.*) 3 percent.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2016**

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### Designated Reserves

The Designated Reserves serve to allocate a portion of the projected ending unrestricted fund balance towards future anticipated expenditures and/or purposes. Designated Reserves help to maintain fiscal stability by recognizing the future expenditure and its possible effect on future fund balances. For 2016-2017, there are two line items in the Designated Reserves including the Classified Employee Welfare Fund and a Reserve for Future STRS and PERS increases. The "Classified Employee Welfare Fund" was established as part of the District's health benefit plan changes for the sole purpose of providing reimbursement to CSEA unit members who changed health plans in 2011 from PERSCare to a non PERSCare plan offered by the District and who incurred expenses for health care that would have been covered by PERSCARE and were not covered by the new insurance plan. The "Reserve for Future STRS and PERS Increases" line item has been established to partially offset projected increases in District STRS and PERS contributions through 2020-2021.

### 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 2016-2017 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.

### ***CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT***

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Santa Monica Community College District, Robert G. Isomoto, Vice President of Business and Administration.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF NET POSITION - PRIMARY GOVERNMENT  
JUNE 30, 2016**

<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 6,672,861
Investments	252,327,389
Accounts receivable	9,217,533
Student receivable	749,384
Due from fiduciary funds	328,192
Prepaid expenses	1,693,145
Inventories	2,021,082
<b>Total Current Assets</b>	<u>273,009,586</u>
<b>Noncurrent Assets</b>	
Nondepreciable capital assets	266,236,071
Depreciable capital assets, net of depreciation	207,588,644
<b>Total Noncurrent Assets</b>	<u>473,824,715</u>
<b>TOTAL ASSETS</b>	<u>746,834,301</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charge on refunding	7,205,363
Deferred outflows of resources related to pensions	37,806,007
<b>Total Deferred Outflows of Resources</b>	<u>45,011,370</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	32,908,385
Accrued interest payable	7,124,394
Due to fiduciary funds	213,498
Unearned revenue	22,131,759
General obligation bonds payable - current portion	19,300,000
Certificates of Participation - current portion	1,530,000
Capital Lease obligations - current portion	234,150
<b>Total Current Liabilities</b>	<u>83,442,186</u>
<b>Noncurrent Liabilities</b>	
Compensated absences	5,187,339
Load banking	2,965,722
General obligation bonds payable - noncurrent portion	455,113,642
Certificates of Participation - noncurrent portion	13,989,589
Capital Lease obligations - noncurrent portion	4,937,117
Other postemployment benefits	46,177,849
Aggregate net pension obligation	145,665,590
<b>Total Noncurrent Liabilities</b>	<u>674,036,848</u>
<b>TOTAL LIABILITIES</b>	<u>757,479,034</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	32,430,813
<b>NET POSITION</b>	
Net investment in capital assets	\$ 123,193,357
Restricted for:	
Debt service	24,129,551
Capital projects	14,666,702
Educational programs	8,045,967
Other activities	1,764,768
Unrestricted	(169,864,521)
<b>TOTAL NET POSITION</b>	<u>\$ 1,935,824</u>

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT  
FOR THE YEAR ENDED JUNE 30, 2016**

<b>OPERATING REVENUES</b>	
Student Tuition and Fees	\$ 76,511,746
Less: Scholarship discount and allowance	(16,070,680)
Net tuition and fees	<u>60,441,066</u>
Other Operating Revenues	<u>6,452,263</u>
<b>TOTAL OPERATING REVENUES</b>	<u><u>66,893,329</u></u>
<b>OPERATING EXPENSES</b>	
Salaries	123,949,290
Employee benefits	45,989,132
Supplies, materials, and other operating expenses and services	34,422,454
Student financial aid	34,906,161
Equipment, maintenance, and repairs	2,401,884
Depreciation	9,492,839
<b>TOTAL OPERATING EXPENSES</b>	<u><u>251,161,760</u></u>
<b>OPERATING LOSS</b>	<u><u>(184,268,431)</u></u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
State apportionments, noncapital	76,662,815
Local property taxes, levied for general purposes	26,075,185
Taxes levied for other specific purposes	28,416,191
Federal grants	36,778,301
State grants	16,752,637
State taxes and other revenues	22,141,704
Investment income	1,839,632
Interest expense on capital related debt	(17,657,411)
Investment income on capital asset-related debt, net	284,237
Transfer to fiduciary funds	(30,000)
Other nonoperating revenue	7,773,003
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u><u>199,036,294</u></u>
<b>INCOME BEFORE OTHER REVENUES</b>	<u><u>14,767,863</u></u>
State revenues, capital	2,608,296
Local revenues, capital	1,673,343
<b>TOTAL OTHER REVENUES</b>	<u><u>4,281,639</u></u>
<b>CHANGE IN NET POSITION</b>	19,049,502
<b>NET POSITION, BEGINNING OF YEAR</b>	(17,113,678)
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 1,935,824</u></u>

The accompanying notes are an integral part of these financial statements.



# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2016

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### CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 61,949,772
Payments to vendors for supplies and services	(43,097,055)
Payments to or on behalf of employees	(156,399,850)
Payments to students for scholarships and grants	(34,906,161)
Other operating receipts	6,452,263
<b>Net Cash Flows From Operating Activities</b>	<b>(166,001,031)</b>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State apportionments	74,152,434
Non-capital grant and contracts	58,528,525
Property taxes - nondebt related	26,075,185
State taxes and other apportionments	20,375,380
Other nonoperating receipts	9,487,239
<b>Net Cash Flows From Noncapital Financing Activities</b>	<b>188,618,763</b>

### CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	(74,688,267)
Proceeds from capital lease	5,206,977
State revenue, capital projects	3,931,210
Local revenue, capital projects	350,429
Property taxes - related to capital debt	29,328,565
Principal paid on capital debt	(24,196,536)
Interest paid on capital debt	(12,128,623)
Interest received on capital asset-related debt	284,237
<b>Net Cash Flows From Capital Financing Activities</b>	<b>(71,912,008)</b>

### CASH FLOWS FROM INVESTING ACTIVITIES

Interest received from investments	1,839,632
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### NET CHANGE IN CASH AND CASH EQUIVALENTS

(47,454,644)

### CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

306,454,894

### CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 259,000,250

The accompanying notes are an integral part of these financial statements.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, Continued FOR THE YEAR ENDED JUNE 30, 2016

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### RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating Loss	<u>\$ (184,268,431)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities	
Depreciation	9,492,839
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows:	
Receivables	(49,376)
Inventories	38,962
Prepaid expenses	(399,298)
Accounts payable	3,433,337
Unearned revenue	1,558,082
Compensated absences	509,947
Load banking	(352,884)
Deferred outflows related to pensions	(27,297,693)
Deferred inflows related to pensions	(471,684)
Aggregate net pension obligation	27,425,460
Other postemployment benefits obligation (OPEB)	4,379,708
<b>Total Adjustments</b>	<u>18,267,400</u>
<b>Net Cash Flows From Operating Activities</b>	<u><u>\$ (166,001,031)</u></u>

### CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash in banks	\$ 6,672,861
Cash in county treasury	252,327,389
<b>Total Cash and Cash Equivalents</b>	<u><u>\$ 259,000,250</u></u>

### NONCASH TRANSACTIONS

On behalf payments for benefits	<u><u>\$ 3,975,244</u></u>
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The accompanying notes are an integral part of these financial statements.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2016**

	<b>Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,943,348	\$ 13,841,411
Investments	1,088,911	-
Accounts receivable	48	456,084
Due from primary government	154,990	58,508
Prepaid expenses	-	2,372
<b>Total Assets</b>	<u>3,187,297</u>	<u>\$ 14,358,375</u>
<b>LIABILITIES</b>		
Accounts payable	1,428	\$ 764,287
Due to primary government	-	328,192
Due to student groups	-	13,265,896
<b>Total Liabilities</b>	<u>1,428</u>	<u>\$ 14,358,375</u>
<b>NET POSITION</b>		
Unreserved	<u>3,185,869</u>	
<b>Total Net Position</b>	<u>\$ 3,185,869</u>	

The accompanying notes are an integral part of these financial statements.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FOR THE YEAR ENDED JUNE 30, 2016

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	<b>Trust Funds</b>
<b>ADDITIONS</b>	
Local revenues	\$ 1,509,937
<b>DEDUCTIONS</b>	
Books and supplies	172,811
Services and operating expenditures	1,029,798
Capital outlay	1,966
<b>Total Deductions</b>	<u>1,204,575</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfer from primary government	30,000
Other uses	(325,289)
<b>Total Other Financing Sources (Uses)</b>	<u>(295,289)</u>
<b>Change in Net Position</b>	10,073
<b>Net Position - Beginning</b>	3,175,796
<b>Net Position - Ending</b>	<u>\$ 3,185,869</u>

The accompanying notes are an integral part of these financial statements.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### **NOTE 1 - ORGANIZATION**

Santa Monica Community College District (the District) was established in 1929 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of the surrounding area. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates one college and several locations within Los Angeles County. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61. The District is classified as a Public Educational Institution under Internal Revenue Code Section 115 and is, therefore, exempt from Federal taxes.

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Financial Reporting Entity**

The District has adopted GASB Statement No. 61, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. As defined by accounting principles generally accepted in the United States of America and established by the GASB, the financial reporting entity consists of the primary government, the District, and the following component unit:

The 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. As of June 30, 2016, the Corporation has no assets or liabilities.

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

The 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.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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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.

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.

Separate financial statements for the three foundations can be obtained through the District.

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, and No. 39. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

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, 2016

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### BASIS OF ACCOUNTING

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees and auxiliary activities through the bookstore and cafeteria.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent students (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37, No. 38, and No. 39. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
  - Statement of Net Position - Primary Government
  - Statement of Revenues, Expenses, and Changes in Net Position - Primary Government
  - Statement of Cash Flows - Primary Government
  - Financial Statements for the Fiduciary Funds including:
    - Statement of Fiduciary Net Position
    - Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the Statement of Cash Flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

### **Investments**

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2016 are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

### **Restricted Assets**

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets represent investments required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance

### **Accounts Receivable**

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at \$826,379 for the year ended June 30, 2016.

### **Prepaid Expenses**

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30.

### **Inventories**

Inventories consist primarily of bookstore merchandise. Inventories are stated at cost, utilizing the weighted average method lower of cost or market. The cost is recorded as an expense as the inventory is consumed.



# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### **Capital Assets and Depreciation**

Capital assets are long-lived assets of the District as a whole and include land, construction in progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of \$5,000 or more and an estimated useful life greater than one year. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction in progress as the projects are constructed.

Depreciation of capital assets is computed and recorded utilizing the straight-line method with half-year conventions. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 50 years; improvements, 20 years; equipment, 10 years; vehicles, 8 years; and technology 5 years.

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.

### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the entity-wide financial statements.

### **Debt Issuance Costs, Premiums, and Discounts**

Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs, are amortized over the life of the bonds using the straight-line method.

### **Deferred Charge on Refunding**

Deferred charge on refunding is amortized using the straight-line method over the remaining life of the new debt.

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt and for pension related items

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### **Pensions**

For purposes of measuring the new pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

### **Compensated Absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The current portion of unpaid compensated absences is recognized upon the occurrence of relevant events. The District also participates in "load banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period. The liability for this benefit is reported on the entity-wide financial statements.

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, retirement credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Retirement credit for unused sick leave is applicable to all academic employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

### **Unearned Revenue**

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized. Unearned revenue includes (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

### **Noncurrent Liabilities**

Noncurrent liabilities include general obligation bonds and certificates of participation, compensated absences, load banking, capital lease and Net OPEB obligations with maturities greater than one year.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Net Position

GASB Statements No. 34 and No. 35 report equity as "Net Position" and represent the difference between assets and liabilities. The net position is classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

**Net Investment in Capital Assets** consists of capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. To the extent debt has been incurred, but not yet expended for capital assets, such accounts are not included as a component invested in capital assets – net of related debt.

**Restricted:** Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

**Unrestricted:** Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. At June 30, 2016, the District reported \$48,606,988 in restricted net position.

### State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

### Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Los Angeles bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

The voters of the District passed a General Obligation Bond in 2002, 2004 and 2008 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are assessed, billed, and collected as noted above and remitted to the District when collected.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### **Scholarships, Discounts, and Allowances**

Student tuition and fee revenue is reported net of scholarships, discounts, and allowances. Fee waivers approved by the Board of Governors are included within the scholarships, discounts, and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf.

### **Federal Financial Assistance Programs**

The District participates in federally funded Pell Grants, SEOG Grants, and Federal Work-Study programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. These programs are audited in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

### **Estimates**

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

### **Inter-fund Activity**

Inter-fund transfers and inter-fund receivables and payables are eliminated during the consolidation process in the Primary Government and Fiduciary Funds' financial statements, respectively.

### **Change in Accounting Principles**

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of State and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement, effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of GASB Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of GASB Statement No. 68 are effective for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of State and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of GASB Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures, for both the qualifying external investment pools and their participants, include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

### **New Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, No. 43, and No. 50, *Pension Disclosures*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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This Statement replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 30, 2017. Early implementation is encouraged.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to State or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of GASB Statement No. 68 applied to the financial statements of all State and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of State or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a State or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of State or local governmental employers and to employees of employers that are not State or local governmental employers; and (3) has no predominant State or local governmental employer (either individually or collectively with other State or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment to GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment to GASB Statement No. 14*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*, and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.



# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### NOTE 3 - DEPOSITS AND INVESTMENTS

#### Policies and Practices

The District is authorized under California *Government Code* to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

**Investment in County Treasury** - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section (ECS) 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

#### General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

### Summary of Deposits and Investments

Deposits and investments of as of June 30, 2016, consist of the following:

Primary government	\$ 259,000,250
Fiduciary funds	16,873,670
Total Deposits and Investments	<u>\$ 275,873,920</u>
Cash on hand and in banks	\$ 22,432,620
Cash in revolving	25,000
Investments	253,416,300
Total Deposits and Investments	<u>\$ 275,873,920</u>

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by primarily investing in the Los Angeles County Investment Pool and money market funds evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District maintains an investment of \$252,342,627 with the Los Angeles County Investment Pool with a weighted maturity of 608 days. In addition, the District also has an investment of \$1,073,673 in Money Market funds.

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the Los Angeles County Investment Pool and Money Market funds are not required to be rated, nor have they been rated as of June 30, 2016.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### **Custodial Credit Risk - Deposits**

This 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 policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the District had \$22,236,044 exposed to custodial credit risk by being uninsured and collateral held by pledging bank's trust not in the District's name.

### **NOTE 4 - FAIR VALUE MEASUREMENTS**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Los Angeles County Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

The District's fair value measurements are as follows at June 30, 2016:

Investment Type	Fair Value	Level 1 Inputs	Uncategorized
Los Angeles County Investment Pool	\$ 252,637,363	\$ -	\$ 252,637,363
Money Market funds	1,073,673	1,073,673	-
Total	\$ 253,711,036	\$ 1,073,673	\$ 252,637,363

All assets have been valued using a market approach, with quoted market prices.

**NOTE 5 - ACCOUNTS RECEIVABLE**

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

	Primary Government	Fiduciary Funds
Federal Government		
Categorical aid	\$ 1,768,243	\$ -
State Government		
Apportionment	611,500	-
Categorical aid	958,725	-
Lottery	2,938,760	-
Other State sources	118,762	-
Local Sources		
Interest	701,380	-
KCRW	509,773	-
Performing Arts Center	404,637	-
Other local sources	1,205,753	456,132
Total	\$ 9,217,533	\$ 456,132
Student receivables	\$ 1,575,763	\$ -
Less allowance for bad debt	(826,379)	-
Student receivables, net	\$ 749,384	\$ -

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Capital Assets Not Being Depreciated				
Land	\$ 60,986,212	\$ -	\$ -	\$ 60,986,212
Construction in progress	128,752,051	77,950,439	1,438,861	205,263,629
Total Capital Assets Not Being Depreciated	<u>189,738,263</u>	<u>77,950,439</u>	<u>1,438,861</u>	<u>266,249,841</u>
Capital Assets Being Depreciated				
Buildings and improvements	293,214,845	1,387,164	-	294,602,009
Furniture and equipment	21,722,257	1,643,413	62,026	23,303,644
Total Capital Assets Being Depreciated	<u>314,937,102</u>	<u>3,030,577</u>	<u>62,026</u>	<u>317,905,653</u>
Total Capital Assets	<u>504,675,365</u>	<u>80,981,016</u>	<u>1,500,887</u>	<u>584,155,494</u>
Less Accumulated Depreciation				
Buildings and improvements	83,319,543	8,117,995	-	91,437,538
Furniture and equipment	17,580,423	1,374,844	62,026	18,893,241
Total Accumulated Depreciation	<u>100,899,966</u>	<u>9,492,839</u>	<u>62,026</u>	<u>110,330,779</u>
Net Capital Assets	<u>\$ 403,775,399</u>	<u>\$ 71,488,177</u>	<u>\$ 1,438,861</u>	<u>\$ 473,824,715</u>

Depreciation expense for the year was \$9,492,839.

Interest expense on capital related debt for the year ended June 30, 2016, was \$23,129,413. Of this amount, \$5,472,002 was capitalized.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 7 - ACCOUNTS PAYABLE**

Accounts payable for the District consisted of the following:

	Primary Government	Fiduciary Funds
Accrued payroll	\$ 9,345,718	\$ -
Construction	20,093,611	-
Other	3,469,056	765,715
Total	<u>\$ 32,908,385</u>	<u>\$ 765,715</u>

**NOTE 8 - UNEARNED REVENUE**

Unearned revenue consisted of the following:

	Primary Government
Federal financial assistance	\$ 13,546
State categorical aid	5,867,382
Apportionment	5,710,127
RDA Deferral	912,374
Enrollment fees	8,904,887
Other local	723,443
Total	<u>\$ 22,131,759</u>

**NOTE 9 - INTER-FUND TRANSACTIONS**

**Inter-fund Receivables and Payables (Due To/Due From)**

Inter-fund receivable and payable balances arise from inter-fund transactions and are recorded by all funds affected in the period in which transactions are executed. Inter-fund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2016, the primary government owed the fiduciary funds \$213,498 and the fiduciary funds owed the primary government \$328,192.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### Inter-fund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2015-2016 fiscal year, the amount transferred to the fiduciary funds from the primary government amounted to \$30,000.

### NOTE 10 - LONG-TERM OBLIGATIONS

#### Summary

The changes in the District's long-term obligations during the 2016 fiscal year consisted of the following:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
Bonds and Certificates of Participation (COPs)					
General obligation bonds	\$ 460,543,593	\$ 4,460,964	\$ 15,730,000	\$ 449,274,557	\$ 19,300,000
Premium on bonds	26,754,035	-	1,614,950	25,139,085	-
Certificates of Participation	16,305,000	-	1,465,000	14,840,000	1,530,000
Premium on COPs	767,973	-	88,384	679,589	-
Total Bonds and COPs	<u>504,370,601</u>	<u>4,460,964</u>	<u>18,898,334</u>	<u>489,933,231</u>	<u>20,830,000</u>
Other Liabilities					
Compensated absences	4,677,392	509,947	-	5,187,339	-
Load banking	3,318,606	-	352,884	2,965,722	-
Capital leases	5,262,492	5,206,977	5,298,202	5,171,267	234,150
Net OPEB obligation	41,798,141	9,070,651	4,690,943	46,177,849	-
Aggregate net pension obligation	118,240,130	27,425,460	-	145,665,590	-
Total Other Liabilities	<u>173,296,761</u>	<u>42,213,035</u>	<u>10,342,029</u>	<u>205,167,767</u>	<u>234,150</u>
Total Long-Term Obligations	<u>\$ 677,667,362</u>	<u>\$ 46,673,999</u>	<u>\$ 29,240,363</u>	<u>\$ 695,100,998</u>	<u>\$ 21,064,150</u>

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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### **Description of Debt**

Payments on the general obligation bonds are made by the bond interest and redemption fund. Payments on the certificates of participation are made from parking revenues in the restricted general fund and from non-resident capital surcharge and other sources within the capital outlay fund. Compensated absences will be paid from the fund for which the employee worked. Load banking is the responsibility of the General Fund in the year the employee utilizes the banked leave time. Capital lease payments will be made from the capital outlay fund. The net OPEB obligation is funded through payments for benefits and is reported within the fund the employees' salaries are charged. The aggregate net pension obligation will be paid by the fund for which the employee is currently working.

### **Remaining Outstanding Bonded Debt**

#### **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 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 3.00 percent to 5.00 percent payable semiannually on May 1 and November 1. 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. The principal balance outstanding at June 30, 2016 was \$2,117,678.

Series A 2007 bonds were issued on January 31, 2007 for \$11,999,987 of capital appreciation bonds. Interest rates range from 4.20 percent to 4.74 percent. 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. The principal balance outstanding at June 30, 2016 was \$15,106,299.

Series E 2010 bonds were issued on January 26, 2010 for \$10,998,993 of capital appreciation bonds. Interest rates range from 3.92 percent to 5.70 percent. 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. The principal balance outstanding at June 30, 2016 was \$14,883,902.

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. The interest rates range from 2.00 percent to 5.00 percent depending on the maturity date of the bond. The bonds were issued with maturity dates from August 1, 2013 through August 1, 2030. The principal balance outstanding at June 30, 2016 was \$102,985,000.

#### **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.



# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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Series C bonds were issued on March 24, 2009 for \$30,885,000 of current interest bonds and \$26,112,857 capital appreciation bonds. Interest rate ranges from 4.50 percent to 6.60 percent payable semiannually on August 1 and February 1. The 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. The principal balance outstanding at June 30, 2016 was \$69,306,576.

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. The interest rates range from 0.486 percent to 2.205 percent depending on the maturity date of the bond. The principal balance outstanding at June 30, 2016 was \$14,630,000.

### **Measure AA**

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.

Series A and A-1 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 5.00 percent and for Series A-1 range from 5.728 percent to 5.878 percent payable semiannually on February 1 and August 1. The Series A Bonds were issued with maturity dates from August 1, 2011 through August 1, 2023 and the Series A-1 Bond mature from August 1, 2024 through August 1, 2034. 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 principal balance outstanding for Series A and Series A-1 at June 30, 2016 was \$20,845,000 and \$66,865,000 respectively.

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 percent 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.

Series B bonds were issued on October 30, 2014 for \$121,100,000 of current interest bonds and \$23,895,829 capital appreciation bonds. Interest rates range from 1.00 percent to 5.00 percent payable semiannually on August 1 and February 1. The bonds were issued with maturity dates from August 1, 2015 through August 1, 2044. The principal balance outstanding at June 30, 2016 was \$142,535,102.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Debt Maturity**

**General Obligation Bonds**

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 1, 2015	Issued/ Accretion	Redeemed	Outstanding June 30, 2016
2002, B	5/13/2004	5/1/2029	3.00%-5.00%	\$ 21,999,971	\$ 1,997,089	\$ 120,589	\$ -	\$ 2,117,678
2002, 2007 A	1/31/2007	8/1/2031	4.20%-4.74%	11,999,987	16,795,598	775,701	2,465,000	15,106,299
2002 E	1/26/2010	8/1/2026	3.92%-5.70%	10,998,993	14,148,255	735,647	-	14,883,902
2013A	6/5/2013	8/1/2030	2.00%-5.00%	108,405,000	105,480,000	-	2,495,000	102,985,000
2004, C	3/24/2009	8/1/2029	4.50%-6.60%	56,997,857	67,565,532	2,386,044	645,000	69,306,576
2013B	6/5/2013	8/1/2019	0.486%-2.205%	23,450,000	19,155,000	-	4,525,000	14,630,000
2008 A	1/26/2010	8/1/2023	5.00%	33,135,000	22,645,000	-	1,800,000	20,845,000
2008 A-1	1/26/2010	8/1/2034	5.728%-5.878%	66,865,000	66,865,000	-	-	66,865,000
2008 B	10/30/2014	8/1/2044	1.00%-5.00%	144,995,829	145,892,119	442,983	3,800,000	142,535,102
Subtotal General Obligation Bonds					460,543,593	4,460,964	15,730,000	449,274,557
Bond Premiums					26,754,035	-	1,614,950	25,139,085
					<u>\$ 487,297,628</u>	<u>\$ 4,460,964</u>	<u>\$ 17,344,950</u>	<u>\$ 474,413,642</u>

Election 2002, Measure U, Series B

The bonds mature through 2029 as follows:

Fiscal Year	Accreted		Total
	Principal	Interest	
2017	\$ -	\$ -	\$ -
2018	-	-	-
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022-2026	-	-	-
2027-2029	2,117,678	2,157,322	4,275,000
Total	<u>\$ 2,117,678</u>	<u>\$ 2,157,322</u>	<u>\$ 4,275,000</u>

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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Election 2002, Measure U, 2007 Series A

The bonds mature through 2032 as follows:

Fiscal Year	Principal	Accreted Interest	Total
2017	\$ 1,327,700	\$ 57,300	\$ 1,385,000
2018	1,270,782	114,218	1,385,000
2019	1,214,753	170,247	1,385,000
2020	1,160,519	224,481	1,385,000
2021	1,107,618	277,382	1,385,000
2022-2026	4,814,792	2,105,208	6,920,000
2027-2031	3,778,688	3,121,312	6,900,000
2032	431,447	953,553	1,385,000
Total	\$ 15,106,299	\$ 7,023,701	\$ 22,130,000

Election 2002, Measure U, Series E

The bonds mature through 2027 as follows:

Fiscal Year	Principal	Accreted Interest	Total
2017	\$ 882,693	\$ 17,307	\$ 900,000
2018	1,037,286	67,714	1,105,000
2019	1,139,914	135,086	1,275,000
2020	1,236,664	223,336	1,460,000
2021	1,318,352	326,648	1,645,000
2022-2026	7,592,387	3,882,613	11,475,000
2027	1,676,606	1,348,394	3,025,000
Total	\$ 14,883,902	\$ 6,001,098	\$ 20,885,000

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

2013 Series A Refunding

The bonds mature through 2031 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2017	\$ 3,410,000	\$ 4,568,150	\$ 7,978,150
2018	3,765,000	4,441,700	8,206,700
2019	4,170,000	4,285,500	8,455,500
2020	4,595,000	4,089,725	8,684,725
2021	5,095,000	3,847,475	8,942,475
2022-2026	33,965,000	14,931,725	48,896,725
2027-2031	47,985,000	5,281,575	53,266,575
Total	<u>\$ 102,985,000</u>	<u>\$ 41,445,850</u>	<u>\$ 144,430,850</u>

Election 2004, Measure S, Series C

The bonds mature through 2030 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Accreted Interest</u>	<u>Interest to Maturity</u>	<u>Total</u>
2017	\$ 1,320,000	\$ -	\$ 1,501,112	\$ 2,821,112
2018	3,425,000	-	1,385,787	4,810,787
2019	3,920,000	-	1,197,262	5,117,262
2020	4,445,000	-	977,681	5,422,681
2021	4,950,000	-	731,063	5,681,063
2022-2026	29,211,206	11,823,794	622,650	41,657,650
2027-2030	22,035,370	25,299,630	-	47,335,000
Total	<u>\$ 69,306,576</u>	<u>\$ 37,123,424</u>	<u>\$ 6,415,555</u>	<u>\$ 112,845,555</u>

2013 Series B Refunding

The bonds mature through 2020 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2017	\$ 6,080,000	\$ 186,818	\$ 6,266,818
2018	3,510,000	127,728	3,637,728
2019	3,440,000	67,341	3,507,341
2020	1,600,000	17,640	1,617,640
Total	<u>\$ 14,630,000</u>	<u>\$ 399,527</u>	<u>\$ 15,029,527</u>

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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Election 2008, Measure AA, Series A

The bonds mature through 2024 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2017	\$ 1,955,000	\$ 993,375	\$ 2,948,375
2018	2,120,000	891,500	3,011,500
2019	2,295,000	781,125	3,076,125
2020	2,480,000	661,750	3,141,750
2021	2,675,000	532,875	3,207,875
2022-2024	9,320,000	721,500	10,041,500
Total	<u>\$ 20,845,000</u>	<u>\$ 4,582,125</u>	<u>\$ 25,427,125</u>

Election 2008, Measure AA, Series A-1

The bonds mature through 2035 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2017	\$ -	\$ 4,416,045	\$ 4,416,045
2018	-	4,416,045	4,416,045
2019	-	4,416,045	4,416,045
2020	-	4,416,045	4,416,045
2021	-	4,416,045	4,416,045
2022-2026	8,200,000	21,617,629	29,817,629
2027-2031	27,585,000	15,398,512	42,983,512
2032-2035	31,080,000	4,396,625	35,476,625
Total	<u>\$ 66,865,000</u>	<u>\$ 63,492,991</u>	<u>\$ 130,357,991</u>

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

Election 2008, Measure AA, Series B

The bonds mature through 2045 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Accreted Interest</u>	<u>Interest to Maturity</u>	<u>Total</u>
2017	\$ 4,250,000	\$ -	\$ 4,918,000	\$ 9,168,000
2018	800,000	-	4,863,500	5,663,500
2019	110,000	-	4,849,850	4,959,850
2020	-	-	4,848,200	4,848,200
2021	370,000	-	4,838,950	5,208,950
2022-2026	8,305,000	-	23,316,875	31,621,875
2027-2031	20,209,233	2,005,767	20,574,725	42,789,725
2032-2036	30,508,179	10,456,821	15,188,600	56,153,600
2037-2041	24,777,690	24,852,310	13,515,125	63,145,125
2042-2045	53,205,000	-	4,725,875	57,930,875
Total	<u>\$ 142,535,102</u>	<u>\$ 37,314,898</u>	<u>\$ 101,639,700</u>	<u>\$ 281,489,700</u>

**Certificates of Participation**

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 percent to 5.0 percent for the length of the issuance.

Lease payments are required to be made by the District under the lease agreement on June 1, and December 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.

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.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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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 percent 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 annual requirement to amortize Certificates of Participation, outstanding as of June 30, 2016 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
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	1,735,000	430,160	2,165,160
2021	1,815,000	350,720	2,165,720
2022-2026	5,795,000	647,650	6,442,650
2027	720,000	19,440	739,440
Total	<u>\$ 14,840,000</u>	<u>\$ 3,170,350</u>	<u>\$ 18,010,350</u>

### Compensated Absences

At June 30, 2016, the liability for compensated absences was \$5,187,339.

### Load Banking

At June 30, 2016, the liability for load banking was \$2,965,722.

### Capital Leases

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. In May 2016 the District refinanced the original lease with the Municipal Financial Corporation for the acquisition of and installation of energy conservation and alternative energy measures.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2017	\$ 386,126
2018	405,998
2019	426,826
2020	448,657
2021	471,538
2022-2026	2,741,348
2027-2029	1,411,423
Total	6,291,916
Less: Amount Representing Interest	(1,120,649)
Present Value of Minimum Lease Payments	<u>\$ 5,171,267</u>

Current year expenditures for capital lease is approximately \$399,900. The District will receive no sublease rental revenues nor pay any contingent rentals for these leases.

### **Other Postemployment Benefits Obligation**

The District's annual required contribution for the year ended June 30, 2016, was \$8,999,025, and contributions made by the District during the year were \$4,690,943. Interest on the net OPEB obligation, change in value of the irrevocable trust and adjustments to the annual required contribution were \$2,716,879, \$(90,766) and \$(2,554,487), respectively, which resulted in an increase to the net OPEB obligation of \$4,379,708. As of June 30, 2016, the net OPEB obligation was \$46,177,849. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

### **Aggregate Net Pension Obligation**

At June 30, 2016, the liability for the aggregate net pension obligation amounted to \$145,665,590. See Note 13 for additional information.

### ***NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION***

#### **Plan Description**

The District administers a single-employer defined benefit plan for retiree healthcare benefits. The District provides postemployment 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 percent 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. Membership of the Plan consists of 425 retirees currently receiving benefits and 867 active full-time plan members.



# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional discretionary contributions made to the CalPERS irrevocable trust as determined by the Board of Trustees. For fiscal year 2015-2016, the District contributed \$4,690,943 to the Plan, of which \$3,190,943 was used for current premiums and the remaining \$1,500,000 was contributed to the CalPERS irrevocable trust.

### Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments 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 accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 8,999,025
Interest on net OPEB obligation	2,716,879
Change in value of irrevocable trust	(90,766)
Adjustment to annual required contribution	(2,554,487)
Annual OPEB cost (expense)	<u>9,070,651</u>
Total contributions	<u>(4,690,943)</u>
Increase in net OPEB obligation	4,379,708
Net OPEB obligation, beginning of the year	<u>41,798,141</u>
Net OPEB obligation, end of the year	<u><u>\$ 46,177,849</u></u>

### Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past three years is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2014	\$ 8,486,524	\$ 3,179,913	37%	\$ 36,528,461
2015	9,017,644	3,747,964	42%	41,798,141
2016	9,070,651	4,690,943	52%	46,177,849

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### Funding Status and Funding Progress

Actuarial Accrued Liability (AAL)	\$ 92,553,859
Actuarial Value of Plan Assets	<u>3,917,826</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 88,636,033</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	4.23%
Covered Payroll	<u>71,591,175</u>
UAAL as Percentage of Covered Payroll	<u>123.81%</u>

The above noted actuarial accrued liability was based on the July 1, 2015, actuarial valuation. Actuarial valuation of an ongoing plan involves 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 contribution 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 Other Postemployment Benefits Funding Progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### 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 the 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 values of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 6.5 percent investment rate of return (net of administrative expenses), based on the Plan being funded in an irrevocable employee benefit trust fund invested in a long-term fixed income portfolio. The inflation rate was assumed to be three percent per year. The cost trend rate used for the medical plan was four percent. The actuarial value of assets was \$3,917,826. At June 30, 2016, the Trust held assets in the amount of \$5,936,276.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 12 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES**

**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 members 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.

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. SCCCDD JPA 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.

**NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of CalSTRS and classified employees are members of CalPERS.

For the fiscal year ended June 30, 2016, the District reported the net pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 97,899,000	\$ 21,996,341	\$ 17,329,798	\$ 8,273,910
CalPERS	45,285,610	14,835,397	14,376,371	3,514,734
CalPERS - Safety Plan	2,480,980	974,269	724,644	214,846
Total	\$ 145,665,590	\$ 37,806,007	\$ 32,430,813	\$ 12,003,490

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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The details of each plan are as follows:

### **California State Teachers' Retirement System (CalSTRS)**

#### **Plan Description**

The District contributes to the State Teachers' Retirement Plan (STRP) administered by CalSTRS. STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

#### **Benefits Provided**

The STRP provides retirement, disability, and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required State contribution rate	7.12589%	7.12589%

### Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above, and the District's total contributions were \$7,157,396.

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:	
District's proportionate share of net pension liability	\$ 97,899,000
State's proportionate share of net pension liability associated with the District	51,777,779
Total	\$ 149,676,779

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2015 and June 30, 2014, was 0.1454 percent and 0.1260 percent, respectively, resulting in a net increase in the proportionate share of 0.0194 percent.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

For the year ended June 30, 2016, the District recognized pension expense of \$8,273,910. In addition, the District recognized pension expense and revenue of \$4,010,771 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 7,157,396	\$ -
Net change in proportionate share of net pension liability	7,125,421	-
Difference between projected and actual earnings on pension plan investments	7,713,524	15,693,883
Differences between expected and actual experience in the measurement of the total pension liability	-	1,635,915
Total	<u>\$ 21,996,341</u>	<u>\$ 17,329,798</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (3,302,913)
2018	(3,302,913)
2019	(3,302,913)
2020	1,928,380
Total	<u>\$ (7,980,359)</u>

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 914,918
2018	914,918
2019	914,918
2020	914,918
2021	914,918
Thereafter	914,916
<b>Total</b>	<b>\$ 5,489,506</b>

**Actuarial Methods and Assumptions**

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on the Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 147,819,870
Current discount rate (7.60%)	97,899,000
1% increase (8.60%)	56,410,729



# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### **Plan Fiduciary Net Position**

Detailed information about the STRP's plan fiduciary net position is available in a separate comprehensive annual financial report for CalSTRS. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

### **California Public Employees' Retirement System (CalPERS) - Schools Pool Plan**

#### **Plan Description**

Qualified employees are eligible to participate in the Schools Pool Plan under 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.

A full description of the pension plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety, 2014. These reports and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <http://www.calpers.ca.gov/page/forms-publications>.

#### **Benefits Provided**

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	CalPERS - Schools Pool Plan	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above, and the total District contributions were \$4,319,489.

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$45,285,610. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2015 and June 30, 2014, was 0.3072 percent and 0.3302 percent, respectively, resulting in a net decrease in the proportionate share of 0.0230 percent.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

For the year ended June 30, 2016, the District recognized pension expense of \$3,514,734. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,319,489	\$ -
Net change in proportionate share of net pension liability	490,089	2,605,600
Difference between projected and actual earnings on pension plan investments	7,437,680	8,988,297
Differences between expected and actual experience in the measurement of the total pension liability	2,588,139	-
Changes of assumptions	-	2,782,474
Total	<u>\$ 14,835,397</u>	<u>\$ 14,376,371</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (1,136,679)
2018	(1,136,679)
2019	(1,136,679)
2020	1,859,420
Total	<u>\$ (1,550,617)</u>

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (720,450)
2018	(720,451)
2019	(868,945)
Total	<u>\$ (2,309,846)</u>

### Actuarial Methods and Assumptions

Total pension liability for the School Employer Pool was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and services

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.65%)	\$ 73,706,102
Current discount rate (7.65%)	45,285,610
1% increase (8.65%)	21,652,071

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Plan Fiduciary Net Position

Detailed information about CalPERS School Employer plan fiduciary net position is available in a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

### California Public Employees' Retirement System (CalPERS) - Safety Plan

#### Plan Description

Qualified employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Plan under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Public Agency Cost-Sharing Multiple-Employer Plan is comprised of a Miscellaneous Risk Pool and a Safety Risk Pool. The District sponsors one Safety Pool Plan (the Plan) for employees of the District Police Department. 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.

#### Benefits Provided

The Plan provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be sworn police officers and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for employment-related disability benefits regardless of length of service and non-duty disability benefits after five years of service. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The Post-Retirement Death Benefit is a one-time payment made to a retiree's designated survivor or estate upon the retiree's death. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The Special Death Benefit is provided to an employee's eligible survivors if the member dies while actively employed and the death is job-related. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>CalPERS - Safety Plan</u>
Benefit formula	3% at 55
Benefit vesting schedule	5 years of service
Benefit payments	Monthly for life
Retirement age	55
Monthly benefits as a percentage of eligible compensation	2.4% - 3.0%
Required employee contribution rate	9.000%
Required employer contribution rate	17.295%
Required unfunded liability payment to CalPERS	\$102,844

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are determined annually through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above, and the total District contributions were \$331,257.

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the Safety Risk Pool net pension liability totaling \$2,480,980. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2015 and June 30, 2014, was 0.0602 percent and 0.0394 percent, respectively, resulting in a net increase in the proportionate share of 0.0208 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$214,846. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 331,257	\$ -
Net change in proportionate share of net pension liability	214,954	-
Difference between projected and actual earnings on pension plan investments	428,058	515,234
Differences between expected and actual experience in the measurement of the total pension liability	-	37,399
Changes of assumptions	-	172,011
Total	<u>\$ 974,269</u>	<u>\$ 724,644</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (64,730)
2018	(64,730)
2019	(64,730)
2020	107,014
Total	<u>\$ (87,176)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 1,980
2018	1,980
2019	1,584
Total	<u>\$ 5,544</u>

**Actuarial Methods and Assumptions**

Total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and services



# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of projected ongoing mortality improvement using Scale BB published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for the Plan. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

### **Discount Rate**

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 3,977,864
Current discount rate (7.65%)	2,480,980
1% increase (8.65%)	1,253,564

### **Plan Fiduciary Net Position**

Detailed information about CalPERS Safety Risk Plan fiduciary net position is available in a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

### **On Behalf Payments**

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal year ended June 30, 2016, which amounted to \$3,975,244 (7.12589 percent) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

### **NOTE 14 - COMMITMENTS AND CONTINGENCIES**

#### **Grants**

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

#### **Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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### Operating Leases

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:

Year Ending June 30,	Lease Payment
2017	\$ 1,130,212
2018	1,130,212
2019	1,022,104
2020	913,996
2021	913,996
2022-2026	4,569,980
2027-2031	4,569,980
2032-2036	4,569,980
2037-2041	4,569,980
2042-2046	4,569,980
2047-2051	4,569,980
2052-2056	4,569,980
2057-2058	913,996
Total	<u>\$ 38,014,376</u>

Current year expenditures for operating leases is approximately \$1,101,263. The District will receive no sublease rental revenues nor pay any contingent rentals for these leases.

### Construction Commitments

The District had several commitments with respect to the unfinished capital projects, these projects are funded through a combination of general obligation bonds and capital project apportionments from the California State Chancellor's Office. As of June 30, 2016, the total amount committed was approximately \$130 million.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING  
PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2016**

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Method Used* (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 30, 2011	\$ 1,787,488	\$ 88,692,776	\$ 86,905,288	2.02%	\$ 66,153,965	131.37%
July 1, 2013	2,076,123	89,242,676	87,166,553	2.33%	68,311,598	127.60%
July 1, 2015	3,917,826	92,553,859	88,636,033	4.23%	71,591,175	123.81%

\* Entry age normal cost method.

Note: The District maintains investments in an irrevocable trust. The fair value of the trust assets as of June 30, 2016 is \$5,936,276.

See accompanying note to required supplementary information.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>CalSTRS</b>		
District's proportion of the net pension liability	<u>0.1454%</u>	<u>0.1260%</u>
District's proportionate share of the net pension liability	\$ 97,899,000	\$ 78,305,580
State's proportionate share of the net pension liability associated with the District	<u>51,777,779</u>	<u>44,461,794</u>
Total	<u>\$ 149,676,779</u>	<u>\$ 122,767,374</u>
District's covered - employee payroll	<u>\$ 61,600,000</u>	<u>\$ 58,100,000</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>158.93%</u>	<u>134.78%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
 <b>CalPERS - Schools Pool Plan</b>		
District's proportion of the net pension liability	<u>0.3072%</u>	<u>0.3302%</u>
District's proportionate share of the net pension liability	<u>\$ 45,285,610</u>	<u>\$ 37,485,740</u>
District's covered - employee payroll	<u>33,980,010</u>	<u>35,000,000</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>133.27%</u>	<u>107.10%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>

See accompanying note to required supplementary information.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY, *Continued* FOR THE YEAR ENDED JUNE 30, 2016

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	<u>2016</u>	<u>2015</u>
<b>CalPERS - Safety Plan</b>		
District's proportion of the net pension liability	<u>0.0602%</u>	<u>0.0394%</u>
District's proportionate share of the net pension liability	<u>\$ 2,480,980</u>	<u>\$ 2,448,810</u>
District's covered - employee payroll	<u>1,338,476</u>	<u>1,109,427</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>185.36%</u>	<u>220.73%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u>	<u>81%</u>

*Note* : In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF DISTRICT CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2016**

	2016	2015
<b>CalSTRS</b>		
Contractually required contribution	\$ 7,157,396	\$ 5,472,236
Contributions in relation to the contractually required contribution	7,157,396	5,472,236
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 66,704,529</u>	<u>\$ 61,600,000</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
<b>CalPERS - Schools Pool Plan</b>		
Contractually required contribution	\$ 4,319,489	\$ 3,999,787
Contributions in relation to the contractually required contribution	4,319,489	3,999,787
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 36,451,384</u>	<u>\$ 33,980,010</u>
Contributions as a percentage of covered - employee payroll	<u>11.85%</u>	<u>11.77%</u>
<b>CalPERS - Safety Plan</b>		
Contractually required contribution	\$ 331,257	\$ 301,157
Contributions in relation to the contractually required contribution	331,257	301,157
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 1,393,007</u>	<u>\$ 1,338,476</u>
Contributions as a percentage of covered - employee payroll	<u>23.78%</u>	<u>22.50%</u>

*Note* : In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.



# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

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### *NOTE 1 - PURPOSE OF SCHEDULES*

#### **Schedule of Other Postemployment Benefits (OPEB) Funding Progress**

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

#### **Schedule of the District's Proportionate Share of the Net Pension Liability**

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net positions and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

#### **Schedule of District Contributions**

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

#### **Changes in Benefit Terms**

There were no changes in benefit terms since the previous valuation for either CalSTRS or CalPERS.

#### **Changes in Assumptions**

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

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***SUPPLEMENTARY INFORMATION***

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# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## DISTRICT ORGANIZATION JUNE 30, 2016

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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. The District's college accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States. 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. Louise Jaffee	Chair	November 2018
Dr. Andrew Walzer	Vice Chair	November 2018
Dr. Margaret Quinones-Perez	Member	November 2016
Dr. Nancy Greenstein	Member	November 2018
Dr. Susan Aminoff	Member	November 2016
Barry Snell	Member	November 2018
Rob Rader	Member	November 2016
Laura Zwicker	Student Trustee	June 2017

### ADMINISTRATION

Dr. Kathryn E. Jeffery	Superintendent/President
Jeffery Shimizu	Interim Executive Vice President
Robert Isomoto	Vice President, Business and Administration
Dr. Georgia Lorenz	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

See accompanying note to supplementary information.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Student Financial Assistance Cluster				
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007		\$ 555,913	\$ -
FSEOG Administrative Allowance	84.007		28,912	-
Federal Work-Study Program	84.033		472,189	-
Federal Work-Study Program Administrative Allowance	84.033		32,515	-
Federal Pell Grant Program	84.063		28,448,686	-
Federal Pell Administrative Allowance	84.063		41,765	-
Federal Direct Loan	84.268		2,486,122	-
Total Student Financial Assistance Cluster			<u>32,066,102</u>	<u>-</u>
TRIO Cluster				
Student Support Services	84.042A		56,419	-
Upward Bound	84.047A		256,449	-
Total TRIO Cluster			<u>312,868</u>	<u>-</u>
Hispanic Serving Institutions: Science, Technology, Engineering and Mathematics (STEM)	84.031C		1,185,814	369,194
Hispanic Serving Institutions: Building Foundations for Academic Career Success (Title V)	84.031S		709,758	-
Passed through from California Community Colleges Chancellor's Office (CCCCO)				
Career and Technical Education, Perkins, Title IV	84.048	15-C01-055	636,505	-
Career Technical Education Transitions	84.048A	15-C01-055	45,119	-
Passed through from California Department of Education				
Adult Basic Education, English as a Second Language	84.002A	14508	176,993	-
English Literacy and Civics Education Grant: Civic Participation and Citizenship Preparation	84.002A	14109	8,270	-
Total U.S. Department of Education			<u>35,141,429</u>	<u>369,194</u>

See accompanying note to supplementary information.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued  
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Passed Through to Subrecipients
<b>Research and Development Cluster</b>				
<b>NATIONAL SCIENCE FOUNDATION</b>				
Advanced Technological Education Program: Strengthening Solar Photovoltaic Education	47.076		\$ 64,986	\$ -
<b>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</b>				
Minority University Research and Education Program	43.008		52,932	-
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Passed through from Stanford University Education Science Reform Act of 2002: A Scalable Growth Mindset Intervention to Raise Achievement and Persistence	84.305A	3867917	38,020	-
<b>U.S. DEPARTMENT OF HEALTH and HUMAN SERVICES</b>				
Passed through from CSU Northridge - The University Corporation Build Podar (Build@CSUN)	93.310	F-14-3510-SMC	308	-
Total Research and Development Cluster			156,246	-
<b>NATIONAL ENDOWMENT FOR THE HUMANITIES</b>				
Passed through from Cal Humanities Promotion of the Humanities Federal/State Partnership Agency	45.129	COS15-456	3,544	-
<b>U.S. DEPARTMENT OF HEALTH and HUMAN SERVICES</b>				
Substance Abuse and Mental Health Services (SAMHSA), Campus Suicide Prevention	93.235		69,810	-
Passed through from California Community Colleges Chancellor's Office (CCCCO)				
Temporary Assistance for Needy Families (TANF)	93.558	[1]	68,627	-
Total U.S. Department of Health and Human Services			138,437	-
<b>Total Federal Program Expenditures</b>			\$ 35,439,656	\$ 369,194

[1] Pass Through Entity Identifying Number not available.

See accompanying note to supplementary information.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
AB86 Adult Education Consortium Planning Grant	\$ -	\$ 59,575	\$ 59,575
AEBG	375,000	-	375,000
Basic Skills Funding	351,560	16,893	368,453
CalWORKs	267,669	-	267,669
Child Development Training	7,500	-	7,500
Clean Energy Workforce Program - ETP	-	387,173	387,173
Cooperative Agencies Resources for Education (CARE)	93,465	-	93,465
CTE Enhancement Fund	-	624,371	624,371
Disabled Student Program and Services (DSPS)	2,368,134	-	2,368,134
Equal Employment Opportunity - Faculty and Staff Diversity	7,940	12,048	19,988
Extended Opportunity Program and Services (EOPS)	1,384,794	-	1,384,794
Full Time Student Success Grant	599,382	-	599,382
Instructional Equipment and Library Materials	-	41,009	41,009
LA Hi-Tech Passed Through from Pasadena CC-CCCCO	673,750	609,789	1,283,539
Nursing Ed - Enrollment Growth	106,787	97,617	204,404
Nursing Ed - Assessment Remediation and Retention for AA Degree	104,880	-	104,880
Physical Plant and Instructional Support	1,408,210	-	1,408,210
Physical Plant and Instructional Support	1,408,210	1,387,745	2,795,955
Prop 39 - Clean Energy Project	621,744	598,808	1,220,552
Prop 39 - Project Improvement Funding	9,048	1,252	10,300
SB1070 Career and Technical Education	-	76,865	76,865
Scheduled Maintenance and Instructional Equipment - One-time	-	27,730	27,730
SFAA Financial Aid BFAP	924,049	-	924,049
Student Equity	1,903,831	615,105	2,518,936
Student Success and Support Program (SSSP) - Credit	6,153,324	816,846	6,970,170
Student Success and Support Program (SSSP) - Non-credit	97,354	6,879	104,233
Transfer and Articulation	-	2,793	2,793
Subtotal			

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue	Program Expenditures
\$ 59,511	\$ -	\$ -	\$ 59,511	\$ 59,511
374,554	444	290,515	84,483	84,483
368,453	-	-	368,453	368,453
267,669	-	4,528	263,141	263,141
7,500	-	-	7,500	7,500
30	278,499	-	278,529	278,529
93,465	-	1,355	92,110	92,110
197,000	54,814	-	251,814	251,814
2,368,134	-	-	2,368,134	2,368,134
19,988	-	12,035	7,953	7,953
1,384,794	-	-	1,384,794	1,384,794
599,382	-	92,382	507,000	507,000
41,009	-	41,009	-	-
128,539	589,095	-	717,634	717,634
195,860	8,543	18,961	185,442	185,442
104,880	9,120	3,995	110,005	110,005
1,408,210	-	507,250	900,960	900,960
2,795,954	-	1,408,210	1,387,744	1,387,744
1,220,552	-	-	1,220,552	1,220,552
9,215	905	-	10,120	10,120
33,854	17,305	-	51,159	51,159
27,730	-	27,419	311	311
924,049	-	-	924,049	924,049
2,518,936	-	842,740	1,676,196	1,676,196
6,970,170	-	2,599,265	4,370,905	4,370,905
104,233	-	14,925	89,308	89,308
2,793	-	2,793	-	-
<u>\$ 22,226,464</u>	<u>\$ 958,725</u>	<u>\$ 5,867,382</u>	<u>\$ 17,317,807</u>	<u>\$ 17,317,807</u>

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL  
 APPORTIONMENT  
 FOR THE YEAR ENDED JUNE 30, 2016**

<b>CATEGORIES</b>	<u>*Revised Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Audited Data</u>
<b>A. Summer Intersession (Summer 2015 only)</b>			
1. Noncredit**	74.51	-	74.51
2. Credit	2,063.62	-	2,063.62
<b>B. Summer Intersession (Summer 2016 - Prior to July 1, 2016)</b>			
1. Noncredit**	-	-	-
2. Credit	313.28	-	313.28
<b>C. Primary Terms (Exclusive of Summer Intersession)</b>			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	12,113.24	-	12,113.24
(b) Daily Census Contact Hours	1,921.12	-	1,921.12
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit**	690.04	-	690.04
(b) Credit	50.63	-	50.63
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	2,862.10	-	2,862.10
(b) Daily Census Contact Hours	1,939.87	-	1,939.87
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
<b>D. Total FTES</b>	<u>22,028.41</u>	<u>-</u>	<u>22,028.41</u>
<b>SUPPLEMENTAL INFORMATION (Subset of Above Information)</b>			
<b>E. In-Service Training Courses (FTES)</b>	-	-	-
<b>H. Basic Skills Courses and Immigrant Education</b>			
1. Noncredit**	40.48	-	40.48
2. Credit	1,989.17	-	1,989.17
<b><u>CCFS-320 Addendum</u></b>			
CDCP Noncredit FTES	167.26	-	167.26
Centers FTES			
1. Noncredit**	-	-	-
2. Credit	1,251.13	-	1,251.13

\* Annual report revised as of November 1, 2016.

\*\* Including Career Development and College Preparation (CDCP) FTES.

See accompanying note to supplementary information.



SANTA MONICA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION  
FOR THE YEAR ENDED JUNE 30, 2016**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<b><u>Academic Salaries</u></b>							
<b>Instructional Salaries</b>							
Contract or Regular	1100	\$ 26,140,222	\$ -	\$ 26,140,222	\$ 26,140,222	\$ -	\$ 26,140,222
Other	1300	32,510,868	-	32,510,868	32,510,868	-	32,510,868
<b>Total Instructional Salaries</b>		<b>58,651,090</b>	<b>-</b>	<b>58,651,090</b>	<b>58,651,090</b>	<b>-</b>	<b>58,651,090</b>
<b>Noninstructional Salaries</b>							
Contract or Regular	1200	-	-	-	11,631,510	-	11,631,510
Other	1400	-	-	-	3,980,939	-	3,980,939
<b>Total Noninstructional Salaries</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>15,612,449</b>	<b>-</b>	<b>15,612,449</b>
<b>Total Academic Salaries</b>		<b>58,651,090</b>	<b>-</b>	<b>58,651,090</b>	<b>74,263,539</b>	<b>-</b>	<b>74,263,539</b>
<b><u>Classified Salaries</u></b>							
<b>Noninstructional Salaries</b>							
Regular Status	2100	-	-	-	23,771,109	-	23,771,109
Other	2300	-	-	-	2,338,564	-	2,338,564
<b>Total Noninstructional Salaries</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>26,109,673</b>	<b>-</b>	<b>26,109,673</b>
<b>Instructional Aides</b>							
Regular Status	2200	-	-	-	3,248,440	-	3,248,440
Other	2400	-	-	-	464,460	-	464,460
<b>Total Instructional Aides</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>3,712,900</b>	<b>-</b>	<b>3,712,900</b>
<b>Total Classified Salaries</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>29,822,573</b>	<b>-</b>	<b>29,822,573</b>
Employee Benefits	3000	18,373,836	-	18,373,836	36,372,170	-	36,372,170
Supplies and Material	4000	-	-	-	1,141,562	-	1,141,562
Other Operating Expenses	5000	-	-	-	16,381,361	-	16,381,361
Equipment Replacement	6420	-	-	-	-	-	-
<b>Total Expenditures Prior to Exclusions</b>		<b>77,024,926</b>	<b>-</b>	<b>77,024,926</b>	<b>157,981,205</b>	<b>-</b>	<b>157,981,205</b>

See accompanying note to supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION, Continued  
FOR THE YEAR ENDED JUNE 30, 2016**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<b><u>Exclusions</u></b>							
<b>Activities to Exclude</b>							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ 2,037,259	\$ -	\$ 2,037,259	\$ 2,037,259	\$ -	\$ 2,037,259
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	840,334	-	840,334
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	2,570,299	-	2,570,299
<b>Objects to Exclude</b>							
Rents and Leases	5060	-	-	-	1,777,309	-	1,777,309
Lottery Expenditures							
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	614,590	-	614,590
Employee Benefits	3000	-	-	-	238,124	-	238,124
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines, and Periodicals	4200	-	-	-	-	-	-
Instructional Supplies and Materials	4300	-	-	-	-	-	-
Noninstructional Supplies and Materials	4400	-	-	-	-	-	-
<b>Total Supplies and Materials</b>		-	-	-	-	-	-

See accompanying note to supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION, Continued  
FOR THE YEAR ENDED JUNE 30, 2016**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ 3,105,875	\$ -	\$ 3,105,875
Capital Outlay							
Library Books	6000	-	-	-	-	-	-
Equipment	6300	-	-	-	-	-	-
Equipment - Additional	6400	-	-	-	-	-	-
Equipment - Replacement	6410	-	-	-	-	-	-
<b>Total Equipment</b>		-	-	-	-	-	-
<b>Total Capital Outlay</b>							
Other Outgo	7000	-	-	-	-	-	-
<b>Total Exclusions</b>		2,037,259	-	2,037,259	11,183,790	-	11,183,790
<b>Total for ECS 84362, 50 Percent Law</b>		\$ 74,987,667	\$ -	\$ 74,987,667	\$ 146,797,415	\$ -	\$ 146,797,415
<b>Percent of CEE (Instructional Salary Cost/Total CEE)</b>		51.08%		51.08%	100.00%		100.00%
<b>50% of Current Expense of Education</b>					\$ 73,398,708		\$ 73,398,708

See accompanying note to supplementary information.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)  
WITH FUND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2016.

See accompanying note to supplementary information.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE REPORT  
FOR THE YEAR ENDED JUNE 30, 2016**

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<b>Activity Classification</b>	<b>Object Code</b>	<b>Unrestricted</b>			
EPA Proceeds:	8630				\$ 16,739,367
<b>Activity Classification</b>	<b>Activity Code</b>	<b>Salaries and Benefits (Obj 1000-3000)</b>	<b>Operating Expenses (Obj 4000-5000)</b>	<b>Capital Outlay (Obj 6000)</b>	<b>Total</b>
Instructional Activities	1000-5900	\$ 16,739,367	\$ -	\$ -	\$ 16,739,367
<b>Total Expenditures for EPA</b>		\$ 16,739,367	\$ -	\$ -	\$ 16,739,367
<b>Revenues Less Expenditures</b>					\$ -

See accompanying note to supplementary information.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**RECONCILIATION OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2016**

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**Amounts Reported for Governmental Activities in the Statement  
of Net Position are Different Because:**

**Total Fund Balance:**

General Funds	\$ 31,971,558	
Special Revenue Funds	2,595,962	
Capital Project Funds	151,934,479	
Debt Service Funds	<u>31,253,945</u>	
<b>Total Fund Balance - All District Funds</b>		<b>\$ 217,755,944</b>

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	584,155,494	
Accumulated depreciation is	<u>(110,330,779)</u>	473,824,715

The District has refunded debt obligations. The difference between the amount that was sent to escrow agent for the payment of the old debt and the actual remaining debt obligations will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. The balance represents the unamortized deferred charges on refunding amounts as of June 30, 2016. 7,205,363

In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred. (7,124,394)

Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis. 11,808,142

The net effect in proportionate share of net pension obligation as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits. 5,224,864

The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense. (9,618,152)

The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. 914,825

The changes of assumptions are not recognized as an expenditure under the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. (2,954,485)

See accompanying note to supplementary information.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION, Continued JUNE 30, 2016

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Long-term liabilities at year end consist of:

General obligation bonds	\$ 474,413,642	
Certificates of participation	15,519,589	
Capital leases payable	5,171,267	
Load banking	2,965,722	
Compensated absences	5,187,339	
Other postemployment benefits (OPEB)	46,177,849	
Aggregate net pension obligation	145,665,590	\$ (695,100,998)
<b>Total Net Position</b>		<b>\$ 1,935,824</b>

See accompanying note to supplementary information.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2016**

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**NOTE 1 - PURPOSE OF SCHEDULES**

**District Organization**

This schedule provides information about the District's governing board members and administration members.

**Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (Part 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position - Primary Government and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Federal Pell Grant Program funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Build America Bonds are recorded as Federal revenues in the District's general ledger and not reported on the Schedule of Expenditures of Federal Awards.

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 36,778,301
Federal Pell Grant Program	84.063	98,005
Build America Bonds	N/A	(1,436,650)
Total Expenditures of Federal Awards		<u>\$ 35,439,656</u>

**Schedule of Expenditures of State Awards**

The accompanying Schedule of Expenditures of State Awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office.

**Schedule of Workload Measures for State General Apportionment**

FTES is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.



# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## NOTES TO SUPPLEMENTARY INFORMATION

JUNE 30, 2016

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### **Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation**

ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General Fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor's Office. This schedule provides a reconciliation of the amount reported to the State Chancellor's Office and the impact of any audit adjustments and/or corrections noted during the audit.

### **Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the District's internal fund financial statements.

### **Proposition 30 Education Protection Act (EPA) Expenditure Report**

This schedule provides the District's summary of receipts and uses of the monies received through the EPA.

### **Reconciliation of Governmental Funds to the Statement of Net Position**

This schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

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***INDEPENDENT AUDITOR'S REPORTS***

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

Board of Trustees  
Santa Monica Community College District  
Santa Monica, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the aggregate remaining fund information of Santa Monica Community College District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2016.

**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 opinions 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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

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

## **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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavinek, Time, Day & Co., LLP.

Rancho Cucamonga, California  
December 19, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees  
Santa Monica Community College District  
Santa Monica, California

**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 *OMB 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, 2016. 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 Federal statutes, regulations, and the terms and conditions of its Federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

**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, 2016.

## 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 the Uniform Guidance, 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 in internal control over compliance, 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavinek, Time, Day & Co., LLP

Rancho Cucamonga, California  
December 19, 2016



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees  
Santa Monica Community College District  
Santa Monica, California

### Report on State Compliance

We have audited Santa Monica Community College District's (the District) compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in November 2015 that could have a direct and material effect on each of the District's programs as noted below for the year ended June 30, 2016.

### Management's Responsibility

Management is responsible for compliance with the requirements of State laws and regulations, and the terms and conditions identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in November 2015.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 standards and procedures identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in November 2015. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

### Unmodified Opinion for Each of the Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2016.

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

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 429	Student Success and Support Program (SSSP)
Section 430	Schedule 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
Section 440	Intersession Extension Programs
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged (TBA) Hours
Section 490	Proposition 1D State Bond Funded Projects
Section 491	Proposition 30 Education Protection Account Funds

The District reports no Instructional Service Agreements/Contracts for Apportionment Funding; therefore, the compliance tests within this section were not applicable.

The District did not offer Intersession Extension Programs; therefore, the compliance tests within this section were not applicable.

The District did not receive any funding through Proposition 1D State Bond Funded Projects; therefore, the compliance tests within this section were not applicable.

*Vavinek, Tine, Day & Co., LLP.*

Rancho Cucamonga, California  
December 19, 2016



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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major Federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.007, 84.033, 84.063, 84.268</u>	<u>Student Financial Assistance Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,063,190</u>
Auditee qualified as low-risk auditee?	<u>No</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2016**

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None reported.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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None reported.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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None reported.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

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Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

### *Financial Statement Findings*

None reported.

### *Federal Awards Findings*

None reported.

### *State Awards Findings*

#### **2015-001 SECTION 479 - TO BE ARRANGED (TBA) HOURS**

##### **Criteria**

The Contracted District Audit Manual (CDAM) defines TBA as "Some courses with regularly scheduled hours of instruction have - hours to be arranged (TBA) as part of the total contact hours for the course. The TBA portion of the course uses an alternate method for regularly scheduling a credit course for purposes of applying either the Weekly or Daily Census Attendance Accounting Procedures pursuant to CCR, Title 5, §58003.1(b) and (c), respectively." TBA hours are only an option for credit courses that apply the Weekly or Daily Attendance Accounting Procedures and not to those that apply the Alternative Attendance Accounting Procedure pursuant to Title 5, §58003.1(f). The guidance provided by the Chancellor's Office further requires the following elements related to TBA courses:

- The official course outline of record must include the number of TBA hours. This requirement should also be listed in the published class schedule, whether printed, online, or an addenda to the original schedule.
- Student participation must be carefully tracked to ensure TBA hours are not claimed for apportionment for students who have documented zero hours as of the census date for the course.
- Require all students enrolled in a course with TBA hours to fulfill the hours and other conditions for TBA; ensure all student participation is documented.

##### **Condition**

10 courses were initially selected and 5 were deemed invalid TBA courses based on the definition noted above. Of the invalid TBA courses, all were deemed to be Actual Attendance courses. The District reviewed the entire population of courses internally identified as TBA and determined that out of the 37 courses claimed as TBA, only 20 were considered valid under the definition.

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

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### **Context**

- An initial list of TBA courses provided for audit purposes contained 42 TBA courses. Initial testing indicated that from a sample of 10, 5 were not in compliance with State regulations.
- A secondary list was provided with "true" TBA courses in which 5 courses (not correlating to the 5 courses noted above) were removed. From a revised list of 37 courses, 14 additional courses were selected for testing, in which 7 courses were found to be out of compliance. The District reviewed 17 of the 37 TBA courses claimed and found that they were not actual TBA courses based on the definition above.

### **Questioned Costs**

Decrease of 36.05 Weekly Census Contact Hours FTES and an increase of 28.73 Actual Hours of Attendance Procedure Census FTES, resulting in a net decrease of 7.32 FTES.

### **Effect**

Course classification errors will result in FTES per type, weekly, daily and or positive attendance, being inaccurately calculated and reported for funding.

### **Recommendation**

Review courses classified as requiring TBA hours and determine TBA hours that do not meet the definition of Weekly or Daily Census procedure courses. Such courses should be reported as positive attendance courses. In addition, the District should review all courses labeled as TBA and revise the course designation as appropriate.

### **Current Status**

Implemented.