Financial Statements
June 30, 2019

# Santa Monica Community College District

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# SANTA MONICA COMMUNITY COLLEGE DISTRICT

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# JUNE 30, 2019

## FINANCIAL SECTION

## 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, 2019, 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 opinions 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 2018-2019 *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 opinions.

## Opinions

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, 2019, and the respective changes in financial position and, where applicable, 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 on pages 5 through 19, and other required supplementary schedules on pages 77 through 82 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* (Uniform Guidance), and the other supplementary information are presented for purposes of additional analysis and are 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 16, 2019, 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 solely 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 effectiveness of the District's 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.

Eide Bailly LLP

Rancho Cucamonga, California
December 16, 2019

## 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, 2019. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

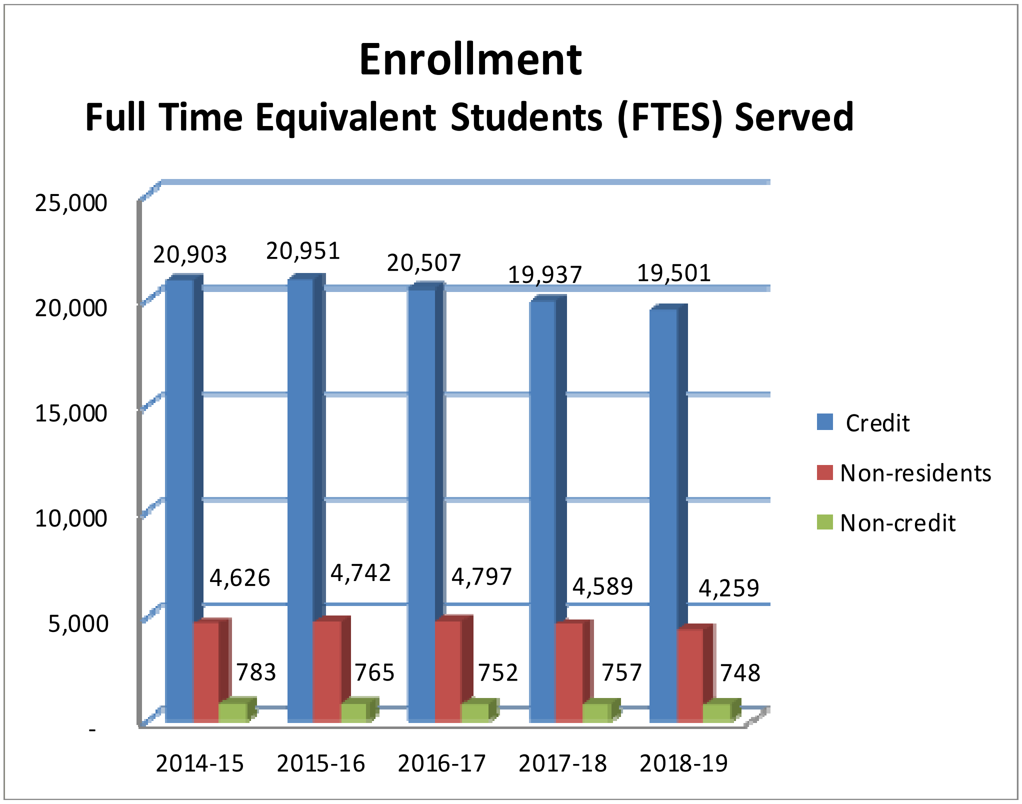
Santa Monica Community College District is the preeminent educational, cultural, and economic development institution in the City of Santa Monica. The District offers programs of the highest quality for residents of Santa Monica, Malibu, and any students who continue with their higher education studies. 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.

**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 2018-2019, total FTES served decreased from 25,283 to 24,508 (approximately 3.1 percent).




- In 2018-2019, the State adopted the Student-Centered Funding Formula (SCFF), which is the new methodology the State will use to allocate funding to community college districts. The new formula calculates funding based on three main factors: Base Allocation (enrollment), Supplemental Allocation (number of low-income students served measured by financial aid distribution), and student success (number of student success outcomes achieved). The SCFF contains a hold harmless provision which states that, through 2021-2022, districts will be funded at either the amount calculated under SCFF or at an amount calculated at the 2017-2018 funding level, plus COLA, whichever is greater. For 2019-2020, the District projects that it will be funded under the hold-harmless provision.

- As reported to the State Chancellor's Office on the Annual Financial and Budget Report (CCFS-311), the District ended the 2018-2019 fiscal year with an Unrestricted General Fund balance of $30,676,107 or 16.8 percent of total expenditures and transfers. This represents a $3,027,765 increase in fund balance from the prior year.

- During 2018-2019, the District made significant progress on the following major capital construction projects: Malibu Site Acquisition and Facility; Math and Science Classroom Addition; Early Childhood Development and Childcare Facility; Student Services Building; and Center for Media and Design.

- The District's bond rating was upgraded in 2017-2018 from AA to AA+ (S&P) and from Aa2 stable to Aa2 positive (Moody's). The credit strengths noted by the rating agencies include a strong management team, revenue flexibility from the presence of out-of-state students, very strong income and property wealth indicators, and a broad and diverse tax base. The improved credit profile assists the District in achieving the lowest cost of borrowing when issuing debt which directly translates into savings for the local taxpayers.

## 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.

The Statement of Net Position as of June 30, 2019 and June 30, 2018 are summarized below:

| | 2019 | 2018 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and investments | $ 391,360,728 | $ 457,360,734 |
| Accounts receivable (net) | 12,232,564 | 9,988,504 |
| Other current assets | 2,832,751 | 3,512,241 |
| Total Current Assets | 406,426,043 | 470,861,479 |
| Capital Assets (net) | 661,833,719 | 631,543,624 |
| Total Assets | 1,068,259,762 | 1,102,405,103 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charge on refunding | 6,203,421 | 8,022,612 |
| Deferred outflows of resources related to OPEB | 37,769,702 | 4,110,488 |
| Deferred outflows of resources related to pensions | 56,450,276 | 60,814,246 |
| Total Deferred Outflows of Resources | 100,423,399 | 72,947,346 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | 64,613,643 | 87,414,055 |
| Current portion of long-term debt | 26,830,915 | 24,120,292 |
| Total Current Liabilities | 91,444,558 | 111,534,347 |
| Long-Term Obligations | 1,098,849,775 | 1,075,535,091 |
| Total Liabilities | 1,190,294,333 | 1,187,069,438 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources related to OPEB | 192,539 | - |
| Deferred inflows of resources related to pension | 16,635,887 | 17,950,847 |
| Total Deferred Inflows of Resources | 16,828,426 | 17,950,847 |
| NET POSITION | | |
| Net investment in capital assets | 165,824,526 | 147,871,021 |
| Restricted | 131,204,141 | 139,699,546 |
| Unrestricted | (335,468,265) | (317,238,403) |
| Total Net Position | $ (38,439,598) | $ (29,667,836) |

- Approximately 98 percent of the cash balance is deposited with or in process of being transferred to, the Los Angeles County Investment Pool. The remaining balance consists of deposits with various financial institutions.

- Cash and investments decreased due primarily to spending down bond monies and decreases in the Bond Interest and Redemption and capital outlay funds.

- Accounts receivable (net) increased due to the receipt of the 2018-2019 fourth quarter lottery allocation in 2019-2020, the timing of invoicing and receipt of payments on several grant programs as well as reimbursements pending from the State of California for the Math and Science Building construction project.

- 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; Center for Media and Design; and Math and Science Classroom Addition. Refer to the "Capital Asset" and "Long-term Obligations" portion of the Management Discussion and Analysis for further details.

- Deferred outflows of resources related to Other Postemployment Benefits (OPEB) increased due to the recognition of the effect of a change of assumption in calculating the Net OPEB liability.

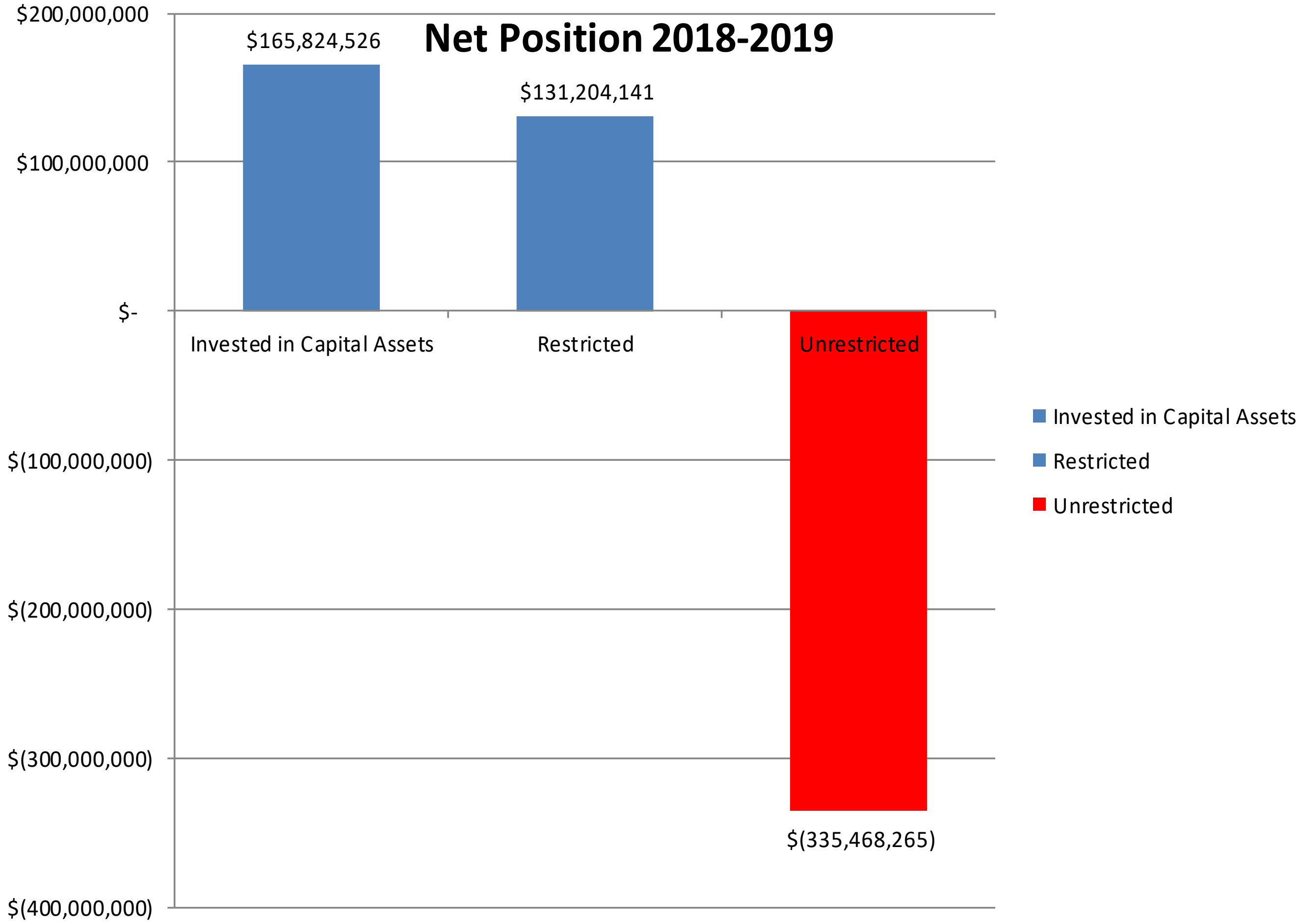
- Accounts payable and accrued liabilities decreased as a result of the payment of construction payables and legal settlements which were accrued in the prior year.

- For the most recent actuarial study of OPEB the District lowered its discount rate assumption from 7.0 percent to 4.3 percent as a result of the continued postponement of contributions to the OPEB irrevocable trust. This change in the discount assumption resulted in the majority of the increase in long-term 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 five years.

  Net Pension Obligation is categorized as follows:

| Santa Monica College<br>Net Pension Obligation | |
|---|---|
| **Pension Fund** | **Obligation** |
| **CalSTRS** | $ 116,762,335 |
| **CalPERS** | $ 81,077,355 |
| **CalPERS Safety** | $ 4,017,624 |
| ***Total*** | ***$ 201,857,314*** |


Net Position 2018-2019
$200,000,000
$100,000,000
$-
$(100,000,000)
$(200,000,000)
$(300,000,000)
$(400,000,000)
$165,824,526
$131,204,141
$(335,468,265)
Invested in Capital Assets
Restricted
Unrestricted
Invested in Capital Assets
Restricted
Unrestricted

## 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 2018-2019 and 2017-2018 is provided on the following page.

The Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2019 and June 30, 2018 are summarized below:

| | 2019 | 2018 |
|---|---|---|
| Operating Revenues | | |
| Tuition and fees | $ 58,377,695 | $ 60,272,312 |
| Federal, State, and local grants and contracts, noncapital | 39,665,351 | 32,929,399 |
| Auxiliary sales and charges | 4,707,656 | 4,870,895 |
| Total Operating Revenues | 102,750,702 | 98,072,606 |
| Operating Expenses | | |
| Salaries and benefits | 205,897,243 | 197,803,243 |
| Supplies, maintenance, equipment and repairs | 44,458,934 | 43,848,335 |
| Student financial aid | 39,702,595 | 37,759,039 |
| Depreciation | 23,321,549 | 16,680,779 |
| Total Operating Expenses | 313,380,321 | 296,091,396 |
| Loss on Operations | (210,629,619) | (198,018,790) |
| Nonoperating Revenues (Expenses) | | |
| State apportionments | 88,890,044 | 92,326,280 |
| Property taxes | 74,109,742 | 71,657,545 |
| Grants and contracts | 38,609,615 | 36,923,168 |
| State revenues | 6,508,198 | 6,685,976 |
| Net interest expense | (24,196,517) | (22,448,355) |
| Other nonoperating revenues | 5,507,331 | 6,873,952 |
| Total Nonoperating Revenue (Expenses) | 189,428,413 | 192,018,566 |
| Other Revenues | | |
| State and local capital income | 12,429,444 | 676,106 |
| Change in Net Position | $ (8,771,762) | $ (5,324,118) |

- In 2018-2019 total FTES served declined by 775 FTES from the prior year resulting in a decrease in tuition and fees.

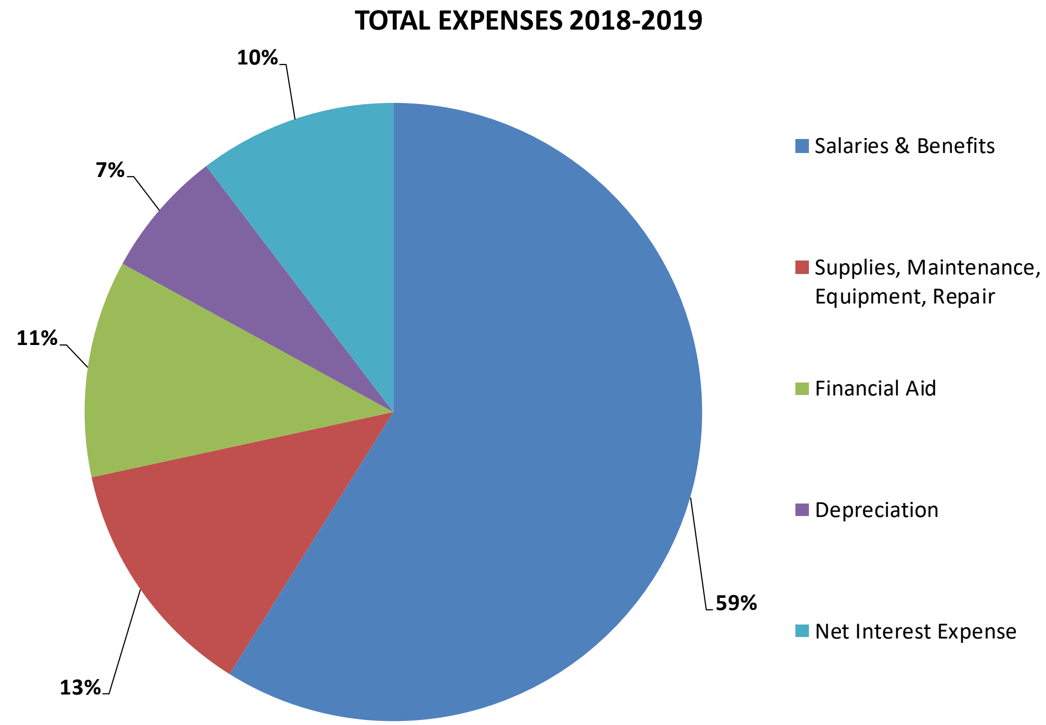
- Total operating revenues increased primarily as a result of an increase in the Educational Protection Account payment, State on behalf payments for STRS and PERS and increased recognition of funding related to the Strong Workforce, Student Success Completion and California College Promise programs.

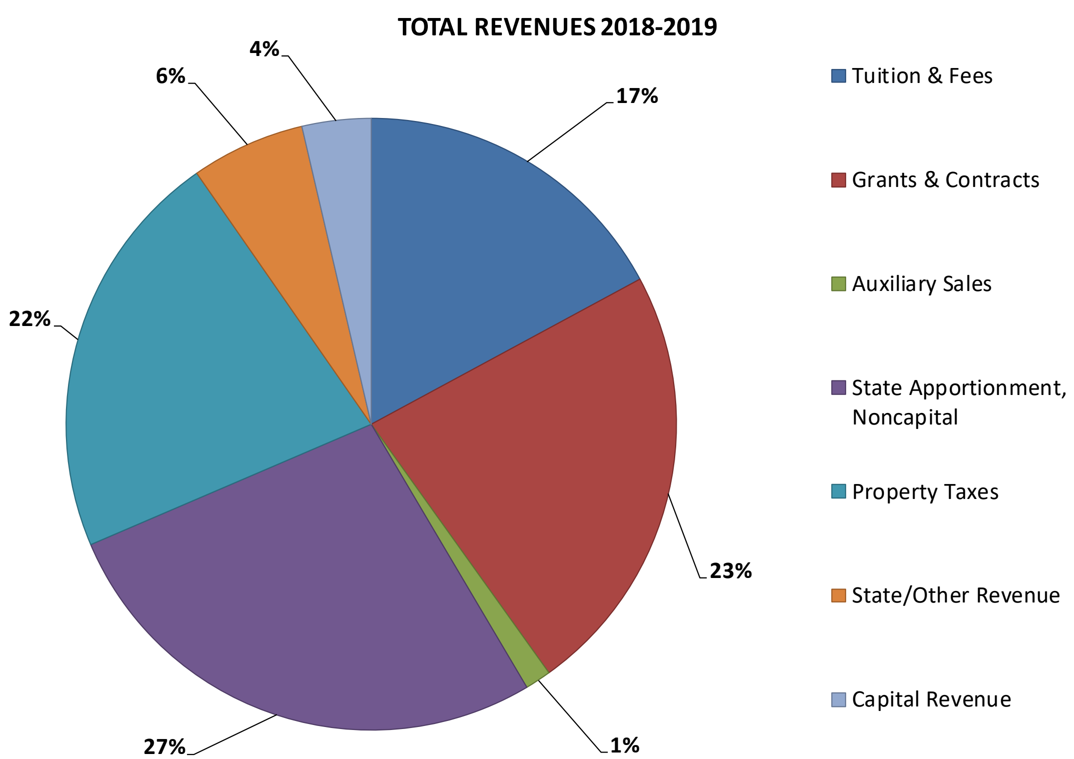
- In 2018-2019 the District approved a 2.0 percent salary schedule increase, effective January 1, 2019, with the Santa Monica College Faculty Association. This agreement coupled with an increase in the employer contribution rates to the pension systems resulted in a 4.1 percent increase in salary and benefits.

- The primary cause of the increase in depreciation expense was the full year recognition of depreciation for the Madison East Wing Seismic Upgrade, Health, PE, Fitness, Dance Building Replacement with Central Plant, and the Center for Media and Design which were placed into service in 2017-2018.

- The Student Centered Funding Formula Calculated revenue is a workload calculation that is funded by property taxes, the 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. State apportionments decreased in 2018-2019 due to higher property taxes and EPA revenues collected.

- State and local capital income increased as a result of the receipt of reimbursements from the State of California for the Math and Science Classroom Addition, project donations from KCRW for the construction of the Center for Media and Design, and donation from the City of Santa Monica for the construction of the Early Childhood Development and Childcare Facility.


TOTAL EXPENSES 2018-2019
10%
7%
11%
13%
59%
Salaries & Benefits
Supplies, Maintenance, Equipment, Repair
Financial Aid
Depreciation
Net Interest Expense


TOTAL REVENUES 2018-2019
4%
6%
17%
22%
23%
27%
1%
Tuition & Fees
Grants & Contracts
Auxiliary Sales
State Apportionment, Noncapital
Property Taxes
State/Other Revenue
Capital Revenue

## Statement of Functional Expense

Operating expenses are reported by natural classification in the Statement of Revenues, Expenses and Changes in Net Position. A schedule of expenses by function is shown below:

| | Salaries | Employee Benefits | Supplies, Material, and Other Expenses and Services | Student Financial Aid | Depreciation | Total |
|---|---|---|---|---|---|---|
| Instructional activities | $ 63,603,108 | $ 33,383,089 | $ 1,506,240 | $ - | $ - | $ 98,492,437 |
| Academic support | 12,931,822 | 6,673,649 | 338,244 | - | - | 19,943,715 |
| Student services | 23,602,987 | 11,768,498 | 4,782,060 | 322,294 | - | 40,475,839 |
| Plant operations and maintenance | 5,450,080 | 3,809,915 | 2,715,809 | - | - | 11,975,804 |
| Instructional support services | 17,176,685 | 16,233,631 | 5,969,077 | - | - | 39,379,393 |
| Community services and economic development | 1,326,538 | 683,645 | 106,501 | - | - | 2,116,684 |
| Ancillary services and auxiliary operations | 5,727,335 | 3,139,926 | 3,881,447 | 11,434 | - | 12,760,142 |
| Student aid | - | - | - | 39,368,867 | - | 39,368,867 |
| Physical property and related acquisitions | 220,100 | 166,235 | 25,159,556 | - | - | 25,545,891 |
| Unallocated depreciation | - | - | - | - | 23,321,549 | 23,321,549 |
| Total | $ 130,038,655 | $ 75,858,588 | $ 44,458,934 | $ 39,702,595 | $ 23,321,549 | $ 313,380,321 |

## 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 reflects 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 21 of the financial statements.

| | 2019 | 2018 |
|---|---|---|
| Cash Provided by (Used in) | | |
| Operating activities | $ (171,112,767) | $ (164,084,698) |
| Noncapital financing activities | 176,878,784 | 175,873,494 |
| Capital financing activities | (77,505,340) | 190,310,218 |
| Investing activities | 5,518,704 | (65,909,127) |
| Net Increase (Decrease) in Cash | (66,220,619) | 136,189,887 |
| Cash, Beginning of Year | 388,836,195 | 252,646,308 |
| Cash, End of Year | $ 322,615,576 | $ 388,836,195 |

- Cash receipts from operating activities are from student tuition, Federal, State, and Local grants and contracts, and auxiliary operation sales. Uses of cash from operating activities consist of payments to employees, vendors and students.

- Non-capital financing activities represent cash receipts from State apportionment, property taxes, State taxes, other State revenue and grants and gifts for other than capital purposes.

- Cash flows from 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. In 2017-2018, the District issued General Obligation Bonds which resulted in a positive cash flow in that year.

- In 2017-2018, the District purchased investments related to the issuance of General Obligation Bonds which resulted in a negative cash flow in that year. Cash from investing activities also includes interest earnings through the Los Angeles County Investment Pool.

## 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.

## Capital Assets

As of June 30, 2019, the District has governmental capital assets of $822.2 million, consisting of land, buildings and building improvements, construction in progress, vehicles, office and instructional equipment, with an accumulated depreciation of $160.4 million for net governmental capital assets of $661.8 million. Net additions to capital assets in 2018-2019 consisted mainly of site improvements and construction in progress as a result of the passage of Measure U, Measure S, Measure AA, and Measure V. The following major projects added significantly to the capital assets of the District in the form of site improvements and construction in process: Malibu Site Acquisition and Facility; Early Childhood Development and Childcare Facility; Student Services Building; Math and Science Classroom Addition; and Center for Media and Design. 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 on the following page.

Note 6 in the financial statements provides additional information on capital assets. A summary of capital assets is presented below.

| | Balance July 1, 2018 | Additions | Deletions | Balance June 30, 2019 |
|---|---|---|---|---|
| Land and construction in progress | $ 190,687,242 | $ 49,921,464 | $ (18,627,508) | $ 221,981,198 |
| Buildings and improvements | 550,737,046 | 18,351,597 | - | 569,088,643 |
| Furniture and equipment | 27,282,364 | 3,966,091 | (86,429) | 31,162,026 |
| Subtotal | 768,706,652 | 72,239,152 | (18,713,937) | 822,231,867 |
| Accumulated depreciation | (137,163,028) | (23,321,549) | 86,429 | (160,398,148) |
| | $ 631,543,624 | $ 48,917,603 | $ (18,627,508) | $ 661,833,719 |

**Long-term Obligations**

At June 30, 2019, the District had approximately $1.1 billion in long-term obligations: $9.1 million from compensated absences/load banking, $4.0 million from the supplemental early retirement plan, $125.7 million from GASB Statement No. 75, other postemployment healthcare benefit liability, $4.4 million from capital lease, $10.4 million from obligations under Certificates of Participation, $770.2 million from General Obligation Bonds, and $201.9 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 was upgraded in 2017-2018 from AA to AA+ (S&P) and from Aa2 stable to Aa2 positive (Moody's). The credit strengths noted by the rating agencies include a strong management team, revenue flexibility from the presence of out-of-state students, very strong income and property wealth indicators, and a broad and diverse tax base. The improved credit profile assists the District in achieving the lowest cost of borrowing when issuing debt which directly translates into savings for the local taxpayers.

Note 10 in the financial statements provides additional information on long-term obligations. A summary of long-term obligations is presented below.

| | Balance July 1, 2018 | Additions | Deletions | Balance June 30, 2019 |
|---|---|---|---|---|
| General obligation bonds | $ 789,269,046 | $ 5,677,334 | $ (24,734,752) | $ 770,211,628 |
| Certificates of Participation | 12,205,421 | - | (1,752,084) | 10,453,337 |
| Other liabilities | 298,180,916 | 53,214,238 | (6,379,429) | 345,015,725 |
| Total Long-Term Debt | $ 1,099,655,383 | $ 58,891,572 | $ (32,866,265) | $ 1,125,680,690 |
| | | | | |
| Amount due within one year | | | | $ 26,830,915 |

## Budget for the Future - Unrestricted General Fund - 2019-2020

In this section, the District highlights some of the major budgetary assumptions presented in the 2019-2020 Adopted Budget to assist the reader in understanding the long-term fiscal stability of the Institution.

## Overview

For 2019-2020, the District is projecting a revenue increase from the prior year actual of approximately 0.41 percent or $760,871. Expenditures are projected to increase 4.1 percent or $7,542,874. The net effect of the projected changes in revenue and expenditures will result in a projected structural deficit of <$11,707,703> and projected operating deficit, including one-time items of <$3,754,239>, resulting in a projected ending Unrestricted General Fund Balance of $26,921,868 including designated reserves, or 14.18 percent of total expenditures and transfers.

## Significant Changes to the Student-Centered Funding Formula

In 2018-2019, the State adopted the Student-Centered Funding Formula *(SCFF)*, which is the new methodology the State will use to allocate funding to community college districts. The new formula calculates funding based on three main factors: Base Allocation (*enrollment*), Supplemental Allocation *(number of low-income students served measured by financial aid distribution)* and Student Success *(number of student success outcomes achieved)*. The 2019-2020 State Adopted Budget made five significant revisions to the SCFF in the areas of funding allocation implementation, student success allocation counts, student success allocation calculation, definition of a transfer related to the SCFF and the hold-harmless period. A summary of the revisions are as follows:

***Funding Allocation Implementation:*** The original SCFF stipulated that the formula would be implemented over a three-year period by allocating funds between the three funding factors as follows: 70 percent Base Allocation, 20 percent Supplemental Allocation and 10 percent Student Success Allocation in the first year of the formula *(2018-2019),* 65 percent Base Allocation, 20 percent Supplemental Allocation and 15 percent Student Success Allocation in the second year of the formula *(2019-2020)*, and 60 percent Base Allocation, 20 percent Supplemental Allocation and 20 percent Student Success Allocation in the third year of the formula *(2020-2021)*. This funding allocation implementation plan has been revised as follows: Starting in 2019-2020 the SCFF funds allocated between the three funding factors will be 70 percent to the Base Allocation, 20 percent to the Supplemental Allocation and 10 percent to the Student Success Allocation. In 2020-2021, the rates associated with this allocation distribution will be increased by COLA.

***Student Success Allocation Counts:*** The original SCFF awarded districts funding based on how many awards a student earned without a limitation. For example, if a student earned an Associates Degree and a Credit Certificate in the same year, the district would be funded for both achievements. The 2019-2020 State Budget has revised the SCFF so that a district will only receive funding for a maximum of one award regardless of how many awards the student earns. Additionally, the revised language requires that the student must have been enrolled in the district in the year the award was granted. The order of the awards that will be funded, is defined as Associates Degree for Transfer, Associates Degree, Baccalaureate Degree and Credit Certificate. For example, under the revised language if a student earned an Associates Degree and Credit Certificate in the same year, the district would only be funded for the Associates Degree.

***Student Success Allocation Calculation:*** The original SCFF allocated the Student Success Allocation based on achievement counts from the prior year. The revised SCFF will now base funding on a three-year average of student achievement.

***Definition of a Transfer:*** For the purposes of the SCFF a Transfer is now defined as *"a student who transferred to a four-year university and completed 12 or more units in the district in the year prior to transfer".*

***Hold Harmless Period:*** The hold harmless period has been extended through 2021-2022.

The SCFF contains a hold harmless provision which states that, through 2021-2022, districts will be funded at either the amount calculated under SCFF or at an amount calculated at the 2017-2018 funding level, plus COLA, whichever is greater. For 2019-2020 the District projects that it will be funded under the hold harmless provision. By 2022-2023, when the hold harmless period ends, the District is projected to receive approximately $9.2 million less funding than it would under the hold harmless calculation.

**New Initiatives/Projects**

The proposed Adopted Budget includes five new initiatives/projects for the 2019-2020 fiscal year. These initiatives/projects include:

- ***Safe Parking Pilot Program***: $50,000 in one-time funding to develop and implement a Safe Parking pilot program. (*Board of Trustees Goals and Priorities Section 1 Sub-section 12 - Assess and focus on solutions to barriers related to students' personal circumstances that may negatively impact student success)*

- ***Gender Equity and Social Justice Center:*** $75,000 in one-time funding to provide start-up funds for furniture, equipment, materials, supplies, training and temporary staffing to assist in implementing the Gender Equity and Social Justice Center. *(Board of Trustees Goals and Priorities Section 1 Sub-section 12 Assess and focus on solutions to barriers related to students' personal circumstances that may negatively impact student success)*

- ***Veterans Resource Center:*** $25,000 in one-time funding to provide new equipment, furniture, materials, and supplies for the Veterans Resource Center to improve the student experience. *(Board of Trustees Goals and Priorities Section 1 Sub-section 12 Assess and focus on solutions to barriers related to students' personal circumstances that may negatively impact student success)*

- ***Student Ambassador Recruiter Corps:*** $156,500 in ongoing funding to create a new Student Ambassador Recruiter Corps to improve SMC Outreach and Recruitment efforts with local high schools. *(Strategic Initiatives and Objectives Section 2 Sub-section 4 Expand targeted marketing and communication to prospective students)*

- ***Gender Equity and Social Justice Center Renovation:*** $250,000 in one-time funding, from the Capital Outlay Fund, to fund one-half of the budgeted cost of the renovation of the Associated Students computer lab to implement the new Gender Equity and Social Justice Center. *(Board of Trustees Goals and Priorities Section 1 Sub-section 12 Assess and focus on solutions to barriers related to students' personal circumstances that may negatively impact student success*)

## Major Assumptions

The major revenue assumptions include the calculation of apportionment under the hold harmless clause of the new funding formula which guarantees the District will receive the amount of apportionment collected in 2018-2019, increased by an Inflationary Adjustment *(COLA)* of $4,350,124 or 3.26 percent. The proposed adopted budget also assumes an increase in *"State on behalf contribution to STRS"* $504,956, decrease in lottery revenue of <$341,464>, the non-repetition of one-time revenue received in 2018-2019 for part-time office hours reimbursement program <$1,537,287> and a decrease in non-resident tuition of <$2,289,238> as a result of a projected enrollment decline of non-resident students. The net effect of all changes in revenues has resulted in a projected increase in total revenues of $760,871 or 0.41 percent from the prior-year unaudited actuals.

The major expenditure assumptions include projected increases related to salary step and longevity *($1,407,519)*, vacancy list *($1,333,841)*, current employee and retiree health and welfare benefits *($1,257,958),* supplies, contracts and services *($1,217,109),* full-year net effect of hiring and termination *($1,091,615),* full-year effect of negotiated faculty salary increase and related benefits *($884,142),* employment and retirement benefits *($832,081)*, *"State on behalf pension contribution to STRS" ($504,956)* and insurance and utilities *($490,661*), net of decrease in hourly instruction and non-instruction *($1,842,765).* The net effect of all changes in expenditures has resulted in a projected increase in total expenditures of approximately $7,542,874 or 4.1 percent compared with prior year unaudited actuals. The breakdown of expenditures is as follows: 88.0 percent on salaries and benefits, 11.1 percent on contracts and services, 0.6 percent on supplies, 0.2 percent on transfers/financial aid and 0.1 percent on capital.

The net effect of the projected changes in revenue and expenditures will result in a projected structural deficit of <$11,707,703> and projected operating deficit, including one-time items of <$3,754,239>, resulting in a projected ending Unrestricted General Fund Balance of $26,921,868 including designated reserves, or 14.18 percent of total expenditures and transfers.

## 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 2019-2020 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 Christopher M. Bonvenuto, Vice President of Business and Administration via phone by calling (310) 434-4000 or by email at businessservices@smc.edu.

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

## STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
## JUNE 30, 2019

| | |
|---|---|
| **ASSETS** | |
| **Current Assets** | |
| Cash and cash equivalents | $ 9,664,223 |
| Investments | 381,696,505 |
| Accounts receivable | 10,283,998 |
| Student receivables, net | 1,384,581 |
| Due from fiduciary funds | 563,985 |
| Prepaid expenses | 2,063,971 |
| Inventories | 768,780 |
| **Total Current Assets** | 406,426,043 |
| **Noncurrent Assets** | |
| Nondepreciable capital assets | 221,981,198 |
| Depreciable capital assets, net of depreciation | 439,852,521 |
| **Total Noncurrent Assets** | 661,833,719 |
| **TOTAL ASSETS** | 1,068,259,762 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Deferred charges on refunding | 6,203,421 |
| Deferred outflows of resources related to other postemployment benefits (OPEB) | 37,769,702 |
| Deferred outflows of resources related to pensions | 56,450,276 |
| **Total Deferred Outflows of Resources** | 100,423,399 |
| **LIABILITIES** | |
| **Current Liabilities** | |
| Accounts payable | 27,073,781 |
| Accrued interest payable | 12,651,523 |
| Due to fiduciary funds | 781,903 |
| Unearned revenue | 24,106,436 |
| Current portion of long-term liabilities other than pensions | 26,830,915 |
| **Total Current Liabilities** | 91,444,558 |
| **Noncurrent Liabilities** | |
| Noncurrent portion of long-term liabilities other than pensions | 896,992,461 |
| Aggregate net pension obligation | 201,857,314 |
| **Total Noncurrent Liabilities** | 1,098,849,775 |
| **TOTAL LIABILITIES** | 1,190,294,333 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Deferred inflows of resources related to OPEB | 192,539 |
| Deferred inflows of resources related to pensions | 16,635,887 |
| **Total Deferred Inflows of Resources** | 16,828,426 |
| **NET POSITION** | |
| Net investment in capital assets | 165,824,526 |
| Restricted for: | |
| Debt service | 105,996,782 |
| Capital projects | 15,517,081 |
| Educational programs | 8,971,703 |
| Other activities | 718,575 |
| Unrestricted | (335,468,265) |
| **TOTAL NET POSITION** | $ (38,439,598) |

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, 2019

| | |
|---|---|
| **OPERATING REVENUES** | |
| Student Tuition and Fees | $ 72,642,020 |
| Less: Scholarship discount and allowance | (14,264,325) |
| Net tuition and fees | 58,377,695 |
| Grants and Contracts, Noncapital | |
| Federal | 4,907,172 |
| State | 32,803,650 |
| Local | 1,954,529 |
| Total grants and contracts, noncapital | 39,665,351 |
| Auxiliary Enterprise Sales and Charges | |
| Bookstore | 4,707,656 |
| **TOTAL OPERATING REVENUES** | 102,750,702 |
| **OPERATING EXPENSES** | |
| Salaries | 130,038,655 |
| Employee benefits | 75,858,588 |
| Supplies, materials, and other operating expenses and services | 41,887,820 |
| Student financial aid | 39,702,595 |
| Equipment, maintenance, and repairs | 2,571,114 |
| Depreciation | 23,321,549 |
| **TOTAL OPERATING EXPENSES** | 313,380,321 |
| **OPERATING LOSS** | (210,629,619) |
| **NONOPERATING REVENUES (EXPENSES)** | |
| State apportionments, noncapital | 88,890,044 |
| Local property taxes, levied for general purposes | 37,369,954 |
| Taxes levied for other specific purposes | 36,739,788 |
| Federal financial aid grants, noncapital | 32,079,492 |
| State financial aid grants, noncapital | 6,530,123 |
| State taxes and other revenues | 6,508,198 |
| Investment income | 5,650,407 |
| Interest expense on capital related debt | (32,762,962) |
| Investment expense on capital asset-related debt | 2,916,038 |
| Transfer to fiduciary funds | (21,294) |
| Other nonoperating revenue | 5,528,625 |
| **TOTAL NONOPERATING REVENUES (EXPENSES)** | 189,428,413 |
| **LOSS BEFORE OTHER REVENUES** | (21,201,206) |
| **OTHER REVENUES** | |
| State revenues, capital | 3,913,938 |
| Local revenues, capital | 8,515,506 |
| **TOTAL OTHER REVENUES** | 12,429,444 |
| **CHANGE IN NET POSITION** | (8,771,762) |
| **NET POSITION, BEGINNING OF YEAR** | (29,667,836) |
| **NET POSITION, END OF YEAR** | $ (38,439,598) |

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, 2019

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Tuition and fees | $ 60,244,347 |
| Federal, State, and local grants and contracts, noncapital | 35,922,366 |
| Payments to vendors for supplies and services | (44,178,111) |
| Payments to or on behalf of employees | (188,106,430) |
| Payments to students for scholarships and grants | (39,702,595) |
| Other operating receipts | 4,707,656 |
| **Net Cash Flows From Operating Activities** | (171,112,767) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| State apportionments | 88,262,129 |
| Federal and State financial aid grants | 38,609,615 |
| Property taxes - nondebt related | 37,369,954 |
| State taxes and other apportionments | 6,508,198 |
| Other nonoperating receipts | 6,128,888 |
| **Net Cash Flows From Noncapital Financing Activities** | 176,878,784 |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES** | |
| Purchase of capital assets | (78,967,349) |
| Accretion on capital debt | 5,677,334 |
| State revenue, capital projects | 2,896,176 |
| Local revenue, capital projects | 8,515,506 |
| Property taxes - related to capital debt | 36,739,788 |
| Principal paid on capital debt | (26,777,320) |
| Interest paid on capital debt | (28,505,513) |
| Interest received on capital asset-related debt | 2,916,038 |
| **Net Cash Flows From Capital Financing Activities** | (77,505,340) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Purchase of investments | (220,613) |
| Interest received from investments | 5,739,317 |
| **Net Cash Flows From Investing Activities** | 5,518,704 |
| | |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | (66,220,619) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 388,836,195 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 322,615,576 |

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, 2019

| | |
|---|---|
| **RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Operating Loss | $ (210,629,619) |
| Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities | |
| Depreciation expense | 23,321,549 |
| Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows | |
| Accounts receivable | (694,560) |
| Student receivables, net | 72,197 |
| Prepaid expenses | 149,734 |
| Inventories | (65,985) |
| Accounts payable | 1,280,259 |
| Unearned revenue | (1,253,970) |
| Compensated absences | 563,605 |
| Load banking | (139,043) |
| Supplemental early retirement plan | (1,314,808) |
| Deferred outflows of resources related to OPEB | (52,339,788) |
| Deferred outflows of resources related to pensions | 23,044,544 |
| Aggregate net OPEB liability | 41,229,657 |
| Aggregate net pension obligation | 6,785,882 |
| Deferred inflows of resources related to OPEB | 192,539 |
| Deferred inflows of resources related to pensions | (1,314,960) |
| **Total Adjustments** | 39,516,852 |
| **Net Cash Flows From Operating Activities** | $ (171,112,767) |

| | |
|---|---|
| **CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:** | |
| Cash in banks | $ 9,664,223 |
| Cash in county treasury | 312,951,353 |
| **Total Cash and Cash Equivalents** | $ 322,615,576 |

| | |
|---|---|
| **NONCASH TRANSACTIONS** | |
| On behalf payments for benefits | $ 13,407,010 |

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

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

## FIDUCIARY FUNDS
## STATEMENT OF NET POSITION
## JUNE 30, 2019

| | Retiree OPEB Trust | Other Trust Funds | Agency Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ - | $ 2,987,551 | $ 14,541,032 |
| Investments | 7,513,223 | 14,912 | - |
| Accounts receivable | - | 1,220 | 258,553 |
| Due from primary government | - | 96,991 | 684,912 |
| Prepaid expenses | - | - | 5,240 |
| **Total Assets** | 7,513,223 | 3,100,674 | $ 15,489,737 |
| **LIABILITIES** | | | |
| Accounts payable | - | 12,022 | $ 413,061 |
| Due to primary government | - | 8,588 | 555,397 |
| Unearned revenue | - | - | 131,485 |
| Due to student groups | - | - | 14,389,794 |
| **Total Liabilities** | - | 20,610 | $ 15,489,737 |
| **NET POSITION** | | | |
| Restricted for postemployment benefits other than pensions | 7,513,223 | - | |
| Unrestricted | - | 3,080,064 | |
| **Total Net Position** | $ 7,513,223 | $ 3,080,064 | |

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

## FIDUCIARY FUNDS
## STATEMENT OF CHANGES IN NET POSITION
## FOR THE YEAR ENDED JUNE 30, 2019

| | Retiree OPEB Trust | Other Trust Funds |
|---|---|---|
| **ADDITIONS** | | |
| Investment income | $ 440,064 | $ - |
| District contributions | 4,570,707 | - |
| Local revenues | - | 1,213,606 |
| **Total Additions** | 5,010,771 | 1,213,606 |
| **DEDUCTIONS** | | |
| Employee benefits | 4,570,707 | - |
| Books and supplies | - | 158,875 |
| Services and operating expenditures | - | 974,534 |
| Administrative expenses | 6,033 | - |
| Capital outlay | - | 167,519 |
| **Total Deductions** | 4,576,740 | 1,300,928 |
| **OTHER FINANCING SOURCES (USES)** | | |
| Transfer from primary government | - | 21,294 |
| Other uses | - | (80,100) |
| **Total Other Financing Sources (Uses)** | - | (58,806) |
| **Change in Net Position** | 434,031 | (146,128) |
| **Net Position - Beginning of Year** | 7,079,192 | 3,226,192 |
| **Net Position - End of Year** | $ 7,513,223 | $ 3,080,064 |

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

## *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.

### 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, 2019, 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.
>
> 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.

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

### 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 government-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.

## 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, noncapital grants and contracts, and auxiliary activities through the bookstore.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, Federal and State financial aid grants, 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 financial aid grants 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 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, No. 39, and No. 61. 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

### 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, 2019 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.

**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 $1,007,353 for the year ended June 30, 2019.

**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.

**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 acquisition 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.

**Accrued Liabilities and Long-Term Obligations**

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

**Debt Premiums**

Debt premiums are amortized over the life of the bonds using the straight-line method.

**Deferred Charges on Refunding**

Deferred charges on refunding is amortized using the straight-line method over the remaining life of the old debt or the new debt, whichever is shorter.

**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 OPEB and 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 OPEB and pension related items.

**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.

**Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense, information about the fiduciary net position of the District's Plan and the CalSTRS Medicare Premium Payment (MPP) Program, and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the District's Plan and MPP. For this purpose, the District's Plan and MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

**Compensated Absences and Load Banking**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-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 these benefits is reported on the government-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, supplemental early retirement plan, capital leases, the aggregate net OPEB liability, and the aggregate net pension obligation with maturities greater than one year.

**Net Position**

GASB Statements No. 34 and No. 35 report equity as "Net Position" which represents 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.

**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. The government-wide financial statements report $131,204,141 of restricted net position.

**Operating Revenues and Expenses**

**Classification of Revenues -** The District has classified its revenues as either operating or nonoperating. Certain significant revenue streams relied upon for operation are classified as nonoperating as defined by GASB Statements No. 34 and No. 35. Classifications are as follows:

**Operating revenues -** Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances, Federal, State, and local grants and contracts, and sales and services of auxiliary enterprises.

**Nonoperating revenues -** Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as State apportionments, property taxes, investment income, gifts and contributions, and other revenue sources defined in GASB Statements No. 34 and No. 35.

**Classification of Expenses -** Nearly all of the District's expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

**Operating expenses -** Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses, and student financial aid.

**Nonoperating expenses -** Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

**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, 2008, and 2016 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.

**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, Federal Supplemental Educational Opportunity Grants (FSEOG) Grants, Direct Loans 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.

**Interfund Activity**

Interfund transfers and interfund receivables and payables for governmental activities are eliminated during the consolidation process in the Primary Government and Fiduciary Funds' financial statements, respectively.

**Change in Accounting Principles**

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The District has implemented the provisions of this Statement as of June 30, 2019.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The District has implemented the provisions of this Statement as of June 30, 2019.

**New Accounting Pronouncements**

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2020. Early implementation is encouraged.

## *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

In accordance with the *Budget and Accounting Manual*, the District maintains substantially all of its cash in the County Treasury as part of the common investment pool. The District is considered to be an involuntary participant in an external investment pool. 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 |

**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, 2019, consist of the following:

| | |
|---|---|
| Primary government | $ 391,360,728 |
| Fiduciary funds | 25,056,718 |
| Total Deposits and Investments | $ 416,417,446 |

| | |
|---|---|
| Cash on hand and in banks | $ 24,653,039 |
| Cash in revolving | 25,000 |
| Cash with fiscal agent | 2,514,767 |
| Investments | 389,224,640 |
| Total Deposits and Investments | $ 416,417,446 |

### 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, U.S. Treasury notes, and mutual funds evenly over time as necessary to provide the cash flow and liquidity needed for operations.

| Investment Type | Book Value | Fair Value | Weighted Average Days to Maturity |
|---|---|---|---|
| Los Angeles County Investment Pool | $ 312,966,265 | $ 312,666,064 | 547 |
| U.S. Treasury Notes | 68,745,152 | 68,745,152 | 391 |
| Mutual Funds | 7,513,223 | 7,513,223 | No maturity |
| Total | $ 389,224,640 | $ 388,924,439 | |

### 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 Mutual funds are not required to be rated, nor have they been rated as of June 30, 2019. The U.S. Treasury Notes reflected an Aaa rating by Moody's Rating Service as of June 30, 2019.

### 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, 2019, the District had approximately $33.9 million 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.

The District's fair value measurements are as follows at June 30, 2019:

| Investment Type | Fair Value | Level 1 Inputs | Uncategorized |
|---|---|---|---|
| Los Angeles County Investment Pool | $ 312,666,064 | $ - | $ 312,666,064 |
| U.S. Treasury Notes | 68,745,152 | 68,745,152 | - |
| Mutual Funds | 7,513,223 | 7,513,223 | - |
| Total | $ 388,924,439 | $ 76,258,375 | $ 312,666,064 |

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

***NOTE 5 - ACCOUNTS RECEIVABLE***

Accounts receivable at June 30, 2019, consisted of the following:

| | Primary Government | Fiduciary Funds |
|---|---|---|
| Federal Government | | |
| Categorical aid | $ 1,440,178 | $ - |
| State Government | | |
| Apportionment | 375,275 | - |
| Categorical aid | 2,582,130 | - |
| Lottery | 1,411,095 | - |
| Other State sources | 1,581,062 | - |
| Local Sources | | |
| Interest | 1,390,255 | 88 |
| KCRW | 785,757 | - |
| Performing Arts Center | 390,038 | - |
| Other local sources | 328,208 | 259,685 |
| Total | $ 10,283,998 | $ 259,773 |

| | Primary Government | Fiduciary Funds |
|---|---|---|
| Student receivables | $ 2,391,934 | $ - |
| Less allowance for bad debt | (1,007,353) | - |
| Student receivables, net | $ 1,384,581 | $ - |

***NOTE 6 - CAPITAL ASSETS***

Capital asset activity for the District for the fiscal year ended June 30, 2019, was as follows:

| | Balance July 1, 2018 | Additions | Deductions | Balance June 30, 2019 |
|---|---|---|---|---|
| Capital Assets Not Being Depreciated | | | | |
| Land | $ 71,217,761 | $ - | $ - | $ 71,217,761 |
| Construction in progress | 119,469,481 | 49,921,464 | 18,627,508 | 150,763,437 |
| Total Capital Assets Not Being Depreciated | 190,687,242 | 49,921,464 | 18,627,508 | 221,981,198 |
| Capital Assets Being Depreciated | | | | |
| Buildings and improvements | 550,737,046 | 18,351,597 | - | 569,088,643 |
| Furniture and equipment | 27,282,364 | 3,966,091 | 86,429 | 31,162,026 |
| Total Capital Assets Being Depreciated | 578,019,410 | 22,317,688 | 86,429 | 600,250,669 |
| Total Capital Assets | 768,706,652 | 72,239,152 | 18,713,937 | 822,231,867 |
| Less Accumulated Depreciation | | | | |
| Buildings and improvements | 115,439,121 | 21,652,058 | - | 137,091,179 |
| Furniture and equipment | 21,723,907 | 1,669,491 | 86,429 | 23,306,969 |
| Total Accumulated Depreciation | 137,163,028 | 23,321,549 | 86,429 | 160,398,148 |
| Net Capital Assets | $ 631,543,624 | $ 48,917,603 | $ 18,627,508 | $ 661,833,719 |

Depreciation expense for the year was $23,321,549.

***NOTE 7 - ACCOUNTS PAYABLE***

Accounts payable at June 30, 2019, consisted of the following:

| | Primary Government | Fiduciary Funds |
|---|---|---|
| Accrued payroll | $ 12,904,110 | $ - |
| Construction | 11,079,582 | - |
| Other vendor payables | 3,090,089 | 425,083 |
| Total | $ 27,073,781 | $ 425,083 |

### *NOTE 8 - UNEARNED REVENUE*

Unearned revenue at June 30, 2019, consisted of the following:

| | Primary Government | Fiduciary Funds |
|---|---|---|
| State categorical aid | $ 14,353,834 | $ - |
| Apportionment | 1,918,134 | - |
| Student fees | 7,834,468 | - |
| Other local | - | 131,485 |
| Total | $ 24,106,436 | $ 131,485 |

### *NOTE 9 - INTERFUND TRANSACTIONS*

**Interfund Receivables and Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund 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, 2019, the primary government owed the fiduciary funds $781,903 and the fiduciary funds owed the primary government $563,985.

**Interfund 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 2018-2019 fiscal year, the amount transferred to the fiduciary funds from the primary government amounted to $21,294.

## *NOTE 10 - LONG-TERM OBLIGATIONS*

### Summary

The changes in the District's long-term obligations during the 2019 fiscal year consisted of the following:

| | Balance July 1, 2018 | Additions | Deductions | Balance June 30, 2019 | Due in One Year |
|---|---|---|---|---|---|
| General Obligation Bonds (Bonds) and Certificates of Participation (COPs) | | | | | |
| General obligation bonds | $ 743,335,553 | $ 5,677,334 | $ 20,860,000 | $ 728,152,887 | $ 23,460,000 |
| Premium on bonds | 45,933,493 | - | 3,874,752 | 42,058,741 | - |
| Certificates of Participation | 11,720,000 | - | 1,655,000 | 10,065,000 | 1,735,000 |
| Premium on COPs | 485,421 | - | 97,084 | 388,337 | - |
| Total Bonds and COPs | 801,474,467 | 5,677,334 | 26,486,836 | 780,664,965 | 25,195,000 |
| Other Liabilities | | | | | |
| Compensated absences | 5,575,107 | 563,605 | - | 6,138,712 | - |
| Load banking | 3,106,607 | - | 139,043 | 2,967,564 | - |
| Supplemental early retirement plan | 5,258,203 | - | 1,314,808 | 3,943,395 | 1,314,465 |
| Capital leases | 4,675,699 | - | 290,484 | 4,385,215 | 321,450 |
| Aggregate net OPEB liability | 84,493,868 | 45,864,751 | 4,635,094 | 125,723,525 | - |
| Aggregate net pension obligation | 195,071,432 | 6,785,882 | - | 201,857,314 | - |
| Total Other Liabilities | 298,180,916 | 53,214,238 | 6,379,429 | 345,015,725 | 1,635,915 |
| Total Long-Term Obligations | $ 1,099,655,383 | $ 58,891,572 | $ 32,866,265 | $ 1,125,680,690 | $ 26,830,915 |

### Description of Long-Term Obligations

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 and the supplemental early retirement plan 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 aggregate net OPEB liability 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 2004 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. The bonds were issued with maturity dates from May 1, 2006 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, 2019 was $2,524,912.

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 payable semiannually on August 1 and February 1. 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, 2019 was $12,972,471.

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 payable semiannually on August 1 and February 1. 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, 2019 was $13,858,482.

Refunding Series A 2013 bonds were issued on June 5, 2013 for $108,405,000 of current interest bonds. The bonds were issued to effect an advance refunding of a portion of the District's outstanding general obligation bonds. Interest rates range from 2.00 percent to 5.00 percent payable semiannually on August 1 and February 1. The bonds were issued with maturity dates from August 1, 2013 through August 1, 2030. The principal balance outstanding at June 30, 2019 was $91,640,000.

**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.

Series C 2009 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, 2019 was $52,353,322.

Refunding Series B 2013 bonds were issued on June 5, 2013 for $23,450,000 of current interest bonds. The bonds were issued to effect an advance refunding of a portion of the District's outstanding general obligation bonds. Interest rates range from 0.486 percent to 2.205 percent payable semiannually on August 1 and February 1. The bonds were issued with maturity dates from August 1, 2014 through August 1, 2019. The principal balance outstanding at June 30, 2019 was $1,600,000.

Series D 2017 were issued on March 30, 2017 for $9,600,000 of current interest bonds with an interest rate of 4.00 percent payable semiannually on August 1 and February 1. The bonds were issued with maturity dates from August 1, 2020 through August 1, 2021. The principal balance outstanding at June 30, 2019 was $9,600,000.

Series D-1 2017 were issued on March 30, 2017 for $10,400,000 of federally taxable current interest bonds. Interest rates range from 1.382 percent to 1.960 percent payable semiannually on August 1 and February 1. The bonds were issued with maturity dates from August 1, 2018 through August 1, 2020. The principal balance outstanding at June 30, 2019 was $7,275.000.

**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 2010 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, 2020 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, 2019 was $5,155,000 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 are "qualified bonds" under Section 54AA(g)(2) of the Tax Code which makes 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 2014 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, 2019 was $141,008,700.

Series C 2017 bonds were issued on March 30, 2017 for $45,000,000 of current interest bonds. Interest rates range from 3.65 percent to 5.00 percent payable semiannually on August 1 and February 1. The bonds were issued with maturity dates from August 1, 2026 through August 1, 2037. The principal balance outstanding at June 30, 2019 was $45,000,000.

Series C-1 2017 bonds were issued on March 30, 2017 for $5,000,000 of federally taxable current interest bonds. Interest rates range from 1.382 percent to 3.212 percent payable semiannually on August 1 and February 1. The bonds were issued with maturity dates from August 1, 2018 through August 1, 2026. The principal balance outstanding at June 30, 2019 was $4,005,000.

Refunding Series A 2017 bonds were issued on March 30, 2017 for $25,395,000 of current interest bonds. The bonds were 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 payable semiannually on August 1 and February 1. The bonds were issued with maturity dates from August 1, 2017 through August 1, 2023. The principal balance outstanding at June 30, 2019 was $24,935,000.

Series A 2018 Crossover Refunding bonds were issued on April 18, 2018 for $69,360,000 of current interest bonds. The bonds were issued to effect an advance refunding of a portion of the District's outstanding Series A-1 general obligation bonds on the crossover date of August 1, 2020. Interest rates range from 2.716 percent to 3.942 percent payable semiannually on August 1 and February 1. The bonds were issued with maturity dates from August 1, 2021 through August 1, 2034. The principal balance outstanding at June 30, 2019 was $69,360,000.

**Measure V**

On November 4, 2016, at an election held within the boundaries of the District, the voters authorized bonds to be sold in the amount of $345,000,000. Proceeds from the sale of the bonds were used to finance the construction, acquisition, furnishing, and equipping of District facilities.

Series A 2018 bonds were issued on April 18, 2018 for $180,000,000 of current interest bonds. Interest rates range from 3.65 percent to 5.00 percent payable semiannually on August 1 and February 1. The bonds were issued with maturity dates from August 1, 2020 through August 1, 2047. The principal balance outstanding at June 30, 2019 was $180,000,000.

**Debt Maturity**

**General Obligation Bonds**

| Series | Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 1, 2018 | Issued/ Accretion | Redeemed | Bonds Outstanding June 30, 2019 |
|---|---|---|---|---|---|---|---|---|
| 2004, B | 5/13/2004 | 5/1/2029 | 3.00%-5.00% | $ 21,999,971 | $ 2,381,135 | $ 143,777 | $ - | $ 2,524,912 |
| 2007, A | 1/31/2007 | 8/1/2031 | 4.20%-4.74% | 11,999,987 | 13,705,664 | 651,807 | 1,385,000 | 12,972,471 |
| 2010, E | 1/26/2010 | 8/1/2026 | 3.92%-5.70% | 10,998,993 | 14,390,757 | 742,725 | 1,275,000 | 13,858,482 |
| | Subtotal 2002 Measure U Election | | | 44,998,951 | 30,477,556 | 1,538,309 | 2,660,000 | 29,355,865 |
| 2009, C | 3/24/2009 | 8/1/2029 | 4.50%-6.60% | 56,997,857 | 53,400,345 | 2,872,977 | 3,920,000 | 52,353,322 |
| 2017, D | 3/30/2017 | 8/1/2021 | 4.00% | 9,600,000 | 9,600,000 | - | - | 9,600,000 |
| 2017, D-1 | 3/30/2017 | 8/1/2020 | 1.382-1.960% | 10,400,000 | 10,400,000 | - | 3,125,000 | 7,275,000 |
| | Subtotal 2004 Measure S Election | | | 76,997,857 | 73,400,345 | 2,872,977 | 7,045,000 | 69,228,322 |
| 2010, A | 1/26/2010 | 8/1/2020 | 5.00% | 33,135,000 | 7,450,000 | - | 2,295,000 | 5,155,000 |
| 2010, A-1 | 1/26/2010 | 8/1/2034 | 5.728%-5.878% | 66,865,000 | 66,865,000 | - | - | 66,865,000 |
| 2014, B | 10/30/2014 | 8/1/2044 | 1.00%-5.00% | 144,995,829 | 139,852,652 | 1,266,048 | 110,000 | 141,008,700 |
| 2017, C | 3/30/2017 | 8/1/2037 | 3.65-5.00% | 45,000,000 | 45,000,000 | - | - | 45,000,000 |
| 2017, C-1 | 3/30/2017 | 8/1/2026 | 1.382-3.212% | 5,000,000 | 5,000,000 | - | 995,000 | 4,005,000 |
| | Subtotal 2008 Measure AA Election | | | 294,995,829 | 264,167,652 | 1,266,048 | 3,400,000 | 262,033,700 |
| 2018, A | 4/18/2018 | 8/1/2047 | 3.65-5.00% | 180,000,000 | 180,000,000 | - | - | 180,000,000 |
| | Subtotal 2016 Measure V Election | | | 180,000,000 | 180,000,000 | - | - | 180,000,000 |
| 2013, A | 6/5/2013 | 8/1/2030 | 2.00%-5.00% | 108,405,000 | 95,810,000 | - | 4,170,000 | 91,640,000 |
| 2013, B | 6/5/2013 | 8/1/2019 | 0.486%-2.205% | 23,450,000 | 5,040,000 | - | 3,440,000 | 1,600,000 |
| 2017, A | 3/30/2017 | 8/1/2023 | 2.00-5.00% | 25,395,000 | 25,080,000 | - | 145,000 | 24,935,000 |
| 2018, A* | 4/18/2018 | 8/1/2034 | 2.716-3.942% | 69,360,000 | 69,360,000 | - | - | 69,360,000 |
| | Subtotal Refundings | | | 226,610,000 | 195,290,000 | - | 7,755,000 | 187,535,000 |
| | Subtotal General Obligation Bonds | | | | 743,335,553 | 5,677,334 | 20,860,000 | 728,152,887 |
| | Bond Premiums | | | | 45,933,493 | - | 3,874,752 | 42,058,741 |
| | | | | | $ 789,269,046 | $ 5,677,334 | $ 24,734,752 | $ 770,211,628 |

* Crossover refunding bonds

**Debt Service Requirements to Maturity**

The bonds mature through 2048 as follows:

| Fiscal Year | Principal (including accreted interest to date) | Unmatured Accreted Interest | Current Interest to Maturity | Total |
|---|---|---|---|---|
| 2020 | $ 23,365,882 | $ 94,118 | $ 27,687,569 | $ 51,147,569 |
| 2021 | 31,844,551 | 235,449 | 26,717,783 | 58,797,783 |
| 2022 | 27,683,180 | 396,820 | 25,623,282 | 53,703,282 |
| 2023 | 25,997,498 | 577,502 | 24,575,161 | 51,150,161 |
| 2024 | 22,805,750 | 2,884,250 | 23,709,715 | 49,399,715 |
| 2025-2029 | 155,165,843 | 28,659,157 | 105,884,379 | 289,709,379 |
| 2030-2034 | 151,692,501 | 8,242,499 | 75,621,105 | 235,556,105 |
| 2035-2039 | 115,812,392 | 25,707,608 | 45,518,755 | 187,038,755 |
| 2040-2044 | 101,690,290 | 6,394,710 | 27,349,100 | 135,434,100 |
| 2045-2048 | 72,095,000 | - | 4,915,550 | 77,010,550 |
| Total | $ 728,152,887 | $ 73,192,113 | $ 387,602,399 | $ 1,188,947,399 |

**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 for the acquisition of the Center for Media Design Campus.

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 for the acquisition of parking structures.

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, 2019 are as follows:

| Fiscal Year | Principal | Current Interest to Maturity | Total |
|---|---|---|---|
| 2020 | $ 1,735,000 | $ 430,160 | $ 2,165,160 |
| 2021 | 1,815,000 | 350,720 | 2,165,720 |
| 2022 | 1,895,000 | 267,490 | 2,162,490 |
| 2023 | 1,990,000 | 180,450 | 2,170,450 |
| 2024 | 615,000 | 89,190 | 704,190 |
| 2025-2027 | 2,015,000 | 129,960 | 2,144,960 |
| Total | $ 10,065,000 | $ 1,447,970 | $ 11,512,970 |

**Compensated Absences**

At June 30, 2019, the liability for compensated absences was $6,138,712.

**Load Banking**

At June 30, 2019, the liability for load banking was $2,967,564.

**Supplemental Early Retirement Plan**

On November 7, 2017, the District adopted a one-time SERP for the following employees: full-time faculty, academic administrators, classified administrators, classified managers, classified confidential employees, and California School Employees Association (CSEA) classified employees. To be eligible for early retirement benefits, the employee must have been at least 55 years of age, have five or more years of District service, been eligible to retire from CalSTRS or CalPERS on or before January 1, 2018, and been resigned from District employment by December 31, 2017. In exchange for early retirement, the District contributed 75 percent of the 2017-2018 annual salary, which may include career increment/longevity, differentials, and other stipends. The District had 78 employees that enrolled in the SERP. The remaining obligation as of June 30, 2019 was $3,943,395.

| Year Ending June 30, | SERP Payment |
|---|---|
| 2020 | $ 1,314,465 |
| 2021 | 1,314,465 |
| 2022 | 1,314,465 |
| Total | $ 3,943,395 |

**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. The District's liability on lease agreements with options to purchase is summarized below:

| | Lease Payment |
|---|---|
| Balance, July 1, 2018 | $ 5,499,792 |
| Additions | - |
| Payments | (426,825) |
| Balance, June 30, 2019 | $ 5,072,967 |

Future minimum lease payments are as follows:

| Year Ending June 30, | Lease Payment |
|---|---|
| 2020 | $ 448,657 |
| 2021 | 471,538 |
| 2022 | 495,520 |
| 2023 | 520,656 |
| 2024 | 547,000 |
| 2025-2029 | 2,589,596 |
| Total | 5,072,967 |
| Less: Amount Representing Interest | (687,752) |
| Present Value of Minimum Lease Payments | $ 4,385,215 |

Current year expenditures for capital lease are $290,484. The District will receive no sublease rental revenues nor pay any contingent rentals for these leases.

**Aggregate Net Other Postemployment Benefits (OPEB) Liability**

For the fiscal year ended June 30, 2019, the District reported an aggregate net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

| OPEB Plan | Aggregate Net OPEB Liability | Deferred Outflows of Resources | Deferred Inflows of Resources | OPEB Expense |
|---|---|---|---|---|
| District Plan | $ 124,892,446 | $ 37,769,702 | $ 192,539 | $ 7,363,296 |
| Medicare Premium Payment (MPP) Program | 831,079 | - | - | 399,686 |
| Total | $ 125,723,525 | $ 37,769,702 | $ 192,539 | $ 7,762,982 |

The details of each plan are as follows:

**<u>District Plan</u>**

*Plan Administration*

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their dependents.

Management of the plan is vested in the District management. Management of the trustee assets is vested with the California Employers' Retiree Benefit Trust Fund.

*Plan Membership*

At June 30, 2018, the Plan membership consisted of the following:

| | |
|---|---|
| Inactive Plan members or beneficiaries currently receiving benefit payments | 487 |
| Active Plan members | 928 |
| | 1,415 |

**Retiree Health Benefit OPEB Trust**

The Santa Monica Community College District's Retiree Health Benefit OPEB Trust (the Trust) is an irrevocable governmental trust pursuant to Section 115 of the IRC for the purpose of funding certain postemployment benefits other than pensions. The Trust is administered by the District's Governing Board as directed by the investment alternative choice selected by the District. The District retains the responsibility to oversee the management of the Trust, including the requirement that investments and assets held within the Trust continually adhere to the requirements of the California Government Code Section 53600.5 which specifies that the trustee's primary role is to preserve capital, to maintain investment liquidity, and to protect investment yield. As such, the District acts as the fiduciary of the Trust. The financial activity of the Trust has been discretely presented.

*Benefits Provided*

The Plan provides medical, dental, and vision insurance benefits to eligible retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

*Contributions*

The contribution requirements of Plan members and the District are established and may be amended by the District, the Faculty Association (FA), the local California Service Employees Association (CSEA), the Police Officers' Association (POA) and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2017-2018, the District contributed $4,110,488 to the Plan, all of which was used for current premiums.

**Investment**

*Investment Policy*

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the governing board by a majority vote of its members. It is the policy of the District to pursue an investment strategy that reduces risks through the prudent diversification for the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, expect for liquidity purposes, and aims to refrain from dramatically shifting asset class allocation over short time spans. The following was the governing board's adopted asset allocation policy as of June 30, 2018:

| Asset Class | Target Allocation |
|---|---|
| Global equity | 57% |
| Global debt securities | 27% |
| Inflation assets | 5% |
| Real estate investment trusts | 8% |
| Commodities | 3% |

*Rate of Return*

For the year ended June 30, 2018, the annual money-weighed rate of return on investments, net of investment expense, was 7.91 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net OPEB Liability of the District**

The District's net OPEB liability of $124,892,446 was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The components of the net OPEB liability of the District at June 30, 2018, were as follows:

| | |
|---|---|
| Total OPEB liability | $ 131,971,638 |
| Plan fiduciary net position | 7,079,192 |
| District's net OPEB liability | $ 124,892,446 |
| | |
| Plan fiduciary net position as a percentage of the total OPEB liability | 5% |

*Actuarial Assumptions*

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Inflation | 2.75 percent |
| Salary increases | 2.75 percent |
| Investment rate of return | 4.30 percent |
| Healthcare cost trend rates | 4.00 percent |

The discount rate was based on the long-term expected return on plan assets assuming 100 percent funding through the Trust, using the building block method.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018, (see the discussion of the Plan's investment policy) are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|---|---|
| Global equity | 7.795% |
| Global debt securities | 4.500 - 5.295% |
| Inflation assets | 7.795% |
| Real estate investment trusts | 7.795% |
| Commodities | 7.795% |

*Discount Rate*

The discount rate used to measure the total OPEB liability was 4.30 percent. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Changes in the Net OPEB Liability**

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a) - (b) |
| Balance at June 30, 2017 | $ 90,622,970 | $ 6,560,495 | $ 84,062,475 |
| Service cost | 3,195,698 | - | 3,195,698 |
| Interest | 3,877,120 | - | 3,877,120 |
| Expected investment income | - | 283,932 | (283,932) |
| Net difference between projected and actual earnings on OPEB plan investments | - | 240,674 | (240,674) |
| Contributions - employer | - | 4,110,488 | (4,110,488) |
| Changes of assumptions or other inputs | 38,386,338 | - | 38,386,338 |
| Benefit payments | (4,110,488) | (4,110,488) | - |
| Administrative expense | - | (5,909) | 5,909 |
| Net change in total OPEB liability | 41,348,668 | 518,697 | 40,829,971 |
| Balance at June 30, 2018 | $ 131,971,638 | $ 7,079,192 | $ 124,892,446 |

Changes of assumptions and other inputs reflect a change in the discount rate from 7.00 percent to 4.30 percent since the previous valuation. There were no changes to benefit terms since the previous valuation.

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

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

| Discount Rate | Net OPEB Liability |
|---|---|
| 1% decrease (3.3%) | $ 146,491,115 |
| Current discount rate (4.3%) | 124,892,446 |
| 1% increase (5.3%) | 110,233,943 |

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare cost trend rates:

| Healthcare Cost Trend Rates | Net OPEB Liability |
|---|---|
| 1% decrease (3.0%) | $ 96,845,512 |
| Current healthcare cost trend rate (4.0%) | 124,892,446 |
| 1% increase (5.0%) | 163,977,854 |

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB for the following:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| OPEB contributions subsequent to measurement date | $ 4,570,707 | $ - |
| Changes of assumptions | 33,198,995 | - |
| Net difference between projected and actual earnings on OPEB plan investments | - | 192,539 |
| Total | $ 37,769,702 | $ 192,539 |

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

The deferred inflows of resources related to the differences between projected and actual earnings on OPEB plan investments will be amortized over a closed five-year period and will be recognized as OPEB expense as follows:

| Year Ended June 30, | Deferred Inflows of Resources |
|---|---|
| 2020 | $ (48,135) |
| 2021 | (48,135) |
| 2022 | (48,135) |
| 2023 | (48,134) |
| | $ (192,539) |

Amounts reported as deferred outflows of resources related to changes of assumptions will be amortized over the expected average remaining service life (EARSL) of all members that are provided benefits as of the beginning of the measurement period. The EARSL for the measurement period is 7.4 years and amounts will be recognized as OPEB expense as follows:

| Year Ended June 30, | Deferred Outflows of Resources |
|---|---|
| 2020 | $ 5,187,343 |
| 2021 | 5,187,343 |
| 2022 | 5,187,343 |
| 2023 | 5,187,343 |
| 2024 | 5,187,343 |
| Thereafter | 7,262,280 |
| | $ 33,198,995 |

**Medicare Premium Payment (MPP) Program**

**Plan Description**

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

**Benefits Provided**

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

**Contributions**

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District contributions. In accordance with California *Education Code* Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

**Net OPEB Liability and OPEB Expense**

At June 30, 2019, the District reported a liability of $831,079 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share for the measurement period of June 30, 2018 and June 30, 2017 was 0.2171 percent and 0.1025 percent, respectively.

For the year ended June 30, 2019, the District recognized OPEB expense of $399,686.

**Actuarial Methods and Assumptions**

The June 30, 2018 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total OPEB liability to June 30, 2018, using the assumptions listed in the following table:

| | | |
|---|---|---|
| Measurement Date | June 30, 2018 | June 30, 2017 |
| Valuation Date | June 30, 2017 | June 30, 2016 |
| Experience Study | July 1, 2010 through June 30, 2015 | July 1, 2010 through June 30, 2015 |
| Actuarial Cost Method | Entry age normal | Entry age normal |
| Investment Rate of Return | 3.87% | 3.58% |
| Medicare Part A Premium Cost Trend Rate | 3.70% | 3.70% |
| Medicare Part B Premium Cost Trend Rate | 4.10% | 4.10% |

For the valuation as of June 30, 2017, CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 459 or an average of 0.27 percent of the potentially eligible population (171,593).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2018, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

**Discount Rate**

The discount rate used to measure the total OPEB liability as of June 30, 2018, is 3.87 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 2, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.87, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2018, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 0.29 percent from 3.58 percent as of June 30, 2017.

*Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the District's proportionate share of the net OPEB 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:

| Discount Rate | Net OPEB Liability |
|---|---|
| 1% decrease (2.87%) | $ 919,216 |
| Current discount rate (3.87%) | 831,079 |
| 1% increase (4.87%) | 751,499 |

*Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates*

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

| Medicare Costs Trend Rates | Net OPEB Liability |
|---|---|
| 1% decrease (2.7% Part A and 3.1% Part B) | $ 757,861 |
| Current Medicare costs trend rates (3.7% Part A and 4.1% Part B) | 831,079 |
| 1% increase (4.7% Part A and 5.1% Part B) | 909,825 |

**Aggregate Net Pension Obligation**

At June 30, 2019, the liability for the aggregate net pension obligation amounted to $201,857,314. See Note 12 for additional information.

## *NOTE 11 - 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. SCCCD 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 12 - 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, 2019, the District reported the net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense 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 | $ 116,762,335 | $ 33,518,935 | $ 15,134,939 | $ 12,704,406 |
| CalPERS | 81,077,355 | 21,755,114 | 1,435,177 | 14,596,388 |
| CalPERS - Safety Plan | 4,017,624 | 1,176,227 | 65,771 | 160,420 |
| Total | $ 201,857,314 | $ 56,450,276 | $ 16,635,887 | $ 27,461,214 |

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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.

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

| | STRP Defined Benefit Program | |
|---|---|---|
| | On or before | On or after |
| 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 | 10.25% | 10.205% |
| Required employer contribution rate | 16.28% | 16.28% |
| Required State contribution rate | 9.828% | 9.828% |

**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, 2019, are presented above, and the District's total contributions were $10,444,631.

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

At June 30, 2019, 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 | $ | 116,762,335 |
| State's proportionate share of net pension liability associated with the District | | 66,851,898 |
| Total | $ | 183,614,233 |

The net pension liability was measured as of June 30, 2018. 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, 2018 and June 30, 2017, was 0.1270 percent and 0.1256 percent, respectively, resulting in a net increase in the proportionate share of 0.0014 percent.

For the year ended June 30, 2019, the District recognized pension expense of $12,704,406. In addition, the District recognized pension expense and revenue of $7,853,590 for support provided by the State. At June 30, 2019, 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 | $ | 10,444,631 | $ | - |
| Net change in proportionate share of net pension liability | | 4,572,886 | | 8,942,814 |
| Differences between projected and actual earnings on the pension plan investments | | - | | 4,496,087 |
| Differences between expected and actual experience in the measurement of the total pension liability | | 362,075 | | 1,696,038 |
| Changes of assumptions | | 18,139,343 | | - |
| Total | $ | 33,518,935 | $ | 15,134,939 |

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 |
|---|---|
| 2020 | $ 976,228 |
| 2021 | (708,376) |
| 2022 | (3,772,043) |
| 2023 | (991,896) |
| Total | $ (4,496,087) |

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions 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 measurement period is seven years and will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2020 | $ 2,467,400 |
| 2021 | 2,467,400 |
| 2022 | 2,467,400 |
| 2023 | 1,518,673 |
| 2024 | 3,363,363 |
| Thereafter | 151,216 |
| Total | $ 12,435,452 |

**Actuarial Methods and Assumptions**

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| Valuation date | June 30, 2017 |
| Measurement date | June 30, 2018 |
| Experience study | July 1, 2010 through June 30, 2015 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.10% |
| Investment rate of return | 7.10% |
| Consumer price inflation | 2.75% |
| Wage growth | 3.50% |

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

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 (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, are summarized in the following table:

| Asset Class | Assumed Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Global equity | 47% | 6.30% |
| Fixed income | 12% | 0.30% |
| Real estate | 13% | 5.20% |
| Private equity | 13% | 9.30% |
| Absolute Return/Risk Mitigating Strategies | 9% | 2.90% |
| Inflation sensitive | 4% | 3.80% |
| Cash/liquidity | 2% | -1.00% |

**Discount Rate**

The discount rate used to measure the total pension liability was 7.10 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 (7.10 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:

| Discount Rate | Net Pension Liability |
|---|---|
| 1% decrease (6.10%) | $ 171,043,158 |
| Current discount rate (7.10%) | 116,762,335 |
| 1% increase (8.10%) | 71,758,266 |

**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, 2017, annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalPERS audited financial information are publicly 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.

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

| | CalPERS - Schools Pool Plan | |
|---|---|---|
| | On or before | On or after |
| Hire date | December 31, 2012 | January 1, 2013 |
| 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 | 7.00% | 7.00% |
| Required employer contribution rate | 18.062% | 18.062% |

**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, 2019, are presented above, and the total District contributions were $7,181,691.

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $81,077,355. The net pension liability was measured as of June 30, 2018. 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, 2018 and June 30, 2017, was 0.3041 percent and 0.3142 percent, respectively, resulting in a net decrease in the proportionate share of 0.0101 percent.

For the year ended June 30, 2019, the District recognized pension expense of $14,596,388 related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 7,181,691 | $ - |
| Net change in proportionate share of net pension liability | 498,057 | 1,435,177 |
| Differences between projected and actual earnings on the pension plan investments | 665,016 | - |
| Differences between expected and actual experience in the measurement of the total pension liability | 5,315,134 | - |
| Changes of assumptions | 8,095,216 | - |
| Total | $ 21,755,114 | $ 1,435,177 |

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 |
|---|---|
| 2020 | $ 2,418,810 |
| 2021 | 578,436 |
| 2022 | (1,853,678) |
| 2023 | (478,552) |
| Total | $ 665,016 |

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions 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 measurement period is 4.0 years and will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2020 | $ 5,766,309 |
| 2021 | 5,434,597 |
| 2022 | 1,272,324 |
| Total | $ 12,473,230 |

**Actuarial Methods and Assumptions**

Total pension liability for the School Employer Pool was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| Valuation date | June 30, 2017 |
| Measurement date | June 30, 2018 |
| Experience study | July 1, 1997 through June 30, 2015 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.15% |
| Investment rate of return | 7.15% |
| Consumer price inflation | 2.50% |
| Wage growth | Varies by entry age and services |

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of Scale MP-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+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. 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 | 50% | 5.98% |
| Fixed income | 28% | 2.62% |
| Inflation assets | 0% | 1.81% |
| Private equity | 8% | 7.23% |
| Real assets | 13% | 4.93% |
| Liquidity | 1% | -0.92% |

**Discount Rate**

The discount rate used to measure the total pension liability was 7.15 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 (6.15%) | $ 118,044,752 |
| Current discount rate (7.15%) | 81,077,355 |
| 1% increase (8.15%) | 50,407,607 |

**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, 2019, are summarized as follows:

| | CalPERS - Safety Plan | |
|---|---|---|
| | On or before | On or after |
| Hire date | December 31, 2012 | January 1, 2013 |
| Benefit formula | 3.0% at 55 | 2.7% at 57 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 55 | 57 |
| Monthly benefits as a percentage of eligible compensation | 2.4% - 3.0% | 2.4% - 3.0% |
| Required employee contribution rate | 9.000% | 12.750% |
| Required employer contribution rate | 19.353% | 12.965% |
| Required unfunded liability payment to CalPERS | $199,013 | $1,190 |

**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, 2019, are presented above, and the total District contributions were $467,958.

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the Safety Risk Pool net pension liability totaling $4,017,624. The net pension liability was measured as of June 30, 2018. 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, 2018 and June 30, 2017, was 0.0685 percent and 0.0663 percent, respectively, resulting in a net increase in the proportionate share of 0.0022 percent.

For the year ended June 30, 2019, the District recognized pension expense of $160,420. At June 30, 2019, 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 | $ 467,958 | $ - |
| Net change in proportionate share of net pension liability | 200,544 | 12,260 |
| Differences between projected and actual earnings on the pension plan investments | 27,201 | - |
| Differences between expected and actual experience in the measurement of the total pension liability | 86,325 | 327 |
| Changes of assumptions | 394,199 | 53,184 |
| Total | $ 1,176,227 | $ 65,771 |

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 |
|---|---|
| 2020 | $ 131,767 |
| 2021 | 29,324 |
| 2022 | (106,062) |
| 2023 | (27,828) |
| Total | $ 27,201 |

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 measurement period is 4.0 years and will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2020 | $ 300,314 |
| 2021 | 255,983 |
| 2022 | 59,000 |
| Total | $ 615,297 |

**Actuarial Methods and Assumptions**

Total pension liability for the Plan was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| Valuation date | June 30, 2017 |
| Measurement date | June 30, 2018 |
| Experience study | July 1, 1997 through June 30, 2015 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.15% |
| Investment rate of return | 7.15% |
| Consumer price inflation | 2.50% |
| Wage growth | Varies by entry age and services |

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of Scale MP-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+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. 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 | 49% | 5.98% |
| Fixed income | 22% | 2.62% |
| Inflation assets | 6% | 1.81% |
| Private equity | 8% | 7.23% |
| Real assets | 12% | 4.93% |
| Liquidity | 3% | -0.92% |

**Discount Rate**

The discount rate used to measure the total pension liability was 7.15 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.

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:

| Discount Rate | Net Pension Liability |
|---|---|
| 1% decrease (6.15%) | $ 6,099,337 |
| Current discount rate (7.15%) | 4,017,624 |
| 1% increase (8.15%) | 2,312,033 |

**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, 2019, which amounted to $6,170,018 (9.617 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 operating revenue and employee benefit expense.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-19 contribution on behalf of school employers of $2.246 billion for CalSTRS and $904 million for CalPERS. A proportionate share of these contributions has been recorded in these financial statements.

## *NOTE 13 - 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, 2019.

**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, 2019.

**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 |
|---|---|
| 2020 | $ 1,710,463 |
| 2021 | 1,669,122 |
| 2022 | 1,682,177 |
| 2023 | 1,566,685 |
| 2024 | 1,044,818 |
| 2025-2029 | 4,569,980 |
| 2030-2034 | 4,569,980 |
| 2035-2039 | 4,569,980 |
| 2040-2044 | 4,569,980 |
| 2045-2049 | 4,569,980 |
| 2050-2054 | 4,569,980 |
| 2055-2058 | 3,655,983 |
| Total | $ 38,749,128 |

Current year expenditures for operating leases is approximately $1.9 million. 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, 2019, the total amount committed was as follows:

| Capital Projects | Remaining Construction Commitment | Expected Date of Completion |
|---|---|---|
| Student Services Building | $ 1,258,454 | October 2019 |
| Malibu Campus | 2,289,372 | December 2021 |
| ECLS (Child Care) | 14,578,571 | June 2020 |
| Math and Science Building | 1,686,238 | December 2022 |
| Air Conditioning | 156,714 | December 2019 |
| Master Planning | 633,250 | March 2020 |
| Classroom Relocation | 99,496 | June 2020 |
| | $ 20,702,095 | |

# REQUIRED SUPPLEMENTARY INFORMATION

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS
## FOR THE YEAR ENDED JUNE 30, 2019

| | 2019 | 2018 |
|---|---|---|
| **Total OPEB Liability** | | |
| Service cost | $ 3,195,698 | $ 2,729,563 |
| Interest | 3,877,120 | 5,953,537 |
| Changes of assumptions or other inputs | 38,386,338 | - |
| Benefit payments | (4,110,488) | (3,573,461) |
| **Net change in total OPEB liability** | 41,348,668 | 5,109,639 |
| **Total OPEB Liability - beginning** | 90,622,970 | 85,513,331 |
| **Total OPEB Liability - ending (a)** | $ 131,971,638 | $ 90,622,970 |
| **Plan fiduciary net position** | | |
| Contributions - employer | $ 4,110,488 | $ 3,573,461 |
| Expected investment income | 283,932 | 629,498 |
| Net difference between projected and actual earnings on OPEB plan investments | 240,674 | - |
| Benefit payments | (4,110,488) | (3,573,461) |
| Administrative expense | (5,909) | (5,279) |
| **Net change in plan fiduciary net position** | 518,697 | 624,219 |
| **Plan fiduciary net position - beginning** | 6,560,495 | 5,936,276 |
| **Plan fiduciary net position - ending (b)** | $ 7,079,192 | $ 6,560,495 |
| **District's net OPEB liability - ending (a) - (b)** | $ 124,892,446 | $ 84,062,475 |
| **Plan fiduciary net position as a percentage of the total OPEB liability** | 5.36% | 7.24% |
| **Covered-employee payroll** | $ 89,704,765 | $ 88,956,668 |
| **District's net OPEB liability as a percentage of covered-employee payroll** | 139.23% | 94.50% |

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

See accompanying note to required supplementary information.

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF OPEB INVESTMENT RETURNS
## FOR THE YEAR ENDED JUNE 30, 2019

| | 2019 | 2018 |
|---|---|---|
| Annual money-weighted rate of return, net of investment expense | 7.91% | 9.99% |

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

See accompanying note to required supplementary information.

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM
## FOR THE YEAR ENDED JUNE 30, 2019

| Year ended June 30, | 2019 | 2018 |
| --- | --- | --- |
| District's proportion of the net OPEB liability | 0.2171% | 0.1025% |
| District's proportionate share of the net OPEB liability | $ 831,079 | $ 431,393 |
| District's covered-employee payroll | N/A[1] | N/A[1] |
| District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll | N/A[1] | N/A[1] |
| Plan fiduciary net position as a percentage of the total OPEB liability | -0.40% | 0.01% |

[1] As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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

See accompanying note to required supplementary information.

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
## FOR THE YEAR ENDED JUNE 30, 2019

| | 2019 | 2018 |
|---|---|---|
| **CalSTRS** | | |
| District's proportion of the net pension liability | 0.1270% | 0.1256% |
| District's proportionate share of the net pension liability | $ 116,762,335 | $ 116,112,075 |
| State's proportionate share of the net pension liability associated with the District | 66,851,898 | 68,690,922 |
| Total | $ 183,614,233 | $ 184,802,997 |
| District's covered-employee payroll | $ 65,674,109 | $ 63,740,755 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 177.79% | 182.16% |
| Plan fiduciary net position as a percentage of the total pension liability | 71% | 69% |
| **CalPERS - Schools Pool Plan** | | |
| District's proportion of the net pension liability | 0.3041% | 0.3142% |
| District's proportionate share of the net pension liability | $ 81,077,355 | $ 74,998,103 |
| District's covered-employee payroll | 40,775,604 | 39,418,152 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 198.84% | 190.26% |
| Plan fiduciary net position as a percentage of the total pension liability | 71% | 72% |

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

See accompanying note to required supplementary information.

| 2017 | 2016 | 2015 |
|---|---|---|
| 0.1300% | 0.1454% | 0.1260% |
| $ 105,165,413 | $ 97,899,000 | $ 78,305,580 |
| 59,868,794 | 51,777,779 | 44,461,794 |
| $ 165,034,207 | $ 149,676,779 | $ 122,767,374 |
| $ 66,704,529 | $ 61,600,000 | $ 58,100,000 |
| 157.66% | 158.93% | 134.78% |
| 70% | 74% | 77% |
| 0.3087% | 0.3072% | 0.3302% |
| $ 60,962,426 | $ 45,285,610 | $ 37,485,740 |
| 36,460,615 | 33,980,010 | 35,000,000 |
| 167.20% | 133.27% | 107.10% |
| 74% | 79% | 83% |

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY, Continued
## FOR THE YEAR ENDED JUNE 30, 2019

| | 2019 | 2018 |
|---|---|---|
| **CalPERS - Safety Plan** | | |
| District's proportion of the net pension liability | 0.0685% | 0.0663% |
| District's proportionate share of the net pension liability | $ 4,017,624 | $ 3,961,254 |
| District's covered-employee payroll | 1,583,133 | 1,619,385 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 253.78% | 244.61% |
| Plan fiduciary net position as a percentage of the total pension liability | 71% | 72% |

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

See accompanying note to required supplementary information.

| 2017 | 2016 | 2015 |
|---|---|---|
| 0.0652% | 0.0602% | 0.0394% |
| $ 3,375,206 | $ 2,480,980 | $ 2,448,810 |
| 1,393,007 | 1,338,476 | 1,109,427 |
| 242.30% | 185.36% | 220.73% |
| 70% | 77% | 81% |

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS FOR PENSIONS
## FOR THE YEAR ENDED JUNE 30, 2019

| | 2019 | 2018 |
|---|---|---|
| **CalSTRS** | | |
| Contractually required contribution | $ 10,444,631 | $ 9,476,774 |
| Contributions in relation to the contractually required contribution | 10,444,631 | 9,476,774 |
| Contribution deficiency (excess) | $ - | $ - |
| District's covered-employee payroll | $ 64,156,210 | $ 65,674,109 |
| Contributions as a percentage of covered-employee payroll | 16.28% | 14.43% |
| **CalPERS - Schools Pool Plan** | | |
| Contractually required contribution | $ 7,181,691 | $ 6,332,859 |
| Contributions in relation to the contractually required contribution | 7,181,691 | 6,332,859 |
| Contribution deficiency (excess) | $ - | $ - |
| District's covered-employee payroll | $ 39,761,328 | $ 40,775,604 |
| Contributions as a percentage of covered-employee payroll | 18.062% | 15.531% |
| **CalPERS - Safety Plan** | | |
| Contractually required contribution | $ 467,958 | $ 407,109 |
| Contributions in relation to the contractually required contribution | 467,958 | 407,109 |
| Contribution deficiency (excess) | $ - | $ - |
| District's covered-employee payroll | $ 1,666,887 | $ 1,583,133 |
| Contributions as a percentage of covered-employee payroll | 28.07% | 25.72% |

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

See accompanying note to required supplementary information.

| 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|
| $ | 8,018,587 | $ | 7,157,396 | $ | 5,472,236 |
| | 8,018,587 | | 7,157,396 | | 5,472,236 |
| $ | - | $ | - | $ | - |
| $ | 63,740,755 | $ | 66,704,529 | $ | 61,600,000 |
| | 12.58% | | 10.73% | | 8.88% |
| $ | 5,474,393 | $ | 4,319,489 | $ | 3,999,787 |
| | 5,474,393 | | 4,319,489 | | 3,999,787 |
| $ | - | $ | - | $ | - |
| $ | 39,418,152 | $ | 36,460,615 | $ | 33,980,010 |
| | 13.888% | | 11.847% | | 11.771% |
| $ | 387,467 | $ | 331,257 | $ | 301,157 |
| | 387,467 | | 331,257 | | 301,157 |
| $ | - | $ | - | $ | - |
| $ | 1,619,385 | $ | 1,393,007 | $ | 1,338,476 |
| | 23.93% | | 23.78% | | 22.50% |

## *NOTE 1 - PURPOSE OF SCHEDULES*

### Schedule of Changes in the District's Net OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the net OPEB liability, including beginning and ending balances, the Plan's fiduciary net position, and the net OPEB liability. In the future, as data becomes available, ten years of information will be presented.

***Changes in Benefit Terms*** - There were no changes in the benefit terms since the previous valuation.

***Changes of Assumptions*** - The plan rate of investment return assumption was changed from 7.00 percent to 4.30 percent since the previous valuation.

### Schedule of OPEB Investment Returns

This schedule presents information on the annual money-weighted rate of return on OPEB plan investments. In future years, as data becomes available, ten years of information will be presented.

### Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB liability - MPP program and the Plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

***Changes in Benefit Terms*** - There were no changes in the benefit terms since the previous valuation.

***Changes of Assumptions*** - The plan rate of investment return assumption was changed from 3.58 percent to 3.87 percent since the previous valuation.

### 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.

***Changes in Benefit Terms*** **-** There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

***Changes of Assumptions*** - There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

### Schedule of District Contributions for Pensions

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.

# SUPPLEMENTARY INFORMATION

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

## DISTRICT ORGANIZATION
## JUNE 30, 2019

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

| MEMBER | OFFICE | TERM EXPIRES |
|---|---|---|
| Dr. Margaret Quinones-Perez | Chair | November 2020 |
| Dr. Nancy Greenstein | Vice Chair | November 2022 |
| Dr. Susan Aminoff | Member | November 2020 |
| Dr. Louise Jaffe | Member | November 2022 |
| Rob Rader | Member | November 2020 |
| Barry Snell | Member | November 2022 |
| Dr. Sion Roy | Member | November 2022 |
| Brooke Harrington | Student Trustee | June 2020 |

### ADMINISTRATION

| | |
|---|---|
| Dr. Kathryn E. Jeffery | Superintendent/President |
| Elaine Polachek | Executive Vice President |
| Dr. Jennifer B. Merlic | Vice President, Academic Affairs |
| Michael Tuitasi | Vice President, Student Affairs |
| Teresita Rodriguez | Vice President, Enrollment Development |
| Sherri Lee-Lewis | Vice President, Human Resources |
| Donald 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, 2019

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures | Amount Passed Through to Subrecipients |
|---|---|---|---|---|
| **U.S. DEPARTMENT OF EDUCATION** | | | | |
| Student Financial Assistance Cluster | | | | |
| Federal Supplemental Educational Opportunity Grants (FSEOG) | 84.007 | | $ 667,259 | $ - |
| FSEOG Administrative Allowance | 84.007 | | 32,969 | - |
| Federal Work-Study Program | 84.033 | | 557,079 | - |
| Federal Work-Study Program Administrative Allowance | 84.033 | | 31,801 | - |
| Federal Pell Grant Program | 84.063 | | 27,928,910 | - |
| Federal Pell Grant Program Administrative Allowance | 84.063 | | 37,455 | - |
| Federal Direct Student Loans | 84.268 | | 3,483,323 | - |
| Total Student Financial Assistance Cluster | | | 32,738,796 | - |
| TRIO Cluster | | | | |
| Upward Bound | 84.047A | | 241,419 | - |
| Total TRIO Cluster | | | 241,419 | - |
| Hispanic Serving Institutions: Science, Technology, Engineering and Mathematics (STEM) | 84.031C | | 1,008,262 | 211,566 |
| The Foreign Language Advantage (Title VI-A) | 84.016A | | 48,880 | - |
| Child Care Access Means Parents in School (CCAMPIS) | 84.335A | | 186,817 | - |
| Passed through from California Community Colleges Chancellor's Office (CCCCO) | | | | |
| Career and Technical Education Act, Perkins Title I, Part C | 84.048A | 18-C01-055 | 743,566 | - |
| CTE Transitions | 84.048A | 18-C01-055 | 41,377 | - |
| Passed through from California Department of Education | | | | |
| Adult Basic Education, English as a Second Language | 84.002A | 14508 | 31,927 | - |
| English Literacy and Civics Education Grant: Civic Participation and Citizenship Preparation | 84.002A | 14109 | 94,242 | - |
| Total U.S. Department of Education | | | 35,135,286 | 211,566 |
| **NATIONAL ENDOWMENT for the HUMANITIES** | | | | |
| Mapping and Preserving the Art and Hidden Histories of Santa Monica | 45.162 | | 8,870 | - |
| Research and Development Cluster | | | | |
| **NATIONAL SCIENCE FOUNDATION** | | | | |
| STEM Scholars Program | 47.076 | | 150,901 | - |
| **NATIONAL AERONAUTICS AND SPACE ADMINISTRATION** | | | | |
| Minority University Research and Education Program | 43.008 | | 168,370 | - |
| Total Research and Development Cluster | | | 319,271 | - |
| **U.S. DEPARTMENT OF HEALTH and HUMAN SERVICES** | | | | |
| Substance Abuse and Mental Health Services (SAMHSA), Campus Suicide Prevention | 93.243 | 5U79SM062526 | 18,549 | - |
| Passed through from California Community Colleges Chancellor's Office (CCCCO) | | | | |
| Temporary Assistance for Needy Families (TANF) Cluster | | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | [1] | 57,992 | - |
| Total TANF Cluster | | | 57,992 | - |
| Total U.S. Department of Health and Human Services | | | 76,541 | - |
| **Total Federal Program Expenditures** | | | $ 35,539,968 | $ 211,566 |

[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, 2019

| | Program Revenues | | | | |
|---|---|---|---|---|---|
| Program | Cash Received | Accounts Receivable | Unearned Revenue | Total Revenue | Program Expenditures |
| GENERAL FUND | | | | | |
| AEBG | $ 553,614 | $ - | $ 63,067 | $ 490,547 | $ 490,547 |
| AEBG Data and Accountability | 18,740 | - | - | 18,740 | 18,740 |
| Award for Innovation in Higher Education | 1,651,200 | - | 1,273,562 | 377,638 | 377,638 |
| Basic Skills and Student Outcomes Transformation Program | - | 687,991 | - | 687,991 | 687,991 |
| Basic Skills Funding | 591,657 | - | - | 591,657 | 591,657 |
| California Community Colleges Mental Health Services Grant | - | 100,000 | 22,602 | 77,398 | 77,398 |
| CalMHSA Mental Health and Wellbeing | 4,430 | - | - | 4,430 | 4,430 |
| CalWORKS | 270,881 | - | 16,353 | 254,528 | 254,528 |
| Campus Safety and Sexual Assault | 41,981 | - | 25,492 | 16,489 | 16,489 |
| Child Development Training | 7,500 | 1,175 | - | 8,675 | 8,675 |
| Classified Professional Development | 95,161 | - | 95,161 | - | - |
| Clean Energy Workforce Program - ETP | 259,626 | 287,306 | 74,445 | 472,487 | 472,487 |
| Cooperative Agencies Resources for Education (CARE) | 89,759 | - | 38,731 | 51,028 | 51,028 |
| CTE Data Unlocked | 25,007 | - | - | 25,007 | 25,007 |
| CTE Pathways | 144 | - | - | 144 | 144 |
| Disabled Student Program and Services (DSPS) | 2,128,671 | - | - | 2,128,671 | 2,128,671 |
| Equal Employment Opportunity - Faculty and Staff Diversity | 89,195 | - | 71,155 | 18,040 | 18,040 |
| Extended Opportunity Program and Services (EOPS) | 1,334,327 | - | 35,953 | 1,298,374 | 1,298,374 |
| Financial Aid Technology | 259,390 | - | 259,390 | - | - |
| Guided Pathways | 1,074,883 | - | 535,748 | 539,135 | 539,135 |
| Hunger Free Campus | 246,228 | - | 201,606 | 44,622 | 44,622 |
| Innovation and Effectiveness | 200,000 | - | 148,152 | 51,848 | 51,848 |
| Leadership Development | 8,554 | - | 6,650 | 1,904 | 1,904 |
| Mental Health Support Allocation | 204,643 | - | 192,187 | 12,456 | 12,456 |
| Nursing Education | 251,070 | - | 29,252 | 221,818 | 221,818 |
| Physical Plant and Instructional Support | 1,015,795 | - | 226,310 | 789,485 | 789,485 |
| Scheduled Maintenance and Instructional Equipment | 27,419 | - | 27,419 | - | - |
| SFAA Financial Aid BFAP | 926,468 | 285 | - | 926,753 | 926,753 |
| Small Business Sector Navigator | 10,000 | 322 | - | 10,322 | 10,322 |
| Strong Workforce Program (SWP) | 2,746,479 | 384 | 2,065,013 | 681,850 | 681,850 |
| Strong Workforce Program (SWP) - Regional | 2,617,757 | 1,390,340 | - | 4,008,097 | 4,008,097 |
| Student Equity | 1,444,924 | - | - | 1,444,924 | 1,444,924 |
| Student Equity and Achievement Program (SEAP) | 8,907,810 | - | 5,677,367 | 3,230,443 | 3,230,443 |
| Student Success and Support Program (SSSP) - Credit | 3,510,767 | - | - | 3,510,767 | 3,510,767 |
| Textbook Affordability Program | 20,825 | - | 8,875 | 11,950 | 11,950 |
| Transfer and Articulation | 2,658 | - | 2,528 | 130 | 130 |
| Veteran Resource Center | 118,169 | - | 60,799 | 57,370 | 57,370 |
| Zero Textbook Cost Degree - Planning | - | 114,327 | - | 114,327 | 114,327 |
| CAPITAL PROJECTS FUND | | | | | |
| Physical Plant and Instructional Support | 2,994,163 | - | 1,935,641 | 1,058,522 | 1,058,522 |
| Prop 39 - Clean Energy Project | 1,531,791 | - | 1,260,376 | 271,415 | 271,415 |
| STUDENT FINANCIAL AID TRUST FUND | | | | | |
| California College Promise | 1,040,845 | - | - | 1,040,845 | 1,040,845 |
| Community College Completion Grant | 96,750 | - | - | 96,750 | 96,750 |
| Full Time Student Success Grant | 20,000 | - | - | 20,000 | 20,000 |
| Nonresident Dreamer Emergency Aid | 1,300 | - | - | 1,300 | 1,300 |
| Student Success Completion Grant | 2,210,676 | - | - | 2,210,676 | 2,210,676 |
| Subtotal | $38,651,257 | $ 2,582,130 | $14,353,834 | $26,879,553 | $ 26,879,553 |

See accompanying note to supplementary information.

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2019

| CATEGORIES | *Revised Reported Data | Audit Adjustments | Revised Audited Data |
|---|---|---|---|
| **A. Summer Intersession (Summer 2018 only)** | | | |
| 1. Noncredit** | 79.12 | - | 79.12 |
| 2. Credit | 1,914.00 | - | 1,914.00 |
| **B. Summer Intersession (Summer 2019 - Prior to July 1, 2019)** | | | |
| 1. Noncredit** | - | - | - |
| 2. Credit | - | - | - |
| **C. Primary Terms (Exclusive of Summer Intersession)** | | | |
| 1. Census Procedure Courses | | | |
| (a) Weekly Census Contact Hours | 10,845.64 | - | 10,845.64 |
| (b) Daily Census Contact Hours | 1,593.28 | - | 1,593.28 |
| 2. Actual Hours of Attendance Procedure Courses | | | |
| (a) Noncredit** | 668.85 | - | 668.85 |
| (b) Credit | 98.63 | - | 98.63 |
| 3. Alternative Attendance Accounting Procedure Courses | | | |
| (a) Weekly Census Procedure Courses | 2,507.62 | - | 2,507.62 |
| (b) Daily Census Procedure Courses | 2,542.14 | - | 2,542.14 |
| (c) Noncredit Independent Study/Distance Education Courses | - | - | - |
| **D. Total FTES** | 20,249.28 | - | 20,249.28 |
| **SUPPLEMENTAL INFORMATION (Subset of Above Information)** | | | |
| **E. In-Service Training Courses (FTES)** | - | - | - |
| **H. Basic Skills Courses and Immigrant Education** | | | |
| 1. Noncredit** | 29.87 | - | 29.87 |
| 2. Credit | 457.73 | - | 457.73 |
| **CCFS-320 Addendum** | | | |
| CDCP Noncredit FTES | 149.69 | - | 149.69 |
| Centers FTES | | | |
| 1. Noncredit** | - | - | - |
| 2. Credit | 1,302.89 | - | 1,302.89 |

* Annual report revised as of October 14, 2019.
** 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, 2019

| | Object/TOP Codes | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 Reported Data | Audit Adjustments | Revised Data | ECS 84362 B Total CEE AC 0100 - 6799 Reported Data | Audit Adjustments | Revised Data |
|---|---|---|---|---|---|---|---|
| **Academic Salaries** | | | | | | | |
| **Instructional Salaries** | | | | | | | |
| Contract or Regular | 1100 | $ 27,834,180 | $ - | $ 27,834,180 | $ 27,834,180 | $ - | $ 27,834,180 |
| Other | 1300 | 33,106,723 | - | 33,106,723 | 33,106,723 | - | 33,106,723 |
| **Total Instructional Salaries** | | 60,940,903 | - | 60,940,903 | 60,940,903 | - | 60,940,903 |
| **Noninstructional Salaries** | | | | | | | |
| Contract or Regular | 1200 | - | - | - | 11,541,211 | - | 11,541,211 |
| Other | 1400 | - | - | - | 4,585,930 | - | 4,585,930 |
| **Total Noninstructional Salaries** | | - | - | - | 16,127,141 | - | 16,127,141 |
| **Total Academic Salaries** | | 60,940,903 | - | 60,940,903 | 77,068,044 | - | 77,068,044 |
| **Classified Salaries** | | | | | | | |
| **Noninstructional Salaries** | | | | | | | |
| Regular Status | 2100 | - | - | - | 25,142,454 | - | 25,142,454 |
| Other | 2300 | - | - | - | 1,997,022 | - | 1,997,022 |
| **Total Noninstructional Salaries** | | - | - | - | 27,139,476 | - | 27,139,476 |
| **Instructional Aides** | | | | | | | |
| Regular Status | 2200 | 1,247,981 | - | 1,247,981 | 3,540,497 | - | 3,540,497 |
| Other | 2400 | 30,634 | - | 30,634 | 303,479 | - | 303,479 |
| **Total Instructional Aides** | | 1,278,615 | - | 1,278,615 | 3,843,976 | - | 3,843,976 |
| **Total Classified Salaries** | | 1,278,615 | - | 1,278,615 | 30,983,452 | - | 30,983,452 |
| Employee Benefits | 3000 | 22,961,375 | - | 22,961,375 | 47,529,331 | - | 47,529,331 |
| Supplies and Material | 4000 | - | - | - | 911,356 | - | 911,356 |
| Other Operating Expenses | 5000 | - | - | - | 19,448,442 | - | 19,448,442 |
| Equipment Replacement | 6420 | - | - | - | - | - | - |
| **Total Expenditures Prior to Exclusions** | | 85,180,893 | - | 85,180,893 | 175,940,625 | - | 175,940,625 |

See accompanying note to supplementary information.

## RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, Continued
## FOR THE YEAR ENDED JUNE 30, 2019

| | | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|---|---|---|---|---|---|---|
| | Object/TOP Codes | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| **Exclusions** | | | | | | | |
| **Activities to Exclude** | | | | | | | |
| Instructional Staff - Retirees' Benefits and Retirement Incentives | 5900 | $ 1,777,982 | $ - | $ 1,777,982 | $ 1,777,982 | $ - | $ 1,777,982 |
| Student Health Services Above Amount Collected | 6441 | - | - | - | - | - | - |
| Student Transportation | 6491 | - | - | - | 776,779 | - | 776,779 |
| Noninstructional Staff - Retirees' Benefits and Retirement Incentives | 6740 | - | - | - | 2,792,724 | - | 2,792,724 |
| **Objects to Exclude** | | | | | | | |
| Rents and Leases | 5060 | - | - | - | 1,678,015 | - | 1,678,015 |
| Lottery Expenditures | | | | | | | |
| Academic Salaries | 1000 | - | - | - | - | - | - |
| Classified Salaries | 2000 | - | - | - | 1,782,609 | - | 1,782,609 |
| Employee Benefits | 3000 | - | - | - | 830,698 | - | 830,698 |
| Supplies and Materials | 4000 | - | - | - | - | - | - |
| Software | 4100 | - | - | - | - | - | - |
| Books, Magazines, and Periodicals | 4200 | - | - | - | - | - | - |
| Instructional Supplies and Materials | 4300 | - | - | - | - | - | - |
| Noninstructional Supplies and Materials | 4400 | - | - | - | - | - | - |
| **Total Supplies and Materials** | | - | - | - | - | - | - |

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, 2019

| | | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|---|---|---|---|---|---|---|
| | Object/TOP Codes | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| Other Operating Expenses and Services | 5000 | $ - | $ - | $ - | $ 1,470,217 | $ - | $ 1,470,217 |
| Capital Outlay | | | | | | | |
| Library Books | 6000 | - | - | - | - | - | - |
| Equipment | 6300 | - | - | - | - | - | - |
| Equipment - Additional | 6400 | - | - | - | - | - | - |
| Equipment - Replacement | 6410 | - | - | - | - | - | - |
| **Total Equipment** | | - | - | - | - | - | - |
| **Total Capital Outlay** | | | | | | | |
| Other Outgo | 7000 | - | - | - | - | - | - |
| **Total Exclusions** | | 1,777,982 | - | 1,777,982 | 11,109,024 | - | 11,109,024 |
| **Total for ECS 84362, 50 Percent Law** | | $ 83,402,911 | $ - | $ 83,402,911 | $ 164,831,601 | $ - | $ 164,831,601 |
| **Percent of CEE (Instructional Salary Cost/Total CEE)** | | 50.60% | | 50.60% | 100.00% | | 100.00% |
| **50% of Current Expense of Education** | | | | | $ 82,415,800 | | $ 82,415,800 |

See accompanying note to supplementary information.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019**

Summarized below is the fund balance reconciliation between the Annual Financial and Budget Report (CCFS-311) and the audited financial statements at June 30, 2019.

| | General Fund |
|---|---|
| FUND BALANCE | |
| Balance, June 30, 2019, (CCFS-311) | $ 30,676,107 |
| Increase in: | |
| Cash with fiscal agent | 2,514,767 |
| Balance, June 30, 2019, Audited | $ 33,190,874 |

See accompanying note to supplementary information.

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

## PROPOSITION 30 EDUCATION PROTECTION ACCOUNT (EPA) EXPENDITURE REPORT FOR THE YEAR ENDED JUNE 30, 2019

| **Activity Classification** | **Object Code** | | | **Unrestricted** | |
|---|---|---|---|---|---|
| | | | | | |
| EPA Revenue: | 8630 | | | | $ 19,370,268 |
| **Activity Classification** | **Activity Code** | **Salaries and Benefits (Obj 1000-3000)** | **Operating Expenses (Obj 4000-5000)** | **Capital Outlay (Obj 6000)** | **Total** |
| | | | | | |
| Instructional Activities | 1000-5900 | $ 19,370,268 | $ - | $ - | $ 19,370,268 |
| **Total Expenditures for EPA** | | $ 19,370,268 | $ - | $ - | $ 19,370,268 |
| **Revenues Less Expenditures** | | | | | $ - |

See accompanying note to supplementary information.

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
## JUNE 30, 2019

| | | |
|---|---|---|
| **Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:** | | |
| **Total Fund Balance:** | | |
| General Funds | $ 42,162,577 | |
| Special Revenue Funds | 1,397,246 | |
| Capital Project Funds | 194,144,947 | |
| Debt Service Funds | 116,759,153 | |
| **Total Fund Balance - All District Funds** | | **$ 354,463,923** |
| 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 | 822,231,867 | |
| Accumulated depreciation is | (160,398,148) | 661,833,719 |
| Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities. | | 6,203,421 |
| 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. | | (12,651,523) |
| Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of: | | |
| OPEB contributions subsequent to measurement date. | 4,570,707 | |
| Changes of assumptions | 33,198,995 | |
| Total Deferred Outflows of Resources related to OPEB | | 37,769,702 |
| Deferred inflows of resources related to OPEB represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to OPEB at year-end consist of differences between projected and actual earnings on OPEB plan investments. | | (192,539) |
| Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of: | | |
| Pension contributions subsequent to measurement date | 18,094,280 | |
| Net change in proportionate share of net pension liability | 5,271,487 | |
| Differences between projected and actual earnings on pension plan investments | 692,217 | |
| Differences between expected and actual experience in the measurement of the total net pension liability | 5,763,534 | |
| Changes of assumptions | 26,628,758 | |
| Total Deferred Outflows of Resources related to Pensions | | 56,450,276 |

See accompanying note to supplementary information.

## RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION, Continued
## JUNE 30, 2019

| | | |
|---|---|---|
| Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of: | | |
| Net change in proportionate share of net pension liability | $ 10,390,251 | |
| Differences between projected and actual earnings on pension plan investments | 4,496,087 | |
| Differences between expected and actual experience in the measurement of the total pension liability | 1,696,365 | |
| Changes of assumptions | 53,184 | |
| Total Deferred Inflows of Resources related to Pensions | | $ (16,635,887) |
| Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. | | |
| Long-term liabilities at year-end consist of: | | |
| General obligation bonds | 732,857,928 | |
| Certificates of participation | 10,453,337 | |
| Compensated absences | 6,138,712 | |
| Load banking | 2,967,564 | |
| Supplemental early retirement plan | 3,943,395 | |
| Capital leases | 4,385,215 | |
| Aggregate net OPEB liability | 125,723,525 | |
| Aggregate net pension obligation | 201,857,314 | |
| In addition, the District issued 'capital appreciation' general obligation bonds. The accretion of interest on those bonds to date is: | 37,353,700 | (1,125,680,690) |
| **Total Net Position** | | **$ (38,439,598)** |

See accompanying note to supplementary information.

## *NOTE 1 - PURPOSE OF SCHEDULES*

### District Organization

This schedule provides information about the District's governing board members and administration members as of June 30, 2019.

### 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.

| Description | CFDA Number | Amount |
|---|---|---|
| Total Federal Revenues per Statement of Revenues, Expenses, and Changes in Fund Balances: | | $ 36,986,664 |
| Build America Bonds subsidy | N/A | (1,446,696) |
| Total Expenditures of Federal Awards | | $ 35,539,968 |

### 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 Annual (Actual) Attendance

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.

### 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 Audited 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 audited financial statements.

**Proposition 30 Education Protection Account (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 government-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

## INDEPENDENT AUDITOR'S REPORTS

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

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, 2019, 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 16, 2019.

## 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.

Eide Bailly LLP

Rancho Cucamonga, California
December 16, 2019

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT 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, 2019. 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 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, 2019.



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**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.

Eide Bailly LLP

Rancho Cucamonga, California
December 16, 2019

# 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 2018-2019 California Community Colleges Chancellor's Office *District Audit Manual* that could have a direct and material effect on each of the District's State programs as noted below for the year ended June 30, 2019.

## Management's Responsibility

Management is responsible for compliance with State laws and regulations, and the terms and conditions of its State awards applicable to its State programs.

## 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 2018-2019 California Community Colleges Chancellor's Office *District Audit Manual*. 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 opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

## Unmodified Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the State programs noted below that were audited for the year ended June 30, 2019.

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 Activities Funded From Other Sources |
| Section 424 | State General Apportionment Funding System |
| Section 425 | Residency Determination for Credit Courses |
| Section 426 | Students Actively Enrolled |
| Section 427 | Dual Enrollment (CCAP and Non-CCAP) |
| Section 430 | Scheduled Maintenance Program |
| Section 431 | Gann Limit Calculation |
| Section 435 | Open Enrollment |
| Section 439 | Proposition 39 Clean Energy Fund |
| Section 444 | Apprenticeship Related and Supplemental Instruction (RSI) Funds |
| Section 475 | Disabled Student Programs and Services (DSPS) |
| Section 479 | To Be Arranged Hours (TBA) |
| Section 490 | Proposition 1D and 51 State Bond Funded Projects |
| Section 491 | Education Protection Account Funds |

The District reports no Apportionment for Activities Funded From Other Sources; therefore, the compliance tests within this section were not applicable.

The District reports no Apprenticeship Related and Supplemental Instruction (RSI) Funds programs for Funding; therefore, the compliance tests within this section were not applicable.

Eide Bailly LLP

Rancho Cucamonga, California
December 16, 2019

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## SUMMARY OF AUDITOR'S RESULTS
## FOR THE YEAR ENDED JUNE 30, 2019

**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

Identification of major Federal programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 84.007, 84.033, 84.063, 84.268 | Student Financial Assistance Cluster |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 1,066,199 |
| Auditee qualified as low-risk auditee? | Yes |

**STATE AWARDS**

| | |
|---|---|
| Type of auditor's report issued on compliance for State programs: | Unmodified |

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
## FOR THE YEAR ENDED JUNE 30, 2019

None reported.

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
## FOR THE YEAR ENDED JUNE 30, 2019

None reported.

## STATE AWARDS FINDINGS AND QUESTIONED COSTS
## FOR THE YEAR ENDED JUNE 30, 2019

None reported.

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
## FOR THE YEAR ENDED JUNE 30, 2019

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***

None reported.