

SANTA MONICA COMMUNITY COLLEGE DISTRICT

LOS ANGELES COUNTY

**REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE**

June 30, 2015



SANTA MONICA COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Santa Monica Community College District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Board of Trustees
Santa Monica Community College District

Auditor's Responsibility (continued)

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

Opinion

In our opinion, the financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of the Santa Monica Community College District as of June 30, 2015, and the results of its operations, changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 15 to the basic financial statements, in 2015 the Santa Monica Community College District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment to GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of post-employment healthcare benefits funding progress, schedules of the District's proportionate share of the net pension liability (STRP and CalPERS), and schedules of District contributions (STRP and CalPERS) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Trustees
Santa Monica Community College District

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015 on our consideration of the Santa Monica Community College District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Monica Community College District's internal control over financial reporting and compliance.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
December 15, 2015

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

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, 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

Santa Monica Community College District is the preeminent educational, cultural, and economic development institution in the City of Santa Monica. The District offers programs of the highest quality for residents of Santa Monica, Malibu, and all students who continue with their higher education studies; offers programs of remediation and reentry; 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 Statements No. 34 and 35 using the Business Type Activity (BTA) model. The California Community College Chancellor's Office (CCCCO), through its Fiscal Standards and Accountability Committee, recommended that all community college districts use the reporting standards under the BTA model. To comply with the recommendation of the Chancellor's Office and to report in a manner consistent with other California community college districts, the District has adopted the BTA reporting model for its financial statements.

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

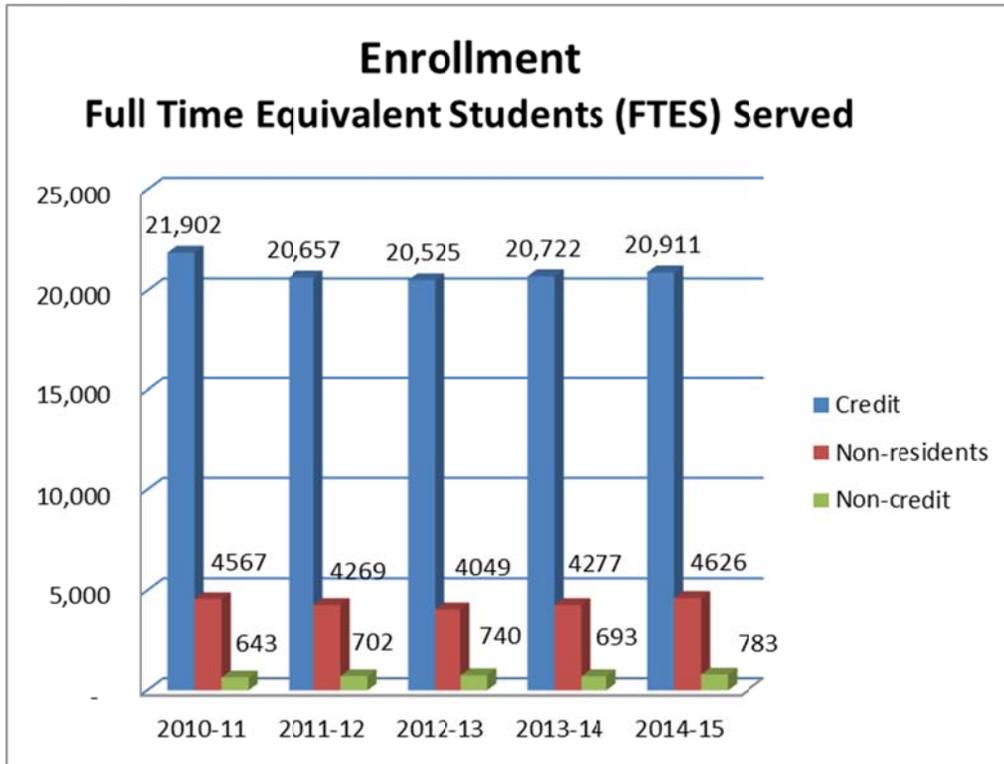
SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2015

Selected Highlights

- The Districts 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 2014-15, total FTES served increased from 25,692 to 26,320 (approximately 2.44%). For 2015-16 the District plans to serve an additional 594 FTES (approximately 2.26%) over the 2014-15 level of FTES.



- As reported to the State Chancellors Office on the Annual Financial and Budget Report (CCFS-311) the District ended the 2014-15 fiscal year with an Unrestricted General Fund fund balance of \$13,781,577 or 9.15% of total expenditures and transfers.
- During 2014-15, the District made significant progress on the following major capital construction projects: Malibu Site Acquisition and Facility; Early Childhood Development and Childcare Facility; Student Services Building; Madison East Wing Seismic Upgrade; Emergency Lighting, Fire Alarm and Security System Upgrade; Health, PE, Fitness, Dance Building Replacement with Central Plant; Center for Media and Design; Environmental Performance Improvements – Central Plant Connections; and the Infrastructure and Technology Relocation Project.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

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 minus an allocation for depreciation expense.

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

The Statement of Net Position as of June 30, 2015 and June 30, 2014 are summarized below:

| | (in thousands) | (in thousands) |
|------------------------------------------------------------|--------------------|-------------------|
| | <u>2015</u> | <u>2014*</u> |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 39,007 | \$ 25,876 |
| Receivables | 8,903 | 18,512 |
| Due from fiduciary funds | 709 | 1,450 |
| Inventories | 2,060 | 1,540 |
| Prepaid expenses | <u>1,294</u> | <u>1,244</u> |
| Total current assets | <u>51,973</u> | <u>48,622</u> |
| Non-current assets | | |
| Restricted cash and cash equivalents | 267,448 | 152,628 |
| Capital assets, net of accumulated depreciation | <u>403,775</u> | <u>359,252</u> |
| Total non-current assets | <u>671,223</u> | <u>511,880</u> |
| Total Assets | <u>723,196</u> | <u>560,502</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charge on refunding | 7,882 | 8,559 |
| Deferred outflows of resources - pension | <u>10,508</u> | <u> </u> |
| Total deferred outflows of resources | <u>18,390</u> | <u>8,559</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>741,586</u> | <u>569,061</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Bank overdraft | 869 | 607 |
| Accounts payable, accrued interest and accrued liabilities | 30,179 | 29,015 |
| Due to fiduciary funds | 519 | 576 |
| Unearned revenue | 16,563 | 10,471 |
| Compensated absences - current portion | 1,725 | 944 |
| Long-term liabilities - current portion | <u>18,254</u> | <u>14,254</u> |
| Total current liabilities | <u>68,109</u> | <u>55,867</u> |
| Non-current liabilities | | |
| Net pension obligation | 118,240 | |
| Long-term liabilities less current portion | <u>539,449</u> | <u>395,355</u> |
| Total non-current liabilities | <u>657,689</u> | <u>395,355</u> |
| TOTAL LIABILITIES | <u>725,798</u> | <u>451,222</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources - pension | <u>32,902</u> | <u> </u> |
| Total deferred inflows of resources | <u>32,902</u> | <u>-</u> |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 107,186 | 109,004 |
| Restricted | 49,776 | 37,056 |
| Unrestricted | <u>(174,076)</u> | <u>(28,221)</u> |
| TOTAL NET POSITION | <u>\$ (17,114)</u> | <u>\$ 117,839</u> |

* The prior year has not been restated for the implementation of GASB Statements No. 68 and No. 71.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

- Approximately 95.8% of the cash balance is deposited with or in process of being transferred to, the Los Angeles County Treasury. The remaining balance consists of deposits with various financial institutions.
- As the State's budget and cash flow issues are improving, the State has reduced the amount of cash payments it is deferring to future years. As a result of this, the District's cash and cash equivalents have increased while consequently receivables have decreased from prior year.
- Restricted cash and cash equivalents increased primarily as a result of the issuance of \$145.0 million in general obligation bonds related to Measure AA. Further discussion regarding cash and cash equivalents is located in the section labeled "Statement of Cash Flows".
- Capital assets, net of accumulated depreciation increased due to the capital construction and planning activity associated with the following major projects: Malibu Site Acquisition and Facility; Early Childhood Development and Childcare Facility; Student Services Building; Madison East Wing Seismic Upgrade; Emergency Lighting, Fire Alarm and Security System Upgrade; Health, PE, Fitness, Dance Building Replacement with Central Plant; Center for Media and Design; Environmental Performance Improvements – Central Plant Connections; and the Infrastructure and Technology Relocation Project. Refer to the "Capital Asset" and "Debt Administration" portion of the Management Discussion and Analysis for further details.
- Unearned revenue increased as a result of the overpayment of State Apportionment and the need to carry over funds into the 2015-16 fiscal year for the following restricted programs: Student Success and Support Program, Student Equity, Prop 39 Clean Energy and Physical Plant and Instructional Support. The District is allowed to and has planned to expend the carry over funding in the 2015-16 fiscal year.
- Long-term liabilities, both current portion and non-current portion, increased predominantly as a result of the recognition of increases in the unfunded liability of post-employment health care benefits and due to the District's issuance of new general obligation bond debt.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

- In 2014-15 the District implemented Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71, which were issued with the “primary objective to improve accounting and financial reporting by state and local governments for pensions.” The statement requires the District to reflect on the financial statements its proportional share of the unfunded liability of the statewide pension funds, CalSTRS and CalPERS, by recording deferred outflows of resources, net pension obligation and deferred inflows of resources. Deferred outflows of resources represent contributions made during the fiscal year that are removed from expenses and are recorded as deferred outflows of resources. This amount will be recognized as a reduction of the net pension liability in the subsequent year. The liability of employers and non-employers contributing to employees for benefits provided through a defined benefit pension plan is recorded as net pension obligation. Deferred inflows of resources represent an acquisition of net assets by the District that is applicable to a future reporting period. The deferred inflows of resources result from the difference between the estimated and actual return on pension plan investments. This amount is deferred and amortized over 5 years. The District’s implementation of GASB Statements No. 68 and No. 71 has resulted in a dramatic increase in liabilities and is the principle cause of the reduction in Total Net Position.

Net Pension Obligation is categorized as follows:

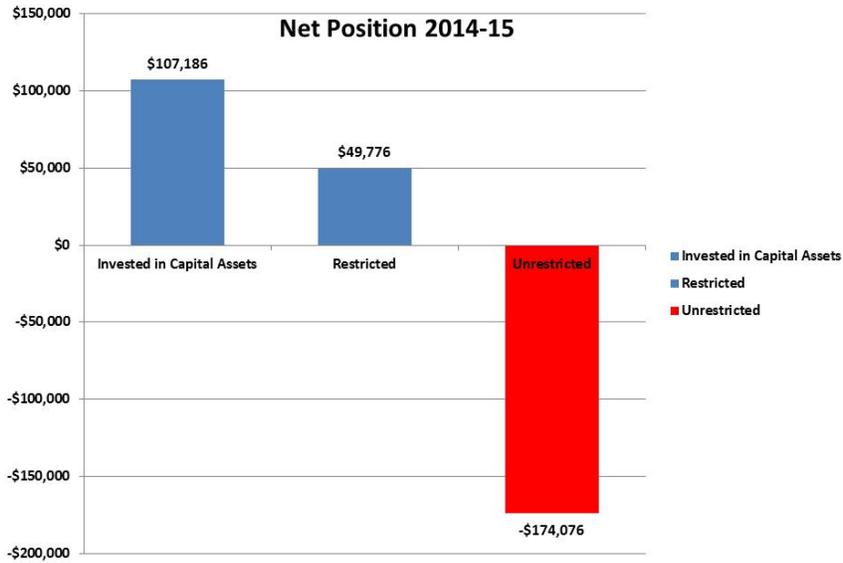
| Santa Monica College Net Pension Obligation | |
|--------------------------------------------------------|------------------------------|
| <u>Pension Fund</u> | <u>Obligation</u> |
| CalSTRS | \$ 73,630,620 |
| CalSTRS Cash Balance | \$ 4,674,960 |
| CalPERS | \$ 37,485,740 |
| CalPERS Safety | \$ 2,448,810 |
| <i>Total</i> | <i>\$ 118,240,130</i> |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2015

- Total net position decreased mainly due to the District’s implementation of GASB Statements No. 68 and No. 71 and the required recognition on the financial statements of the District’s proportionate share of the state retirement systems, CalSTRS and CalPERS, unfunded liability. Both retirement systems have implemented a multi-year rate increase plan with the goal of eliminating the unfunded liabilities over time which, over the course of several decades, will result in reduced liability for the District and a stronger net position.



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 2014-15 and 2013-14 is provided on the following page.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

The Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2015 and June 30, 2014 are summarized below:

| | <small>(in thousands)</small> | <small>(in thousands)</small> |
|---------------------------------------------------------------|-------------------------------|-------------------------------|
| | <u>2015</u> | <u>2014*</u> |
| Operating Revenues | | |
| Net enrollment, tuition and other fees | \$ 55,161 | \$ 50,787 |
| Grants and contracts, non-capital | 61,076 | 52,579 |
| Auxiliary enterprise sales and charges, net | 7,816 | 7,353 |
| Total operating revenues | <u>124,053</u> | <u>110,719</u> |
| Operating Expenses | | |
| Salaries and benefits | 160,111 | 145,476 |
| Supplies, materials and other operating expenses and services | 33,271 | 31,016 |
| Financial aid | 37,116 | 33,882 |
| Utilities | 3,039 | 2,953 |
| Depreciation | 6,926 | 12,125 |
| Total operating expenses | <u>240,463</u> | <u>225,452</u> |
| Operating loss | <u>(116,410)</u> | <u>(114,733)</u> |
| Non-operating revenues | | |
| State apportionments, non-capital | 76,018 | 77,073 |
| Local property taxes | 19,665 | 17,575 |
| Federal grant, capital | 1,434 | 1,423 |
| State taxes and other revenues | 6,038 | 5,101 |
| Investment income, net | 178 | 180 |
| Contributions, gifts and grants, non-capital | 2,962 | 2,890 |
| Total non-operating revenues | <u>106,295</u> | <u>104,242</u> |
| Other revenues, expenses, gains or (losses) | | |
| Interest expense on capital-related debt | (14,897) | (11,862) |
| Loss on disposal of fixed assets | | (1,602) |
| Investment income, capital | 1,477 | 998 |
| Transfer to fiduciary fund | (30) | (30) |
| Local property taxes and revenues, capital | 29,016 | 28,613 |
| Total other revenues, expenses, gains or losses | <u>15,566</u> | <u>16,117</u> |
| Changes in net position | <u>5,451</u> | <u>5,626</u> |
| Net position, beginning of year as previously reported | 117,839 | 112,213 |
| Cumulative effect of change in accounting principles | <u>(140,404)</u> | <u></u> |
| Net position, beginning of year after cumulative effect | <u>(22,565)</u> | <u>112,213</u> |
| Net position, end of year | <u>\$ (17,114)</u> | <u>\$ 117,839</u> |

* The prior year has not been restated for the implementation of GASB Statements No. 68 and No. 71.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

- In 2014-15, the District served 628 FTES more than in the prior year. This increase in FTES served, coupled with an increase in non-resident tuition, resulted in an increase in net enrollment, tuition and other fees over the prior year.
- Revenues from grants and contracts, non-capital, increased from prior year primarily as a result of the recognition of the State contribution to the state pension systems plan on behalf of the District as required by GASB Statements No. 68 and No. 71 and increased funding associated with the Student Success and Support Program grant, Student Equity grant, Basic Skills Initiative grant, Disabled Student Programs and Services, Physical Plant and Instructional Support grant and Federal Financial Aid.
- Expenditures related to salaries and benefits increased due to an increase in adjunct faculty to achieve access funding, step and column increases and salary increases instituted among faculty, classified employees and management during 2014-15. As a result of the instituted salary increases in 2014-15, the percentage of salaries and benefits to total expenditures and transfer, in the unrestricted general fund, increased from approximately 88.8% in 2013-14 to 89.2% in 2014-15.
- Financial Aid expenditures increased due to an approximate 8% increase in Federal Financial Aid disbursements and an approximate 59% increase in Cal Grant disbursements.
- Supplies, materials and other operating expenses and services increased predominantly as a result of new funding related to the Physical Plant and Instructional Equipment grant.
- State apportionments, non-capital are generated based on the Full-Time Equivalent Students (FTES) reported to the State by the District and is adjusted upwards for cost of living allowance (COLA) increases and access funding allocations. State principal apportionment, technically defined as total general revenue, is a workload calculation that is funded by property taxes, Education Protection Account (EPA) funding, enrollment fees, and apportionment. If property taxes, EPA funding or enrollment fees decline, the apportionment increases to cover the shortage, if state funding is available. The inverse is also true, so any increase in tax receipts, EPA or enrollment fees would lower the apportionment.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

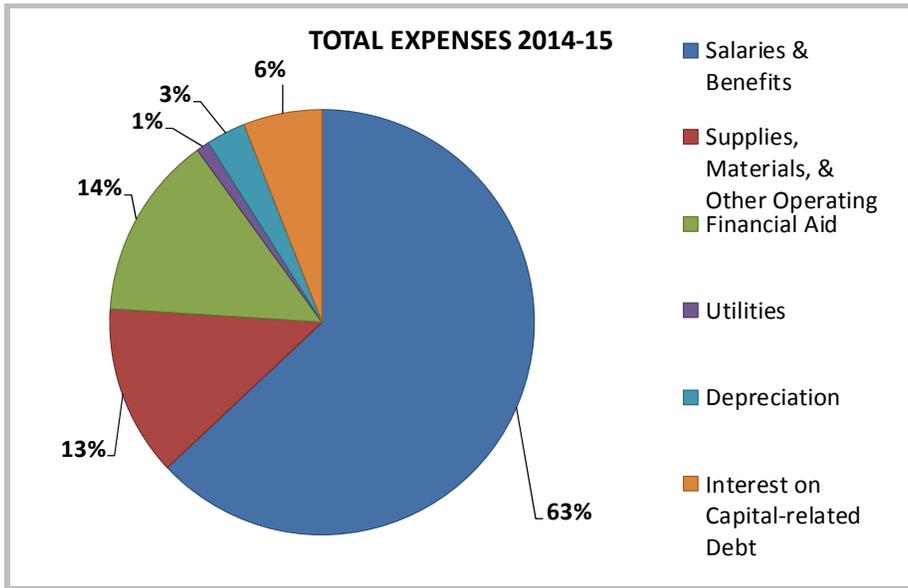
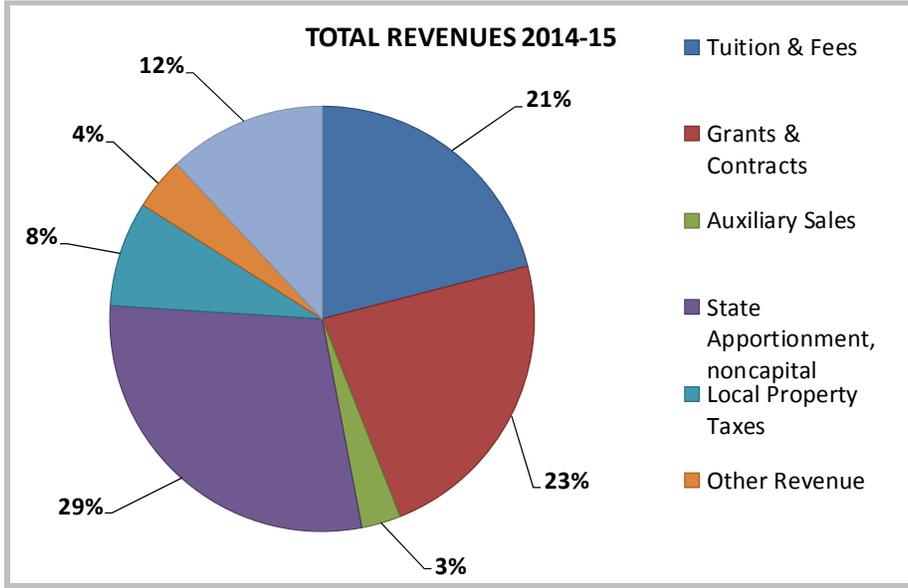
June 30, 2015

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Statement of Cash Flows

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

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

- Cash receipts from operating activities are from student tuition, auxiliary operation sales and from federal, state and local grants. Uses of cash from operating activities consist of payments to employees, vendors and students. The increase in net cash used for operating activities is due primarily to increased payments to/on behalf of employees as a result of salary adjustments, to/on behalf of outside vendors needed to meet the obligations of new grants and to/on behalf of students related to more financial aid being appropriated.
- Non-capital financing activities represent cash receipts from State apportionment, property taxes, state taxes, other state revenue and grants and gifts for other than capital purposes. Cash provided is primarily from the collection of apportionment deferrals of approximately \$11.1 million from 2013-14 collected in 2014-15. The state did not defer apportionment payments for fiscal year 2014-15.
- Cash provided by capital and related financing activities represents local revenue for capital purposes, tax revenue for payment of capital debt, purchase of capital assets and principal and interest payments on capital debt. Cash provided by capital and related financing activities increased as a result of the issuance of \$145.0 million in general obligation bonds related to Measure AA.
- Cash from investing activities is primarily from cash invested through the Los Angeles County pool and interest earned on cash in banks. Cash from investing activities increased due to higher cash balances during the year.

District's Fiduciary Responsibility

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2015, the District had net governmental capital assets of \$403.8 million, consisting of land, buildings and building improvements, construction in progress, vehicles, office and instructional equipment, with an accumulated depreciation of \$100.9 million. Net additions to capital assets in 2014-15 consisted mainly of site/site improvements and construction in progress as a result of the passage of Measure U, Measure S and Measure AA. The following major projects added significantly to the capital assets of the District in the form of site/site improvements and construction in process: Malibu Site Acquisition and Facility; Early Childhood Development and Childcare Facility; Student Services Building; Madison East Wing Seismic Upgrade; Emergency Lighting, Fire Alarm and Security System Upgrade; Health, PE, Fitness, Dance Building Replacement with Central Plant; Center for Media and Design; Environmental Performance Improvements – Central Plant Connections; and the Infrastructure and Technology Relocation Project. It is important to recognize that all valuations are based on historical cost as required by generally accepted accounting principles (GAAP). For example, the 38 acres of the main campus would have a significantly greater value today than is reflected in the capital asset listing below.

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

| | Balance June 30, 2015 |
|------------------------------------|--------------------------|
| Land | \$ 60,986,212 |
| Site and site improvements | 293,214,845 |
| Equipment | 21,722,257 |
| Construction in progress | 128,752,051 |
| Totals at historical cost | 504,675,365 |
| Less accumulated depreciation for: | |
| Site and site improvements | (83,319,543) |
| Equipment | (17,580,423) |
| Total accumulated depreciation | (100,899,966) |
| Governmental capital assets, net | \$ 403,775,399 |

SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

Debt

At June 30, 2015, the District had approximately \$667.7 million in debt: \$8.0 million from compensated absences, \$41.8 million from GASB Statement No. 45, other post-employment health care benefit liability, \$5.3 million from capital lease, \$17.1 million from obligations under certificates of participation, \$465.5 million from general obligation bonds, \$21.8 million of accreted interest, and \$118.2 million from GASB Statements No. 68 and No. 71, pension liability. The general obligation bonds and certificates of participation were issued to fund various projects related to construction, purchase and renovation of instructional facilities, laboratories, centers, administrative facilities and parking structures. Debt payments on the bonds will be funded through property tax receipts collected over the term of the bonds. Debt payments on the certificates of participation will be funded through parking revenues, additional funding sources related to student enrollment and other sources identified within the capital funds. The District's bond rating of AA/Stable (S&P) has not changed from prior year.

Note 9 to the financial statements provide additional information on long-term liabilities. A summary of long-term debt is presented below:

| | Balance <u>June 30, 2015</u> |
|--------------------------------------------|---------------------------------|
| Compensated absences | \$ 7,995,998 |
| Other post-employment health care benefits | 41,798,141 |
| Capital lease | 5,262,492 |
| Certificates of participation | 17,072,973 |
| General obligation bonds | 465,486,672 |
| Accreted interest | 21,810,956 |
| Net Pension Liability | <u>118,240,130</u> |
| Total | <u><u>\$ 677,667,362</u></u> |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Budget for the Future – Unrestricted General Fund – 2015-16

In this section the District highlights some of the major budgetary assumptions presented in the 2015-16 Adopted Budget to assist the reader in understanding the long-term fiscal stability of the Institution.

Overview

For 2015-16 the District is projecting revenue increases from prior year actual of approximately 13.8% or \$20,697,395 and expenditure increases of 8.7% or \$13,103,402. The net effect of the projected changes in revenue and expenditures will result in a projected operating surplus, with one-time items, of \$7,403,791 and a projected ending Unrestricted General Fund Balance of \$21,185,369 or 12.94% of total expenditures and transfers.

Revenues

Summary

The General Fund Unrestricted Revenue budget accounts for all of the District's operational revenues. Based on the 2015-16 state adopted budget, updated with the latest information provided by the Chancellor's Office as of September, the District's Adopted Budget assumes a 1.02% inflationary adjustment (COLA) increase (\$1,107,892), 2.07% Access/Growth (\$2,096,283 – approximately 449 credit and non-credit FTES), an increase in base of \$4,981,052 for ongoing operating expenditures, \$1,158,443 to support hiring of full-time faculty, \$233,679 to align CDCP rate to credit rate and a 0.93% deficit factor (<\$1,097,741>). The adopted budget does not assume repayment of the 2014-15 deficit factor (<\$344,556>). The District also assumes a one-time funding of \$12,006,317 from the State as payment for prior-year state mandate claims. There is increase in non-resident tuition revenue of \$1,821,760 as a result of a projected 2% increase in FTES and an increase in the non-resident tuition fee. Fee based tuition is projected to decrease by <\$430,062> as FTES moves back to non-fee based classes. The net effect of the changes in revenues has resulted in a projected \$20,697,395 or 13.8% increase in total revenues from the prior year actuals of which a net \$10,908,576 or 53% is one-time in nature.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

State Revenue – Principal Apportionment

State funding, in the form of Principal Apportionment, constitutes 68% (\$116,862,828) of the District's total revenue. The calculation for Principal Apportionment is based on the number of FTES (*Full Time Equivalent Students*) the District serves, but is capped based on the state adopted budget. The District receives Principal Apportionment through a combination of direct State funds known as General Apportionment, coupled with enrollment fees, property taxes (*including Redevelopment Agency Funds*) and the Education Protection Account (*EPA*), which was created as a result of the passage of Proposition 30. These funds are combined to equal the Principal Apportionment. If actual receipts of revenue from EPA, Redevelopment Agency (*RDA*), property taxes and/or enrollment fees differ from estimates, the general apportionment funding will be adjusted, subject to availability of state funding, to keep the formula constant.

The District has based its Principal Apportionment revenue projections on the state budget which includes 2.07% access/growth funding. This will result in the District being funded by the State to serve approximately 21,343 Credit FTES in FY 2015-16. As of the proposed adopted budget, the target is to serve approximately 21,397 Credit FTES, which is 54 FTES more than the State is funding the District to serve.

Education Protection Account (EPA – Prop 30)

In 2012 the state passed Proposition 30, *The Schools and Local Public Safety Act of 2012*, which temporarily raised the sales and use tax by .25 cents for four years and raised the income tax rate for the highest earners (*\$250,000 for individuals and \$500,000 for couples*) for seven years to provide continuing funding for local school districts and community colleges. The Education Protection Account was created to receive and disburse these temporary tax revenues. For 2015-16 the District projects it will receive \$16,855,409 in EPA-Prop 30 funding.

Property Taxes

Based on preliminary projections, the District will receive \$20,263,813 in property tax in 2015-16. This is a combination of property tax shift, homeowner's exemption, secured taxes, unsecured taxes, supplemental taxes, RDA pass through and prior years' taxes. If the receipt of property tax does not meet these projections, the State may impose a further workload reduction or deficit factor to offset the resulting loss in funding.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Lottery

The State Lottery revenues are paid each year according to the annual enrollment figures. The projected FY 2015-16 non-Prop 20 lottery rate is \$140 per FTES; a \$12 per FTES increase over the prior year.

Non-Resident Tuition

The District's largest revenue source, outside of Principal Apportionment, is Non-resident Tuition/Intensive ESL. The District's increase in non-resident tuition fee and projected increase in FTES is projected to generate \$32,887,749 in revenue which equates to an increase of \$1,821,760 over prior year actuals. This funding provides the District with financial stability not enjoyed by many other Districts as this funding is locally generated and not subject to the budget changes of the State.

Expenditures

Summary

The General Fund Unrestricted Expenditure budget accounts for all of the District's operational expenditures. The District is projecting expenditure increases of approximately \$13,103,402 or 8.7% compared with prior year actuals. The breakdown of expenditures is as follows: 87.0% on salaries and benefits, 10.9% on other operational expenses and services, 1.2% on equipment, technology replacement and total cost of ownership (TCO), 0.7% on supplies, and 0.2% on transfers/financial aid. For FY 2015-2016, the largest projected expenditure increases are as follows: Supplies and Contracts (\$2,891,062), Salary increases (\$2,552,606), Equipment, technology and TCO replacement (\$1,948,194), Employment/Retirement Benefits (\$1,579,845), Hourly Instruction and Non-teaching (\$1,244,073), Vacancy List (\$1,242,570), Salary Step and Longevity (\$995,896), Other Post-Employment Benefits (OPEB) contribution (\$500,000) and Current Employee and Retiree Health and Welfare Benefits (\$491,740).

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Salary and Benefits

Salary and benefit expenditure projections reflect appropriate step, column and longevity increases for qualified employees and include a negotiated increase of 2.2% in the salary of SMC Faculty Association Members and 0.457% in the salary of SMCPOA Members. The changes in salary, benefit and vacancy line items account for approximately \$8,176,396 of the increase in expenditures from prior year actuals. For FY 2015-2016, salaries and benefits represent 87% of total expenditures and transfers for the District's unrestricted general fund, which represents a 2% decrease from the prior year.

Supplies, Services and Transfers

Supplies, Services, Capital and Transfer expenditure projections reflect departmental requests based on operational needs. For the proposed adopted budget, changes in these line items account for an increase of approximately \$3,684,235 over prior year adopted budget allocations. Of this increase \$1,948,194 is allocated for technology equipment replacement, general equipment, equipment related to the IT business continuity project and TCO; \$1,540,861 is allocated to contracts/services for items such as increased advertising, IT business continuity site rental, licenses for servers and a student module and implementation; and \$119,043 is allocated for supplies for items such as new phones and specialized air filters. For FY 2015-2016, supplies, services, capital and transfers represent 13% of total expenditures and transfers for the District's unrestricted general fund.

The largest line item of non-salary and benefit related expenditure is contracts/services. The Contracts/Services line item in the adopted budget includes: Rents/Leases (*Performing Arts Center, Swimming Pool, Big Blue Bus*) 18%, Bank Fees and Bad Debt 11%, Advertising 10%, Other Contract Services 10%, Repairs and Maintenance of Equipment 10%, Software Licensing 7%, Consultants 5%, Legal Services (*including Personnel Commission*) 4%, Online Course Management System 4%, Postage and Delivery Services 3%, Conferences and Training 3%, District Copiers 3%, Off-Campus Printing 3%, LACOE Contracts (*i.e. PeopleSoft, HRS*) 2%, Professional Growth 1%, Memberships and Dues 1%, Audit 1%, Recruiting-Students 1% and Other Services (*i.e. Mileage, Fingerprinting, Board Meetings, Field Trips, etc.*) 3%.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Designated Reserves

The Designated Reserves serve to allocate a portion of the projected ending unrestricted fund balance towards future anticipated expenditures and/or purposes. Designated Reserves help to maintain fiscal stability by recognizing the future expenditure and its possible effect on future fund balances. For 2015-16, there are three line items in the Designated Reserves including the Classified Employee Welfare Fund, New Faculty To Be Hired and a Reserve for Future STRS and PERS increases. The "Classified Employee Welfare Fund" was established as part of the District's health benefit plan changes for the sole purpose of providing reimbursement to CSEA unit members who changed health plans in 2011 from PERSCare to a non-PERSCare plan offered by the District and who incurred expenses for health care that would have been covered by PERSCare and were not covered by the new insurance plan. The "New Faculty To Be Hired" line item represents the projected cost to hire new faculty in the next fiscal year. For 2016-17, a total of \$1,945,604 has been allocated in the 2015-16 budget to hire 22 new faculty. The "Reserve for Future STRS and PERS Increases" line item has been established to partially offset projected increases in District STRS and PERS contributions through 2020-21.

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 2015-16 and for future years. In order to explore new and innovative ideas that can help to ensure a fiscally sound reserve, while maintaining the Board budgeting principles, the District is actively engaged in the budget planning through a shared governance process. This process, along with the District's enrollment management and revenue generating efforts, should allow the District to maintain a fund balance that is financially sound.

BASIC FINANCIAL STATEMENTS

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION

June 30, 2015

ASSETS

| | |
|-------------------------------|-------------------|
| Current Assets: | |
| Cash and cash equivalents | \$ 39,006,647 |
| Accounts receivable, net | 8,903,277 |
| Due from fiduciary funds | 708,868 |
| Inventories | 2,060,044 |
| Prepaid expenses and deposits | 1,293,847 |
| Total Current Assets | <u>51,972,683</u> |

Non-Current Assets:

| | |
|-------------------------------------------------|--------------------|
| Restricted cash and cash equivalents | 267,448,247 |
| Capital assets, net of accumulated depreciation | 403,775,399 |
| Total Non-Current Assets | <u>671,223,646</u> |

| | |
|--------------|--------------------|
| Total Assets | <u>723,196,329</u> |
|--------------|--------------------|

DEFERRED OUTFLOWS OF RESOURCES

| | |
|------------------------------------------|-------------------|
| Deferred charge on refunding | 7,881,947 |
| Deferred outflows of resources - pension | 10,508,314 |
| Total Deferred Outflows of Resources | <u>18,390,261</u> |

| | |
|--------------------------------------------------------|------------------------------|
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 741,586,590</u> |
|--------------------------------------------------------|------------------------------|

LIABILITIES

| | |
|---------------------------------------------------------|-------------------|
| Current Liabilities: | |
| Bank overdraft | \$ 869,437 |
| Accounts payable | 15,239,723 |
| Accrued liabilities | 8,206,573 |
| Accrued interest | 6,733,154 |
| Due to fiduciary funds | 518,925 |
| Unearned revenue | 16,562,597 |
| Compensated absences - current portion | 1,724,973 |
| Capital lease payable - current portion | 171,551 |
| Certificates of participation payable - current portion | 1,465,000 |
| General obligation bonds payable - current portion | 16,617,286 |
| Total Current Liabilities | <u>68,109,219</u> |

Non-Current Liabilities:

| | |
|--------------------------------------------|--------------------|
| Compensated absences | 6,271,025 |
| Other post-employment health care benefits | 41,798,141 |
| Net pension liability | 118,240,130 |
| Capital lease payable | 5,090,941 |
| Certificates of participation payable | 15,607,973 |
| General obligation bonds payable | 470,680,342 |
| Total Non-Current Liabilities | <u>657,688,552</u> |

| | |
|--------------------------|---------------------------|
| TOTAL LIABILITIES | <u>725,797,771</u> |
|--------------------------|---------------------------|

DEFERRED INFLOWS OF RESOURCES

| | |
|-----------------------------------------|-------------------|
| Deferred inflows of resources - pension | 32,902,497 |
| Total Deferred Inflows of Resources | <u>32,902,497</u> |

NET POSITION

| | |
|-------------------------------------------------|----------------------|
| Invested in capital assets, net of related debt | 107,186,443 |
| Restricted - expendable: | |
| Capital projects | 12,856,256 |
| Debt service | 30,016,852 |
| Specific purposes | 6,903,337 |
| Unrestricted | <u>(174,076,566)</u> |

| | |
|---------------------------|----------------------------|
| TOTAL NET POSITION | <u>(17,113,678)</u> |
|---------------------------|----------------------------|

| | |
|-------------------------------------------------------------------------------|------------------------------|
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | <u>\$ 741,586,590</u> |
|-------------------------------------------------------------------------------|------------------------------|

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the Fiscal Year Ended June 30, 2015**

| | |
|--------------------------------------------------------------------|------------------------|
| OPERATING REVENUES | |
| Enrollment, tuition and other fees (gross) | \$ 71,625,181 |
| Less: Scholarship discounts and allowances | <u>(16,463,446)</u> |
| Net enrollment, tuition and other fees | 55,161,735 |
| Grants and contracts, non-capital: | |
| Federal | 39,280,104 |
| State | 17,971,963 |
| Local | 3,824,093 |
| Auxiliary enterprise sales and charges, net | <u>7,815,753</u> |
| TOTAL OPERATING REVENUES | <u>124,053,648</u> |
| OPERATING EXPENSES | |
| Salaries | 116,876,626 |
| Employee benefits | 43,234,622 |
| Supplies, materials and other operating expenses and services | 33,270,536 |
| Financial aid | 37,116,114 |
| Utilities | 3,039,181 |
| Depreciation | <u>6,926,305</u> |
| TOTAL OPERATING EXPENSES | <u>240,463,384</u> |
| OPERATING LOSS | <u>(116,409,736)</u> |
| NON-OPERATING REVENUES | |
| State apportionments, non-capital | 76,017,649 |
| Local property taxes | 19,665,286 |
| Federal grant, capital | 1,433,559 |
| State taxes and other revenues | 6,038,163 |
| Investment income | 177,500 |
| Contributions, gifts and grants, non-capital | <u>2,961,970</u> |
| TOTAL NON-OPERATING REVENUES | <u>106,294,127</u> |
| LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR (LOSSES) | <u>(10,115,609)</u> |
| OTHER REVENUES, EXPENSES, GAINS OR (LOSSES) | |
| Interest expense on capital-related debt | (14,896,609) |
| Investment income, capital | 1,477,362 |
| Transfer to fiduciary fund | (30,000) |
| Local property taxes and revenues, capital | <u>29,016,059</u> |
| TOTAL OTHER REVENUES, EXPENSES, GAINS OR (LOSSES) | <u>15,566,812</u> |
| CHANGES IN NET POSITION | 5,451,203 |
| NET POSITION - BEGINNING OF YEAR AS PREVIOUSLY REPORTED | 117,838,671 |
| Cumulative effect of change in accounting principles (see Note 15) | <u>(140,403,552)</u> |
| NET POSITION - BEGINNING OF YEAR AFTER CUMULATIVE EFFECT | <u>(22,564,881)</u> |
| NET POSITION - END OF YEAR | <u>\$ (17,113,678)</u> |

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2015**

| | |
|-----------------------------------------------------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Enrollment, Tuition and fees | \$ 54,559,257 |
| Federal grants and contracts | 39,441,012 |
| State grants and contracts | 21,985,476 |
| Local grants and contracts | 4,378,800 |
| Auxiliary operation sales | 8,030,235 |
| Payments to suppliers | (37,049,746) |
| Payments to/on-behalf of employees | (156,014,894) |
| Payments to/on-behalf of students | (37,116,114) |
| Payments from Trust and Agency Fund | <u>1,250,305</u> |
| Net cash used by operating activities | <u>(100,535,669)</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | |
| State apportionments and receipts | 87,078,367 |
| Property taxes | 19,467,000 |
| State taxes and other revenue | 6,038,163 |
| Grants and gifts for other than capital purposes | <u>2,658,282</u> |
| Net cash provided by non-capital financing activities | <u>115,241,812</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Local revenue for capital purposes | 3,352,814 |
| Tax revenue for payment of capital debt | 26,081,595 |
| Purchase of capital assets | (47,205,066) |
| Principal paid on capital debt | (11,548,891) |
| Federal funds (Build America Bond) subsidy | 1,433,559 |
| Interest paid on capital debt | (16,889,596) |
| Interest on capital investments | 3,037,886 |
| Proceeds from bond issuance | 155,095,753 |
| Principal paid for COP debt | <u>(1,415,000)</u> |
| Net cash used by capital and related financing activities | <u>111,943,054</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest on investments | <u>1,301,945</u> |
| Net cash provided by investing activities | <u>1,301,945</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 127,951,142 |
| CASH BALANCE - Beginning of Year | <u>178,503,752</u> |
| CASH BALANCE - End of Year | <u>\$ 306,454,894</u> |

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2015**

Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

| | |
|--------------------------------------------------------------------------------|-----------------------------------|
| Operating Loss | \$(116,409,736) |
| Adjustments to reconcile net loss to net cash used by operating activities: | |
| Depreciation expense | 6,926,305 |
| Changes in assets and liabilities: | |
| Receivables, net | (645,217) |
| Due from fiduciary funds | 740,661 |
| Inventories | (519,851) |
| Prepaid expenses and deposits | (49,458) |
| Deferred outflows | (1,925,200) |
| Accounts payable | (309,061) |
| Accrued liabilities | (1,562,955) |
| Due to fiduciary funds | (57,178) |
| Unearned revenue | 5,691,512 |
| Compensated absences | 158,867 |
| Deferred inflows | 32,902,497 |
| Net pension obligation | (30,746,535) |
| Other post-employment health care benefits | <u>5,269,680</u> |
| Net cash used by operating activities | <u><u>\$(100,535,669)</u></u> |
| Breakdown of ending cash balance: | |
| Cash and cash equivalents | \$ 39,006,647 |
| Restricted cash and cash equivalents | <u>267,448,247</u> |
| Total | <u><u>\$ 306,454,894</u></u> |

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2015

| | Trust and Agency Fund | Associated Student Body Fund | Scholarship Trust Fund |
|-----------------------------|----------------------------------|---------------------------------------------|-----------------------------------|
| ASSETS | | | |
| Cash on hand and in banks | \$ 13,541,819 | \$ 2,948,132 | \$ 7,644 |
| Accounts receivable: | | | |
| Miscellaneous | 164,327 | | 44 |
| Due from governmental funds | 285,801 | 233,124 | |
| Prepaid expenses | 47,493 | 462 | 7,500 |
| TOTAL ASSETS | 14,039,440 | 3,181,718 | 15,188 |
| LIABILITIES | | | |
| Accounts payable | 393,699 | 19,651 | |
| Due to governmental funds | 707,409 | 1,459 | |
| Funds held in trust | 12,938,331 | 2,946,136 | |
| TOTAL LIABILITIES | 14,039,440 | 2,967,246 | - |
| NET POSITION | | | |
| Unrestricted | | 214,472 | 15,188 |
| TOTAL NET POSITION | \$ - | \$ 214,472 | \$ 15,188 |

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Year Ended June 30, 2015

| | Associated Student Body Fund | Scholarship Trust Fund |
|-----------------------------------------|---------------------------------------------|-----------------------------------|
| ADDITIONS | | |
| Other local revenues | \$ 417,175 | \$ 110 |
| Transfer from governmental fund | | 30,000 |
| TOTAL ADDITIONS | 417,175 | 30,110 |
| DEDUCTIONS | | |
| Supplies and materials | 131,539 | |
| Services and other operating expenses | 264,664 | |
| Scholarships | | 30,000 |
| TOTAL DEDUCTIONS | 396,203 | 30,000 |
| Changes in net position | 20,972 | 110 |
| NET POSITION - BEGINNING OF YEAR | 193,500 | 15,078 |
| NET POSITION - END OF YEAR | \$ 214,472 | \$ 15,188 |

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. REPORTING ENTITY

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

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

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

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

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

A. REPORTING ENTITY (continued)

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

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

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

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

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

A. REPORTING ENTITY (continued)

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

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

B. FINANCIAL STATEMENT PRESENTATION

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

The District operates a payroll pass-through agency fund as a holding account for amounts collected from employees for Federal taxes, state taxes and other contributions. The District had cash in the County Treasury amounting to \$(524,354) on June 30, 2015, which represents advance payments of payroll deductions. The Warrant Pass-Through Fund is not reported in the basic financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

C. BASIS OF ACCOUNTING

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

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

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

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

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

C. BASIS OF ACCOUNTING (continued)

1. Cash and Cash Equivalents

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

2. Accounts Receivable

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

Accounts receivable from students for tuition and fees is recorded net of a provision for uncollectable amounts.

3. Inventories

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

C. BASIS OF ACCOUNTING (continued)

4. Prepaid Expenses and Deposits

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which goods or services are consumed.

5. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those amounts designated for acquisition or construction of non-current assets or that are segregated for the liquidation of long term debt.

6. Capital Assets

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

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

C. BASIS OF ACCOUNTING (continued)

7. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District has the following deferred outflows:

Deferred charge on refunding: A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred outflows – pension: Deferred outflows of resources related to pensions resulted from District contributions to employee pension plans subsequent to the measurement date of the actuarial valuations for the pension plans. Deferred outflows for pension contributions will be recognized as a reduction of the net pension liability in the subsequent fiscal year

8. Accounts Payable and Accrued Liabilities

Accounts payable consists of amounts due to vendors of \$15,239,723.
Accrued liabilities consist of salary and benefits payable of \$8,206,573.
Accrued interest includes accrued interest on long-term debt of \$6,733,154.

9. Unearned Revenue

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

C. BASIS OF ACCOUNTING (continued)

10. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability in the Statement of Net Position when incurred.

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

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

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

11. Long-Term Obligations

Premiums and discounts on general obligation bonds and certificates of participation are deferred and amortized over the life of the debt using the straight-line method. Long-term debt is reported net of the applicable premium or discount.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

C. BASIS OF ACCOUNTING (continued)

12. Net Pension Liability

For purposes of measuring the net 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) plans for school and safety (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.

13. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net assets by the District that is applicable to a future reporting period. The deferred inflows of resources result from the difference between the estimated and actual return on pension plan investments. This amount is deferred and amortized over 5 years.

14. Net Position

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

C. **BASIS OF ACCOUNTING** (continued)

14. Net Position (continued)

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

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

15. State Apportionments

Certain current year apportionments from the state are based upon various financial and statistical information of the previous year. Any prior year corrections due to the recalculation in February of the following fiscal year will be recorded in the year computed by the State.

16. Property Taxes

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

C. BASIS OF ACCOUNTING (continued)

17. Classification of Revenues

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

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

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as State apportionments, taxes, and other revenue sources that are defined as nonoperating revenues by GASB.

18. Scholarship Discounts and Allowances

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

C. BASIS OF ACCOUNTING (continued)

19. Estimates

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

20. Minimum Reserve Policy

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

NOTE 2 - DEPOSITS AND INVESTMENTS:

A. Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk, but all public funds are invested in bonds or government backed (collateralized) securities at 110% on the amount of deposit. The principal (face value) does not fluctuate, only the interest received on the investment. As of June 30, 2015, \$24,709,324 of the District's bank balance of \$24,959,324 was exposed to credit risk by being uninsured and collateral held by pledging bank's trust not in the District's name.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

A. Deposits (continued)

Cash in County

In accordance with the *Budget and Accounting Manual*, the District maintains substantially all of its cash in the Los Angeles County Treasury as part of the common investment pool. These pooled funds are carried at amortized cost which approximates fair value; the fair value is 99.89% at the carrying amount.

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

B. Cash in Bank Overdraft

The Bookstore Fund has a Cash in Bank overdraft balance of \$869,437 at June 30, 2015. The negative cash balance, in reality, is a loan from other funds. The Bookstore Fund is one of three funds kept in pooled bank accounts and at June 30, 2015 the pooled accounts had a positive balance of \$15,142,001.

NOTE 3 - ACCOUNTS RECEIVABLE:

The accounts receivable balance as of June 30, 2015 consist of the following:

| | |
|---------------------------------------------------------------------------------|--------------------|
| Federal and State Grants and Apportionments | \$4,018,166 |
| Tuition and other fees (net of allowance for doubtful accounts of \$709,293) | 700,008 |
| Miscellaneous | <u>4,185,103</u> |
| Total | <u>\$8,903,277</u> |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 4 - INTERFUND TRANSACTIONS:

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund receivables and payables result when an interfund transfer is transacted after the close of the fiscal year. Interfund activity within the governmental funds has been eliminated in the basic financial statements. The remaining individual interfund receivable and payment balances at June 30, 2015 are as follows:

| <u>Fund</u> | <u>Interfund Receivables</u> | <u>Interfund Payable</u> |
|--------------------------------------|----------------------------------|------------------------------|
| Governmental Funds (General Fund) | \$ 708,868 | \$ 518,925 |
| Trust and Agency Fund | 285,801 | 707,409 |
| Associated Student Body Fund | <u>233,124</u> | <u>1,459</u> |
| | <u>\$ 1,227,793</u> | <u>\$ 1,227,793</u> |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 5 – CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2015:

| | <u>Balance June 30, 2014</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2015</u> |
|------------------------------------|----------------------------------|----------------------|-----------------------|----------------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 60,986,212 | \$ | \$ | \$ 60,986,212 |
| Construction in progress | <u>79,975,277</u> | <u>49,920,275</u> | <u>(1,143,501)</u> | <u>128,752,051</u> |
| Total non-depreciated assets: | <u>140,961,489</u> | <u>49,920,275</u> | <u>(1,143,501)</u> | <u>189,738,263</u> |
| Depreciable assets: | | | | |
| Site and site improvements | 292,166,583 | 1,048,262 | | 293,214,845 |
| Equipment | <u>20,206,952</u> | <u>1,624,247</u> | <u>(108,942)</u> | <u>21,722,257</u> |
| Total depreciable assets: | <u>312,373,535</u> | <u>2,672,509</u> | <u>(108,942)</u> | <u>314,937,102</u> |
| Less accumulated depreciation for: | | | | |
| Site and site improvements | (77,685,480) | (5,634,063) | | (83,319,543) |
| Equipment | <u>(16,397,123)</u> | <u>(1,292,242)</u> | <u>108,942</u> | <u>(17,580,423)</u> |
| Total accumulated depreciation | <u>(94,082,603)</u> | <u>(6,926,305)</u> | <u>108,942</u> | <u>(100,899,966)</u> |
| Total depreciable assets, net | <u>218,290,932</u> | <u>(4,253,796)</u> | <u>-</u> | <u>214,037,136</u> |
| Governmental capital assets, net | <u>\$ 359,252,421</u> | <u>\$ 45,666,479</u> | <u>\$ (1,143,501)</u> | <u>\$ 403,775,399</u> |

Total interest costs for the year ended June 30, 2015 was \$17,334,848 of which \$2,438,239 was capitalized. Interest revenue used to offset capitalized interest was \$1,247,689.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 6 – LEASES:

A. Capital Lease

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

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|---------------------|---------------------|---------------------|
| 2016 | \$ 171,551 | \$ 233,380 | \$ 404,931 |
| 2017 | 198,709 | 225,108 | 423,817 |
| 2018 | 228,043 | 215,570 | 443,613 |
| 2019 | 259,696 | 204,664 | 464,360 |
| 2020 | 293,823 | 192,284 | 486,107 |
| 2021-2025 | 2,079,524 | 715,644 | 2,795,168 |
| 2026-2029 | 2,031,146 | 159,774 | 2,190,920 |
| Total | <u>\$ 5,262,492</u> | <u>\$ 1,946,424</u> | <u>\$ 7,208,916</u> |

Current year expenditures for capital lease is approximately \$418,000. The District will receive no sublease rental revenues nor pay any contingent rentals for these leases.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 6 – LEASES: (continued)

B. Operating Lease

The District has entered into an operating lease for land, building, and equipment with lease terms in excess of one year for the Madison Campus and the 14th Street warehouse project. These agreements do not contain a purchase option. Future minimum lease payments under these agreements are as follows.

| <u>Fiscal Year</u> | <u>Lease Payment</u> |
|--------------------|----------------------|
| 2016 | \$ 1,093,600 |
| 2017 | 1,093,600 |
| 2018 | 988,600 |
| 2019 | 883,600 |
| 2020 | 883,600 |
| 2021-2025 | 4,418,000 |
| 2026-2030 | 4,418,000 |
| 2031-2035 | 4,418,000 |
| 2036-2040 | 4,418,000 |
| 2041-2045 | 4,418,000 |
| 2046-2050 | 4,418,000 |
| 2051-2055 | 4,418,000 |
| 2056-2058 | <u>2,650,800</u> |
| Total | <u>\$ 38,519,800</u> |

Current year expenditures for operating leases is approximately \$1,094,000. The District will receive no sublease rental revenues nor pay any contingent rentals for these leases.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 - CERTIFICATES OF PARTICIPATION:

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

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

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)

- B. The agreement dated December 1, 2013, is between the Santa Monica Community College District as the “lessee” and the Los Angeles County Schools Regionalized Business Services Corporation as the “lessor” or “corporation”. The Corporation is a legally separate entity which was formed to assist in the advance refunding the 2004 Certificate of Participation.

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

Lease Payments – Lease payments are required to be made by the District under the lease agreement on February 1, and August 1 for use and possession of the capital improvements for the period commencing February 1, 2014 and terminating February 1, 2027. Lease payments will be funded in part from the proceeds of the Certificates.

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

The proceeds were placed into an irrevocable escrow account and was used to fund the future required principal and interest payments of the refunded COPs. The COPs have been retired.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)

The following summarizes the outstanding certificates of participations at June 30, 2015:

| <u>Date of Issue</u> | <u>Maturity Date</u> | <u>Outstanding June 30, 2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>Outstanding June 30, 2015</u> |
|--------------------------|--------------------------|--------------------------------------|------------------|---------------------|--------------------------------------|
| 2010 | 6/1/2023 | \$ 10,440,000 | \$ | \$ 970,000 | \$ 9,470,000 |
| 2013 | 2/1/2027 | 7,280,000 | | 445,000 | 6,835,000 |
| Premium | | 865,057 | | 97,084 | 767,973 |
| Total | | <u>\$ 18,585,057</u> | <u>\$ -</u> | <u>\$ 1,512,084</u> | <u>\$ 17,072,973</u> |

The annual requirement to amortize Certificates of Participation, outstanding as of June 30, 2015 are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Payments</u> |
|------------------------|----------------------|---------------------|---------------------------|
| 2016 | \$ 1,465,000 | \$ 694,920 | \$ 2,159,920 |
| 2017 | 1,530,000 | 637,890 | 2,167,890 |
| 2018 | 1,590,000 | 578,540 | 2,168,540 |
| 2019 | 1,655,000 | 505,950 | 2,160,950 |
| 2020 | 1,735,000 | 300,535 | 2,035,535 |
| 2021-2025 | 6,950,000 | 1,084,255 | 8,034,255 |
| 2026-2027 | 1,380,000 | 63,180 | 1,443,180 |
| Total | <u>\$ 16,305,000</u> | <u>\$ 3,865,270</u> | <u>\$ 20,170,270</u> |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 – BONDS PAYABLE:

A. Proposition T

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

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

2007 Refunding Series B bonds were issued on January 31, 2007 for \$15,589,854 of capital appreciation bonds. The bonds have been fully redeemed.

B. Measure U

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

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

Series B bonds were issued on May 13, 2004 for \$21,675,000 of current interest bonds and \$324,971 of capital appreciation bonds. Interest rates range from 3.0% to 5.0% payable semiannually on May 1 and November 1. Capital appreciation bonds were issued with maturity dates from May 1, 2027 through May 1, 2029. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long term debt at June 30, 2015 is \$1,792,707.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 – BONDS PAYABLE: (continued)

B. Measure U (continued)

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

Series A 2007 bonds were issued on January 31, 2007 for \$11,999,987 of capital appreciation bonds. Interest rates range from 4.20% to 4.74%. The bonds were issued with maturity dates from August 1, 2015 through August 1, 2031. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long term debt at June 30, 2015 is \$5,571,312.

Series E 2010 bonds were issued on January 26, 2010 for \$10,998,993 of capital appreciation bonds. Interest rates range from 3.92% to 5.7%. The bonds were issued with maturity dates from August 1, 2016 through August 1, 2026. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long-term debt at June 30, 2015 is \$3,149,262.

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 – BONDS PAYABLE: (continued)

B. Measure U (continued)

The proceeds associated with the refunding were deposited into an irrevocable escrow account for future repayments. The outstanding debt service of the defeased debt to be paid by the escrow agent of \$122,105,868 was paid off on August 3, 2015. The refunded bonds are considered in-substance defeased and are not recorded on the financial statements.

C. Measure S

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

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

Refunding Series C 2007 bonds were issued for \$15,660,000 of current interest bonds and \$24,404,768 of capital appreciation bonds. The interest rate ranges from 3.71% to 5.0% payable semiannually on August 1 and February 1. Capital appreciation bonds were issued with maturity dates from August 1, 2007 through August 1, 2014. The bonds have been fully redeemed.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 – BONDS PAYABLE: (continued)

C. Measure S (continued)

Series C bonds were issued on February 17, 2009 for \$30,885,000 of current interest bonds and \$26,112,857 capital appreciation bonds. Interest rate ranges from 1.77% to 4.39% payable semiannually on August 1 and February 1. Capital appreciation bonds were issued with maturity dates from August 1, 2012 through August 1, 2029. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long-term debt at June 30, 2015 is \$11,297,675.

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

The proceeds associated with the refunding were deposited into an irrevocable escrow account for future repayments. The outstanding debt service of the defeased debt that was paid by the escrow agent of \$23,349,500 was paid off in August 2014.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 – BONDS PAYABLE: (continued)

D. Measure AA

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

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

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

Series B and B-1 bonds were issued on November 13, 2014 for \$121,100,000 of current interest bonds and \$23,895,829 capital appreciation bonds. Interest rates range from 1.77% to 4.39% payable semiannually on August 1 and February 1.

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. Various bonds included premiums which are amortized using the straight-line method. Refer to the summary schedule on the next page for amortization amounts that were recognized during 2014-15.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 – BONDS PAYABLE: (continued)

Payments

The following summarizes the outstanding bonds at June 30, 2015:

| | <u>Date of Issue</u> | <u>Maturity Date</u> | <u>Amount of Original Issue</u> | <u>Outstanding June 30, 2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>Outstanding June 30, 2015</u> |
|-----------------------------------|--------------------------|--------------------------|-----------------------------------------|--------------------------------------|-----------------------|----------------------|--------------------------------------|
| Proposition T | | | | | | | |
| Refunding Series B | 1/31/2007 | 8/1/2014 | \$ 15,589,854 | \$ 1,131,314 | \$ | \$ 1,131,314 | \$ - |
| Measure U (2002 Election) | | | | | | | |
| Series B | 5/13/2004 | 5/1/2029 | 21,999,971 | 324,971 | | | 324,971 |
| Series A | 1/31/2007 | 8/1/2031 | 11,999,987 | 11,999,987 | | | 11,999,987 |
| Series E | 1/26/2010 | 8/1/2026 | 10,998,993 | 10,998,993 | | | 10,998,993 |
| Refunding Series A | 6/5/2013 | 8/1/2030 | 108,405,000 | 107,595,000 | | 2,115,000 | 105,480,000 |
| Subtotal | | | <u>153,403,951</u> | <u>130,918,951</u> | <u>-</u> | <u>2,115,000</u> | <u>128,803,951</u> |
| Measure S (2004 Election) | | | | | | | |
| Series A | 5/1/2005 | 5/1/2015 | 58,000,000 | 1,815,000 | | 1,815,000 | - |
| Series C | 2/17/2009 | 8/1/2029 | 56,997,857 | 56,627,857 | | 360,000 | 56,267,857 |
| Refunding Series B | 6/5/2013 | 8/1/2019 | 23,450,000 | 23,450,000 | | 4,295,000 | 19,155,000 |
| Subtotal | | | <u>138,447,857</u> | <u>81,892,857</u> | <u>-</u> | <u>6,470,000</u> | <u>75,422,857</u> |
| Measure AA (2008 Election) | | | | | | | |
| Series A | 1/26/2010 | 8/1/2023 | 33,135,000 | 24,295,000 | | 1,650,000 | 22,645,000 |
| Series A-1 | 1/26/2010 | 8/1/2034 | 66,865,000 | 66,865,000 | | | 66,865,000 |
| Series B | 11/13/2014 | 8/1/2044 | 121,100,000 | | 121,100,000 | | 121,100,000 |
| Series B-1 | 11/13/2014 | 8/1/2044 | 23,895,829 | | 23,895,829 | | 23,895,829 |
| Subtotal | | | <u>244,995,829</u> | <u>91,160,000</u> | <u>144,995,829</u> | <u>1,650,000</u> | <u>234,505,829</u> |
| Unamortized Bond Premiums | | | | | | | |
| Measure U | | | 15,242,152 | 12,980,746 | | 811,297 | 12,169,449 |
| Measure S | | | 14,472,774 | 2,290,421 | | 136,741 | 2,153,680 |
| Measure AA | | | 14,434,850 | 3,001,102 | 10,099,924 | 670,120 | 12,430,906 |
| Subtotal | | | <u>44,149,776</u> | <u>18,272,269</u> | <u>10,099,924</u> | <u>1,618,158</u> | <u>26,754,035</u> |
| | | | <u>\$ 596,587,267</u> | <u>\$ 323,375,391</u> | <u>\$ 155,095,753</u> | <u>\$ 12,984,472</u> | <u>\$ 465,486,672</u> |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 – BONDS PAYABLE: (continued)

Payments – Measure U

The annual requirements to amortize Measure U bond payable, outstanding as of June 30, 2015, are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Accreted Interest</u> | <u>Total</u> |
|--------------------|-----------------------|----------------------|------------------------------|-----------------------|
| 2016 | \$ 4,229,128 | \$ 4,644,250 | \$ 730,872 | \$ 9,604,250 |
| 2017 | 5,038,586 | 4,568,150 | 656,414 | 10,263,150 |
| 2018 | 5,454,292 | 4,441,700 | 800,708 | 10,696,700 |
| 2019 | 5,881,384 | 4,285,500 | 948,616 | 11,115,500 |
| 2020 | 6,324,834 | 4,089,725 | 1,115,166 | 11,529,725 |
| 2021-2025 | 39,762,547 | 16,487,550 | 8,517,453 | 64,767,550 |
| 2026-2030 | 49,474,497 | 7,334,325 | 11,590,503 | 68,399,325 |
| 2031-2032 | 12,638,683 | 238,900 | 2,071,317 | 14,948,900 |
| Total | <u>\$ 128,803,951</u> | <u>\$ 46,090,100</u> | <u>\$ 26,431,049</u> | <u>\$ 201,325,100</u> |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 – BONDS PAYABLE: (continued)

Payments – Measure S

The annual requirements to amortize Measure S bond payable, outstanding as of June 30, 2015, are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Accreted Interest Component</u> | <u>Total</u> |
|--------------------|----------------------|---------------------|--------------------------------------------|-----------------------|
| 2016 | \$ 5,170,000 | \$ 1,778,427 | \$ | \$ 6,948,427 |
| 2017 | 7,400,000 | 1,687,930 | | 9,087,930 |
| 2018 | 6,935,000 | 1,513,515 | | 8,448,515 |
| 2019 | 7,360,000 | 1,264,603 | | 8,624,603 |
| 2020 | 6,045,000 | 995,321 | | 7,040,321 |
| 2021-2025 | 24,353,806 | 1,353,713 | 11,141,194 | 36,848,713 |
| 2026-2030 | 18,159,051 | | 39,665,949 | 57,825,000 |
| Total | <u>\$ 75,422,857</u> | <u>\$ 8,593,509</u> | <u>\$ 50,807,143</u> | <u>\$ 134,823,509</u> |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 – BONDS PAYABLE: (continued)

Payments – Measure AA

The annual requirements to amortize Measure AA bond payable, outstanding as of June 30, 2015, are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|-----------------------|-----------------------|-----------------------|
| 2016 | \$ 5,600,000 | \$ 9,774,674 | \$ 15,374,674 |
| 2017 | 6,205,000 | 10,327,420 | 16,532,420 |
| 2018 | 2,920,000 | 10,171,045 | 13,091,045 |
| 2019 | 2,405,000 | 10,047,020 | 12,452,020 |
| 2020 | 2,480,000 | 9,925,995 | 12,405,995 |
| 2021-2025 | 22,055,000 | 46,900,331 | 68,955,331 |
| 2026-2030 | 42,154,668 | 40,588,323 | 82,742,991 |
| 2031-2035 | 70,075,179 | 31,158,812 | 101,233,991 |
| 2036-2040 | 16,610,982 | 42,009,041 | 58,620,023 |
| 2041-2045 | 64,000,000 | 7,241,000 | 71,241,000 |
| Total | <u>\$ 234,505,829</u> | <u>\$ 218,143,661</u> | <u>\$ 452,649,490</u> |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 9 – LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2015 is shown below:

| | Balance June 30, 2014* | Additions | Deletions | Balance June 30, 2015 | Amount Due in One Year |
|-----------------------------------------------|---------------------------|-----------------------|----------------------|--------------------------|------------------------------|
| Compensated absences | \$ 7,837,131 | \$ 158,867 | \$ | \$ 7,995,998 | \$ 781,273 |
| Other post-employment health care benefits | 36,528,461 | 5,269,680 | | 41,798,141 | |
| Capital lease | 5,453,768 | | 191,276 | 5,262,492 | 171,551 |
| Certificates of participation | 18,585,057 | | 1,512,084 | 17,072,973 | 1,465,000 |
| General obligation bonds | 323,375,391 | 155,095,753 | 12,984,472 | 465,486,672 | 14,999,128 |
| Accreted interest | 18,773,070 | 3,951,572 | 913,686 | 21,810,956 | |
| Net Pension Liability | 148,986,665 | | 30,746,535 | 118,240,130 | |
| Total | \$ 559,539,543 | \$ 164,475,872 | \$ 46,348,053 | \$ 677,667,362 | \$ 17,416,952 |

* Prior year amounts have been adjusted due to the implementation of GASB Statements No. 68 and No. 71. See Note 15.

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

NOTE 10 - EMPLOYEE RETIREMENT PLANS:

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

As of June 30, 2015, the District implemented GASB Statements No. 68 and No. 71, and as a result, reported its proportionate share of the net pension liabilities, pension expense deferred inflows of resources, and deferred outflows of resources for each of the retirement plans as follows:

| <u>Pension Plan</u> | <u>Proportionate Share of Net Pension Liability</u> | <u>Deferred Outflows of Resources</u> | <u>Proportionate Share of Deferred Inflows of Resources</u> | <u>Proportionate Share of Pension Expense</u> |
|-----------------------------|-----------------------------------------------------|---------------------------------------|-------------------------------------------------------------|-----------------------------------------------|
| CalSTRS (STRP) | \$ 78,305,580 | \$ 5,472,236 | \$ 19,282,600 | \$ 6,467,820 |
| CalPERS (Safety Plan) | 2,448,810 | 301,157 | 739,377 | 249,092 |
| CalPERS (Schools Pool Plan) | <u>37,485,740</u> | <u>4,734,921</u> | <u>12,880,520</u> | <u>3,585,212</u> |
| Totals | <u>\$ 118,240,130</u> | <u>\$ 10,508,314</u> | <u>\$ 32,902,497</u> | <u>\$ 10,302,124</u> |

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 the California State Teachers' Retirement System (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. The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

California State Teachers' Retirement System (CalSTRS) (continued)

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. 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.

Defined Benefit and Supplement Programs - 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. Membership in the Defined Benefit Program is mandatory for all employees meeting certain statutory requirements and optional for all other employees performing creditable service. All members of the Defined Benefit Program who make contributions to CalSTRS on creditable compensation earned on or after January 1, 2001, have an account under the Defined Benefit Supplement Program and are eligible to receive a benefit based on the amount of funds contributed to the Defined Benefit Supplemental account. Membership in the Defined Benefit Supplement Program is mandatory.

Cash Balance Benefit Program – The Cash Balance Benefit Program is designed for employees who are hired to perform creditable service for less than 50 percent of the full-time equivalent for the position. Participation in the Cash Balance Benefit Program is optional.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

California State Teachers' Retirement System (CalSTRS) (continued)

Benefits Provided (continued)

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

| | <u>Defined Benefit and Supplement Programs</u> | | <u>Cash Balance Benefit Program</u> |
|-----------------------------------------------------------|------------------------------------------------|--------------------|-------------------------------------------------------|
| | On or Before | On or after | |
| Hire date | December 31, 2012 | January 1, 2013 | N/A |
| Benefit formula | 2% at 60 | 2% at 62 | Cash Balance |
| Benefit vesting schedule | 5 years of service | 5 years of service | Immediate vesting |
| Benefit payments | Monthly for life | Monthly for life | Lump sum or annuity option (accounts over \$3,500) |
| Retirement age | 60 | 62 | 55 |
| Monthly benefits as a percentage of eligible compensation | 2.0% - 2.4% | 2.0% - 2.4% | N/A |
| Required employee contribution rate | 8.15% | 8.15% | 4.00% |
| Required employer contribution rate | 8.88% | 8.88% | 4.00% |
| Required state contribution rate | 5.95% | 5.95% | N/A |

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 contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. The contribution rates for each plan for the year ended June 30, 2015 are presented above and the total District contributions of \$5,472,236.

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

At June 30, 2015, 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:

| | |
|---------------------------------------------------------------------------------------|-----------------------|
| District proportionate share of net pension liability | \$ 78,305,580 |
| State's proportionate share of the net pension liability associated with the District | <u>44,461,794</u> |
| Total | <u>\$ 122,767,374</u> |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

California State Teachers' Retirement System (CalSTRS) (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The net pension liability was measured as of June 30, 2014. 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 and the State, actuarially determined. At June 30, 2014, the District's proportion was 0.1260% for STRP and .0080% for the Cash Balance Plan.

For the year ended June 30, 2015, the District recognized pension expense of \$6,467,820 and revenue of \$3,838,488 for support provided by the State. At June 30, 2015, 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 | \$ 5,472,236 | \$ |
| Net differences between projected and actual earnings on plan investments | | 19,282,600 |
| Total | \$ 5,472,236 | \$ 19,282,600 |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

California State Teachers' Retirement System (CalSTRS) (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

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 year ended June 30, 2016. The deferred inflows of resources are amortized over a closed 5-year period, beginning in the current fiscal year, and will be recognized as a reduction to pension expense as follows:

| Year Ended June 30 | Amortization |
|-----------------------|----------------------|
| 2016 | \$ 4,820,650 |
| 2017 | 4,820,650 |
| 2018 | 4,820,650 |
| 2019 | 4,820,650 |
| | <u>\$ 19,282,600</u> |

Actuarial Methods and Assumptions

Total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013 used the following methods and assumptions, applied to all prior periods included in the measurement:

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

California State Teachers' Retirement System (CalSTRS) (continued)

Actuarial Methods and Assumptions (continued)

| | |
|---------------------------|------------------------------------|
| Valuation date | June 30, 2013 |
| Measurement date | June 30, 2014 |
| Experience study | July 1, 2006 through June 30, 2010 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.60% |
| Investment rate of return | 7.60% |
| Consumer price inflation | 3.00% |
| Wage growth | 3.75% |

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

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

California State Teachers' Retirement System (CalSTRS) (continued)

Discount Rate

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

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

| <u>Discount rate</u> | <u>Net Pension Liability</u> |
|-------------------------------|----------------------------------|
| 1% decrease (6.60%) | \$ 122,057,920 |
| Current discount rate (7.60%) | 78,305,580 |
| 1% increase (8.60%) | 41,824,080 |

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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

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 the California Public Employees' Retirement System (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. Individual employers may sponsor more than one Miscellaneous or Safety plan. 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 5 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 5 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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

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

Benefits Provided (continued)

The Plan provisions and benefits in effect at June 30, 2015, are summarized as follows:

| | <u>CalPERS - Safety Plan</u> |
|-----------------------------------------------------------|------------------------------|
| Benefit formula | 3% at 55 |
| Benefit vesting schedule | 5 years of service |
| Benefit payments | Monthly for life |
| Retirement age | 55 |
| Monthly benefits as a percentage of eligible compensation | 2.4% - 3.0% |
| Required employee contribution rate | 9.000% |
| Required employer contribution rate | 23.065% |

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 the 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 contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015 are presented above and the total District contributions were \$301,157.

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the Safety Risk Pool net pension liability totaling \$2,448,810. The net pension liability was measured as of June 30, 2014. 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. At June 30, 2014, the District's proportion was 0.03935%.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2015, the District recognized pension expense of \$249,092. At June 30, 2015, the Foundation 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 | \$ 301,157 | \$ |
| Net differences between projected and actual earnings on plan investments | | 739,377 |
| Total | \$ 301,157 | \$ 739,377 |

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 year ended June 30, 2016. The deferred inflows of resources will be amortized over a closed period of 5 years and will be recognized as a reduction to pension expense as follows:

| Year Ended June 30 | Amortization |
|-----------------------|--------------|
| 2016 | \$ 184,844 |
| 2017 | 184,844 |
| 2018 | 184,844 |
| 2019 | 184,845 |
| | \$ 739,377 |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

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

Actuarial Methods and Assumptions

Total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013 used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---------------------------|------------------------------------|
| Valuation date | June 30, 2013 |
| Measurement date | June 30, 2014 |
| Experience study | July 1, 1997 through June 30, 2011 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.50% |
| Investment rate of return | 7.50% |
| Consumer price inflation | 2.75% |
| Wage growth | Varies by entry age and service |

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for the Plan. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

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

Actuarial Methods and Assumptions (continued)

The target allocation and best estimates of long-term expected real rate of return by asset class are summarized in the following table:

| Asset Class | Assumed Asset Allocation | Long-term Expected Real Rate of Return |
|-------------------------------|-----------------------------|----------------------------------------------|
| Global equity | 47% | 5.25% |
| Global fixed income | 19% | 0.99% |
| Private equity | 12% | 6.83% |
| Real estate | 11% | 4.50% |
| Inflation sensitive | 6% | 0.45% |
| Infrastructure and Forestland | 3% | 4.50% |
| Liquidity | 2% | -0.55% |

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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 (6.50%) | \$ 4,214,085 |
| Current discount rate (7.50%) | 2,448,810 |
| 1% increase (8.50%) | 994,300 |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

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

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.

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

Plan Description

Qualified employees are eligible to participate in the Schools Pool Plan under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

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 5 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 5 years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

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

Benefits Provided (continued)

The CalPERS provisions and benefits in effect at June 30, 2015, are summarized as follows:

| | <u>CalPERS - Schools Pool Plan</u> | |
|-----------------------------------------------------------|------------------------------------|--------------------|
| | <u>On or Before</u> | <u>On or after</u> |
| 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 | 6.974% | 6.000% |
| Required employer contribution rate | 11.771% | 11.771% |

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 the 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 contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015 are presented above and the total District contributions were \$3,999,787.

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$37,485,740. The net pension liability was measured as of June 30, 2014. 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. At June 30, 2014, the District's proportion was 0.3302%.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

California Public Employees Retirement System (CalPERS) - Schools Pool Plan
(continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2015, the District recognized pension expense of \$3,585,212. At June 30, 2015, 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 | \$ 3,999,787 | \$ |
| Changes in proportion | 735,134 | |
| Net differences between projected and actual earnings on plan investments | | 12,880,520 |
| Total | \$ 4,734,921 | \$ 12,880,520 |

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 year ended June 30, 2016. The deferred outflows of resources related to changes in proportion and deferred inflows of resources will be amortized over a closed periods ranging from 3.9 to 5 years beginning in the current fiscal year, and will be recognized as a reduction to pension expense as follows:

| Year Ended June 30 | Amortization |
|-----------------------|---------------|
| 2016 | \$ 2,966,635 |
| 2017 | 2,966,635 |
| 2018 | 2,991,986 |
| 2019 | 3,220,130 |
| | \$ 12,145,386 |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

California Public Employees Retirement System (CalPERS) - Schools Pool Plan
(continued)

Actuarial Methods and Assumptions

Total pension liability for the School Employer Pool was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013 used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---------------------------|------------------------------------|
| Valuation date | June 30, 2013 |
| Measurement date | June 30, 2014 |
| Experience study | July 1, 1997 through June 30, 2011 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.50% |
| Investment rate of return | 7.50% |
| Consumer price inflation | 2.75% |
| Wage growth | 3.00% |

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

California Public Employees Retirement System (CalPERS) - Schools Pool Plan
(continued)

Actuarial Methods and Assumptions (continued)

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 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Assumed Asset Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|-------------------------------|-------------------------------------|-------------------------------------------------------|
| Global equity | 47% | 5.25% |
| Global fixed income | 19% | 0.99% |
| Private equity | 12% | 6.83% |
| Real estate | 11% | 4.50% |
| Inflation sensitive | 6% | 0.45% |
| Infrastructure and Forestland | 3% | 4.50% |
| Liquidity | 2% | -0.55% |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

California Public Employees Retirement System (CalPERS) - Schools Pool Plan
(continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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:

| <u>Discount rate</u> | <u>Net Pension Liability</u> |
|-------------------------------|------------------------------|
| 1% decrease (6.50%) | \$ 65,758,545 |
| Current discount rate (7.50%) | 37,485,740 |
| 1% increase (8.50%) | 13,860,961 |

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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 11 – POST-EMPLOYMENT HEALTH CARE BENEFITS:

Plan Description and Funding Policy

The District administers a single-employer defined benefit plan for retiree healthcare benefits. The District provides post-employment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. The District contributes 100% of the amount of premiums, for medical, dental and vision benefits, incurred by retirees and their dependents up to the age of 65. For all retirees above the age of 65, medical benefits are paid, not-to-exceed a maximum amount determined by the District, for life. 391 retirees meet those eligibility requirements. The plan is funded on a pay-as-you go basis with discretionary contributions made to an irrevocable trust as determined by the Board of Trustees. During the year, the District contributed \$3,747,964 to the plan. Benefit provisions are established through negotiations between the District and the bargaining Unions representing employees. Separate financial statements for the plan can be obtained from CalPERS.

Annual OPEB Cost and Net OPEB Obligation

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

| | |
|--------------------------------------------|-----------------------------|
| Annual required contribution (ARC) | \$ 8,999,025 |
| Interest on net OPEB obligation | 2,038,500 |
| Adjustment to annual required contribution | <u>(2,019,881)</u> |
| Annual OPEB cost (expense) | 9,017,644 |
| Contributions made | <u>(3,747,964)</u> |
| Change in net OPEB obligation | 5,269,680 |
| Net OPEB obligation - Beginning of Year | <u>36,528,461</u> |
| Net OPEB obligation - End of Year | <u><u>\$ 41,798,141</u></u> |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 11 – POST-EMPLOYMENT HEALTH CARE BENEFITS: (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

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

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|------------------------------|-----------------------------|-----------------------------------------------------------|--------------------------------|
| 6/30/2013 | \$8,170,393 | 32.7% | \$31,221,850 |
| 6/30/2014 | 8,486,524 | 37.5% | 36,528,461 |
| 6/30/2015 | 9,017,644 | 41.6% | 41,798,141 |

Funding Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the plan was 4.2% funded. The actuarial accrued liability for benefits is \$92,553,859 and the unfunded actuarial accrued liability (UAAL) was \$88,636,033. The covered payroll (annual payroll of active employees covered by the plan) was \$71,591,175, and the ratio of the UAAL to the covered payroll was 123.8%.

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 11 – POST-EMPLOYMENT HEALTH CARE BENEFITS: (continued)

Actuarial Methods and Assumptions

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

In the July 1, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 6.5 percent investment rate of return (net of administrative expenses) using the “Building Block Method” as described in ASOP 27 paragraph 3.6.2, and an annual healthcare cost trend rate of 4 percent. Both rates included a 2.75 percent inflation assumption. The actuarial value of assets was determined using a 5 year smoothing formula with a 20 percent corridor around market value. The UAAL is being amortized as a level percent, closed 30 year amortization. Any residual UAAL is amortized over an open 25 year period.

NOTE 12 - JOINT POWERS AGREEMENT:

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 12 - JOINT POWERS AGREEMENT: (continued)

SCCCD JPA provides workers' compensation and retiree health insurance coverage for its seven member districts. Payments transferred to funds maintained under the JPA are expensed when earned. SCCCDC 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.

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

| | ASCIP 6/30/2015 <u>(Unaudited)</u> | SCCCDC-JPA Worker's Compensation 6/30/15 <u>(Audited)</u> | SCCCDC-JPA Retiree Health 6/30/15 <u>(Audited)</u> | SWACC 6/30/2015 <u>(Unaudited)</u> |
|-----------------------------|------------------------------------------|-----------------------------------------------------------------------|-------------------------------------------------------------|------------------------------------------|
| Total assets | \$ 370,258,738 | \$ 17,486,672 | \$ 16,476,050 | \$ 53,936,821 |
| Total liabilities | <u>212,434,841</u> | <u>693,317</u> | <u>-</u> | <u>23,420,128</u> |
| Retained earnings | <u>\$ 157,823,897</u> | <u>\$ 16,793,355</u> | <u>\$ 16,476,050</u> | <u>\$ 30,516,693</u> |
| Total revenues | \$ 228,708,268 | \$ 8,855,790 | \$ (7,961,363)* | \$ 18,085,402 |
| Total expenditures | <u>216,333,100</u> | <u>8,435,764</u> | <u>1,500</u> | <u>18,077,751</u> |
| Change in retained earnings | <u>\$ 12,375,168</u> | <u>\$ 420,026</u> | <u>\$ (7,962,863)</u> | <u>\$ 7,651</u> |

*Revenue is shown net of withdrawals

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 13 – FUNCTIONAL EXPENSE:

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

| | Salaries | Benefits | Supplies, Other Expenses, and Utilities | Financial Aid | Depreciation | Total |
|-------------------------------------------|-----------------------|----------------------|-----------------------------------------------|----------------------|---------------------|-----------------------|
| Instructional Activities | \$ 57,716,673 | \$ 18,339,200 | \$ 870,762 | \$ | \$ | \$ 76,926,635 |
| Academic Support | 11,304,232 | 4,091,254 | 735,379 | | | 16,130,865 |
| Student Services | 21,543,503 | 6,929,401 | 7,915,772 | | | 36,388,676 |
| Operation & Maintenance of Plant | 4,782,222 | 2,569,407 | 1,402,740 | | | 8,754,369 |
| Institutional Support Services | 14,321,507 | 8,764,438 | 3,639,143 | | | 26,725,088 |
| Community Services & Economic Development | 1,312,306 | 426,970 | 116,622 | | | 1,855,898 |
| Ancillary Services & Auxiliary Operations | 5,612,419 | 2,007,234 | 1,631,604 | | | 9,251,257 |
| Physical Property & Related Acquisitions | 283,764 | 106,718 | 19,997,695 | | | 20,388,177 |
| Student Financial Aid | | | | 37,116,114 | | 37,116,114 |
| Depreciation Expense | | | | | 6,926,305 | 6,926,305 |
| | <u>\$ 116,876,626</u> | <u>\$ 43,234,622</u> | <u>\$ 36,309,717</u> | <u>\$ 37,116,114</u> | <u>\$ 6,926,305</u> | <u>\$ 240,463,384</u> |

NOTE 14 – COMMITMENTS AND CONTINGENCIES:

A. State and Federal Allowances, Awards and Grants

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

B. Litigation

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

C. Purchase Commitments

As of June 30, 2015, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$83.6 million. Projects will be funded through bond proceeds, State capital outlay funds and State scheduled maintenance allocations.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**NOTE 15 – CUMULATIVE EFFECT OF ACCOUNTING CHANGES AND
RESTATEMENT TO BEGINNING NET POSITION:**

The beginning net position of the government-wide financial statements has been decreased by \$140,403,552 to recognize the beginning balance of the net pension liability of \$148,986,665 and deferred outflows of resources of \$8,583,113 resulting from the implementation of GASB Statements No. 68 and No. 71.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2015, that have effective dates that may impact future financial presentations; however, the impact of the implementation of each of the statements below to the District's financial statements has not been assessed at this time.

Statement No. 72 - Fair Value Measurement and Application

This statement was issued in February 2015 and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements by establishing a hierarchy of inputs to valuation techniques used to measure fair value. The statement is effective for the fiscal year 2015-16.

Statement No. 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68

This statement was issued in June 2015 and extends the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. The object is to provide information about financial support provided by certain non-employer entities for pensions that are provided to the employees of other entities and that are not within the scope of Statement No. 68 and to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. The statement is effective for the fiscal year 2015-16 except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the fiscal year 2016-17.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

Statement No. 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

This statement was issued in June 2015 and establishes standards of financial reporting for defined benefit OPEB plans and defined contribution OPEB plans. This statement is closely related in some areas to Statement No. 75. The statement is effective for the fiscal year 2016-17.

Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

This statement was issued in June 2015 and establishes standards for governmental employer recognition, measurement, and presentation of information about OPEB. The statement also establishes requirements for reporting information about financial support provided by certain non-employer entities for OPEB that is provided to the employees of other entities. This statement is closely related in some areas to Statement No. 74. The statement is effective for the fiscal year 2017-18.

GASB Statement No. 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

This statement was issued in June 2015 and reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The statement is effective for the fiscal year 2015-16.

REQUIRED SUPPLEMENTARY INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF POST-EMPLOYMENT HEALTH CARE BENEFITS FUNDING PROGRESS

For the Fiscal Year Ended June 30, 2015

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (AVA)</u> | <u>Actuarial Accrued Liability (Unit Cost Method) (AAL)</u> | <u>Unfunded Actuarial Accrued Liability (UAAL)</u> | <u>Funding Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|-------------------------------------|----------------------------------------------------|-------------------------------------------------------------------------|------------------------------------------------------------|--------------------------|----------------------------|--------------------------------------------------------|
| 6/30/2011 | \$ 1,787,488 | \$ 88,692,776 | \$ 86,905,288 | 2.0% | \$ 66,153,965 | 131.4% |
| 7/1/2013 | 2,076,123 | 89,242,676 | 87,166,553 | 2.3% | 68,311,598 | 127.6% |
| 7/1/2015 | 3,917,826 * | 92,553,859 | 88,636,033 | 4.2% | 71,591,175 | 123.8% |

* The District maintains investments in an irrevocable trust. The fair value of the trust assets as of June 30, 2015 is \$4,345,509.

Note: On September 3, 2013, the District's Board of Trustees approved a plan to fund the District's OPEB obligations. The plan calls for an initial contribution of \$500,000 and an additional \$500,000 each succeeding year for eight years, at which time the ARC is projected to be met. This plan projects full funding of the total OPEB liability by year 2033. For 2014-15, the District made a contribution of \$1,000,000 to the irrevocable trust.

See the accompanying notes to the required supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY –
CALSTRS – STATE TEACHERS' RETIREMENT PLAN
For the Fiscal Year Ended June 30, 2015**

| | 2015 |
|-------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| District's proportion of the net pension liability (assets) - STRP | 0.1260% |
| District's proportion of the net pension liability (assets) - cash balance | 0.0080% |
| District's proportionate share of the net pension liability (asset) - STRP and cash balance combined | \$ 78,305,580 |
| State's proportionate share of the net pension liability (asset) associated with the District | <u>44,461,794</u> |
| Total | <u><u>\$122,767,374</u></u> |
| | |
| District's covered-employee payroll reported as of the period fiscal year to align with the measurement date at the net pension liability | \$ 58,100,000 |
| | |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 134.78% |
| | |
| Plan fiduciary net position as a percentage of the total pension liability | 77.00% |

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY –
CALPERS - SAFETY PLAN AND SCHOOLS POOL PLAN
For the Fiscal Year Ended June 30, 2015**

| | <u>Safety Plan 2015</u> | <u>Schools Pool Plan 2015</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|---------------------------------------|
| District's proportion of the net pension liability (assets) | 0.0394% | 0.3302% |
| District's proportionate share of the net pension liability (asset) | <u>\$2,448,810</u> | <u>\$37,485,740</u> |
| District's covered-employee payroll reported as of the period fiscal year to align with the measurement date at the net pension liability | \$1,109,427 | \$35,000,000 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 220.73% | 107.10% |
| Plan fiduciary net position as a percentage of the total pension liability | 81.42% | 83.37% |

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS -
CALSTRS – STATE TEACHERS’ RETIREMENT PLAN
For the Fiscal Year Ended June 30, 2015

| | 2015 |
|----------------------------------------------------------------------|---------------|
| Contractually required contribution | \$ 5,472,236 |
| Contributions in relation to the contractually required contribution | 5,472,236 |
| Contribution deficiency (excess) | \$ - |
| District's covered-employee payroll | \$ 61,600,000 |
| Contributions as a percentage of covered-employee payroll | 8.88% |

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS –
CALPERS - SAFETY PLAN AND SCHOOLS POOL PLAN
For the Fiscal Year Ended June 30, 2015

| | Safety Plan 2015 | Schools Pool Plan 2015 |
|-------------------------------------------------------------------------|-----------------------------|---------------------------------------|
| Contractually required contribution | \$ 301,157 | \$ 3,999,787 |
| Contributions in relation to the contractually required contribution | 301,157 | 3,999,787 |
| Contribution deficiency (excess) | \$ - | \$ - |
| District's covered-employee payroll | \$ 7,528,925 | \$ 33,980,010 |
| Contributions as a percentage of covered- employee payroll | 4.000% | 11.771% |

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information

SANTA MONICA COMMUNITY COLLEGE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2015

NOTE 1 - PURPOSE OF SCHEDULE:

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

The schedule is intended to show trends about the funding progress of the District's actuarially determined liability for post-employment benefits other than pensions.

B. Schedules of the District's Proportionate Share of the Net Pension Liability – CalSTRS - STRP and CalPERS – Safety Plan and Schools Pool Plan

The schedule presents information on the District's proportionate share of the net pension liability, the plans' fiduciary net position and, when applicable, the State's proportionate share of the net pension liability associated with the District. In the future, as data becomes available, 10 years of information will be presented.

C. Schedules of District Contributions – CalSTRS - STRP and CalPERS – Safety Plan and School Pool Plan

The 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, 10 years of information will be presented.

SUPPLEMENTARY INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT

HISTORY AND ORGANIZATION

June 30, 2015

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

BOARD OF TRUSTEES

| <u>Member</u> | <u>Office</u> | <u>Term Expires</u> |
|-----------------------------|-----------------|---------------------|
| Rob Rader | Chair | November 2016 |
| Dr. Louise Jaffe | Vice Chair | November 2018 |
| Dr. Margaret Quinones-Perez | Member | November 2016 |
| Dr. Nancy Greenstein | Member | November 2018 |
| Dr. Susan Aminoff | Member | November 2016 |
| Barry Snell | Member | November 2018 |
| Dr. Andrew Walzer | Member | November 2018 |
| Jonathan Eady | Student Trustee | June 2016 |

SENIOR ADMINISTRATION

| | |
|--------------------|------------------------------------------------------------------------|
| Dr. Chui L. Tsang | Superintendent/ President |
| Jeffery Shimizu | Interim Executive Vice President |
| Robert Isomoto | Vice-President, Business and Administration |
| Georgia Lorenz | Vice President, Academic Affairs |
| Michael Tuitasi | Vice President, Student Affairs |
| Teresita Rodriguez | Vice President, Enrollment Development |
| Marcia Wade | Vice President, Human Resources |
| Don Girard | Senior Director, Government Relations and Institutional Communications |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2015

| | <u>Federal Catalog Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Total Program Expenditures as of June 30, 2015</u> |
|------------------------------------------------------------------------|-----------------------------------|---------------------------------------------------|---------------------------------------------------------------|
| Student Financial Aid Cluster | | | |
| Direct from Department of Education: | | | |
| Financial Aid Administrative Allowances | 84.000 | N/A | \$ 118,373 |
| Supplemental Education Opportunity Grant (SEOG) | 84.007 | N/A | 382,650 |
| Federal Work Study (FWS) | 84.033 | N/A | 487,724 |
| Federal Direct Student Loan | 84.268 | N/A | 2,523,491 |
| Pell Grant | 84.063 | N/A | <u>31,305,933</u> |
| Total Student Financial Aid Cluster | | | <u>34,818,171</u> |
| | | | |
| TRIO Cluster | | | |
| Direct from Department of Education: | | | |
| Student Support Services | 84.042 | N/A | 249,030 |
| Upward Bound | 84.047A | N/A | <u>223,524</u> |
| Total Trio Cluster | | | <u>472,554</u> |
| | | | |
| Department of Commerce | | | |
| Direct: | | | |
| Corporation for Public Broadcasting | 11.000 | N/A | <u>1,120,677</u> |
| Total Department of Commerce | | | <u>1,120,677</u> |
| | | | |
| Department of Education | | | |
| Direct: | | | |
| Hispanic - Serving Institution Program (H.S.I.): | | | |
| Science, Technology, Engineering and Mathematics (STEM) | 84.031C | N/A | 948,331 |
| Building Foundations for Academic Career Success (Title V) | 84.031S | N/A | 968,949 |
| Child Care Access Means Parents in School | 84.335A | N/A | <u>13,664</u> |
| Subtotal Direct Programs | | | <u>1,930,944</u> |
| | | | |
| Passed through from California Community Colleges Chancellor's Office: | | | |
| Career & Technical Education: | | | |
| Perkins, Title IV | 84.048 | (1) | 619,899 |
| Career Technical Education Transitions | 84.048A | (1) | <u>43,222</u> |
| Subtotal Passed Through Programs | | | <u>663,121</u> |
| | | | |
| Passed through from California Department of Education: | | | |
| Workforce Investment Act Title II | | | |
| Adult Education and Family Literacy Act | 84.002A | (1) | <u>78,665</u> |
| Subtotal Passed Through Programs | | | <u>78,665</u> |
| | | | |
| Total Department of Education | | | |
| | | | <u>2,672,730</u> |
| | | | |
| Department of Energy | | | |
| Direct: | | | |
| Advanced Topics In Solar (Photovoltaic) Grant | 81.087 | N/A | <u>17,100</u> |
| Total Department of Energy | | | <u>17,100</u> |

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2015

| | Federal Catalog Number | Pass-Through Entity Identifying Number | Total Program Expenditures as of June 30, 2015 |
|-------------------------------------------------------------------------------|---------------------------|-------------------------------------------|------------------------------------------------------|
| Department of Health and Human Services | | | |
| Passed through from Chancellor's Office of the California Community Colleges: | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | (1) | 64,259 |
| Total Department of Health and Human Services | | | 64,259 |
| Small Business Administration | | | |
| Passed through from Long Beach Community College District: | | | |
| Small Business Development Center (SBDC) | 59.037 | (1) | 81,455 |
| Total Small Business Administration | | | 81,455 |
| National Science Foundation | | | |
| Direct: | | | |
| Strengthening Solar Photovoltaic Education | 47.076 | N/A | 33,158 |
| Total Solar Photovoltaic Education | | | 33,158 |
| Total Federal Program Expenditures | | | \$ 39,280,104 |
| Reconciliation to Federal Revenue | | | |
| Total Federal Program Expenditures | | | \$ 39,280,104 |
| Build America Bonds subsidy received but not subject to Single Audit Act* | | | 1,433,559 |
| Total Federal Program Revenue | | | \$ 40,713,663 |

Note: (1) Pass-through entity identifying number not readily available.

N/A Not Applicable

*Funds are recorded as non-operating revenues

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS

For the Fiscal Year Ended June 30, 2015

| | Program Revenues | | | | | Total Program Expenditures |
|--------------------------------------------------------------|----------------------|-----------------------------------|------------------------|---------------------|----------------------|----------------------------------|
| | Cash Received | Prior Year Unearned Revenue | Accounts Receivable | Unearned Revenue | Total | |
| Student Success and Support Program (SSSP) - Credit | \$ 3,142,977 | \$ 104,920 | \$ | \$ 816,845 | \$ 2,431,052 | \$ 2,431,052 |
| Student Success and Support Program (SSSP) - Non-credit | 44,140 | | | 6,878 | 37,262 | 37,262 |
| Extended Opportunity Program and Services (EOPS) | 1,024,060 | | | 13,610 | 1,010,450 | 1,010,450 |
| Cooperative Agencies Resources for Education (CARE) | 52,492 | | | | 52,492 | 52,492 |
| Disabled Student Program and Services (DSPS) | 2,211,830 | | | | 2,211,830 | 2,211,830 |
| Transfer and Articulation | | 2,868 | | 2,793 | 75 | 75 |
| Equal Employment Opportunity - Faculty and Staff Diversity | 7,940 | 14,940 | | 12,049 | 10,831 | 10,831 |
| Nursing Grant | 181,787 | | | 97,616 | 84,171 | 84,171 |
| Instructional Equipment and Library Materials | | 104,670 | | 41,009 | 63,661 | 63,661 |
| CalWORKS | 301,389 | | | 284 | 301,105 | 301,105 |
| Child Development Training - Yosemite | 7,500 | | | | 7,500 | 7,500 |
| Small Business Development Center | 117,962 | 7,194 | 74,073 | | 199,229 | 199,229 |
| Financial Aid Administration | 864,209 | | | | 864,209 | 864,209 |
| Basic Skills Funding | 356,040 | 520,785 | | 16,893 | 859,932 | 859,932 |
| Scheduled Maintenance and Instructional Equipment - One-time | 1,420,113 | | | | 1,420,113 | 1,420,113 |
| Clean Energy Workforce Program - Employment Training Panel | 27,572 | | 260,310 | | 287,882 | 287,882 |
| Career Technical Education Common Collaborative CTE VI | 77,916 | 73,447 | | | 151,363 | 151,363 |
| Prop 39 - Energy Projects | 606,330 | | | 598,807 | 7,523 | 7,523 |
| Total State Programs | \$ 10,444,257 | \$ 828,824 | \$ 334,383 | \$ 1,606,784 | \$ 10,000,680 | \$ 10,000,680 |

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURE FOR STATE GENERAL APPORTIONMENT
ANNUAL (ACTUAL) ATTENDANCE
For the Fiscal Year Ended June 30, 2015**

| | <u>Reported Data</u> | <u>Audit Adjustments</u> | <u>Revised Data</u> |
|---------------------------------------------------------------------|--------------------------|------------------------------|-------------------------|
| A. Summer Intersession (Summer 2014 only) | | | |
| 1. Noncredit ¹ | 68.65 | | 68.65 |
| 2. Credit | 1,989.14 | | 1,989.14 |
| B. Summer Intersession (Summer 2015 - Prior to July 1, 2015) | | | |
| 1. Noncredit ¹ | N/A | | N/A |
| 2. Credit | N/A | | N/A |
| C. Primary Terms (Exclusive of Summer Intersession) | | | |
| 1. Census Procedure Courses | | | |
| (a) Weekly Census Contact Hours | 12,183.35 | (36.05) | 12,147.30 |
| (b) Daily Census Contact Hours | 2,047.51 | | 2,047.51 |
| 2. Actual Hours of Attendance Procedure Courses | | | |
| (a) Noncredit ¹ | 714.61 | | 714.61 |
| (b) Credit | 50.74 | 28.73 | 79.47 |
| 3. Independent Study/Work Experience | | | |
| (a) Weekly Census Contact Hours | 2,840.92 | | 2,840.92 |
| (b) Daily Census Contact Hours | 1,798.89 | | 1,798.89 |
| (c) Noncredit Independent Study/Distance Education Courses | N/A | | N/A |
| D. Total FTES | <u>21,693.81</u> | <u>(7.32)</u> | <u>21,686.49</u> |
| Supplemental Information (subset of above information) | | | |
| E. In-Service Training Courses (FTES) | N/A | | |
| H. Basic Skills courses and Immigrant Education | | | |
| (a) Noncredit ¹ | 50.47 | | |
| (b) Credit | 1,955.67 | | |
| <u>CCFS 320 Addendum</u> | | | |
| CDCP Noncredit FTES | 171.17 | | |
| Centers FTES | | | |
| (a) Noncredit | - | | |
| (b) Credit | 1,180.25 | | |

¹ Including Career Development and College Preparation (CDCP) FTES
N/A - Workload Measure is not applicable

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

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

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

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF 50 PERCENT LAW CALCULATION
For the Fiscal Year Ended June 30, 2015

| | Object/TOP Codes | Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110 | | | Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799 | | |
|-----------------------------------------------|------------------|---------------------------------------------------------------------------------------|-------------------|-------------------|-------------------------------------------------------------|-------------------|--------------------|
| | | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| <u>Academic Salaries</u> | | | | | | | |
| Instructional Salaries | | | | | | | |
| Contract or Regular | 1100 | \$ 24,977,401 | \$ | \$ 24,977,401 | \$ 24,977,401 | \$ | \$ 24,977,401 |
| Other | 1300 | 30,508,207 | | 30,508,207 | 30,508,207 | | 30,508,207 |
| Total Instructional Salaries | | 55,485,608 | | 55,485,608 | 55,485,608 | | 55,485,608 |
| Non-Instructional Salaries | | | | | | | |
| Contract or Regular | 1200 | | | - | 11,974,725 | | 11,974,725 |
| Other | 1400 | | | - | 3,913,657 | | 3,913,657 |
| Total Non-Instructional Salaries | | | | | 15,888,382 | | 15,888,382 |
| Total Academic Salaries | | 55,485,608 | - | 55,485,608 | 71,373,990 | - | 71,373,990 |
| <u>Classified Salaries</u> | | | | | | | |
| Non-Instructional Salaries | | | | | | | |
| Regular Status | 2100 | | | - | 21,714,743 | | 21,714,743 |
| Other | 2300 | | | - | 2,236,317 | | 2,236,317 |
| Total Non-Instructional Salaries | | | | | 23,951,060 | | 23,951,060 |
| Instructional Aides | | | | | | | |
| Regular Status | 2200 | 3,046,037 | | 3,046,037 | 3,046,037 | | 3,046,037 |
| Other | 2400 | 304,118 | | 304,118 | 304,118 | | 304,118 |
| Total Instructional Aides | | 3,350,155 | | 3,350,155 | 3,350,155 | | 3,350,155 |
| Total Classified Salaries | | 3,350,155 | - | 3,350,155 | 27,301,215 | - | 27,301,215 |
| Employee Benefits | 3000 | 14,864,406 | | 14,864,406 | 29,496,095 | | 29,496,095 |
| Supplies and Materials | 4000 | | | - | 773,295 | | 773,295 |
| Other Operating Expenses | 5000 | | | - | 15,003,860 | | 15,003,860 |
| Equipment Replacement | 6420 | | | - | | | - |
| Total Expenditures Prior to Exclusions | | 73,700,169 | - | 73,700,169 | 143,948,455 | - | 143,948,455 |

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF 50 PERCENT LAW CALCULATION

For the Fiscal Year Ended June 30, 2015

| | Object/TOP Codes | Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110 | | | Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799 | | |
|----------------------------------------------------------------------|------------------|---------------------------------------------------------------------------------------|-------------------|---------------------|-------------------------------------------------------------|-------------------|----------------------|
| | | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| Exclusions | | | | | | | |
| Activities to Exclude | | | | | | | |
| Instructional Staff-Retirees' Benefits and Retirement Incentives | 5900 | 1,624,825 | | 1,624,825 | 1,624,825 | | 1,624,825 |
| Student Health Services Above Amount Collected | 6441 | | | - | | | - |
| Student Transportation | 6491 | | | - | 810,528 | | 810,528 |
| Non-instructional Staff-Retirees' Benefits and Retirement Incentives | 6740 | | | - | 2,123,139 | | 2,123,139 |
| Objects to Exclude | | | | | | | |
| Rents and Leases | 5060 | | | - | 1,515,530 | | 1,515,530 |
| Lottery Expenditures | | | | | | | |
| Academic Salaries | 1000 | | | - | | | - |
| Classified Salaries | 2000 | 95,733 | | 95,733 | 95,733 | | 95,733 |
| Employee Benefits | 3000 | 30,221 | | 30,221 | 30,221 | | 30,221 |
| Supplies and Materials | 4000 | | | - | | | - |
| Software | 4100 | | | - | | | - |
| Books, Magazines, & Periodicals | 4200 | | | - | | | - |
| Instructional Supplies & Materials | 4300 | | | - | | | - |
| Noninstructional, Supplies & Materials | 4400 | | | - | | | - |
| Total Supplies and Materials | | | | | | | |
| Other Operating Expenses and Services | 5000 | | | - | 3,254,997 | | 3,254,997 |
| Capital Outlay | 6000 | | | - | | | - |
| Library Books | 6300 | | | - | | | - |
| Equipment | 6400 | | | - | | | - |
| Equipment - Additional | 6410 | | | - | | | - |
| Equipment - Replacement | 6420 | | | - | | | - |
| Total Equipment | | | | | | | |
| Total Capital Outlay | | | | | | | |
| Other Outgo | 7000 | | | - | | | - |
| Total Exclusions | | 1,750,779 | - | 1,750,779 | 9,454,973 | - | 9,454,973 |
| Total for ECS 84362, 50% Law | | \$71,949,390 | \$ - | \$71,949,390 | \$134,493,482 | \$ - | \$134,493,482 |
| Percent of CEE (Instructional Salary Cost / Total CEE) | | 53.50% | 0% | 53.50% | 100% | 0% | 100% |
| 50% of Current Expense of Education | | | | | \$ 67,246,741 | - | \$ 67,246,741 |

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND

For the Fiscal Year Ended June 30, 2015

| | General Fund | | |
|------------------------------------------------------------------------------|-----------------------|----------------------|---------------------|
| | Budget | Actual | Variance |
| REVENUES | | | |
| Revenue from Federal Sources | | | |
| Higher Education Act | \$ 4,229,994 | \$ 2,924,379 | \$ (1,305,615) |
| Workforce Investment Act | 246,655 | 78,665 | (167,990) |
| Temporary Assistance for Needy Families (TANF) | 64,956 | 64,259 | (697) |
| Student Financial Aid | 120,468 | 118,373 | (2,095) |
| Career & Technical Education | 663,168 | 663,121 | (47) |
| Other Federal Revenue | 1,655,376 | 1,219,233 | (436,143) |
| Revenue from State Sources | | | |
| General Apportionments | 78,742,848 | 76,017,649 | (2,725,199) |
| Categorical Apportionments | 15,196,712 | 11,875,821 | (3,320,891) |
| Other State Revenues | 4,996,660 | 5,983,477 | 986,817 |
| Revenue from Local Sources | | | |
| Property Taxes | 16,578,490 | 19,467,000 | 2,888,510 |
| Interest and Investment Income | 155,200 | 177,495 | 22,295 |
| Student Fees and Charges | 54,488,960 | 55,161,735 | 672,775 |
| Other Local Revenue | 6,419,907 | 6,027,356 | (392,551) |
| TOTAL REVENUES | <u>183,559,394</u> | <u>179,778,563</u> | <u>(3,780,831)</u> |
| EXPENDITURES | | | |
| Academic Salaries | 80,890,888 | 79,697,982 | 1,192,906 |
| Classified Salaries | 37,050,703 | 35,810,558 | 1,240,145 |
| Employee Benefits | 34,225,029 | 33,596,938 | 628,091 |
| Supplies and Materials | 2,211,966 | 1,720,272 | 491,694 |
| Student Financial Aid | 535,021 | 484,783 | 50,238 |
| Other Operating Expenses & Services | 27,208,211 | 23,449,928 | 3,758,283 |
| Capital Outlay | 3,643,945 | 2,763,184 | 880,761 |
| TOTAL EXPENDITURES | <u>185,765,763</u> | <u>177,523,645</u> | <u>8,242,118</u> |
| Excess (deficiencies) of revenues over expenditures | <u>(2,206,369)</u> | <u>2,254,918</u> | <u>4,461,287</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Interfund Transfers In | 479,706 | 305,564 | (174,142) |
| Interfund Transfers Out | (1,973,832) | (1,897,888) | 75,944 |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(1,494,126)</u> | <u>(1,592,324)</u> | <u>(98,198)</u> |
| Excess (deficiencies) of revenues over expenditures and other sources (uses) | <u>\$ (3,700,495)</u> | 662,594 | <u>\$ 4,363,089</u> |
| Fund balance, beginning of year | | <u>20,022,320</u> | |
| Fund balance, end of year | | <u>\$ 20,684,914</u> | |

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2015**

NOTE 1 - PURPOSE OF SCHEDULES:

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

The audit of the Santa Monica Community College District for the year ended June 30, 2015 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. This Schedule of Federal Awards and the Schedule of State Financial Assistance are prepared on the modified accrual basis of accounting.

Subrecipients

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

| Federal Grantor/Pass-Through Grantor/Program | CFDA Number | Amount Provided to Subrecipients |
|----------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------------------------|
| U.S. Department of Education Science, Technology, Engineering and Mathematics (STEM) The Regents of the University of California | 84.031C | \$ 186,472 <u>\$ 186,472</u> |

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

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

C. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2015**

NOTE 1 - PURPOSE OF SCHEDULES: (continued)

D. Reconciliation of 50 Percent Law Calculation

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

E. Proposition 30 Education Protection Account Expenditure Report

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

F. Schedule of Budgetary Comparison for the General Fund

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

OTHER INDEPENDENT AUDITOR'S REPORTS



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Santa Monica Community College District (the District) as of and for the year ended June 30, 2015 and have issued our report thereon dated December 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
December 15, 2015

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

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

Report on Compliance for Each Major Federal Program

We have audited Santa Monica Community College District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Vicenti, Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
December 15, 2015

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

We have audited the Santa Monica Community College District's (the District) compliance with the types of compliance requirements described in the *2014-15 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office for the year ended June 30, 2015. The District's State compliance requirements are identified below.

Management's Responsibility

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

Auditor's Responsibility

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2014-15 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the District's compliance.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Compliance Requirements Tested

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

| <u>Section</u> | <u>Description</u> | <u>Procedures Performed</u> |
|----------------|-----------------------------------------------------------------------------------------------------------|-----------------------------|
| 421 | Salaries of Classroom Instructors (50 Percent Law) | Yes |
| 423 | Apportionment for Instructional Service Agreements/Contracts | Yes |
| 424 | State General Apportionment Funding System | Yes |
| 425 | Residency Determination for Credit Courses | Yes |
| 426 | Students Actively Enrolled | Yes |
| 427 | Concurrent Enrollment of K-12 Students in Community College Credit Courses | Yes |
| 430 | Scheduled Maintenance Program | Yes |
| 431 | Gann Limit Calculation | Yes |
| 435 | Open Enrollment | Yes |
| 438 | Student Fees – Health Fees and Use of Health Fee Funds | Yes |
| 439 | Proposition 39 Clean Energy Funds | Yes |
| 440 | Intersession Extension Program | Not applicable |
| 474 | Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE) | Yes |
| 475 | Disabled Student Programs and Services (DSPS) | Yes |
| 479 | To Be Arranged Hours (TBA) | Yes |
| 490 | Proposition 1D State Bond Funded Projects | Yes |
| 491 | Proposition 30 Education Protection Account Funds | Yes |

Opinion on State Compliance

In our opinion, the Santa Monica Community College District complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *2014-15 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office, and is described in the accompanying schedule of findings and questioned costs as item 2015-001. Our opinion on each state program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2014-15 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office. Accordingly, this report is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP

Glendora, California

December 15, 2015

FINDINGS AND QUESTIONED COSTS

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2015

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
 Material weaknesses identified? Yes X No
 Significant deficiencies identified not considered
 to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
 Material weaknesses identified? Yes X No
 Significant deficiencies identified not considered
 to be material weaknesses? Yes X None reported

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

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

Identification of major programs tested

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------------------------------|------------------------------------------------------------|
| 84.000, 84.007, 84.033 84.268 and 84.063 | Student Financial Aid Cluster |
| 84.031C | Science, Technology, Engineering and Mathematics (STEM) |

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

Auditee qualified as low-risk auditee? X Yes No

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2015

There were no findings and questioned costs related to the basic financial statements for the year ended June 30, 2015.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2015

There were no findings and questioned costs related to federal awards for the year ended June 30, 2015.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO STATE AWARDS
June 30, 2015

FINDING 2015-001: SECTION 479 – TO BE ARRANGED (TBA) HOURS

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

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

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

Context:

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO STATE AWARDS**

June 30, 2015

FINDING 2015-001: SECTION 479 – TO BE ARRANGED (TBA) HOURS (continued)

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

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

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

District Response: The TBA courses in question included field studies courses as well as ensemble classes. It is important to note that none of the TBA courses reviewed involved individual student tutoring. The official course outline of record, the syllabi, and the schedule of classes each include the number of TBA hours and student participation was tracked and documented using “arranged hours rosters” administered by the Enrollment Services division. Additionally, all enrolled students were required to fulfill the hours.

While the total number of “arranged hours” were met or exceeded, in the ensemble and field studies courses it was discovered that students were not meeting the same number of TBA hours each week, which is a condition designated in the Student Attendance Accounting Manual, 3.3.

To remedy this situation the District will make the following changes. All field studies courses will use positive attendance accounting methodology from this point forward. The Vice President, Academic Affairs will meet with the appropriate faculty regarding the ensemble classes to determine whether the courses can be revised to ensure TBA hours are fulfilled each week. If that condition cannot be met, the positive attendance accounting methodology will be applied to these courses as well.

In addition Academic Affairs and Enrollment Services will collaborate and work with the academic departments to improve the understanding and documentation of TBA hours and student participation, particularly for adjunct faculty members.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2015

There were no prior year findings and questioned costs for the year ended June 30, 2014.

CONTINUING DISCLOSURE INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT
CONTINUING DISCLOSURE INFORMATION (UNAUDITED)
June 30, 2015

| | | |
|---------------------------------------------------|---------------|-----|
| Secured tax levies for fiscal year 2014-15 | \$ 13,121,169 | (1) |
| Secured tax delinquencies for fiscal year 2014-15 | \$ 409,300 | (1) |
| Secured tax collections for fiscal year 2014-15 | \$ 12,711,869 | (1) |

Summary of Assessed Valuation

| | | |
|----------------|----------------------|-----|
| Local Security | \$ 42,611,392,427 | |
| Utility | 742,365 | |
| Unsecured | <u>1,015,391,498</u> | |
| Total | \$ 43,627,526,290 | (2) |

2014-15 Largest Local Secured Taxpayers

| | <u>Property Owner</u> | <u>Primary Land Use</u> | 2014-15 <u>Assessed Valuation</u> | % of <u>Total (3)</u> |
|-----|--------------------------------------------------------|-------------------------|--------------------------------------|--------------------------|
| 1. | CA Colorado Center LLC | Office Building | \$ 494,180,339 | 1.16% |
| 2. | Water Garden Realty Holding LLC | Office Building | 479,461,422 | 1.13 |
| 3. | SC Enterprises SMBP LLC | Commercial | 335,446,589 | 0.79 |
| 4. | Douglas Emmett LLC | Office Building | 328,946,829 | 0.77 |
| 5. | Macerich SMP LP | Shopping Center | 223,431,489 | 0.52 |
| 6. | CREP 2700 Holdings LLC | Office Building | 220,600,000 | 0.52 |
| 7. | Jamestown Lantana North LP | Office Building | 191,800,000 | 0.45 |
| 8. | Hart Arboretum LLC | Apartments | 168,511,585 | 0.40 |
| 9. | Ocean Avenue LLC | Hotel | 156,389,493 | 0.37 |
| 10. | Equity Office Properties Trust | Office Building | 146,765,099 | 0.34 |
| 11. | New Santa Monica Beach Hotel LLC | Hotel | 143,685,609 | 0.34 |
| 12. | Jamestown Lantana South LP | Office Building | 136,600,000 | 0.32 |
| 13. | Rand Corp. | Office Building | 136,110,553 | 0.32 |
| 14. | Agensys Inc. | Industrial | 128,744,800 | 0.30 |
| 15. | 1299 Ocean LLC | Office Building | 114,758,448 | 0.27 |
| 16. | Shores Barrington LLC | Apartments | 114,731,291 | 0.27 |
| 17. | CLPF Arboretum LP | Office Building | 110,360,426 | 0.26 |
| 18. | Blue Devils Owner LLC | Hotel | 109,104,004 | 0.26 |
| 19. | ASN Santa Monica LLC | Apartments | 103,153,421 | 0.24 |
| 20. | Tishman Speyer Archstone Smith Santa Monica Commercial | | <u>97,280,337</u> | <u>0.23</u> |
| | | | \$3,940,061,734 | 9.25% |

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

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

(3) % of local secured valuation for fiscal year 2014-15 of \$42,611,392,427.