

SANTA MONICA COMMUNITY COLLEGE DISTRICT

LOS ANGELES COUNTY

**REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2009**

**SANTA
MONICA
COLLEGE**

The logo for Santa Monica College, featuring the words "SANTA MONICA COLLEGE" in a blue, serif font. The word "COLLEGE" is written in a larger, more stylized font with a decorative flourish underneath the letters "L" and "E".

SANTA MONICA COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Santa Monica Community College District, as of and for the year ended June 30, 2009 as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements listed in the aforementioned table of contents, revised as described in Note 15, present fairly, in all material respects, the financial position of the Santa Monica Community College District as of June 30, 2009, and the results of its operations, changes in net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

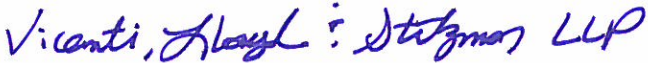
As discussed in Note 15 to the financial statement, the District's June 30, 2009 amounts for cash and cash equivalents, capital assets and capital lease payable have been revised and detailed in Note 15 and other related Notes as referenced. This discovery was made subsequent to the issuance of the financial statements. The financial statements have been restated to reflect this correction.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009 on our consideration of the Santa Monica Community College District's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Board of Trustees
Santa Monica Community College District

The required supplementary information, such as the management's discussion and analysis and the schedule of funding progress, are not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Santa Monica Community College District's basic financial statements. The supplementary section and 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 basic financial statements. The supplementary information, including the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on it.


VICENTI, LLOYD & STUTZMAN LLP

December 18, 2009, except for Note 15, as to which the date is February 3, 2010.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

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, 2009. 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 College today 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.

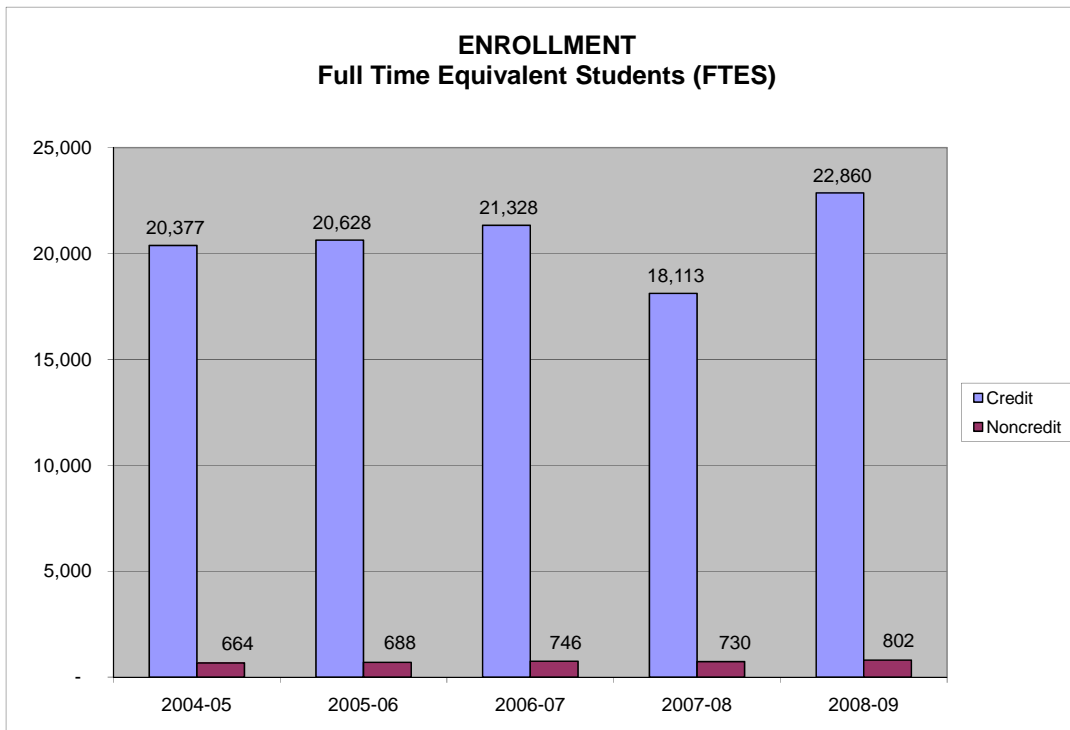
Financial Highlights

This section is to provide an overview of the District's financial activities. The District was required to implement the reporting standards of Governmental Accounting Standards Board Statements No. 34 and 35 during the fiscal year 2001-02 using the Business Type Activity (BTA) model. The California Community College Chancellor's Office (CCCCO), through its Fiscal and Accountability Standards Committee, recommended that all community college districts implement the new reporting standards under the BTA model. To comply with the recommendation of the Chancellor's Office and to report in a manner consistent with other California community college districts, the District has adopted the BTA reporting model for these financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Full-time Equivalent Students

During 2007-08, total Full-Time Equivalent Students (FTES) reported to the State decreased approximately 15% for credit and approximately 2% for non-credit courses primarily as the result of the loss of FTES that had been generated through an instructional services agreement with the Compton Community College District for Santa Monica College to deliver Summer 2006 intersession instruction at Compton Community College. While FTES is the basis for the amount of state apportionment the District receives, the District realized no revenue loss for the reduced FTES in the 2007-08 fiscal year under a funding mechanism called stabilization which allowed the District a one-year opportunity to fully restore FTES to the 2006-07 reported level without realizing a reduction in funding. During 2008-09, total FTES reported to the State increased approximately 26% for credit and approximately 10% for non-credit courses. These increases resulted in the District reaching full restoration of FTES in 2008-09 which resulted in no loss of funding, as it relates to FTES fluctuations, over the three-year period of 2006-07 to 2008-09.



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets 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 Assets is a point-of-time financial statement whose purpose is to present to the readers a fiscal snapshot of the District. The Statement of Net Assets presents end-of-year data concerning assets, liabilities and net assets.

From the data presented, readers of the Statement of Net Assets 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 Assets provides a picture of the net assets and their availability for expenditure by the District.

The difference between total assets and total liabilities is one indicator of the current financial condition of the District; the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allocation for depreciation expense.

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

The Statements of Net Assets as of June 30, 2009 and June 30, 2008 are summarized below:

	(in thousands)	(in thousands)	
	<u>2009</u>	<u>2008</u>	<u>Change</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 106,783	\$ 81,585	31%
Receivables	24,381	15,913	53%
Due from fiduciary funds	1,751	2,120	-17%
Inventories	2,042	2,439	-16%
Prepaid expenses	2,945	881	234%
Prepaid issue costs - current portion	138	138	0%
Total current assets	<u>138,040</u>	<u>103,076</u>	34%
Non-current assets			
Restricted cash and cash equivalents	22,636	21,385	6%
Prepaid issue costs - non-current portion	1,446	1,584	-9%
Long-term investments	2,691	2,683	0%
Capital assets, net of accumulated depreciation	<u>311,263</u>	<u>286,301</u>	9%
Total non-current assets	<u>338,036</u>	<u>311,953</u>	8%
TOTAL ASSETS	<u>476,076</u>	<u>415,029</u>	15%
LIABILITIES			
Current liabilities			
Bank overdraft	1,498	2,241	-33%
Accounts payable and accrued liabilities	15,735	17,846	-12%
Due to fiduciary funds	171	168	2%
Deferred revenue	9,561	8,949	7%
Compensated absences	1,083	1,354	-20%
Long-term liabilities - current portion	<u>15,814</u>	<u>15,676</u>	1%
Total current liabilities	<u>43,862</u>	<u>46,234</u>	-5%
Non-current liabilities			
Long-term liabilities less current portion	<u>306,079</u>	<u>245,030</u>	25%
Total non-current liabilities	<u>306,079</u>	<u>245,030</u>	25%
TOTAL LIABILITIES	<u>349,941</u>	<u>291,264</u>	20%
NET ASSETS			
Invested in capital assets, net of related debt	85,728	83,350	3%
Restricted	24,967	26,928	-7%
Unrestricted	<u>15,440</u>	<u>13,487</u>	14%
TOTAL NET ASSETS	<u>\$ 126,135</u>	<u>\$ 123,765</u>	2%

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

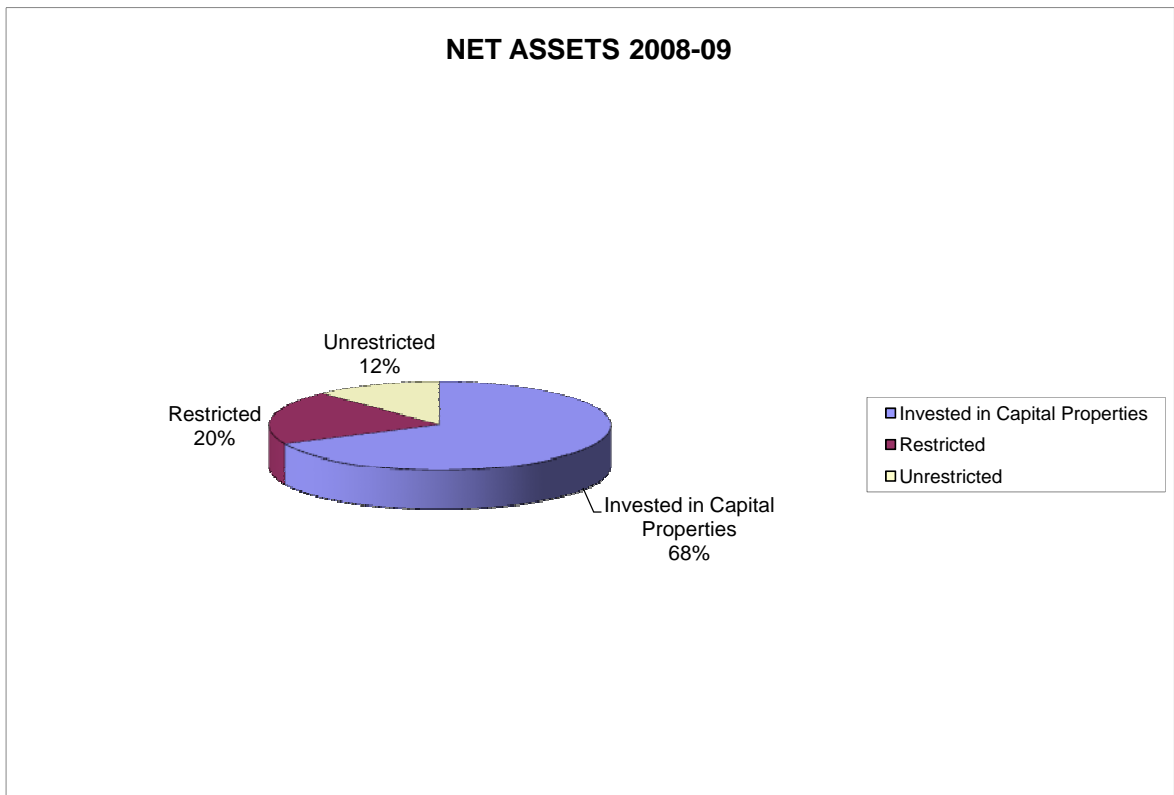
- There was a 31% increase in cash and cash equivalents. This increase was mainly caused by the increase in cash and cash equivalents in the Bond funds, as a result of the issuance of General Obligation bonds. A major portion of the cash balance is cash deposited in the Los Angeles County Treasury. Further discussion is located in the section labeled "Statement of Cash Flows," along with an additional explanation on change in cash balances.
- Due to state cash flow and budget issues, the state increased its deferred apportionment payment to the Community College System from \$200 million in 2007-08 to \$540 million in 2008-09. This increase in deferment is primarily responsible for the 53% increase in receivables. In 2009-10 the District did receive the deferred apportionment payment in whole.
- Amounts due from fiduciary funds decreased as a result of a decrease in reimbursements that were due from Auxiliary Operations to the District's general fund, which were still in transit at year end.
- The Bookstore reorganized its operations and accounting procedures in order to maximize cash flow and efficiency. These changes resulted in a reduction of inventories of 16% from the prior year.
- The District prepaid health and welfare and workers compensation invoices that were not prepaid in the 2007-08 fiscal year resulting in an increase to Prepaid expenses.
- Restricted cash and cash equivalents increased 6%, largely due to the increased cash balance in the Bond Interest and Redemption fund for debt repayment.
- Compared with 2007-08, capital assets had a net increase of 9%. The ongoing construction and project completion of the following major construction projects represented most of the increase: Student Services and Administration Complex; Campus Quad; Corsair Field; Malibu Campus; Bundy Campus NE Driveway; SMC Performing Arts Center Broad Theater and Music Complex; John Adams Field Renovation; Pico Promenade Phase I; Gymnasium Bleachers Replacements; and Photovoltaic Power System. The capital assets section of this discussion and analysis provides greater detail.
- Non-current liabilities increased by 25% as a result of an issuance of general obligation bonds, authorized under Measure S (2004), that occurred in the middle of the 2008-09 fiscal year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

- While the District's current liabilities declined by 5% the increase in non-current liabilities, related to the issuance of new General Obligation bonds to finance construction projects, resulted in an overall increase in total liabilities of 20%.
- In June 2009, as part of the District's plan to prefund a portion of the other post-employment benefit liability, the District made an irrevocable contribution of \$1,496,996 to the CalPERS California Employers' Retiree Benefit Trust.
- Despite the State budget issues the District's Total Net Assets grew 2% in the 2008-09 fiscal year. The principal cause for the fluctuations was the issuance of General Obligation bonds during the year.



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

Statement of Revenues, Expenses and Change in Net Assets

The change in total net assets is presented on the Statement of Net Assets based on the activity presented in the Statement of Revenues, Expenses and Change in Net Assets. 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 presents the District's results of 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 provided in return for the operating revenues and 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 2007-08 and 2008-09 is provided on the following page.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

The Statements of Revenues, Expenses and Change in Net Assets for the years ended June 30, 2009 and June 30, 2008 are summarized below:

	(in thousands)	(in thousands)	
	<u>2009</u>	<u>2008</u>	<u>Change</u>
Operating Revenues			
Net tuition and fees	\$ 33,180	\$ 32,549	2%
Grants and contracts, non-capital	33,845	28,992	17%
Auxiliary sales and charges	<u>9,075</u>	<u>9,516</u>	-5%
Total operating revenues	<u>76,100</u>	<u>71,057</u>	7%
Operating Expenses			
Salaries and benefits	136,054	130,922	4%
Supplies, materials and other operating expenses and services	31,385	32,939	-5%
Financial aid	16,786	13,718	22%
Utilities	3,281	3,183	3%
Depreciation	<u>4,341</u>	<u>3,939</u>	10%
Total operating expenses	<u>191,847</u>	<u>184,701</u>	4%
Operating loss	<u>(115,747)</u>	<u>(113,644)</u>	-2%
Non-operating revenues			
State apportionments, non-capital	88,603	89,536	-1%
Local property taxes	12,488	10,554	18%
State taxes and other revenues	3,613	3,452	5%
Investment income, net	548	1,414	-61%
Contributions, gifts and grants, non-capital	<u>4,528</u>	<u>5,382</u>	-16%
Total non-operating revenues	<u>109,780</u>	<u>110,338</u>	-1%
Other revenues, expenses, gains or losses			
State apportionments, capital		495	-100%
Interest expense on capital-related debt	(13,113)	(12,961)	1%
Interest Income	1,623	3,652	-56%
Local property taxes and revenues, capital	<u>19,827</u>	<u>25,150</u>	-21%
Total other revenues, expenses, gains or losses	<u>8,337</u>	<u>16,336</u>	-49%
Change in net assets	<u>2,370</u>	<u>13,030</u>	-82%
Net assets, beginning of year as previously reported	<u>123,765</u>	<u>110,735</u>	12%
Net assets, end of year	<u>\$ 126,135</u>	<u>\$ 123,765</u>	2%

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

- During the 2008-09 fiscal year there was an increase in actual FTES on the Santa Monica College campus. This increase in FTES resulted in a 2% increase in net tuition and fees over the prior year.
- During the 2008-09 fiscal year, the District instituted compensation increases for faculty, classified and management. These increases in salaries and related benefits, along with the hiring of 33 new classified staff (net of terminations and resignations) and 4 administrators (net of terminations and resignations), represented 72% of the total increase in operating expenses. While over three-fourths of the total increase in operating expenses is related to salaries and related benefit increases, the overall ratio of salaries and related benefits to total operating expenses is lower at approximately 71%; a 1% increase from prior year. The balance of operating expenses were for supplies and other services, financial aid, capital outlay items below the capitalization threshold, insurance, utilities and depreciation expense.
- Financial Aid provided to students through Federal programs increased by 22%, or approximately \$3.1 million, in 2008-2009 from the prior fiscal year. The majority of increase is due to Federal Pell Grant maximums, which increased from \$4,310 per student to \$4,731 per student along with an increased number of applicants. While the District provides a match to some financial aid programs the majority of the funding for these programs originates from sources outside the District.
- Utility related expenditures increased 3% from 2007-08. This increase is a result of increased costs related to usage and increased usage of facilities. The District, expecting utility costs to continue to increase rapidly in future years as new facilities come on line, is currently in the process of an energy savings retrofit to campus lighting and installation of an Electric Photovoltaic power supply. The District believes these projects will help to mitigate some of the future escalations in utility costs.
- State apportionments, non-capital are generated based on the Full Time Equivalent Students (FTES) reported to the state by the District. State Principal Apportionment, technically defined as total general revenue, is a workload calculation that is funded by property taxes, enrollment fees, and apportionment. If property taxes or enrollment fees go down, the apportionment goes up to cover the drop. The inverse is also true, so any increase in tax receipts or enrollment fees would lower the apportionment. In 2008-09 increases in both state and local property tax receipts and enrollment fees over prior year resulted in a slight decrease in State apportionments, non-capital.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

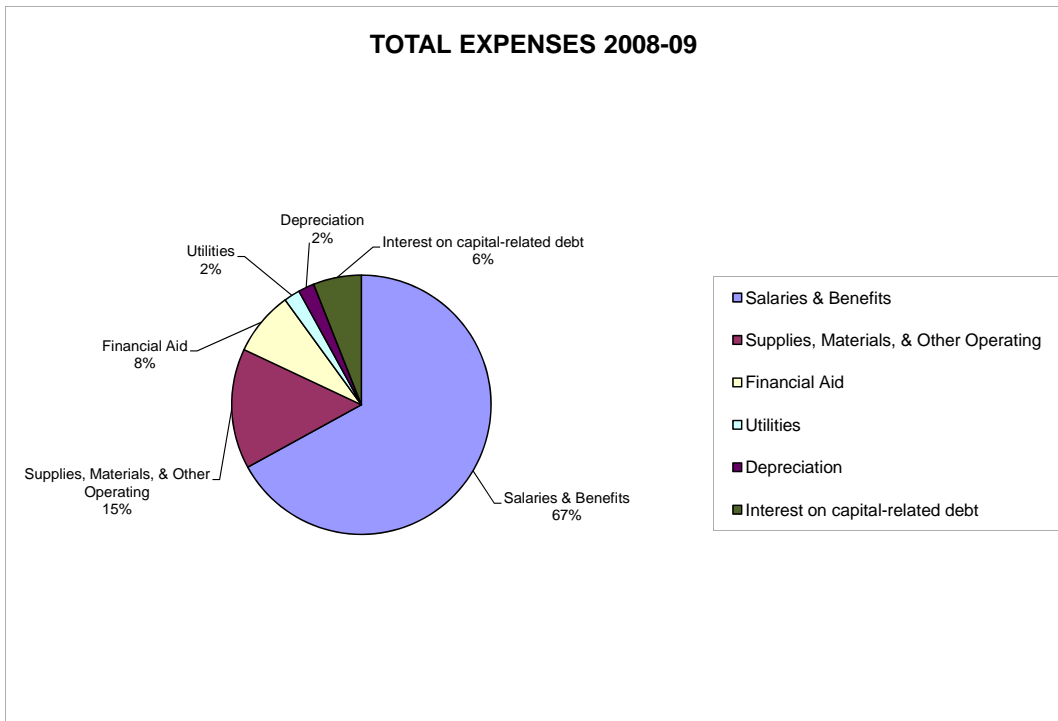
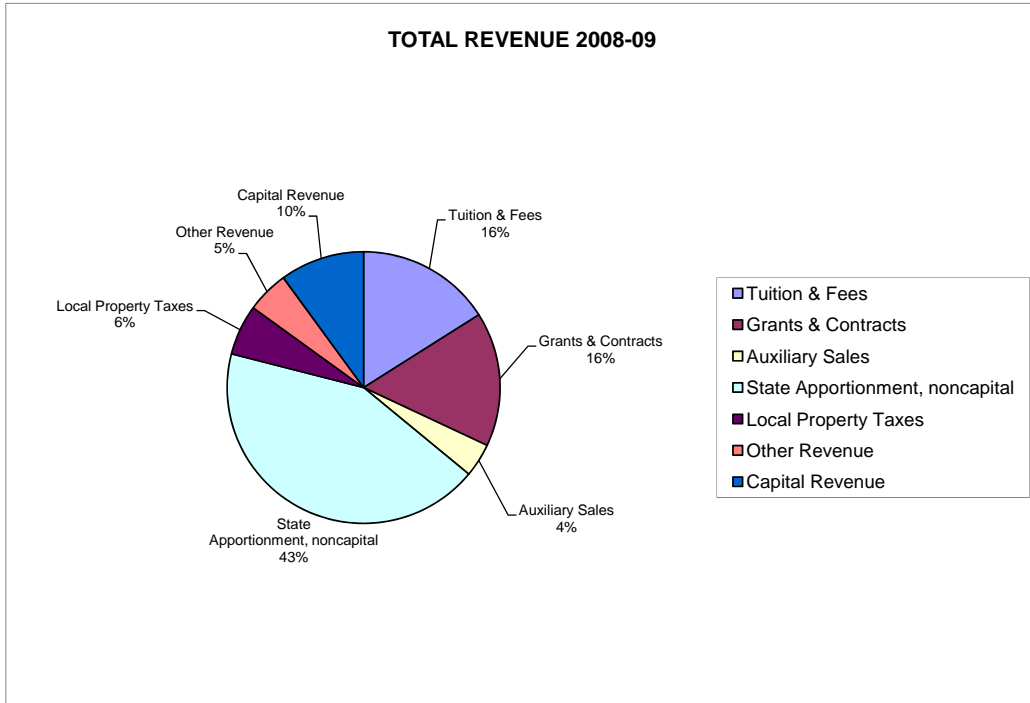
June 30, 2009

- Local property taxes are received through the Auditor-Controller's Office for Los Angeles County. There was a 18% increase in local property tax revenues in 2008-09, due primarily to increases in funding from ERAF (Education Revenue Augmentation Fund) and a greater than expected Secured Tax Roll. The amount received for property taxes is deducted from the total state apportionment amount for general revenue calculated by the State for the District. Any increase/decrease in property taxes would not mean an increase/decrease in net revenue.
- Contributions, gifts and grants, non-capital decreased by 16% primarily as a result of reduced funding related to KCRW and the expiration or decrease in funding of several local grants.
- The District did not receive any state capital outlay reimbursements in 2008-09 resulting in a 100% decrease in State apportionments, capital.
- Due to state cash flow issues, the state increased its deferred apportionment payment to the community college system from \$200 million in 2007-08 to \$540 million in 2008-09. This increase in deferment coupled with lower interest rates resulted in a 56% decline in interest income.
- In 2007-08 the District received the final payment from the Santa Monica Redevelopment Agency in connection with the construction of the Humanities and Social Sciences Building. As this was the final payment and did not reoccur in 2008-09 the result was a 21% decline in local property tax revenue, capital.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

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 Assets located on page 4 of the financial statements.

	(in thousands)	(in thousands)	
	<u>2009</u>	<u>2008</u>	<u>Change</u>
Cash Provided By (Used in)			
Operating activities	\$ (113,039)	\$ (107,091)	-6%
Non-capital financing activities	101,012	107,001	-6%
Capital and related financing activities	37,413	(4,962)	854%
Investing activities	<u>1,063</u>	<u>1,886</u>	-44%
Net increase/(decrease) in cash and cash equivalents	26,449	(3,166)	935%
Cash balance, beginning of year	<u>102,970</u>	<u>106,136</u>	-3%
Cash balance, end of year	<u>\$ 129,419</u>	<u>\$ 102,970</u>	26%

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

- Cash receipts from operating activities are from student tuition and from Federal, state and local grants. Uses of cash are payments to employees, vendors and students related to the instructional program. The 6% increase in cash used for operating activities is directly related to instituted compensation increases for faculty, classified and management, an increased workforce (33 additional classified staff positions and 4 additional administrator positions net of terminations and resignations) and other increased operating expenses.
- The decrease in cash provided by non-capital activities is directly related to the increased deferral, by the State, of apportionment funding into the subsequent fiscal year.
- The increase in capital and related financing activities for fiscal year 2008-09 compared to 2007-08 can be attributed to the net effect of bond proceeds, capital-related state apportionment, expenses related to the construction of capital assets, and debt payments. The primary cause of the increase in cash was the issuance of general obligation bonds during the year.
- Cash from investing activities is primarily from cash invested through the Los Angeles County pool and interest earned on cash in banks. Due to State cash flow issues, the State increased its deferred apportionment payment to the Community College System from \$200 million in 2007-08 to \$540 million in 2008-09. This increase in deferment coupled with lower interest rates resulted in a decline in cash flow from investing activities.

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 Assets and Changes in Fiduciary Net Assets. 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, 2009

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2009, the District had net governmental capital assets of \$311.3 million, consisting of land, buildings and building improvements, construction in progress, vehicles, data processing equipment and other office and instructional equipment; these assets have an accumulated depreciation of \$43.7 million. Net additions in 2008-09 consisted mainly of construction in progress since there has been a substantial increase in the amount of construction on campus due to the passage of Measure "U" and Measure "S." While there were only two significant project completed in 2008-09, Pico Promenade Phase I and Drescher Hall improvements, the following major projects added significantly to the capital assets of the District in the form of construction in process: Student Services and Administration Complex, Campus Quad, Corsair Field, Malibu Campus, Bundy Campus NE Driveway, SMC Performing Arts Center Broad Theater and Music Complex, John Adams Field Renovation, Gymnasium Bleachers Replacements and Photovoltaic Power System. It is important to recognize that all valuations are based on historical cost. The 38 acres of the main campus would have a significantly greater value today than in 1950.

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

	Balance June 30, 2009
Land	\$ 63,208,476
Site and Site Improvements	147,285,484
Equipment	15,833,615
Construction in Progress	128,641,986
Totals at historical cost	354,969,561
Less accumulated depreciation for:	
Site and Site Improvements	(34,330,038)
Equipment	(9,376,893)
Total accumulated depreciation	(43,706,931)
Governmental capital assets, net	\$ 311,262,630

SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Debt

At June 30, 2009, the District had approximately \$323 million in debt: \$5.8 million from compensated absences, \$7.7 million from GASB 45/OPEB liability, \$6.8 million from a capital lease, \$26 million from obligations under certificates of participation, \$254.8 million from general obligation bonds and \$21.8 million of accreted interest. The general obligation bonds and certificates of participation were issued to fund various projects related to construction, purchase and renovation of instructional facilities, laboratories, centers, administrative facilities and parking structures. Debt payments on the bonds will be funded through property tax receipts collected over the term of the bonds. Debt payments on the certificates of participation will be funded through parking revenues, additional funding sources related to student enrollment and other sources identified within the capital funds. The District's bond rating has improved from AA- to AA (S&P).

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, 2009</u>
Compensated absences	\$ 5,785,178
Other post-employment health care benefits	7,701,158
Capital lease	6,852,670
Certificates of participation	26,005,172
General obligation bonds	254,843,471
Accreted interest	<u>21,787,845</u>
	<u>\$ 322,975,494</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

Budgeting for the Future

Overview

The unrestricted general fund of the District has shown dramatic growth over the last several years. Between 2005-06 and 2008-09, the unrestricted general fund expenditures have grown \$21,941,447, while revenue has increased \$20,140,009. The District has also shown great fiscal responsibility by increasing the fund balance of the unrestricted general fund from \$5,586,996 in 2005-06 to \$19,408,758, including designated reserves, in 2008-09. The increase in fund balance since 2005-06 gives the District the ability to adapt to changes in economic conditions and to meet its long-term obligations when faced with short-term financial uncertainties such as the current State budget crisis.

Budget for 2009-10 – Unrestricted General Fund

Revenues

Due to State budgetary constraints, the Community College System budget has been reduced significantly in the 2009-10 year, resulting in a workload reduction that lowers the District's base funding by approximately 809 credit FTES. While the District will only be funded to serve 20,823 credit FTES in the current year, the Adopted Budget is based on the District continuing to serve students beyond its funded FTES base. As of the adopted budget, the target is to serve 21,632 credit FTES in 2009-10, resulting in underfunding in the amount of approximately \$3.7 million. While this is the Adopted Budget FTES target, the District, through increased efficiency, is planning to serve more students while maintaining expenditures at the 21,632 credit FTES level.

The workload reduction imposed by the State is equal to a permanent 3.39% reduction in base revenue from 2008-09 levels for the District. If the State budget falls further into a deficit during the year, the CCCCCO will increase the permanent reduction. Each 1% permanent reduction by the State is equal to \$1,100,000 in permanently reduced funding for the District. The State budget also reduced the District's funding for Part-time Faculty Office Hours, Part-time Faculty Health Insurance and Part-time Faculty Compensation resulting in a further reduction in funding of approximately \$578 thousands. The State budget for 2009-10 includes no COLA and no Growth for 2009-10, leaving no opportunity for the District to increase State apportionment funding during the year.

Based on preliminary projections of property taxes, the District will receive approximately \$11.5 in property tax in the current year. This is a combination of property tax shift, homeowner's exemption, secured taxes, unsecured taxes, supplemental taxes, RDA pass through and prior years' taxes. If receipt of property tax does not meet these projections, the State may impose a further workload reduction to offset the loss in funding.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

The District's largest increase in revenue is in the form of non-resident tuition. The District increased non-resident tuition by 15.9%, the lowest level allowed by the State, for the 2009-10 year. This increase is expected to generate approximate \$2.7 million additional revenue for the District. Additionally, the District collects a capital surcharge for international non-resident students that is used to offset capital expenditures.

Expenditures

The General Fund Unrestricted expenditure budget is where the District accounts for all operational expenditures. The breakdown of expenditures is as follows: 88.2% on salaries and benefits, 0.8% on supplies, 10.4% on other operational expenses and services, 0.3% on capital and 0.3% on transfers/financial aid. For 2009-10 the top three increases to expenditures are faculty salary schedule compression and part-time parity – \$1,331,596, increase in Health and Welfare benefits – \$877,556 and backfill for categoricals – \$851,675. The top three decreases to expenditure are savings through course schedule reduction – (\$3,493,944), decreases in contracts and contract services – (\$1,361,171) and non-recurring expenditures related to retroactive compensation – (\$390,742).

During the development of the 2009-10 adopted budget, the District's goal was to reduce the following expenditures from the 2008-09 adopted budget levels as follows: 1% reduction in supplies, 15% reduction in contracts/services (excluding certain fixed expenditures- rents/leases, global citizenship and copiers) and 20% reduction in capital expenditures. The adopted budget reflects that the District has achieved or exceeded the goal in all three areas.

The Contracts/Services line item in the adopted budget include: Rents/Leases (i.e. Madison Site, Swimming Pool, Big Blue Bus) 22%, Other Contract Services (i.e. Pest Control, Elevator Maintenance) 21%, Advertising 11%, Repairs and Maintenance of Equipment/Facilities 9%, Bank Fees and Bad Debt 6%, Legal Services (including Personnel Commission) 6%, Postage and Delivery Services 5%, Conferences and Training 5%, Consultants 4%, Off Campus Printing 3%, LACOE Contracts (i.e. PeopleSoft, HRS) 2%, Repairs/Improvement of Facilities 1%, Memberships and Dues 1%, Audit 1%, and Other Services (i.e. Software Licensing, Mileage, Professional Growth, Fingerprinting, Board Meetings, Field Trips) 3%.

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, especially with the possibility of a revenue base drop in future years due to state budget constraints. To do so, discretionary expenditure budgets for 2009-10 were reduced with minor augmentations for new programs and activities. This action of reducing discretionary budgets while maintaining the Board principles of protecting full time employees from layoffs or furloughs, along with the District's enrollment development and other planning efforts, should allow the District to maintain a fund balance at a level that is financially sound.

BASIC FINANCIAL STATEMENTS

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2009

ASSETS

Current Assets:

Cash and cash equivalents	\$ 106,782,763
Accounts receivable, net	24,380,920
Due from fiduciary funds	1,751,366
Inventories	2,041,957
Prepaid expenses and deposits	2,945,328
Prepaid issue costs - current portion	<u>137,974</u>

Total Current Assets 138,040,308

Non-Current Assets:

Restricted cash and cash equivalents	22,635,542
Prepaid issue costs - non-current portion	1,445,680
Long-term investments	2,691,425
Capital assets, net of accumulated depreciation	<u>311,262,630</u>

Total Non-Current Assets 338,035,277

TOTAL ASSETS \$ 476,075,585

LIABILITIES AND NET ASSETS

Current Liabilities:

Bank overdraft	\$ 1,498,216
Accounts payable	8,946,488
Accrued liabilities	6,788,608
Due to fiduciary funds	171,177
Deferred revenue	9,561,078
Compensated absences - current portion	1,082,580
Capital lease payable - current portion	311,379
Certifications of participation payable - current portion	1,170,000
General obligation bonds payable - current portion	<u>14,332,625</u>

Total Current Liabilities 43,862,151

Non-Current Liabilities:

Compensated absences	4,702,598
Other post-employment health care benefits	7,701,158
Capital lease payable	6,541,291
Certificates of participations payable	24,835,172
General obligation bonds payable	<u>262,298,691</u>

Total Non-Current Liabilities 306,078,910

TOTAL LIABILITIES 349,941,061

NET ASSETS

Invested in capital assets, net of related debt	85,727,563
Restricted for:	
Capital projects	8,132,770
Debt service	16,834,623
Unrestricted	<u>15,439,568</u>

TOTAL NET ASSETS 126,134,524

TOTAL LIABILITIES AND NET ASSETS \$ 476,075,585

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

For the Fiscal Year Ended June 30, 2009

OPERATING REVENUES	
Enrollment, tuition and other fees (gross)	\$ 37,753,443
Less: Scholarship discounts and allowances	<u>(4,573,040)</u>
Net enrollment, tuition and other fees	33,180,403
Grants and contracts, non-capital:	
Federal	20,748,872
State	11,313,758
Local	1,781,658
Auxiliary enterprise sales and charges, net	<u>9,074,925</u>
TOTAL OPERATING REVENUES	<u>76,099,616</u>
OPERATING EXPENSES	
Salaries	104,822,532
Employee benefits	31,230,837
Supplies, materials and other operating expenses and services	31,385,388
Financial aid	16,785,886
Utilities	3,281,237
Depreciation	<u>4,341,054</u>
TOTAL OPERATING EXPENSES	<u>191,846,934</u>
OPERATING LOSS	<u>(115,747,318)</u>
NON-OPERATING REVENUES (EXPENSES)	
State apportionments, non-capital	88,602,599
Local property taxes	12,488,027
State taxes and other revenues	3,612,582
Investment income, net	548,311
Contributions, gifts and grants, non-capital	<u>4,528,135</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>109,779,654</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)	<u>(5,967,664)</u>
OTHER REVENUES, EXPENSES, GAINS (LOSSES)	
Interest expense on capital-related debt	(13,113,413)
Interest income	1,623,511
Local property taxes and revenues, capital	<u>19,826,813</u>
TOTAL OTHER REVENUES, EXPENSES, GAINS (LOSSES)	<u>8,336,911</u>
INCREASE IN NET ASSETS	2,369,247
NET ASSETS - BEGINNING OF YEAR	<u>123,765,277</u>
NET ASSETS - END OF YEAR	<u>\$ 126,134,524</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, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 33,788,063
Federal grants and contracts	20,501,973
State grants and contracts	10,705,481
Local grants and contracts	1,920,934
Auxiliary operation sales	8,882,570
Payments to suppliers	(38,785,483)
Payments to/on-behalf of employees	(133,652,352)
Payments to/on-behalf of students	(16,771,723)
Payments from Trust and Agency Fund	<u>371,774</u>
Net cash used by operating activities	<u>(113,038,763)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State apportionments and receipts	80,934,456
Property taxes	12,146,097
State taxes and other revenue	3,403,214
Grants and gifts for other than capital purposes	<u>4,528,135</u>
Net cash provided by non-capital financing activities	<u>101,011,902</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from general obligation bonds	60,006,169
Proceeds from capital lease	6,852,670
Local revenue for capital purposes	2,704,820
Tax revenue for payment of capital debt	17,181,977
Purchase of capital assets	(29,302,563)
Principal paid on capital debt	(14,215,103)
Interest paid on capital debt	(7,314,526)
Interest on capital investments	<u>1,499,477</u>
Net cash provided by capital and related financing activities	<u>37,412,921</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>1,062,701</u>
Net cash provided by investing activities	<u>1,062,701</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 26,448,761

CASH BALANCE - Beginning of Year 102,969,544

CASH BALANCE - End of Year \$ 129,418,305

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2009

Reconciliation of Operating Loss to
Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (115,747,318)
Adjustments to reconcile net loss to net cash (used) by operating activities:	
Depreciation expense	4,341,054
Changes in assets and liabilities:	
Receivables, net	(706,065)
Due from fiduciary funds	368,670
Inventories	397,179
Prepaid expenses and deposits	(2,064,576)
Bank overdraft	(742,968)
Accounts payable	(1,867,890)
Accrued liabilities	(954,492)
Due to fiduciary funds	3,104
Deferred revenue	611,846
Compensated absences	232,788
Other post-employment health care benefits	<u>3,089,905</u>
Net cash used by operating activities	\$ <u>(113,038,763)</u>
Breakdown of ending cash balance:	
Cash and cash equivalents	\$ 106,782,763
Restricted cash and cash equivalents	<u>22,635,542</u>
Total	\$ <u>129,418,305</u>

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2009

	Trust and Agency Fund	Associated Student Body Fund
ASSETS		
Cash on hand and in banks	\$ 17,587,596	\$ 1,843,245
Accounts receivable:		
Miscellaneous	87,225	1,233
Due from governmental funds		171,177
Prepaid expenses	928	5,671
TOTAL ASSETS	\$ 17,675,749	\$ 2,021,326
LIABILITIES		
Accounts payable	\$ 105,662	\$ 3,214
Due to governmental funds	1,751,366	
Deferred revenue	24,200	
Funds held in trust	15,794,521	1,736,420
TOTAL LIABILITIES	17,675,749	1,739,634
NET ASSETS		
Restricted		
Unrestricted		281,692
TOTAL NET ASSETS	-	281,692
TOTAL LIABILITIES AND NET ASSETS	\$ 17,675,749	\$ 2,021,326

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Fiscal Year Ended June 30, 2009

	Associated Student Body Fund
ADDITIONS	
Other local revenues	<u>\$ 347,574</u>
TOTAL ADDITIONS	<u>347,574</u>
DEDUCTIONS	
Supplies and materials	116,461
Capital outlay	6,312
Services and other operating expenses	<u>187,327</u>
TOTAL DEDUCTIONS	<u>310,100</u>
Change in net assets	37,474
NET ASSETS - BEGINNING OF YEAR	<u>244,218</u>
NET ASSETS - END OF YEAR	<u><u>\$ 281,692</u></u>

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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*. 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.

Based upon the requirements of GASB Statement No. 14, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the District, including their ongoing financial support to the District or its other component units. 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, 2009

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 two potential component units have been included as part of the District's reporting entity through blended presentation:

The California School Boards Association Finance Corporation - The financial activity has been blended in the activity of the District. Certificates of Participation issued by the Corporation are included in the Statement of Net Assets. Individually prepared financial statements are not prepared for the Corporation.

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 Assets. 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. 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 and 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 and accounting and finance related activities.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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 and accounting and financial related activities.

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), including Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis – for State and Local Governments* and including Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis of Public College and Universities*, issued in June and November 1999 and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the District’s financial activities. 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 \$(1,348,694) on June 30, 2009, 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, 2009

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 income 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, 2009

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

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

In accordance with GASB Statement No. 20, the District follows all GASB statements issued prior to November 30, 1989 until subsequently amended, superceded or rescinded. The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 unless FASB conflicts with GASB. The District has elected to not apply FASB pronouncements issued after the applicable date.

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.

3. Inventories

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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, 2009, 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. Prepaid Issue Costs

Amounts paid for fees and underwriting costs associated with long-term debt are capitalized and amortized to interest expense over the life of the liability. These costs are amortized using the straight-line method.

6. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those amounts externally restricted as to use pursuant to the requirements of the District's grants, contracts and debt service requirements.

7. 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. Interest incurred during construction is not 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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

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

8. Accounts Payable

Accounts payable consists of amounts due to vendors, including accrued interest on long-term debt, total \$8,946,488.

9. Accrued Liabilities

Accrued liabilities consist of salary and benefits payable of \$6,788,608.

10. Deferred Revenue

Cash received for Federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

11. Compensated Absences

In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as liabilities of the District as compensated absences in the Statement of Net Assets.

The District has accrued a liability for the amounts attributable to load banking 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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

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

12. Net Assets

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 assets – expendable: Restricted expendable net assets include 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 assets are available.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist 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 assets – nonexpendable.

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

13. State Apportionments

Certain current year apportionments from the state are based upon various financial and statistical information of the previous year.

Any prior year corrections due to the recalculation in February of 2010 will be recorded in the year computed by the State.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

C. BASIS OF ACCOUNTING (continued)

14. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. 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 Education. 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.

15. On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers' Retirement System on behalf of all community college and school districts in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at \$1,113,600 for STRS.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

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

16. Classification of Revenues

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

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

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as State apportionments, taxes, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

17. Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. 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, 2009

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

C. BASIS OF ACCOUNTING (continued)

18. Estimates

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

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. 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. Based on recent legislation, the non-interest bearing portion of depository totals have 100% coverage regardless of the dollar amount. As of June 30, 2009, \$23,182,484 of the District's bank balance of \$30,561,103 was exposed to credit risk by being uninsured and collateralized, but not in the District's name.

Cash in County

In accordance with the Budget and Accounting Manual, the District maintains substantially all of its cash in the Los Angeles County Treasury as part of the common investment pool. These pooled funds are carried at cost which approximates fair value. The fair market value of the District's deposits in this pool as of June 30, 2009, as provided by the pool sponsor, was \$119,363,479. Interest earned is deposited quarterly into participating funds, except for the Restricted General Fund, Student Financial Aid Fund, Warrant Pass-Through, and Earthquake Capital Outlay Fund, in which case interest earned is credited to the General Fund. Any investment losses are proportionately shared by all funds in the pool.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

B. Cash in Bank Overdraft

The Bookstore Fund has a Cash in Bank overdraft balance of \$1,498,216 at June 30, 2009. 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, 2009 the pooled accounts had a positive balance of \$11,723,291.

C. Investments

The District did not violate any provisions of the California Government Code during the year ended June 30, 2009.

Under provisions of California Government Code Sections 53601 and 53602 and District Board Policy Section 6006, the District may invest in the following types of investments:

- State of California Local Agency Investment Fund (LAIF)
- Los Angeles County Investment Pools
- U.S. Treasury notes, bonds, bills or certificates of indebtedness
- U.S. Government Agency guaranteed instruments
- Fully insured or collateralized certificates of deposit
- Fully insured and collateralized credit union accounts

Investments for both the governmental fund types at June 30, 2009 are presented below:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard & Poor's / Moody's Rating</u>
First American Treasury Obligation	12/16/2009	\$1,604,550	AAA
Federated Treasury Obligation	n/a	<u>1,086,875</u>	(1)
Total		<u>\$2,691,425</u>	

(1) Amount is fully invested in a US government obligation; therefore, no risk is disclosed.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

C. Investments (continued)

Interest Rate Risk

Interest risk is the risk that changes in interest rates of debt investment will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Government Code Sections 16430 and 53601 allow governmental entities to invest surplus moneys in certain eligible securities. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount that may be invested in any one issuer. In accordance with Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, requirements, the District is exposed to concentration of credit risk whenever investments in any one issuer exceeds 5%. Currently the District has 60% investment in First American Treasury Obligation and 40% invested in Federal Treasury Obligation.

NOTE 3 - ACCOUNTS RECEIVABLE:

The accounts receivable balance as of June 30, 2009 consist of the following:

Federal and State	\$21,331,061
Tuition and Fees	250,856
Miscellaneous	<u>2,799,003</u>
Total	<u>\$24,380,920</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 4 - INTERFUND TRANSACTIONS:

Interfund activity has been eliminated in the governmental funds as required by GASB No. 34. The remaining individual interfund receivable and payable balances at June 30, 2009 are as follows:

Fund	Interfund Receivables	Interfund Payables
Governmental Fund	\$ 1,751,366	\$ 171,177
Trust and Agency Fund		1,751,366
Associated Student Body Fund	171,177	_____
Totals	\$1,922,543	\$1,922,543

NOTE 5 – CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2009:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Land	\$ 63,208,476	\$	\$	\$ 63,208,476
Site and site improvements	146,013,279	1,272,205		147,285,484
Equipment	12,577,475	3,256,140		15,833,615
Construction in progress	103,867,768	26,148,972	(1,374,754)	128,641,986
Total cost	325,666,998	30,677,317	(1,374,754)	354,969,561
Site and site improvements	(31,370,909)	(2,959,129)		(34,330,038)
Equipment	(7,994,968)	(1,381,925)	_____	(9,376,893)
Total accumulated depreciation	(39,365,877)	(4,341,054)	-	(43,706,931)
Net Capital Assets	\$ 286,301,121	\$ 26,336,263	\$ (1,374,754)	\$ 311,262,630

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 6 – LEASES:

A. Capital Leases

The District entered into a lease with Municipal Financial Corporation for the acquisition of certain capital improvement 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>Lease Payment</u>
2010	\$ 615,108
2011	562,731
2012	521,481
2013	535,753
2014	550,788
2015-2019	2,168,811
2020-2024	2,669,695
2025-2029	<u>2,802,501</u>
Total	10,426,868
Less Interest	<u>(3,574,198)</u>
Present value of net minimum lease payments	<u><u>\$ 6,852,670</u></u>

The District will receive no sublease rental revenues nor pay any contingent rentals for these improvements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 6 –LEASES:

B. Operating Leases

The District has entered into various operating leases for land, building, and equipment with lease terms in excess of one year. None of these agreements contain purchase options. Future minimum lease payment under these agreements are as follows.

<u>Fiscal Year</u>	<u>Lease Payment</u>
2010	\$ 800,000
2011	800,000
2012	800,000
2013	800,000
2014	800,000
2015-2019	4,000,000
2020-2024	4,000,000
2025-2029	4,000,000
2030-2034	4,000,000
2035-2039	4,000,000
2040-2044	4,000,000
2045-2049	4,000,000
2050-2054	4,000,000
2055-2056	<u>3,200,000</u>
Total	<u>\$ 39,200,000</u>

Current year expenditures for operating leases is approximately \$800,000. 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, 2009

NOTE 7 - CERTIFICATES OF PARTICIPATION:

- A. The agreement dated February 1, 1999, is between the Santa Monica Community College District as the "lessee" and the California School Boards Association Finance Corporation as the "lessor" or "corporation". The Corporation is a legally separate entity which was formed for the sole purpose of advance refunding the 1991 Certificates of Participation and to construct additional parking facilities and to acquire and improve administrative facilities and then leasing such items to the District.

The Corporation's funds for the advance refunding and for acquiring these items were generated by the issuance of \$24,905,000 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 2.90% to 4.90% for the length of the issuance.

Lease Payments - 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, 1999 and terminating June 1, 2024. 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 as listed on the following page.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)

Lease Payment Date	Principal	Interest	Total Payments
December 1, 2009	\$ -	\$ 402,264	\$ 402,264
June 1, 2010	800,000	402,264	1,202,264
December 1, 2010	-	385,264	385,264
June 1, 2011	830,000	385,264	1,215,264
December 1, 2011	-	367,419	367,419
June 1, 2012	865,000	367,419	1,232,419
December 1, 2012	-	348,389	348,389
June 1, 2013	905,000	348,389	1,253,389
December 1, 2013	-	328,026	328,026
June 1, 2014	945,000	328,026	1,273,026
2015-19	5,445,000	2,565,508	8,010,508
2020-24	6,940,000	1,074,753	8,014,753
	<u>\$ 16,730,000</u>	<u>\$ 7,302,984</u>	<u>\$ 24,032,984</u>

- B.** The agreement dated August 1, 2004 is between the Santa Monica Community College District as the "lessee" and the Los Angeles County Schools Regionalized Business Services Corporation as the "lessor" or "corporation". The Corporation is a legally separate entity which was formed for the sole purpose of advance refunding the 1997 Certificates of Participation in order to acquire the AET campus.

The Corporation's funds for the advance refunding were generated by the issuance of \$11,140,000 of Certificates of Participation (COPs). COPs are long-term debt instruments which are tax exempt and therefore issued at interest rates below current market levels for taxable investments which range from 3.00% to 4.375% for the length of the issuance.

Lease Payments - Lease payments are required to be made by the District under the lease agreement on each January 15 for use and possession of the capital improvements for the period commencing January 15, 2005 and terminating January 15, 2027. Lease payments will be funded in part from the proceeds of the Certificates.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)

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 as follows:

<u>Lease Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
July 15, 2009	\$ -	\$ 235,675	\$ 235,675
January 15, 2010	370,000	235,675	605,675
July 15, 2010	-	229,200	229,200
January 15, 2011	390,000	229,200	619,200
July 15, 2011	-	221,400	221,400
January 15, 2012	400,000	221,400	621,400
July 15, 2012	-	213,400	213,400
January 15, 2013	420,000	213,400	633,400
July 15, 2013	-	205,000	205,000
January 15, 2014	435,000	205,000	640,000
2015-2019	2,480,000	1,748,850	4,228,850
2020-2024	3,145,000	1,088,187	4,233,187
2025-2027	2,340,000	240,250	2,580,250
	<u>9,980,000</u>	<u>\$ 5,286,637</u>	<u>\$ 15,266,637</u>
Deferred charge on refunding	<u>(704,828) *</u>		
Total	<u>\$ 9,275,172</u>		

*The balance of the COPs refunded was \$912,128 less than the amount paid into the escrow account. This amount is recorded as a deferred charge on the statement of net assets and amortized to interest expense over 264 months; the life of the new debt. Amortization of \$41,460 was recognized during the 2008-09 year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 8 – BONDS PAYABLE:

A. Proposition T

1. 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. On August 1, 1993, the District issued Series A bonds totaling \$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.

On January 31, 2007, the District issued 1992 Election, 2007 Refunding Series B bonds totaling \$15,589,854 of capital appreciation bonds. The bonds have maturity dates from August 1, 2008 through August 1, 2014. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long-term debt at June 30, 2009 is \$2,806,034.

The proceeds were placed into an irrevocable escrow account and will be used to fund the future required principal and interest payments of the refunded bonds. The refunded bonds are considered in-substance defeased and are not recorded on the financial statements. The balance of the bonds refunded was \$334,191 less than the amount paid into the escrow account. This amount is recorded as a deferred charge on the statement of net assets and amortized to interest expense over 90 months; the life of the new debt. Amortization of \$44,559 was recognized during the 2008-09 year. The balance of the in-substance defeased debt as of June 30, 2009 is approximately \$5,585,000.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 8 – BONDS PAYABLE: (continued)

A. Proposition T (continued)

Debt service requirements on these bonds are as follows:

Fiscal Year	Principal	Accreted Interest Component	Total
2010	\$ 2,570,625	\$ 554,375	\$ 3,125,000
2011	2,469,513	780,487	3,250,000
2012	2,372,388	1,007,612	3,380,000
2013	2,278,950	1,236,050	3,515,000
2014	2,188,980	1,466,020	3,655,000
2015	1,131,314	913,686	2,045,000
Total	13,011,770	\$ 5,958,230	\$ 18,970,000
Unamortized bond premium*	1,878,617		
Deferred charge on refunding	(222,797)		
Total	\$ 14,667,590		

* Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The refunding bonds included a premium of \$2,817,925. This amount is amortized over 90 months using the straight-line method. Amortization of \$375,723 was recognized during the 2008-09 year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 8 – BONDS PAYABLE: (continued)

A. Proposition T (continued)

2. Debt service requirements on the remaining portion of Series C bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ <u>290,000</u>	\$ <u>15,950</u>	\$ <u>305,950</u>

B. Measure U

1. 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. On August 1, 2002, the District issued Series A bonds for \$25,000,000. Interest rates range from 3.0% to 5.0% payable semiannually on February 1 and August 1.

Debt service requirements on these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 650,000	\$ 632,263	\$ 1,282,263
2011	650,000	606,263	1,256,263
2012	650,000	580,263	1,230,263
2013	650,000	554,263	1,204,263
2014	650,000	528,263	1,178,263
2015-2019	3,350,000	2,222,688	5,572,688
2020-2024	3,660,000	1,408,438	5,068,438
2025-2028	<u>3,300,000</u>	<u>427,938</u>	<u>3,727,938</u>
	<u>\$ 13,560,000</u>	<u>\$ 6,960,378</u>	<u>\$ 20,520,378</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 8 – BONDS PAYABLE: (continued)

B. Measure U (continued)

2. On May 13, 2004 the District issued Series B bonds 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, 2009 is \$1,079,865.

Debt service requirements for these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2010	\$ 630,000	\$ 796,225	\$	\$ 1,426,225
2011	655,000	772,600		1,427,600
2012	690,000	739,850		1,429,850
2013	725,000	705,350		1,430,350
2014	760,000	669,100		1,429,100
2015-2019	4,395,000	2,746,638		7,141,638
2020-2024	5,610,000	1,532,750		7,142,750
2025-2029	2,979,971	200,750	3,950,029	7,130,750
	<u>\$ 16,444,971</u>	<u>\$ 8,163,263</u>	<u>\$ 3,950,029</u>	<u>\$ 28,558,263</u>

3. On August 2, 2005 the District issued Series C bonds 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 semiannually on August 1 and February 1.

Capital appreciation bonds were issued with maturity dates from August 1, 2008 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, 2009 is \$9,643,711.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 8 – BONDS PAYABLE: (continued)

B. Measure U (continued)

A portion of the proceeds was used to refund the outstanding balance of one of the District's COP's. The difference between the reacquisition price and the net carrying amount of the COP is recorded as a deferred charge of \$539,372 on the statement of net assets and amortized to interest expense over 192 months; the life of the old debt. Amortization of \$33,711 was recognized during the 2008-09 year.

Debt service requirements for these bonds are as follows:

Fiscal Year	Principal	Interest	Accreted Interest Component	Total
2010	\$ 2,909,292	\$ 1,134,500	\$ 476,594	\$ 4,520,386
2011	3,062,520	1,134,500	652,371	4,849,391
2012	3,202,739	1,134,500	856,285	5,193,524
2013	3,314,689	1,134,500	1,088,885	5,538,074
2014	3,417,542	1,134,500	1,345,439	5,897,481
2015-2019	15,963,550	5,672,500	10,269,888	31,905,938
2020-2024	15,254,405	5,672,500	18,056,618	38,983,523
2025-2029	14,865,682	5,672,500	24,730,646	45,268,828
2030-2031	<u>22,690,000</u>	<u>1,192,500</u>		<u>23,882,500</u>
	84,680,419	<u>\$ 23,882,500</u>	<u>\$ 57,476,726</u>	<u>\$ 166,039,645</u>
Unamortized bond premium*	1,227,760			
Deferred charge for refunding	<u>(404,528)</u>			
Total	<u>\$ 85,503,651</u>			

* Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series C bonds included a premium of \$1,450,109. This amount is amortized over 300 months using the straight-line method. Amortization of \$58,004 was recognized during the 2008-09 year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 8 – BONDS PAYABLE: (continued)

B. Measure U (continued)

4. On January 31, 2007 the District issued 2007 Series A bonds totaling \$11,999,987 of capital appreciation bonds. 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, 2009 is \$1,405,794.

Debt service requirements on these bonds are as follows:

Fiscal Year	Principal	Accreted Interest Component	Total
2010	\$	\$	\$
2011			
2012			
2013			
2014			
2015-2019	4,384,852	2,235,148	6,620,000
2020-2024	3,618,437	3,306,563	6,925,000
2025-2029	2,819,063	4,085,937	6,905,000
2030-2032	1,177,635	2,967,365	4,145,000
Total	\$ 11,999,987	\$ 12,595,013	\$ 24,595,000

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 8 – BONDS PAYABLE: (continued)

C. Measure S

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

On January 31, 2007 the District issued 2004 Election, 2007 Refunding Series C bonds for \$15,660,000 of current interest bonds and \$24,404,768 of capital appreciation bonds. The interest rate is 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. 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, 2009 is \$6,852,441.

The proceeds were placed into an irrevocable escrow account and will be used to fund the future required principal and interest payments of the refunded bonds. The refunded bonds are considered in-substance defeased and are not recorded on the financial statements. The balance of the bonds refunded was \$573,930 less than the amount paid into the escrow account. This amount is recorded as a deferred charge on the statement of net assets and amortized to interest expense over 114 months; the life of the new debt. Amortization of \$60,414 was recognized during the 2008-09 year. The balance of the in-substance defeased debt as of June 30, 2009 is \$40,065,000.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 8 – BONDS PAYABLE: (continued)

C. Measure S (continued)

Debt service requirements on these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2010	\$ 4,055,455	\$ 783,000	\$ 1,459,545	\$ 6,298,000
2011	3,579,290	783,000	1,935,710	6,298,000
2012	3,244,969	783,000	2,420,031	6,448,000
2013	2,889,218	783,000	2,825,782	6,498,000
2014	2,706,142	783,000	3,358,858	6,848,000
2015-2017	<u>18,225,607</u>	<u>2,008,250</u>	<u>3,949,393</u>	<u>24,183,250</u>
	34,700,681	<u>\$ 5,923,250</u>	<u>\$ 15,949,319</u>	<u>\$ 56,573,250</u>
Unamortized bond premium*	8,447,499			
Deferred charge on refunding	<u>(422,895)</u>			
Total	<u>\$ 42,725,285</u>			

* Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The refunding bonds included a premium of \$11,464,462. This amount is amortized over 114 months using the straight-line method. Amortization of \$1,206,785 was recognized during the 2008-09 year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 8 – BONDS PAYABLE: (continued)

C. Measure S (continued)

2. Debt service requirements on the remaining portion of Series A bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,450,000	\$ 433,887	\$ 1,883,887
2011	1,500,000	383,137	1,883,137
2012	1,555,000	330,637	1,885,637
2013	1,635,000	249,000	1,884,000
2014	1,725,000	163,163	1,888,163
2015	1,815,000	72,600	1,887,600
	<u>\$ 9,680,000</u>	<u>\$ 1,632,424</u>	<u>\$ 11,312,424</u>

3. On February 17, 2009 the District issued Series C bonds for \$30,885,000 of current interest bonds. Interest rate range from 1.77% to 4.39% payable semiannually on August 1 and February 1.

Capital appreciation bonds of \$26,112,857 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. There is no accreted interest included in long-term debt at June 30, 2009 for this bond.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 8 – BONDS PAYABLE: (continued)

C. Measure S (continued)

Debt service requirements for these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2010	\$	\$ 1,300,695	\$	\$ 1,300,695
2011		1,592,688		1,592,688
2012		1,592,688		1,592,688
2013	130,000	1,589,763		1,719,763
2014	240,000	1,581,438		1,821,438
2015-2019	9,670,000	7,197,423		16,867,423
2020-2024	24,817,314	2,331,394	5,172,686	32,321,394
2025-2029	18,761,492		36,373,508	55,135,000
2030	3,379,051		9,260,949	12,640,000
	<u>56,997,857</u>	<u>\$ 17,186,089</u>	<u>\$ 50,807,143</u>	<u>\$ 124,991,089</u>
Unamortized bond premium*	<u>2,974,130</u>			
Total	<u>\$ 59,971,987</u>			

* Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series C bonds included a premium of \$3,008,315. This amount is amortized over 300 months using the straight-line method. Amortization of \$34,185 was recognized during the 2008-09 year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 9 – LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2009 is shown below:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	Amount Due in One Year
Compensated absences	\$ 5,552,390	\$ 232,788	\$	\$ 5,785,178	\$ 1,082,580
Other post-employment health care benefits	4,611,253	3,089,905		7,701,158	
Capital lease		6,852,670		6,852,670	311,379
Certificates of participation	27,093,712		1,088,540	26,005,172	1,170,000
General obligation bonds	209,458,418	60,006,169	14,621,116	254,843,471	14,332,625
Accreted interest	15,343,316	8,060,819	1,616,290	21,787,845	
Total	<u>\$ 262,059,089</u>	<u>\$ 78,242,351</u>	<u>\$ 17,325,946</u>	<u>\$ 322,975,494</u>	<u>\$ 16,896,584</u>

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 State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS) and part-time, seasonal and temporary employees and employees not covered by STRS or PERS are members of the Public Agency Retirement System (PARS).

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

State Teachers' Retirement System (STRS) (continued)

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-09 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The average required employer contribution for fiscal year 2008-09 was 9.428% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

Contributions to STRS and PERS

The District's contributions to STRS and PERS for each of the last three fiscal years is as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>STRS</u>		<u>PERS</u>	
	<u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>	<u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
2007	\$4,218,007	100%	\$2,846,873	100%
2008	4,356,091	100%	3,248,571	100%
2009	4,555,079	100%	3,538,985	100%

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. Medical, dental and vision benefits are paid to retirees up until the age of 65. The District contributes 100% of the amount of premiums incurred by retirees and their dependents. For all retirees above the age of 65, medical benefits are paid, not-to-exceed a maximum amount determined by the District, for life. Currently, 300 employees 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 \$3,392,553 to the plan including an irrevocable contribution of \$1,496,996 to the CalPERS California Employers' Retiree Benefit Trust and \$1,895,557 in premium payments. 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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

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 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 (or funding excess) 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)	\$6,456,114
Interest on net OPEB obligation	230,562
Adjustment to annual required contribution	<u>(204,218)</u>
Annual OPEB cost (expense)	6,482,458
Contributions made	<u>(3,392,553)</u>
Change in net OPEB obligation	3,089,905
Net OPEB obligation - Beginning of Year	<u>4,611,253</u>
Net OPEB obligation - End of Year	<u><u>\$7,701,158</u></u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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>
6/30/2008	\$6,456,114	28.6%	\$4,611,253
6/30/2009	\$6,482,458	52.3%	\$7,701,158

Fiscal year 2008 was the year of implementation of GASB Statement No. 45 and the District elected to implement prospectively, therefore, three year comparative data is not yet available.

Funding Status and Funding Progress

As of November 11, 2008, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits as well as the unfunded actuarial accrued liability (UAAL) was \$68,668,113. The covered payroll (annual payroll of active employees covered by the plan) was \$61,259,354, and the ratio of the UAAL to the covered payroll was 112%. In June 2009, the District made an irrevocable contribution of \$1,496,996 to the CalPERS California Employer's Retiree Benefit Trust.

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 funding progress, presented as required supplementary information following the notes to the financial statements, will present 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, 2009

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 November 11, 2008 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses) which is a blended rate of the expected long-term investment returns on plan assets and on the employers own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 4 percent. Both rates included a 3.0 percent inflation assumption. The actuarial value of assets was determined using values provided by the District. Because there has not been a previous valuation to comply with GASB 45, it was not necessary at this time for the District to make an election with respect to whether to use an asset smoothing formula and, if so, what smoothing method to use. The UAAL is being amortized as a level percentage of payroll. The remaining amortization period at June 30, 2009, was twenty-eight years.

NOTE 12 - JOINT POWERS AGREEMENT:

The Santa Monica Community College District participates in four 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); the Statewide Association of Community Colleges (SWACC); and the California Statewide Tax Authority (the Authority). 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, 2009

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. Based upon an actuarial study, 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.

The Authority purchases delinquent ad valorem property taxes from school agencies in Los Angeles County to receive additional unrestricted revenues through financing of property tax delinquencies. The Authority is a pass-through entity and financial information is not available. For the fiscal year 2008-09, the District paid \$935,422 to the Authority.

Separate financial statements for each JPA may be obtained from the respective entity.

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

	ASCIP 6/30/2008 <u>(Audited)</u>	SCCCD-JPA 6/30/2008 <u>(Audited)</u>		SWACC 6/30/2008 <u>(Audited)</u>
		Workers		
		<u>Compensation Insurance Fund</u>	<u>Retiree Health Insurance Fund</u>	
Total assets	\$215,712,557	\$ 19,461,100	\$ 84,504,738	\$ 39,034,338
Total liabilities	<u>130,986,429</u>	<u>1,169,664</u>	-	<u>19,175,367</u>
Retained earnings	<u>\$ 84,726,128</u>	<u>\$ 18,291,436</u>	<u>\$ 84,504,738</u>	<u>\$ 19,858,971</u>
Total revenues	\$183,000,226	\$ 8,226,035	\$ 5,491,319	\$ 18,702,614
Total expenditures	<u>163,140,353</u>	<u>6,994,297</u>	<u>1,690</u>	<u>16,731,883</u>
Change in retained earnings	<u>\$ 19,859,873</u>	<u>\$ 1,231,738</u>	<u>\$ 5,489,629</u>	<u>\$ 1,970,731</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 13 – FUNCTIONAL EXPENSE:

	Salaries	Benefits	Supplies, Materials, Utilities, Other Expenses and Services	Financial Aid	Depreciation	Total
Instructional Activities	\$ 53,591,754	\$ 13,449,358	\$ 881,876	\$	\$	\$ 67,922,988
Academic Support	10,023,438	3,069,431	1,424,641			14,517,510
Student Services	17,030,032	4,535,943	3,264,717			24,830,692
Operation & Maintenance of Plant	4,686,536	1,978,948	2,494,974			9,160,458
Institutional Support Services	11,970,398	6,126,936	4,913,664			23,010,998
Community Services & Economic Development	1,177,526	299,329	251,633			1,728,488
Ancillary Services & Auxiliary Operations	6,195,688	1,717,779	3,662,178			11,575,645
Physical Property & Related Acquisitions	147,160	53,113	17,772,942			17,973,215
Student Financial Aid				16,785,886		16,785,886
Depreciation Expense					4,341,054	4,341,054
	<u>\$ 104,822,532</u>	<u>\$ 31,230,837</u>	<u>\$ 34,666,625</u>	<u>\$ 16,785,886</u>	<u>\$ 4,341,054</u>	<u>\$ 191,846,934</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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 14 – COMMITMENTS AND CONTINGENCIES: (continued)

C. Purchase Commitments

As of June 30, 2009, the District had the following commitments with respect to construction costs for the following projects:

<u>Project</u>	
Athletic Fields Phase I, Corsair Field	\$ 608,876
Satellite Campus Parking Facilities and Roadway Improvements	493,771
Parking Garage, Grounds and Equipment - Student Services	8,703,914
Liberal Arts South	91,516
North Quad Plaza	8,610
Master Planning	<u>151,503</u>
Total	<u><u>\$10,058,190</u></u>

Projects will be funded through bond proceeds, State capital outlay funds and State scheduled maintenance allocations.

D. Earthquake Capital Outlay Projects Fund

As of June 30, 2009, the Earthquake Capital Outlay Projects Fund has a receivable balance of \$4.3 million that has remained uncollected since the 2003-04 fiscal year. This receivable is related to Federal Emergency Management Agency (FEMA) recovery funding to repair damaged District buildings caused by the 1994 Northridge earthquake.

On November 5, 2008, FEMA informed the District that it has completed and closed its review of the District's Federal Final Inspection Report. It has been determined that the District is eligible for funding that it applied for and payment is expected in the 2009-2010 fiscal year. Because of this recent communication, these financial statements do not include an allowance for doubtful accounts related to the earthquake recovery funding receivable.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 15 – SUBSEQUENT DISCOVERY OF FACT:

Subsequent to the date of the auditor's report, it was determined that the liability for a capital lease was not reported in the financial statements. The District entered in to a lease with Municipal Finance Corporation for the acquisition of certain capital improvements under an agreement which provides for title to pass upon expiration of the lease period. Neither the obligation nor the related assets were reported in the original report dated December 18, 2009. Had this information been known at the time of the original report and not included, the opinion on the Statement of Net Assets and Statement of Cash Flows would have been qualified; therefore, the opinion on the financial statements remains unqualified. The Statement of Net Assets, the Statement of Cash Flows and Notes 2, 5, 6 and 9 have been revised to reflect this additional information. The following summarizes the effect on the financial statements:

<u>Account</u>	<u>As Previously Reported</u>	<u>As Revised</u>
Cash and cash equivalents	\$ 102,561,827	\$ 106,782,763
Capital assets, net	308,630,896	311,262,630
Capital lease payable	-	6,852,670

REQUIRED SUPPLEMENTARY INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF POST-EMPLOYMENT HEALTH CARE BENEFITS FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2009**

<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>
11/11/2008	\$ -	\$ 68,668,113	\$ 68,668,113	0.0%	\$ 61,259,354	112.1%

Notes: Fiscal year 2008 was the year of implementation of GASB Statement No. 45 and the District elected to implement prospectively; therefore, prior year actuarial data is not available. In future years, as subsequent actuarial valuations are performed, three year actuarial trend information will be presented.

In June 2009, the District made an irrevocable contribution of \$1,496,996 to the CalPERS California Employers' Retiree Benefit Trust.

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, 2009

NOTE 1 - PURPOSE OF SCHEDULE:

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

This schedule is prepared to show information for the most recent actuarial valuation and in future years, the information from the three most recent actuarial valuations in accordance with Statement No. 45 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The schedule is intended to show trends about the funding progress of the District's actuarially determined liability for post-employment benefits other than pensions.

SUPPLEMENTARY INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT

HISTORY AND ORGANIZATION

June 30, 2009

The Santa Monica Community College District was established in 1929. There were no changes in the boundaries of the District during the current year. The District is currently operating one community college located in Santa Monica.

BOARD OF TRUSTEES

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Louise Jaffe	Chair	November 2010
Judge David B. Finkel (Ret)	Vice-Chair	November 2010
Dr. Susan Aminoff	Member	November 2012
Rob Rader	Member	November 2012
Dr. Nancy Greenstein	Member	November 2010
Dr. Margaret Quiñones-Perez	Member	November 2012
Dr. Andrew Walzer	Member	November 2010
Seth Smith	Student Trustee	June 2010

SENIOR ADMINISTRATION

Dr. Chui L. Tsang	Superintendent/ President
Randal Lawson	Executive Vice President
Robert Isomoto	Vice-President, Business/Administration
Michael Tuitasi	Vice President, Student Affairs
Teresita Rodriguez	Vice President, Enrollment Development
Jeffery Shimizu	Vice President, Academic Affairs
Marcia Wade	Vice President, Human Resources
Don Girard	Government Relations/Institutional Communications
Robert Myers	Campus Counsel

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Fiscal Year Ended June 30, 2009

	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Program Expenditures</u>
Student Financial Aid Cluster			
Direct from Department of Education			
Financial Aid Administrative Allowances	84.000	N/A	\$ 112,922
Supplemental Education Opportunity Grant (SEOG)	84.007	N/A	649,732
Federal Work Study	84.033	N/A	551,852
Academic Competitive Grant	84.375	N/A	212,125
Pell Grant	84.063	N/A	<u>14,270,610</u>
Total Student Financial Aid Cluster			<u>15,797,241</u>
 Department of Commerce			
Direct:			
Corporation for Public Broadcasting	11.000	N/A	<u>988,620</u>
 Department of Education			
Direct:			
Hispanic - Serving Institution Program (H.S.I.):			
Instructional Grant (Title V)	84.031S	N/A	559,119
Supporting Student Success in Pre-Transfer Mathematics (Title V)	84.031S	N/A	710,059
TRIO Cluster			
Student Support Services	84.042	N/A	247,043
Upward Bound	84.047A	N/A	<u>290,573</u>
Subtotal Direct Programs			<u>1,806,794</u>
Passed through Chancellor's Office of the California Community Colleges:			
Career & Technical Education:			
Perkins, Title IC	84.048	(1)	544,463
Tech Prep Education	84.243	(1)	81,405
Passed through El Camino Community College District:			
Hispanic - Serving Institution Program (H.S.I.):			
Preparing Tomorrow's Teachers Today (Title V CO-OP)	84.031S	(1)	299,599
Passed through the Regents of the University of California:			
Teacher Quality Improvement Grant	84.336	(1)	<u>101,077</u>
Subtotal Pass Through Programs			<u>1,026,544</u>
Total Department of Education			<u>2,833,338</u>
 Department of Health and Human Services			
Passed through Chancellor's Office of the California Community Colleges:			
Temporary Assistance for Needy Families (TANF)	93.558	(1)	<u>63,502</u>

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Fiscal Year Ended June 30, 2009

	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Program Expenditures</u>
Department of Labor			
Direct:			
Community Based Job Training Grant	17.261	N/A	389,490
Passed through State of California Employment Development Department:			
Construction Talent Transfer	17.260	(1)	<u>304,368</u>
Total Department of Labor			<u>693,858</u>
National Aeronautics and Space Administration			
Passed through United Negro College Fund Special Programs Corporation:			
Curriculum Improvement Partnership II (CIPA II)	43.000	(1)	97,089
Jet Propulsion Laboratory	43.001	(1)	<u>3,640</u>
Total National Aeronautics and Space Administration			<u>100,729</u>
Small Business Administration			
Passed through Long Beach Community College District:			
Small Business Development Center (SBDC)	59.037	(1)	<u>269,261</u>
Department of State			
Direct:			
Community College Opportunity for Education Abroad	19.000	S-ECAAS-08-GR-143 (SM)	<u>2,323</u>
			<u>\$ 20,748,872</u>

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

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, 2009

	Program Revenues			Total	Total Program Expenditures
	Cash Received	Accounts Receivable	Deferred Income		
Matriculation (Credit)	\$ 1,442,463	\$	\$ 151,612	\$ 1,290,851	\$ 1,290,851
Matriculation (Non Credit)	48,057		824	47,233	47,233
Extended Opportunity Program and Services (EOPS)	1,439,138		14,650	1,424,488	1,424,488
Cooperative Agencies Resources for Education (CARE)	100,183		1,604	98,579	98,579
Disabled Student Program and Services (DSPS)	1,506,752	5,986		1,512,738	1,512,738
Economic Development (Job Development Incentive)	248,978	51,021		299,999	299,999
Transfer and Articulation	4,000		2,900	1,100	1,100
Faculty & Staff Diversity	19,806			19,806	19,806
Staff Development	40,851			40,851	40,851
Nursing Grant	235,733	6,272		242,005	242,005
Calworks	322,783			322,783	322,783
Fostering Student Success Nursing Grant	94,543	122,492		217,035	217,035
Child Development Training	7,500			7,500	7,500
Arts Industry Standards Project	25,342	54,762		80,104	80,104
Small Business Development Center	129,795	8,000		137,795	137,795
Financial Aid Administration	681,564		51,858	629,706	629,706
Career and Technical Education Equipment	350,194		60,100	290,094	290,094
Basic Skills Funding	640,373		491,511	148,862	148,862
CAHSEE Preparation Program	189,096			189,096	189,096
Industry Driven Regional Collaborative	20,268	47,425		67,693	67,693
CAHSHEE Preparation II	106,573	112,213		218,786	218,786
Strengthening Career Tech	175,706			175,706	175,706
Career Tech Education/Community Collaborative	386,145		370,501	15,644	15,644
Workforce Innovations Project	249,908		246,916	2,992	2,992
Associate Degree in Nursing to Bachelor's or Master's Degree in Nursing Collaborative	142,000		83,480	58,520	58,520
Equipment for Nursing Programs	73,795		5,544	68,251	68,251
Total State Programs	<u>\$ 8,681,546</u>	<u>\$ 408,171</u>	<u>\$ 1,481,500</u>	<u>\$ 7,608,217</u>	<u>\$ 7,608,217</u>

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURE FOR STATE GENERAL APPORTIONMENT
ANNUAL (ACTUAL) ATTENDANCE
For the Fiscal Year Ended June 30, 2009**

	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2008 only)			
1. Noncredit ¹	97.61		97.61
2. Credit	2,548.43		2,548.43
B. Summer Intersession (Summer 2009 - Prior to July 1, 2009)			
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	14,729.71		14,729.71
(b) Daily Census Contact Hours	5,476.92		5,476.92
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit ¹	704.80		704.80
(b) Credit	85.33		85.33
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	16.64		16.64
(b) Daily Census Contact Hours	2.56		2.56
(c) Noncredit Independent Study/Distance Education Courses	N/A		N/A
D. Total FTES	23,662.00	-	23,662.00
Supplemental Information (subset of above information)			
E. In-Service Training Courses (FTES)	N/A		
H. Basic Skills courses and Immigrant Education			
(a) Noncredit ¹	36.06		
(b) Credit	2,164.93		
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	123.97		
Centers FTES			
(a) Noncredit	7.10		
(b) Credit	1,365.93		

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 FUND BALANCES
For the Fiscal Year Ended June 30, 2009

	<u>Auxiliary Funds</u>
June 30, 2009 Annual Financial and Budget Report Fund Balance	\$ <u>2,181,123</u>
Adjustments and Reclassifications:	
Post Closing Entries	<u>81,974</u>
Net Adjustments and Reclassifications	<u>81,974</u>
June 30, 2009 Audited Financial Statements Fund Balance	\$ <u>2,263,097</u>

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.

Note: The Chancellor's Office does not require the Certificates of Participation be recorded on the books of the District; therefore, the COPs Capital Projects Fund was not reported on the CCFS-311 but are included in these financial statements.

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, 2009

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue from Federal Sources			
Higher Education Act	\$ 3,569,468	\$ 2,658,244	\$ (911,224)
Workforce Investment Act	467,467	304,368	(163,099)
Temporary Assistance for Needy Families (TANF)	63,502	63,502	-
Student Financial Aid	125,012	112,922	(12,090)
Career & Technical Education	643,514	625,868	(17,646)
Other Federal Revenue	3,246,936	1,851,502	(1,395,434)
Revenue from State Sources			
General Apportionments	87,454,857	88,602,599	1,147,742
Categorical Apportionments	14,179,931	10,619,892	(3,560,039)
Other State Revenues	3,754,983	3,470,147	(284,836)
Revenue from Local Sources			
Property Taxes	10,478,047	12,240,907	1,762,860
Interest and Investment Income	615,800	414,554	(201,246)
Student Fees and Charges	32,319,653	33,180,403	860,750
Other Local Revenue	7,197,695	6,304,604	(893,091)
TOTAL REVENUES	<u>164,116,865</u>	<u>160,449,512</u>	<u>(3,667,353)</u>
EXPENDITURES			
Academic Salaries	72,714,198	69,526,242	3,187,956
Classified Salaries	36,779,439	33,709,078	3,070,361
Employee Benefits	28,978,485	27,805,791	1,172,694
Supplies and Materials	2,645,855	1,664,873	980,982
Other Operating Expenses & Services	26,927,488	23,605,205	3,322,283
Capital Outlay	5,130,018	1,876,027	3,253,991
TOTAL EXPENDITURES	<u>173,175,483</u>	<u>158,187,216</u>	<u>14,988,267</u>
Excess (deficiencies) of revenues over expenditures	<u>(9,058,618)</u>	<u>2,262,296</u>	<u>11,320,914</u>
OTHER FINANCING SOURCES (USES)			
Interfund Transfers In	188,791	162,612	(26,179)
Interfund Transfers Out	(482,531)	(1,960,590)	(1,478,059)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(293,740)</u>	<u>(1,797,978)</u>	<u>(1,504,238)</u>
Excess (deficiencies) of revenues over expenditures and other sources (uses)	<u>\$ (9,352,358)</u>	464,318	<u>\$ 9,816,676</u>
Fund balance, beginning of year		<u>21,923,410</u>	
Fund balance, end of year		<u>\$ 22,387,728</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, 2009**

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, 2009 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Federal Awards and the Schedule of State Financial Assistance was prepared for the Santa Monica Community College District on the modified accrual basis of accounting.

B. Schedule of Workload Measure for State General Apportionment

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 Fund Balances

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the Form CCFS-311 to the audited fund balances.

D. Schedule of Budgetary Comparison for the Combined 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 AUDITORS' REPORTS



**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 the financial statements of Santa Monica Community College District (the District) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009, except for Note 15, as to which the date is February 3, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Santa Monica Community College District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

**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***

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of management, the Board, the California Department of Finance and the State Chancellor's Office and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

December 18, 2009



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Santa Monica Community College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Internal Control Over Compliance


The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was to the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board, the California Department of Finance and the State Chancellor's Office and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


VICENTI, LLOYD & STUTZMAN LLP

December 18, 2009



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 basic financial statements of Santa Monica Community College District, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009, except for Note 15, as to which the date is February 3, 2010.

Our audit was made in accordance with auditing standards generally accepted in the United States of America, and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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. Our audit does not provide a legal determination of the District's compliance with these requirements.

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with the Chancellor's Office's California Community Colleges Contracted District Audit Manual (CDAM). Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination:

- Whether the District's salaries of classroom instructors equal or exceed 50 percent of the District's current expense of education in accordance with Section 84362 of the Education Code.
- Whether the District has the appropriate documentation to support the FTES, if any, that are claimed for instructional service agreements/contracts.
- Whether the District has the ability to support timely accurate and complete information for workload measures used in the calculation of State General Apportionment.

REPORT ON STATE COMPLIANCE

- Whether the District has acted to ensure that the residency of each student is properly classified and that only the attendance of California resident students is claimed for apportionment purposes.
- Whether the District claimed for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date.
- Whether District has complied with all requirements necessary to claim FTES for the attendance of concurrently enrolled K-12 pupils.
- Whether the District had local funds to support at least 75 percent of the credit matriculation activities and that all matriculation expenditures are consistent with the District's State approved matriculation plan.
- Whether the Gann Limit Calculation was properly calculated and supported by adequate documentation.
- Whether the District is reporting the total amount that students should have paid for enrollment fees for the purpose of determining the District's share of annual apportionment.
- Whether the District expended CalWORKs program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKs students.
- Whether the District spent an amount equal to or greater than the amount provided by the State for scheduled maintenance and special repairs. Funds provided by the State must be to supplement, not supplant, District scheduled maintenance funds. The amount expended for plant maintenance and operations during the base year of 1995-96 was \$5,506,903.
- Whether all District courses that qualify for State apportionment are open to enrollment by the general public unless specifically exempted by statute.
- Whether the District has adopted policies or regulations regarding the authority of the District to require students to provide various types of instructional materials and whether the District has advised students of the exemptions from payment of health fees and established a process to ensure that students may claim the exemptions.

In our opinion, Santa Monica Community College District complied with the compliance requirements for the state programs listed and tested above. Nothing came to our attention as a result of the aforementioned procedures to indicate that Santa Monica Community College District had not complied with the terms and conditions of state assisted educational programs not selected for testing.

REPORT ON STATE COMPLIANCE

Our examination of compliance made for the purposes set forth in the preceding paragraph of this report would not necessarily disclose all instances of noncompliance.

This report is intended solely for the information and use of management, the Board, the California Department of Finance and the State Chancellor's Office and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

December 18, 2009

FINDINGS AND RECOMMENDATIONS

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
AS REQUIRED UNDER FEDERAL OMB CIRCULAR A-133
June 30, 2009

Financial Statements

Type of auditor's report issued: Unqualified

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: Unqualified

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, 84.375 and 84.063 84.048 and 84.243	Student Financial Assistance Cluster of Programs Career Technical Education Title 1C

Dollar threshold used to distinguish between Type A
 and Type B programs: \$ 622,466

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, 2009

There were no findings and questioned costs related to basic financial statements for the year ended June 30, 2009.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2009

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2009.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2009

Finding No.	Finding	Recommendation	Current Status
08-1	<p><u>ANTIFRAUD PROGRAM</u></p> <p>Original Finding 07-1</p> <p>In accordance with auditing standards (SAS 99) related to audit planning and fraud risk assessment, we were required to assess the organization’s anti-fraud program. Although some localized training occurred in previous years, the training has not been on a consistent and district-wide basis. Continued communication about the District’s anti-fraud program is needed to ensure employees fully understand what is expected of them and know how to report unethical practices. Research has shown that employees need to be formally educated annually on some aspect of an organization’s anti-fraud program to fully comprehend and to know what to do if fraud is suspected. Although the District has some processes in place, additional controls and policies would strengthen the District’s program and bring it into alignment with the recommendations published by the American Institute of Certified Public Accountants, in their document entitled “Management Antifraud Programs and Controls: Guidance to Help Prevent, Deter, and Detect Fraud”. The following recommendations are the result of interviews with a sample of management and employees regarding the culture of the organization and the intricacies of the current antifraud program.</p>	<p>We believe the District should consider the following:</p> <ol style="list-style-type: none"> 1) Adopt an organizational-wide code of ethics, which is permeated throughout the organization at least annually. It is important to provide a Board approved written document to promote honest and ethical conduct. This should be effectively communicated to employees through annual confirmation, training and management oversight. 2) Continue the implementation process for establishing an anonymous mechanism for reporting concerns about fraud. This should include a documented process for the receipt, retention and treatment of complaints that is confidential and anonymous. 	Implemented.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2009

<u>Finding No.</u>	<u>Finding</u>	<u>Recommendation</u>	<u>Current Status</u>
08-2	<p><u>HUMAN RESOURCE INTERNAL CONTROLS</u></p> <p>We reviewed the internal controls related to the Payroll and HRS system and noted that Human Resource personnel have the ability to enter new certificated employees in the HRS system and ISIS system and set up direct deposit for the new employees. Once the new employee is entered there is no control in place to prevent the system from automatically generating a check. There is currently not a process in place to do an independent check between Board approved new hires and employees appearing on the payroll system. Due to the large number of employees, an unauthorized employee could go undetected for an undetermined amount of time.</p>	<p>Review the internal controls related to adding new employees and updating information in the HRS system. Below are some suggested procedures to consider during the review process:</p> <ol style="list-style-type: none"> 1) Revise procedures for adding new employees in the HRS and ISIS system; ensure that Board approval is reviewed and provided to both the HR and Payroll departments. 2) Run exception reports between the two systems for employees entered in the HRS system and not the ISIS system. 	Implemented.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2009

Finding No.	Finding	Recommendation	Current Status
08-3	<u>HUMAN RESOURCE - W-4 SUPPORTING DOCUMENTS</u> Payroll W-4 forms should be maintained for all employees. The W-4 form for 3 out of 10 employees reviewed did not match the payroll system. Missing current W-4 forms represents pertinent payroll documentation not on file. There is not a current process for review of data entry and monitoring of changes made to employee withholding information.	Ensure pertinent payroll documentation is obtained and properly filed. Develop standard procedures to review information after data entry is completed. Additionally, all changes should be supported by an authorized form in the employee file.	Implemented.

CONTINUING DISCLOSURE INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT
CONTINUING DISCLOSURE INFORMATION (UNAUDITED)
June 30, 2009

Assessed valuation for fiscal year 2008-09	\$35,171,821,628	(2)
Secured tax levies for fiscal year 2008-09	\$ 10,673,019	(1)
Secured tax delinquencies for fiscal year 2008-09	\$ 878,600	(1)
Secured tax collections for fiscal year 2008-09	\$ 9,794,419	(1)

2008-09 Largest Local Secured Taxpayers

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2008-09 Assessed Valuation</u>	<u>% of Total(2)</u>
1. CA Colorado Center LLC	Office Building	\$ 637,500,000	1.87%
2. Water Garden Realty Holding LLC	Office Building	446,980,860	1.31
3. SC Enterprises SMBP LLC	Commercial	310,080,000	0.91
4. Douglas Emmett LLC	Office Building	265,803,994	0.78
5. CREP 2700 Holdings LLC	Office Building	222,360,000	0.65
6. Equity Office Properties Trust	Office Building	141,270,000	0.41
7. Ocean Avenue LLC	Hotel	140,165,769	0.41
8. New Santa Monica Beach Hotel LLC	Hotel	135,785,427	0.40
9. Rand Corp.	Office Building	131,013,495	0.38
10. Maguire Properties Lantana North LLC	Office Building	127,857,522	0.37
11. Shores Barrington LLC	Apartments	107,164,731	0.31
12. CLPF Arboretum LP	Office Building	103,102,794	0.30
13. Macerich Santa Monica LLC	Shopping Center	102,140,455	0.30
14. Kilroy Realty LP	Office Building	81,643,017	0.24
15. Tishman Speer Archstone Smith Santa Monica	Commercial	77,336,674	0.23
16. Diamond 520 Broadway LLC	Office Building	76,500,000	0.22
17. Searise Associates	Office Building	76,500,000	0.22
18. Hines 26th Street LLC	Industrial	75,000,000	0.22
19. CF Santa Monica Office LP	Industrial	67,739,247	0.20
20. ASN Santa Monica LLC	Hotel	<u>66,340,275</u>	<u>0.19</u>
		<u>\$3,392,284,260</u>	9.95%

- (1) Information obtained from the Los Angeles County Auditor-Controller's Office.
(2) 2008-09 Local Secured Assessed Valuation \$34,102,150,295.