

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**LOS ANGELES COUNTY**

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

**June 30, 2010**



**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**AUDIT REPORT**

**June 30, 2010**

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**AUDIT REPORT**

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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, 2010 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 present fairly, in all material respects, the financial position of the Santa Monica Community College District as of June 30, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2010 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

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

Our audit was conducted for the purpose of forming an opinion on the Santa Monica Community College District financial statements as a whole. The supplementary schedules and the continuing disclosure information are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of Santa Monica Community College District. The supplementary section, including the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The continuing disclosure information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

  
VICENTI, LLOYD & STUTZMAN LLP

December 15, 2010

# **SANTA MONICA COMMUNITY COLLEGE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2010**

### **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, 2010. 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.

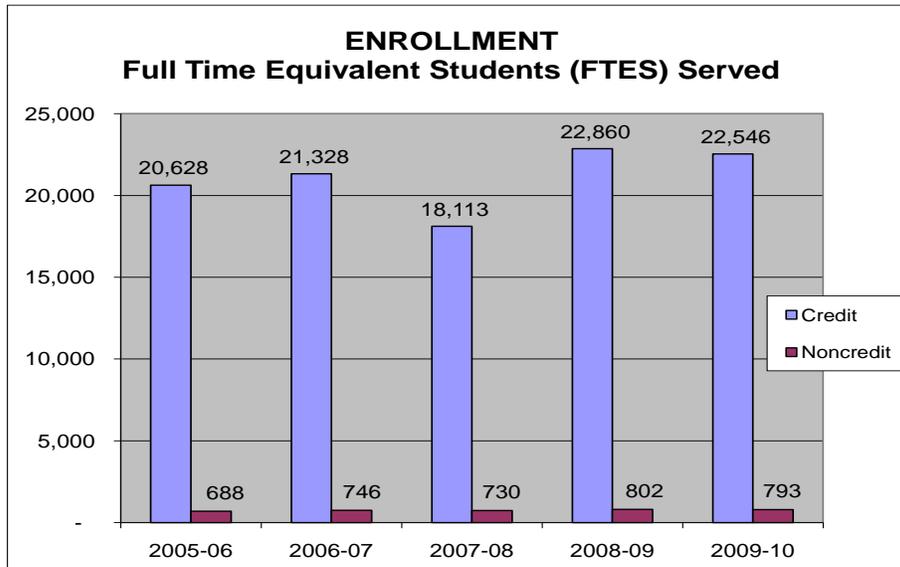
**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**June 30, 2010**

**Full-time Equivalent Students**

During 2009-10, total Full-Time Equivalent Students (FTES) served decreased approximately 1% for credit and 1% for non-credit courses. Due to State budgetary constraints, the Community College System budget was significantly reduced in the 2009-10 fiscal year, resulting in an FTES workload reduction that lowered the District’s funded FTES by approximately 3.5% for credit and approximately 5.8% for non-credit. This workload reduction resulted in the State funding the District to serve only 20,836 credit FTES and 679 non-credit FTES. The District responded by reducing the class schedule accordingly; however, through an increase in efficiency, the District was able to serve approximately 1,710 credit and 114 non-credit FTES above the State funding levels while reducing expenditures from the prior year.



**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2010**

**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.

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, 2010**

The Statements of Net Assets as of June 30, 2010 and June 30, 2009 are summarized below:

	(in thousands)	(in thousands)	
	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 202,416	\$ 106,783	90%
Receivables	27,558	24,381	13%
Due from fiduciary funds	2,461	1,751	41%
Inventories	1,684	2,042	-18%
Prepaid expenses	2,489	2,945	-15%
Prepaid issue costs - current portion	219	138	59%
Total current assets	<u>236,827</u>	<u>138,040</u>	72%
Non-current assets			
Restricted cash and cash equivalents	22,896	22,636	1%
Prepaid issue costs - non-current portion	2,283	1,446	58%
Long-term investments	1,088	2,691	-60%
Capital assets, net of accumulated depreciation	322,970	311,263	4%
Total non-current assets	<u>349,237</u>	<u>338,036</u>	3%
<b>TOTAL ASSETS</b>	<u>586,064</u>	<u>476,076</u>	23%
<b>LIABILITIES</b>			
Current liabilities			
Bank overdraft	1,003	1,498	-33%
Accounts payable and accrued liabilities	16,199	15,735	3%
Due to fiduciary funds	262	171	53%
Deferred revenue	9,622	9,561	1%
Compensated absences	966	1,083	-11%
Long-term liabilities - current portion	15,457	15,814	-2%
Total current liabilities	<u>43,509</u>	<u>43,862</u>	-1%
Non-current liabilities			
Long-term liabilities less current portion	417,849	306,079	37%
Total non-current liabilities	<u>417,849</u>	<u>306,079</u>	37%
<b>TOTAL LIABILITIES</b>	<u>461,358</u>	<u>349,941</u>	32%
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	85,790	85,728	0%
Restricted	26,282	24,967	5%
Unrestricted	12,634	15,440	-18%
<b>TOTAL NET ASSETS</b>	<u>\$ 124,706</u>	<u>\$ 126,135</u>	-1%

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

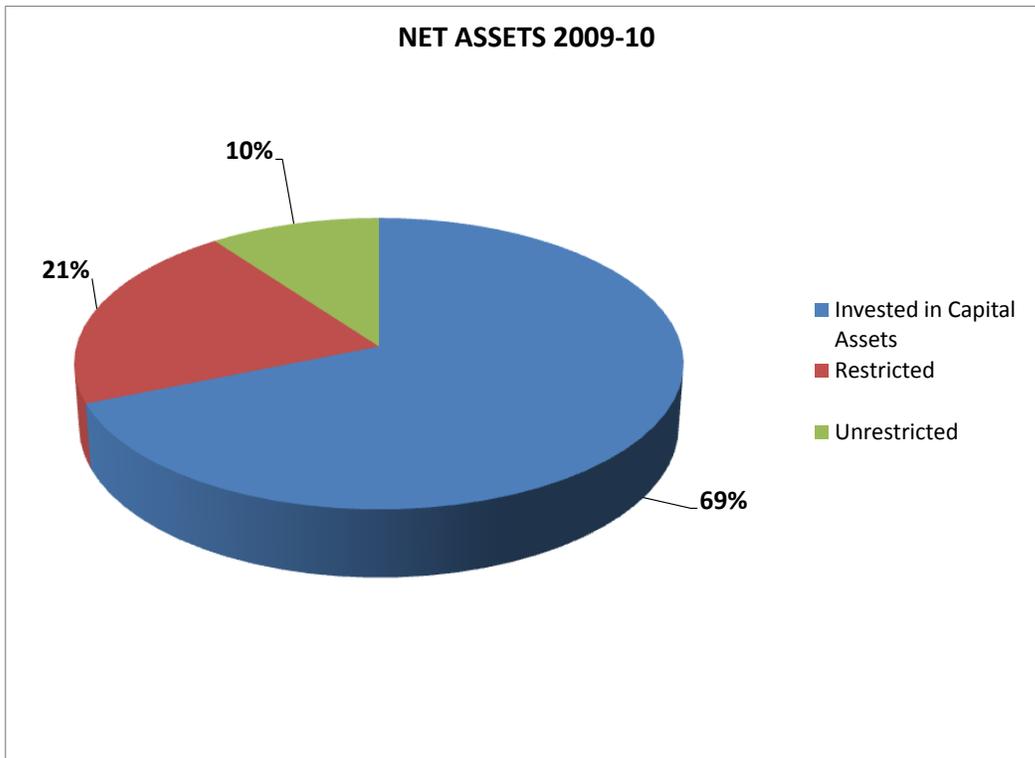
- There was a 90% increase in Cash and Cash Equivalents. This increase was mainly caused by the increase in cash and cash equivalents in the Bond funds, as a result of the issuance of general obligation bonds related to Measures U and AA. A major portion of the cash balance is cash deposited in the Los Angeles County Treasury. Further discussion is located in the section labeled "Statement of Cash Flows," along with an additional explanation of changes in cash balances.
- Due to state cash flow and budget issues, the state increased its deferred apportionment payment to the Community College System from \$540 million in 2008-09 to \$703 million in 2009-10. This increase in deferment is primarily responsible for the 13% increase in Receivables. In 2010-11, the District received the deferred apportionment payment in whole.
- Amounts Due from Fiduciary Funds increased 41% as a result of the ASB reimbursement for the Big Blue Bus "Any Line Any Time" program, which was still in transit at year end. In 2010-11, the District received the reimbursement in whole.
- In 2009-10 the District issued general obligation bonds related to Measures U and AA resulting in an approximate 58% increase in Prepaid Issue Costs – Non-current Portion over prior year.
- The District issued a 2010 certificate of participation to facilitate the refunding of the 1999 certificate of participation in order to realize a substantial savings. This action resulted in the elimination of a reserve account related to the 1999 certificate of participation which is reflected on the Statement of Net Assets as a reduction in Long-term Investments of approximately \$1.6 million.
- Compared with 2009-10, Capital Assets Net of Accumulated Depreciation had a net increase of approximately 4%. The ongoing construction and project completion of the following major construction projects represented most of the increase: Student Services and Administration Complex; Photovoltaic System; Energy Savings Retrofit Projects; Pico Property Acquisition; Bundy Campus NE Driveway; Health, PE, Fitness, Dance Building with Central Plant; Media Technology Complex at AET; Infrastructure and Technology Relocation Project; Gymnasium Bleachers Replacements; and the Cafeteria Renovation. The "Capital Assets and Debt Administration" section of this discussion and analysis provides greater detail.
- Non-current Liabilities increased by 37%, primarily as a result of the issuance of general obligation bonds and an increase in liabilities related to Other Post-Employment Benefits.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2010**

- While the District's current liabilities declined by 1%, the increase in non-current liabilities related to the issuance of general obligation bonds to finance construction projects and increased liabilities related to Other Post-Employment Benefits, resulted in an overall increase in total liabilities of 32%.



**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2010**

**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 2008-09 and 2009-10 is provided on the following page.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2010**

The Statements of Revenues, Expenses and Change in Net Assets for the years ended June 30, 2010 and June 30, 2009 are summarized below:

	(in thousands)	(in thousands)	
	<u>2010</u>	<u>2009</u>	<u>Change</u>
Operating Revenues			
Net tuition and fees	\$ 37,958	\$ 33,180	14%
Grants and contracts, non-capital	37,544	33,845	11%
Auxiliary sales and charges	<u>8,390</u>	<u>9,075</u>	-8%
Total operating revenues	<u>83,892</u>	<u>76,100</u>	10%
Operating Expenses			
Salaries and benefits	136,246	136,054	0%
Supplies, materials and other operating expenses and services	29,572	31,385	-6%
Financial aid	23,116	16,786	38%
Utilities	3,171	3,281	-3%
Depreciation	<u>4,986</u>	<u>4,341</u>	15%
Total operating expenses	<u>197,091</u>	<u>191,847</u>	3%
Operating loss	<u>(113,199)</u>	<u>(115,747)</u>	2%
Non-operating revenues			
State apportionments, non-capital	81,857	88,603	-8%
Local property taxes	13,328	12,488	7%
State taxes and other revenues	3,980	3,613	10%
Investment income, net	280	548	-49%
Contributions, gifts and grants, non-capital	<u>3,624</u>	<u>4,528</u>	-20%
Total non-operating revenues	<u>103,069</u>	<u>109,780</u>	-6%
Other revenues, expenses, gains or losses			
Interest expense on capital-related debt	(15,060)	(13,113)	-15%
Interest Income	2,024	1,623	25%
Local property taxes and revenues, capital	<u>21,737</u>	<u>19,827</u>	10%
Total other revenues, expenses, gains or losses	<u>8,701</u>	<u>8,337</u>	4%
Change in net assets	<u>(1,429)</u>	<u>2,370</u>	-160%
Net assets, beginning of year as previously reported	<u>126,135</u>	<u>123,765</u>	2%
Net assets, end of year	<u>\$ 124,706</u>	<u>\$ 126,135</u>	-1%

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

- In 2009-10 the State increased enrollment fees which resulted in a 14% increase in Net Tuition and Fees over the prior year.
- Grants and Contracts, Non-capital increased 11% from prior year. The main cause for this increase is attributed to the increased funding/revenue associated with the Federal Financial Aid program.
- Due to a reduction in the class schedule and increased competition from outside vendors the Bookstore realized a reduction in sales of approximately \$1 million resulting in a decline in Auxiliary Sales and Charges of 8% from prior year.
- Financial Aid increased 38% from prior year primarily as a result of an increase to the federal Pell grant maximums, which increased from \$4,731 per student to \$5,350 per student, in addition to an increased number of eligible applicants. While the District provides a match to some financial aid programs, the majority of the funding for these programs originated from sources outside the District.
- Due to State budgetary constraints, the Community College System budget was significantly reduced in the 2009-10 fiscal year, resulting in an Full-Time Equivalent Students (FTES) workload reduction that lowered the District's funding for FTES by approximately 3.5% for credit (758 FTES) and approximately 5.8% for non-credit (45 FTES). The District responded by reducing the class schedule accordingly; however, through an increase in efficiency the District was able to serve approximately 1,710 credit and 114 non-credit FTES above the State funding levels while realizing <1% increase in salary and benefit expenditures.
- During the 2009-10 fiscal year, the District instituted District-wide budget reductions in the discretionary areas of supplies, materials and other operating in order to adjust to the reduced funding from the State. These reductions resulted in a 6% decrease in Supplies, Material and Other Operating Expenses and Services from prior year.
- Utility related expenditures decreased 3% from 2008-09. This decrease is generally a result of an energy savings retrofit to campus lighting. The District is also in the process of an installation of an Electric Photovoltaic power supply. The District believes this project 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 2009-10 increases in both state and local property tax receipts coupled with reductions in State funding (i.e. an FTES workload reduction) resulted in an 8% decrease in State apportionments, non-capital.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

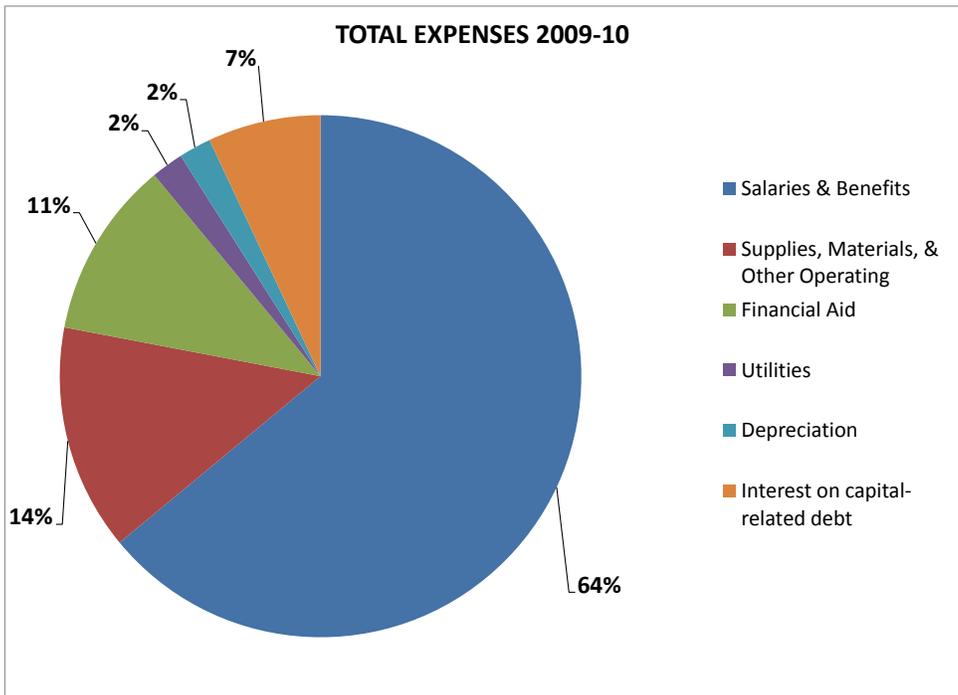
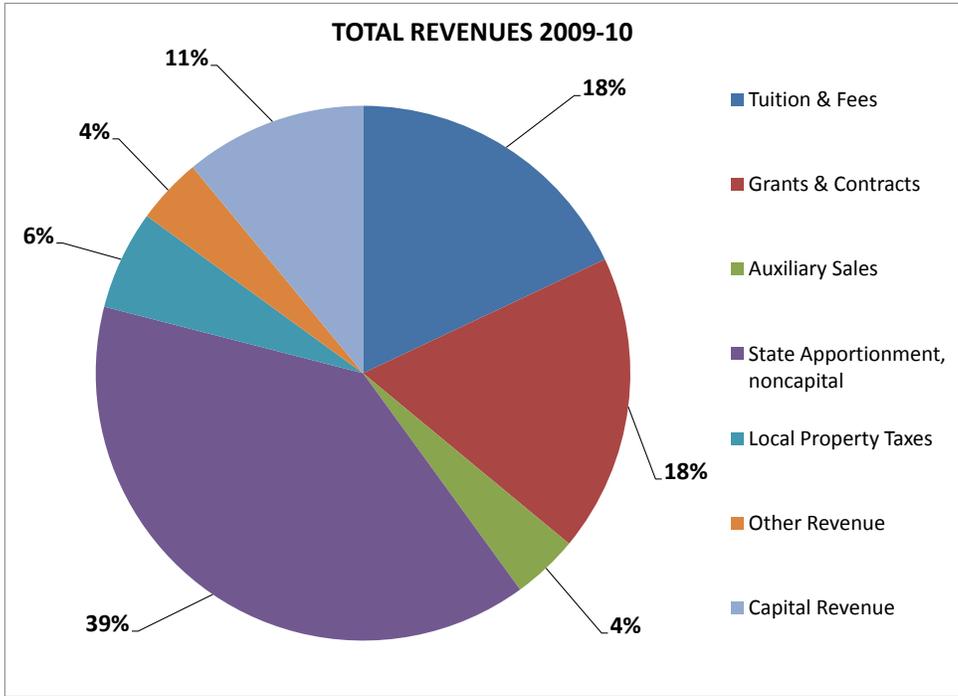
**June 30, 2010**

- Local property taxes are received through the Auditor-Controller's Office for Los Angeles County. There was a 7% increase in Local Property Tax revenues in 2009-10, 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.
- State Taxes and Other Revenues increased approximately 10% as a direct result of an increase in lottery revenue and the receipt of a one-time mandated cost reimbursement.
- Contributions, Gifts and Grants, Non-capital decreased by 20% primarily as a result of reduced funding related to KCRW.
- Interest Expense on Capital-related Debt increased 15% primarily as a result of the issuance of general obligation bonds, authorized under Measures U and AA.
- Interest Income increased 25% and Local Property Taxes and Revenue, Capital increased 10% as a result of the issuance of general obligation bonds and a certificate of participation.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2010**



**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2010**

**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>2010</u>	<u>2009</u>	<u>Change</u>
Cash Provided By (Used in)			
Operating activities	\$ (103,123)	\$ (113,039)	9%
Non-capital financing activities	100,785	101,012	0%
Capital and related financing activities	97,728	37,413	161%
Investing activities	<u>503</u>	<u>1,063</u>	-53%
Net increase in cash and cash equivalents	95,893	26,449	263%
Cash balance, beginning of year	<u>129,419</u>	<u>102,970</u>	26%
Cash balance, end of year	<u>\$ 225,312</u>	<u>\$ 129,419</u>	74%

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

- Cash receipts from operating activities are from student tuition and from federal, state and local grants. Uses of cash from operating activities consist of payments to employees, vendors and students. The 9% decrease in cash used for operating activities is related to the net effect of increased receipts related to tuition/fees, increased funding received for Federal Financial Aid programs; decreases in payments to/on behalf of employees as a result of a reduced class schedule; and decreases in payments to outside vendors as a result of budget reductions.
- The increase in cash from capital and related financing activities for fiscal year 2009-10 compared to 2008-09 can be attributed to the issuance of general obligation bonds related to Measures U and AA.
- 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 \$540 million in 2008-09 to \$703 million in 2009-10. This increase in deferment coupled with lower interest rates resulted in a decline in cash flow from investing activities.
- Cash balance increased approximately 74% from prior year primarily as a result of cash received from the issuance of general obligation bonds.

#### **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, 2010**

**Capital Asset and Debt Administration**

**Capital Assets**

As of June 30, 2010, the District had net governmental capital assets of \$323 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 \$48.7 million. Net additions to capital assets in 2009-10 consisted mainly of site/site improvements and construction in progress as a result of the passage of Measure U, Measure S and Measure AA. The following major projects added significantly to the capital assets of the District in the form of site/site improvements and construction in process: Student Services and Administration Complex; Photovoltaic System; Energy Savings Retrofit Projects; Pico Property Acquisition; Bundy Campus NE Driveway; Health, PE, Fitness, Dance Building with Central Plant; Media Technology Complex at AET; Infrastructure and Technology Relocation Project; Gymnasium Bleachers Replacements; and the Cafeteria Renovation. It is important to recognize that all valuations are based on historical cost as required by Generally Accepted Accounting Principles (GAAP). For example, the 38 acres of the main campus would have a significantly greater value today than is reflected in the capital asset listing below.

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

	<u>Balance June 30, 2010</u>
Land	\$ 64,233,043
Site and Site Improvements	176,975,426
Equipment	16,920,861
Construction in Progress	<u>113,534,058</u>
Totals at historical cost	<u>371,663,388</u>
Less accumulated depreciation for:	
Site and Site Improvements	(37,590,915)
Equipment	<u>(11,102,279)</u>
Total accumulated depreciation	<u>(48,693,194)</u>
Governmental capital assets, net	<u>\$ 322,970,194</u>

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2010**

**Debt**

At June 30, 2010, the District had approximately \$434.3 million in debt: \$6.1 million from compensated absences, \$13.7 million from GASB 45/OPEB liability, \$6.5 million from capital leases, \$23.6 million from obligations under certificates of participation, \$356 million from general obligation bonds and \$28.3 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 is AA (S&P).

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

	<u>Balance</u> <u>June 30, 2010</u>
Compensated absences	\$ 6,123,634
Other post-employment health care benefits	13,734,084
Capital lease	6,541,291
Certificates of participation	23,609,161
General obligation bonds	355,983,448
Accreted interest	<u>28,279,733</u>
	<u>\$ 434,271,351</u>

# SANTA MONICA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

### **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 2009-10, the unrestricted general fund expenditures have grown \$20,068,881, while revenue has increased \$18,718,006. 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 \$20,470,103, including designated reserves, in 2009-10. 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 2010-11 – Unrestricted General Fund**

#### **Revenues**

##### State Revenue – Principal Apportionment

State revenue, in the form of Principal Apportionment, constitutes 80% (\$107,059,094) of the District's operating revenue. The calculation for Principal Apportionment is based on the number of FTES (Full-Time Equivalent Students) the District serves but is capped based on the State adopted budget. The District receives Principal Apportionment through a combination of direct State funds known as General Apportionment, enrollment fees and property taxes which are combined to equal the Principal Apportionment. If actual receipts of property taxes or enrollment fee differ from projections, General Apportionment funding will be adjusted to keep the formula constant.

The District based its revenue projections for 2010-11 on the assumption of a 2.21% growth funding rate which will result in the District being funded, by the State, to serve 21,991 FTES in 2010-11. The District's adopted budget was based on the assumption that the District will continue to serve students well beyond its funded FTES base. As of the adopted budget, the target is to serve 23,193 FTES in 2010-11, resulting in underfunding by the State in the amount of \$5,123,274.

In 2009-10, the State imposed a workload reduction which was equivalent to an approximate 3.32% permanent reduction in base revenue for the District. While the adopted budget assumes no such workload reduction in the 2010-11 fiscal year, if the State budget falls further into a deficit during the current year, the CCCCO may impose additional reductions in the form of further workload reductions (permanent) or deficit factors (one-time). Each 1% reduction by the State is equivalent to approximately \$1,100,000 in reduced funding for the District.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2010**

Property Taxes

Based on preliminary projections, the District will receive \$11,099,302 in property tax in the 2010-11 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 the receipt of property tax does not meet these projections, the State may impose a further workload reduction or deficit factor to offset the loss in funding.

Lottery

The State Lottery revenues are paid each year according to the annual enrollment figures. The State is projecting slightly higher lottery sales in 2010-11 resulting in a projected increase in lottery revenue of \$111,043 from prior year actual.

Local Revenues

The District's largest revenue sources outside of Principal Apportionment is in the form of Non-resident Tuition. The District decreased the non-resident tuition fee by approximately 2%, as instructed to by the State, for the 2010-11 year. This decrease is expected to result in a reduction in revenue of \$409,477 from prior year actual. Additionally, the District collects a capital surcharge for international non-resident students that is used to offset capital expenditures. The remaining local revenue categories include property taxes, enrollment fees, student fees, interest, rental of facilities and others.

## **SANTA MONICA COMMUNITY COLLEGE DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2010**

#### **Expenditures**

##### Summary

The breakdown of expenditures is as follows: 87.7% on salaries and benefits, 10.9% on other operational expenses and services, 0.8% on supplies, 0.4% on capital and 0.2% on transfers/financial aid. For 2010-11 the top three projected increases to expenditures are from non-reoccurrence of one-time Health and Welfare premium savings (\$1,121,830), step and column increases (\$1,113,676) and increases in Health and Welfare premiums (\$1,019,655). The largest decrease to expenditures are achieved through course schedule reduction of \$491,159.

##### Backfill for Categorical

In 2009-10, the State budget reduced funding for categorical programs by approximately 30% to 40% for some programs (Basic Skills, DSPS, EOPS, CARE, etc.) and 50% or more for other programs (Matriculation, Instructional Block Grant etc.). In order to lessen the impact of these reductions on students, the District created a new expenditure category called "Backfill for Categorical Funds". In the adopted budget the District is continuing the backfill at a funding level equal to 2009-10 less ARRA funding and adjusted for discontinued grants. The total backfill for 2010-11 is \$1,423,773.

##### Salary and Benefits

Salary and benefit expenditure projections reflect appropriate step, column and longevity increases for qualified employees. For the adopted budget, increases in salary and benefit expenditures account for approximately \$5,742,498 of the total \$7,498,782 projected increase in total expenditures and transfers and represent 87.7% of total expenditures and transfers for the District's unrestricted fund. Consistent with Board principles, these projections do not include any assumptions for furloughs or layoffs of permanent employees in 2010-11.

##### Supplies, Services, Capital and Transfers

Supplies, Services, Capital and Transfer expenditure projections reflect departmental requests based on operational needs. For the adopted budget, increases in these line items account for approximately \$1,756,284 of the total projected increase in total expenditures and transfers and represent 12.3 % of total expenditures and transfers for the Districts unrestricted fund.

## **SANTA MONICA COMMUNITY COLLEGE DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2010**

The largest line item of non-salary and benefit related expenditure is contracts/services. The Contracts/Services line item in the adopted budget include: Rents/Leases (i.e. Madison Site, Swimming Pool, Big Blue Bus) 20%, Other Contract Services (i.e. Pest Control, Elevator Maintenance) 11%, Advertising 10%, Repairs and Maintenance of Equipment/Facilities 9%, Bank Fees and Bad Debt 8%, Legal Services (including Personnel Commission) 7%, E-College 7%, Postage and Delivery Services 5%, Conferences and Training 4%, Consultants 4%, Off Campus Printing 3%, District Copiers 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) 4%.

#### **Closing**

In light of the changes and challenges at both the local and state level, the District needs to be mindful of keeping its reserves at a level that is financially sound, especially with the possibility of a revenue base drop in future years due to state budget constraints. In order to explore new and innovative ideas that can help to ensure a fiscally sound reserve, while maintaining the Board principles of protecting full time employees from layoffs or furloughs, and while maintaining a class offering that exceeds the funding provided by the State, the District is actively engaged in the shared governance process. This action along with the District's enrollment development and other planning efforts should allow the District to maintain a fund balance that is financially sound.

## **BASIC FINANCIAL STATEMENTS**

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF NET ASSETS**

**June 30, 2010**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 202,415,957
Accounts receivable, net	27,557,712
Due from fiduciary funds	2,460,609
Inventories	1,683,767
Prepaid expenses and deposits	2,489,456
Prepaid issue costs - current portion	<u>219,243</u>
<b>Total Current Assets</b>	<b><u>236,826,744</u></b>

Non-Current Assets:

Restricted cash and cash equivalents	22,896,200
Prepaid issue costs - non-current portion	2,282,930
Long-term investments	1,088,332
Capital assets, net of accumulated depreciation	<u>322,970,194</u>
<b>Total Non-Current Assets</b>	<b><u>349,237,656</u></b>

**TOTAL ASSETS** **\$ 586,064,400**

**LIABILITIES AND NET ASSETS**

Current Liabilities:

Bank overdraft	\$ 1,002,590
Accounts payable	9,301,875
Accrued liabilities	6,897,322
Due to fiduciary funds	262,334
Deferred revenue	9,622,450
Compensated absences - current portion	965,976
Capital lease payable - current portion	274,868
Certifications of participation payable - current portion	1,155,000
General obligation bonds payable - current portion	<u>14,027,032</u>
<b>Total Current Liabilities</b>	<b><u>43,509,447</u></b>

Non-Current Liabilities:

Compensated absences	5,157,658
Other post-employment health care benefits	13,734,084
Capital lease payable	6,266,423
Certificates of participations payable	22,454,161
General obligation bonds payable	<u>370,236,149</u>
<b>Total Non-Current Liabilities</b>	<b><u>417,848,475</u></b>

**TOTAL LIABILITIES** **461,357,922**

**NET ASSETS**

Invested in capital assets, net of related debt	85,789,830
Restricted for:	
Capital projects	8,747,953
Debt service	17,534,879
Unrestricted	<u>12,633,816</u>

**TOTAL NET ASSETS** **124,706,478**

**TOTAL LIABILITIES AND NET ASSETS** **\$ 586,064,400**

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, 2010**

<b>OPERATING REVENUES</b>	
Enrollment, tuition and other fees (gross)	\$ 44,463,360
Less: Scholarship discounts and allowances	<u>(6,505,614)</u>
Net enrollment, tuition and other fees	37,957,746
Grants and contracts, non-capital:	
Federal	27,305,664
State	8,310,327
Local	1,927,832
Auxiliary enterprise sales and charges, net	<u>8,390,475</u>
<b>TOTAL OPERATING REVENUES</b>	<u>83,892,044</u>
<b>OPERATING EXPENSES</b>	
Salaries	102,379,878
Employee benefits	33,864,625
Supplies, materials and other operating expenses and services	29,572,424
Financial aid	23,115,967
Utilities	3,171,370
Depreciation	<u>4,986,263</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>197,090,527</u>
<b>OPERATING LOSS</b>	<u>(113,198,483)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
State apportionments, non-capital	81,856,819
Local property taxes	13,328,199
State taxes and other revenues	3,979,638
Investment income, net	280,122
Contributions, gifts and grants, non-capital	<u>3,624,367</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>103,069,145</u>
<b>LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)</b>	<u>(10,129,338)</u>
<b>OTHER REVENUES, EXPENSES, GAINS (LOSSES)</b>	
Interest expense on capital-related debt	(15,060,013)
Interest income	2,024,616
Local property taxes and revenues, capital	<u>21,736,689</u>
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS (LOSSES)</b>	<u>8,701,292</u>
<b>DECREASE IN NET ASSETS</b>	(1,428,046)
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>126,134,524</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 124,706,478</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, 2010**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and fees	\$ 38,809,539
Federal grants and contracts	27,340,160
State grants and contracts	6,748,906
Local grants and contracts	1,739,707
Auxiliary operation sales	8,279,472
Payments to suppliers	(32,603,494)
Payments to/on-behalf of employees	(129,764,407)
Payments to/on-behalf of students	(23,054,862)
Payments to Trust and Agency Fund	<u>(618,086)</u>
 Net cash used by operating activities	 <u>(103,123,065)</u>

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES**

State apportionments and receipts	79,553,159
Property taxes	13,216,411
State taxes and other revenue	4,391,798
Grants and gifts for other than capital purposes	<u>3,624,367</u>
 Net cash provided by non-capital financing activities	 <u>100,785,735</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Proceeds from general obligation bonds	114,277,425
Proceeds from certifications of participation	15,207,093
Local revenue for capital purposes	3,266,434
Tax revenue for payment of capital debt	18,526,748
Purchase of capital assets	(18,122,926)
Principal paid on capital debt	(11,462,465)
Deposit to escrow fund to defease capital debt	(16,474,564)
Interest paid on capital debt	(10,698,294)
Interest on capital investments	<u>3,208,879</u>
 Net cash provided by capital and related financing activities	 <u>97,728,330</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on investments	<u>502,852</u>
 Net cash provided by investing activities	 <u>502,852</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 95,893,852

**CASH BALANCE - Beginning of Year** 129,418,305

**CASH BALANCE - End of Year** \$ 225,312,157

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2010

**Reconciliation of Operating Loss to  
Net Cash Used by Operating Activities**

**CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (113,198,483)
Adjustments to reconcile net loss to net cash (used) by operating activities:	
Depreciation expense	4,986,263
Changes in assets and liabilities:	
Receivables, net	(143,307)
Due from fiduciary funds	(709,243)
Inventories	358,190
Prepaid expenses and deposits	455,872
Bank overdraft	(495,626)
Accounts payable	(1,009,356)
Accrued liabilities	108,714
Due to fiduciary funds	91,157
Deferred revenue	61,372
Compensated absences	338,456
Other post-employment health care benefits	<u>6,032,926</u>
Net cash used by operating activities	<u>\$ (103,123,065)</u>
Breakdown of ending cash balance:	
Cash and cash equivalents	\$ 202,415,957
Restricted cash and cash equivalents	<u>22,896,200</u>
Total	<u>\$ 225,312,157</u>

See the accompanying notes to the financial statements.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF FIDUCIARY NET ASSETS**

**June 30, 2010**

	<u>Trust and Agency Fund</u>	<u>Associated Student Body Fund</u>
<b>ASSETS</b>		
Cash on hand and in banks	\$ 14,526,991	\$ 2,461,097
Investments	1,063,646	30,103
Accounts receivable:		
Miscellaneous	86,078	1,155
Due from governmental funds	105,439	156,895
Prepaid expenses	<u>8,080</u>	<u>3,026</u>
<b>TOTAL ASSETS</b>	<u>\$ 15,790,234</u>	<u>\$ 2,652,276</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 169,577	\$ 3,322
Due to governmental funds	1,832,558	628,051
Deferred revenue	8,802	
Funds held in trust	<u>13,779,297</u>	<u>1,918,046</u>
<b>TOTAL LIABILITIES</b>	<u>15,790,234</u>	<u>2,549,419</u>
<b>NET ASSETS</b>		
Restricted		
Unrestricted	<u>                    </u>	<u>102,857</u>
<b>TOTAL NET ASSETS</b>	<u>                    -</u>	<u>102,857</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 15,790,234</u>	<u>\$ 2,652,276</u>

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, 2010**

	<u>Associated Student Body Fund</u>
<b>ADDITIONS</b>	
Other local revenues	\$ <u>325,545</u>
<b>TOTAL ADDITIONS</b>	<u>325,545</u>
<b>DEDUCTIONS</b>	
Supplies and materials	209,701
Capital outlay	16,110
Services and other operating expenses	<u>278,569</u>
<b>TOTAL DEDUCTIONS</b>	<u>504,380</u>
Change in net assets	(178,835)
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>281,692</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 102,857</u></u>

See the accompanying notes to the financial statements.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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, 2010**

**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, accounting and finance related activities.

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

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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

**A. REPORTING ENTITY (continued)**

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

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 \$(3,508,564) on June 30, 2010, 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, 2010**

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

**C. BASIS OF ACCOUNTING**

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

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

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

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

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

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

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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.

4. Prepaid Expenses and Deposits

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2010, 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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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

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

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.

8. Accounts Payable

Accounts payable consists of amounts due to vendors, including accrued interest on long-term debt, total \$8,806,249.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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

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

9. Accrued Liabilities

Accrued liabilities consist of salary and benefits payable of \$6,897,322.

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 and vacation hours within accrued liabilities. Load banking hours consist of hours worked by instructors in excess of a full-time load for which they may carryover for future paid time off.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires within the constraints of the appropriate retirement systems.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

**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 2011 will be recorded in the year computed by the State.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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 Finance. This is generally on a cash basis. A receivable has not been recognized in the basic financial statements for general purpose property taxes due to the fact that any receivable is offset by a payable to the state for apportionment purposes. Tax revenues associated with debt service payments are accrued when levied. A receivable has been accrued in these financial statements.

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 \$1,048,000 for STRS.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

**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, 2010**

**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, but all public funds are invested in bonds or government backed (collateralized) securities at 110% on the amount of deposit. The principal (face value) does not fluctuate, only the interest received on the investment. As of June 30, 2010, \$13,871,180 of the District's bank balance of \$18,914,510 was exposed to credit risk by being uninsured and collateral held by pledging bank's trust 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, 2010, as provided by the pool sponsor, was \$216,231,815. 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, 2010**

**NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)**

**B. Cash in Bank Overdraft**

The Bookstore Fund has a Cash in Bank overdraft balance of \$1,002,590 at June 30, 2010. 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, 2010 the pooled accounts had a positive balance of \$11,877,813.

**C. Investments**

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

The District did not violate any provisions of the California Government Code during the year ended June 30, 2010.

Investments for both the governmental and fiduciary fund types at June 30, 2010 are presented below:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard &amp; Poor's / Moody's Rating</u>
Federal Home Loan Bank	11/26/2012	\$1,093,749	AAA
Federated Treasury Obligation	n/a	<u>1,088,332</u>	(1)
Total		<u>\$2,182,081</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, 2010**

**NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)**

**C. Investments (continued)**

**Interest Rate Risk**

Interest rate 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 50% investment in Federal Home Loan Bank and 50% invested in Federal Treasury Obligation.

**NOTE 3 - ACCOUNTS RECEIVABLE:**

The accounts receivable balance as of June 30, 2010 consist of the following:

Federal and State	\$23,343,451
Tuition and Fees	589,255
Miscellaneous	<u>3,625,006</u>
Total	<u>\$27,557,712</u>

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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, 2010 are as follows:

Fund	Interfund Receivables	Interfund Payables
Governmental Fund (General Fund)	\$ 2,460,609	\$ 262,334
Trust and Agency Fund	105,439	1,832,558
Associated Student Body Fund	156,895	628,051
Totals	\$ 2,722,943	\$ 2,722,943

**NOTE 5 – CAPITAL ASSETS:**

The following provides a summary of changes in capital assets for the year ended June 30, 2010:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Land	\$ 63,208,476	\$ 1,024,567	\$	\$ 64,233,043
Site and site improvements	147,285,484	29,689,942		176,975,426
Equipment	15,833,615	1,087,246		16,920,861
Construction in progress	128,641,986	14,582,014	(29,689,942)	113,534,058
Total cost	354,969,561	46,383,769	(29,689,942)	371,663,388
Accumulated depreciation:				
Site and site improvements	(34,330,038)	(3,260,877)		(37,590,915)
Equipment	(9,376,893)	(1,725,386)		(11,102,279)
Total accumulated depreciation	(43,706,931)	(4,986,263)	-	(48,693,194)
Net Capital Assets	\$ 311,262,630	\$ 41,397,506	\$(29,689,942)	\$ 322,970,194

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 6 –LEASES:**

**A. Capital Lease**

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

<u>Fiscal Year</u>	<u>Lease Payment</u>
2011	\$ 562,731
2012	521,481
2013	535,753
2014	550,788
2015	432,092
2015-2019	2,222,826
2020-2024	2,795,167
2025-2029	<u>2,190,923</u>
Total	9,811,761
Less Interest	<u>(3,270,470)</u>
Present value of net minimum lease payments	<u>\$ 6,541,291</u>

Current year expenditures for capital lease is approximately \$615,000. 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, 2010**

**NOTE 6 –LEASES: (continued)**

**B. Operating Lease**

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>
2011	\$ 800,000
2012	800,000
2013	800,000
2014	800,000
2015	800,000
2016-2020	4,000,000
2021-2025	4,000,000
2026-2030	4,000,000
2031-2035	4,000,000
2036-2040	4,000,000
2041-2045	4,000,000
2046-2050	4,000,000
2051-2055	4,000,000
2056-2058	<u>2,400,000</u>
Total	<u><u>\$ 38,400,000</u></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, 2010**

**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 to assist in the 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.

As of June 30, 2010 this COP was in-substance defeased by the issuance of 2010 Refunding Series B COPs on March 11, 2010.

- 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 to assist in the 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, 2010**

**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, 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
July 15, 2014		196,300	196,300
January 15, 2015	450,000	196,300	646,300
2016-2020	2,600,000	1,636,625	4,236,625
2021-2025	3,300,000	924,812	4,224,812
2026-2027	<u>1,615,000</u>	<u>123,250</u>	<u>1,738,250</u>
	9,610,000	<u>\$ 4,815,287</u>	<u>\$ 14,425,287</u>
Deferred charge on refunding	<u>(663,368) *</u>		
Total	<u>\$ 8,946,632</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 2009-10 year.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)**

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

The Corporation's funds for the advance refunding were generated by the issuance of \$13,945,000 of Certificates of Participation (COPs). COPs are long-term debt instruments which are tax exempt and therefore issued at interest rates below current market levels for taxable investments which range from 3% to 5% 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, 2011 and terminating June 1, 2023. Lease payments will be funded in part from the proceeds of the Certificates.

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



**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)**

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 COPs. The refunded COPs are considered in-substance defeased and are not recorded on the financial statements. The difference in cash flow requirements related to this refunding is a savings of cash outflow of approximately \$2,113,000. The present value of the economic gain to the District amounts to approximately \$1,773,000. The balance of the COPs refunded was \$544,564 less than the amount paid into the escrow account. This amount is recorded as a deferred charge on the statement of net assets and amortization will begin 2010-11 year. The balance of the in-substance defeased debt as of June 30, 2010 is \$15,913,000; approximately \$16,475,000 was in an escrow account at June 30, 2010 to pay off this debt.

**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, 2010 is \$3,299,836.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 8 – BONDS PAYABLE: (continued)**

**A. Proposition T (continued)**

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 2009-10 year. The balance of the in-substance defeased debt as of June 30, 2010 is approximately \$5,285,000.

Debt service requirements on these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Total</u>
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	<u>1,131,314</u>	<u>913,686</u>	<u>2,045,000</u>
Total	10,441,145	<u>\$ 5,403,855</u>	<u>\$ 15,845,000</u>
Unamortized bond premium*	1,502,894		
Deferred charge on refunding	<u>(178,235)</u>		
Total	<u>\$ 11,765,804</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 \$2,817,925. This amount is amortized over 90 months using the straight-line method. Amortization of \$375,723 was recognized during the 2009-10 year.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 8 – BONDS PAYABLE: (continued)**

**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>
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	650,000	500,638	1,150,638
2016-2020	3,400,000	2,075,138	5,475,138
2021-2025	3,760,000	1,224,475	4,984,475
2026-2028	2,500,000	258,812	2,758,812
	<u>\$ 12,910,000</u>	<u>\$ 6,328,115</u>	<u>\$ 19,238,115</u>

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, 2010 is \$1,164,690.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 8 – BONDS PAYABLE: (continued)**

**B. Measure U (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>
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	800,000	631,100		1,431,100
2016-2020	4,610,000	2,528,788		7,138,788
2021-2025	5,890,000	1,252,250		7,142,250
2026-2029	1,684,971	68,000	3,950,029	5,703,000
	<u>\$ 15,814,971</u>	<u>\$ 7,367,038</u>	<u>\$ 3,950,029</u>	<u>\$ 27,132,038</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, 2009 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, 2010 is \$12,336,020.

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 2009-10 year.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 8 – BONDS PAYABLE: (continued)**

**B. Measure U (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>
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	3,516,580	1,134,500	1,522,309	6,173,389
2016-2020	15,521,676	5,672,500	11,699,404	32,893,580
2021-2025	15,162,356	5,672,500	19,777,391	40,612,247
2026-2030	11,883,025	5,417,875	20,058,048	37,358,948
2031	<u>22,690,000</u>	<u>312,625</u>	<u>                    </u>	<u>23,002,625</u>
	81,771,127	<u>\$ 22,748,000</u>	<u>\$ 57,000,132</u>	<u>\$ 161,519,259</u>
Unamortized bond premium*	1,169,756			
Deferred charge for refunding	<u>(370,817)</u>			
Total	<u>\$ 82,570,066</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 2009-10 year.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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, 2010 is \$2,023,462.

Debt service requirements on these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2011	\$	\$	\$
2012			
2013			
2014			
2015			
2016-2020	5,183,221	2,821,779	8,005,000
2021-2025	3,442,861	3,482,139	6,925,000
2026-2030	2,680,222	4,219,778	6,900,000
2031-2032	<u>693,683</u>	<u>2,071,317</u>	<u>2,765,000</u>
Total	<u>\$ 11,999,987</u>	<u>\$ 12,595,013</u>	<u>\$ 24,595,000</u>

5. On January 26, 2010 the District issued 2010 Series E bonds totaling \$10,998,992 of capital appreciation bonds. The bonds were issued with maturity dates from August 1, 2016 through August 1, 2027. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Due to the timing of the issuance, accreted interest was not accrued during 2009-10 year.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 8 – BONDS PAYABLE: (continued)**

**B. Measure U (continued)**

Debt service requirements on these bonds are as follows:

Fiscal Year	Principal	Accreted Interest Component	Total
2011	\$	\$	\$
2012			
2013			
2014			
2015			
2016-2020	3,310,003	1,429,997	4,740,000
2021-2025	5,319,686	5,035,314	10,355,000
2026-2027	2,369,303	3,420,697	5,790,000
	\$ 10,998,992	\$ 9,886,008	\$ 20,885,000

**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, 2010 is \$8,103,982.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 8 – BONDS PAYABLE: (continued)**

**C. Measure S (continued)**

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 2009-10 year. The balance of the in-substance defeased debt as of June 30, 2010 is \$40,065,000.

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>
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	2,565,607	783,000	3,949,393	7,298,000
2016-2017	<u>15,660,000</u>	<u>1,225,250</u>	<u>                    </u>	<u>16,885,250</u>
	30,645,226	<u>\$ 5,140,250</u>	<u>\$ 14,489,774</u>	<u>\$ 50,275,250</u>
Unamortized bond premium*	7,240,714			
Deferred charge on refunding	<u>(362,481)</u>			
Total	<u>\$ 37,523,459</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 2009-10 year.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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>
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>\$ 8,230,000</u>	<u>\$ 1,198,537</u>	<u>\$ 9,428,537</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. Accreted interest accrued and included in long-term debt at June 30, 2010 is \$1,351,743.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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>
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	360,000	1,567,938		1,927,938
2016-2020	13,755,000	6,607,166		20,362,166
2021-2025	24,353,806	1,353,713	11,141,194	36,848,713
2026-2030	<u>18,159,051</u>	<u>                    </u>	<u>39,665,949</u>	<u>57,825,000</u>
	56,997,857	<u>\$ 15,885,394</u>	<u>\$ 50,807,143</u>	<u>\$ 123,690,394</u>
Unamortized bond premium*	<u>2,837,385</u>			
Total	<u>\$ 59,835,242</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 \$136,741 was recognized during the 2009-10 year.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 8 – BONDS PAYABLE: (continued)**

**D. Measure AA**

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

On January 26, 2010 the District issued general obligation bonds as approved by the voters in November 2008 in the amount of \$100,000,000. These bonds consisted of \$33,135,000 tax-exempt Series A bonds and \$66,865,000 in federally taxable Build America Bonds Series A-1. Interest rates for Series A is 5% and for Series A-1 range from 5.728% to 5.878% payable semiannually on February 1 and August 1. The Build America Bonds program was created by the American Recovery and Reinvestment Act to assist state and local governments in financing capital projects at lower borrowing costs and to stimulate the economy and create jobs.

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

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 8 – BONDS PAYABLE: (continued)**

**D. Measure AA (continued)**

Debt service requirements for Series A Bonds are as follows:

Fiscal Year	Principal	Interest	Total
2011	\$	\$ 1,221,853	\$ 1,221,853
2012	2,800,000	1,980,228	4,780,228
2013	4,530,000	1,403,500	5,933,500
2014	1,510,000	1,252,500	2,762,500
2015	1,650,000	1,173,500	2,823,500
2016-2020	10,650,000	4,415,000	15,065,000
2021-2024	<u>11,995,000</u>	<u>1,254,375</u>	<u>13,249,375</u>
	33,135,000	<u><u>\$ 12,700,956</u></u>	<u><u>\$ 45,835,956</u></u>
Unamortized bond premium*	<u>4,334,926</u>		
Total	<u><u>\$ 37,469,926</u></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 \$4,334,926. This amount will be amortized over 264 months using the straight-line method. Due to timing of issuance, amortization was not recognized during the 2009-10 year.

In addition, associated issuance costs are recorded as capitalized fees on the statement of net assets and are amortized to interest expense over the life of the liability. Due to the timing of the issuance, there was no amortization of issue cost during 2009-10 year.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 8 – BONDS PAYABLE: (continued)**

**D. Measure AA (continued)**

Debt service requirements for Series A-1 Build America Bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$	\$ 3,256,833	\$ 3,256,833
2012		5,464,856	5,464,856
2013		4,416,045	4,416,045
2014		4,416,045	4,416,045
2015		4,416,045	4,416,045
2016-2020		22,080,225	22,080,225
2021-2025	3,920,000	21,967,956	25,887,956
2026-2030	25,440,000	17,148,241	42,588,241
2031-2035	<u>37,505,000</u>	<u>6,712,614</u>	<u>44,217,614</u>
	<u>\$ 66,865,000</u>	<u>\$ 89,878,860</u>	<u>\$ 156,743,860</u>

**NOTE 9 – LONG-TERM DEBT:**

A schedule of changes in long-term debt for the year ended June 30, 2010 is shown below:

	<u>Balance</u>			<u>Balance</u>	<u>Amount</u>
	<u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>	<u>Due in</u>
					<u>One Year</u>
Compensated absences	\$ 5,785,178	\$ 338,456	\$	\$ 6,123,634	\$ 965,976
Other post-employment health care benefits	7,701,158	6,032,926		13,734,084	
Capital Lease	6,852,670		311,379	6,541,291	274,868
Certificates of participation	26,005,172	14,662,529	17,058,540	23,609,161	1,155,000
General obligation bonds	254,843,471	115,333,918	14,193,941	355,983,448	14,027,032
Accreted interest	21,787,845	8,982,402	2,490,514	28,279,733	
Total	<u>\$ 322,975,494</u>	<u>\$ 145,350,231</u>	<u>\$ 34,054,374</u>	<u>\$ 434,271,351</u>	<u>\$ 16,422,876</u>

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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 Alternative Retirement Plans (ARP).

**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.

**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 2009-10 was 8.25% 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, 2010**

**NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)**

**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 2009-10 was 9.709% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

**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>
2008	\$4,356,091	100%	\$3,248,571	100%
2009	4,555,079	100%	3,538,985	100%
2010	4,287,558	100%	3,727,562	100%

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 11 – POST-EMPLOYMENT HEALTH CARE BENEFITS:**

**Plan Description and Funding Policy**

The District administers a single-employer defined benefit plan for retiree healthcare benefits. The District provides post-employment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. The District contributes 100% of the amount of premiums, for medical, dental and vision benefits, incurred by retirees and their dependents up to the age of 65. For all retirees above the age of 65, medical benefits are paid, not-to-exceed a maximum amount determined by the District, for life. Currently, 322 retirees meet those eligibility requirements. The plan is funded on a pay-as-you go basis with discretionary contributions made to an irrevocable trust as determined by the Board of Trustees. During the year, the District contributed \$1,650,564 to the plan. Benefit provisions are established through negotiations between the District and the bargaining Unions representing employees. Separate financial statements for the plan can be obtained from CalPERS.

**Annual OPEB Cost and Net OPEB Obligation**

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

Annual required contribution (ARC)	\$ 7,646,719
Interest on net OPEB obligation	385,058
Adjustment to annual required contribution	(348,287)
Annual OPEB cost (expense)	<u>7,683,490</u>
Contributions made	<u>(1,650,564)</u>
Change in net OPEB obligation	6,032,926
Net OPEB obligation - Beginning of Year	7,701,158
Net OPEB obligation - End of Year	<u><u>\$ 13,734,084</u></u>

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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
6/30/2010	\$7,683,490	21.5%	\$13,734,084

**Funding Status and Funding Progress**

As of May 1, 2010, 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 \$82,117,696. The covered payroll (annual payroll of active employees covered by the plan) was \$65,579,641, and the ratio of the UAAL to the covered payroll was 125%.

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

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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 May 1, 2010 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) using the “Building Block Method” as described in ASOP 27 paragraph 3.6.2, and an annual healthcare cost trend rate of 4 percent. Both rates included a 3.0 percent inflation assumption. The actuarial value of assets was determined using a 15 year smoothing formula with a 20% corridor around market value. The UAAL is being amortized as a level percentage of payroll. The remaining amortization period at June 30, 2010, was twenty-seven 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, 2010**

**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 2009-10, the District paid \$883,849 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 6/30/2010 <u>(Unaudited)</u>	SCCCD-JPA 6/30/2010 <u>(Unaudited)</u>		SWACC 6/30/2010 <u>(Audited)</u>
		Workers'		
		<u>Compensation Insurance Fund</u>	<u>Retiree Health Insurance Fund</u>	
Total assets	\$244,838,044	\$ 21,085,116	\$ 27,837,140	\$ 46,019,292
Total liabilities	<u>138,884,803</u>	<u>642,040</u>	<u>1,500</u>	<u>21,417,925</u>
Retained earnings	<u>\$105,953,241</u>	<u>\$ 20,443,076</u>	<u>\$ 27,835,640</u>	<u>\$ 24,601,367</u>
Total revenues	\$177,532,660	\$ 8,278,715	\$ 2,270,865	\$ 11,118,079
Total expenditures	<u>162,916,341</u>	<u>7,277,353</u>	<u>1,500</u>	<u>12,547,315</u>
Change in retained earnings	\$ <u>14,616,319</u>	\$ <u>1,001,362</u>	\$ <u>2,269,365</u>	\$ <u>(1,429,236)</u>

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 13 – FUNCTIONAL EXPENSE:**

	<u>Salaries</u>	<u>Benefits</u>	<u>Supplies, Materials, Utilities, Other Expenses and Services</u>	<u>Financial Aid</u>	<u>Depreciation</u>	<u>Total</u>
Instructional Activities	\$ 51,455,158	\$ 14,113,515	\$ 718,098	\$	\$	\$ 66,286,771
Academic Support	10,387,997	3,410,822	1,581,601			15,380,420
Student Services	16,411,944	4,847,993	4,062,045			25,321,982
Operation & Maintenance of Plant	5,066,457	2,326,536	2,951,508			10,344,501
Institutional Support Services	12,508,738	6,963,336	6,050,173			25,522,247
Community Services & Economic Development	1,527,699	392,639	409,791			2,330,129
Ancillary Services & Auxiliary Operations	4,871,970	1,752,096	3,824,735			10,448,801
Physical Property & Related Acquisitions	149,915	57,688	13,145,843			13,353,446
Student Financial Aid				23,115,967		23,115,967
Depreciation Expense					4,986,263	4,986,263
	<u>\$ 102,379,878</u>	<u>\$ 33,864,625</u>	<u>\$ 32,743,794</u>	<u>\$ 23,115,967</u>	<u>\$ 4,986,263</u>	<u>\$ 197,090,527</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, 2010**

**NOTE 14 – COMMITMENTS AND CONTINGENCIES: (continued)**

**C. Purchase Commitments**

As of June 30, 2010, the District had the following commitments with respect to construction costs for the following projects:

<u>Project</u>	
Media & Technology, Parking Structure	\$ 4,292,174
Information Technology	35,000
Student Services	176,158
Performing Arts East Wing	1,086,757
Master Planning	43,599
PE/Dance	3,334,181
Master Planning	57,817
Bundy West Planning	282,065
Student Services	2,274,417
Project Management	5,187,609
Student Services	59,550
Bundy Driveway	31,691
	<u>\$16,861,018</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, 2010, the Earthquake Capital Outlay Projects Fund has a receivable balance of \$4.3 million that has remained uncollected since 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, the 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 2010-11 fiscal year. The District received \$2 million of this \$4.3 million receivable during the 2010-11 fiscal year. Because of this recent activity, these financial statements do not include an allowance for doubtful accounts related to the earthquake recovery funding receivable.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF POST-EMPLOYMENT HEALTH CARE BENEFITS FUNDING PROGRESS  
For the Fiscal Year Ended June 30, 2010**

<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	\$ 1,496,996	\$ 68,668,113	\$ 67,171,117	2.2%	\$ 61,259,354	109.7%
5/1/2010	1,641,391	83,792,387	82,117,696	2.0%	65,579,641	125.2%

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

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, 2010**

**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, 2010

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>
Judge David B. Finkel (Ret)	Chair	November 2010
Dr. Andrew Walzer	Vice-Chair	November 2010
Dr. Nancy Greenstein	Member	November 2010
Louise Jaffe	Member	November 2010
Dr. Susan Aminoff	Member	November 2012
Dr. Margaret Quiñones-Perez	Member	November 2012
Rob Rader	Member	November 2012
Michael Song	Student Trustee	June 2011

### SENIOR ADMINISTRATION

Dr. Chui L. Tsang	Superintendent/ President
Randal Lawson	Executive Vice President
Robert Isomoto	Vice-President, Business/Administration
Jeffery Shimizu	Vice President, Academic Affairs
Michael Tuitasi	Vice President, Student Affairs
Teresita Rodriguez	Vice President, Enrollment Development
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 the Fiscal Year Ended June 30, 2010**

	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
<b>Student Financial Aid Cluster</b>			
Direct from Department of Education:			
Financial Aid Administrative Allowances	84.000	N/A	\$ 111,669
Supplemental Education Opportunity Grant (SEOG)	84.007	N/A	649,186
Federal Work Study	84.033	N/A	496,607
American Recovery and Reinvestment Act: Federal Work Study	84.033	N/A	126,192
Academic Competitive Grant	84.375	N/A	275,212
Pell Grant	84.063	N/A	20,690,884
Total Student Financial Aid Cluster			22,349,750
 <b>TRIO Cluster</b>			
Direct from Department of Education:			
Student Support Services	84.042	N/A	301,856
Upward Bound	84.047A	N/A	239,065
Total Trio Cluster			540,921
 <b>Department of Commerce</b>			
Direct:			
Corporation for Public Broadcasting	11.000		1,247,367
American Recovery and Reinvestment Act: Corporation for Public Broadcasting	11.000	N/A	113,821
Total Department of Commerce			1,361,188
 <b>Department of Education</b>			
Direct:			
Hispanic - Serving Institution Program (H.S.I.):			
Instructional Grant (Title V)	84.031S	N/A	156,808
Supporting Student Success in Pre-Transfer Mathematics (Title V)	84.031S	N/A	734,239
Fostering Global Citizenship through Interdisciplinary Campus-Wide Initiative	84.016A	N/A	40,456
Asian American and Pacific Islander	84.382B	N/A	390,045
Subtotal Direct Programs			1,321,548
 Passed through Chancellor's Office of the California Community Colleges:			
American Recovery and Reinvestment Act: State Fiscal Stabilization Fund	84.394	(1)	415,294
Career & Technical Education:			
Perkins, Title IC	84.048	(1)	544,137
Tech Prep Education	84.243	(1)	57,252
 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)	53,587
 Passed through the Regents of the University of California:			
Teacher Quality Improvement Grant	84.336	(1)	24,442
Subtotal Pass Through Programs			1,094,712
Total Department of Education			2,416,260

See the accompanying notes to the supplementary information.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Fiscal Year Ended June 30, 2010**

	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Program Expenditures</u>
<b>Department of Health and Human Services</b>			
Direct:			
Scholarship for Disadvantaged Students	93.925	N/A	4,818
American Recovery and Reinvestment Act: Scholarship for Disadvantaged Students	93.925	N/A	<u>2,113</u>
Subtotal Direct Programs			<u>6,931</u>
Passed through Chancellor's Office of the California Community Colleges:			
Temporary Assistance for Needy Families (TANF)	93.558	(1)	<u>52,105</u>
Total Department of Health and Human Services			<u>59,036</u>
<b>Department of Labor</b>			
Direct:			
Community Based Job Training Grant	17.261	N/A	149,341
Passed through State of California Employment Development Department:			
Construction Talent Transfer	17.260	(1)	30,089
Passed through the Career Technical Education and Economic and Workforce Department			
Governor's 15% WIA Funds for Allied Health Program	17.258	(1)	94,707
Governor's 15% WIA Funds for LVN to RN or Specialty Nursing	17.258	(1)	<u>36,193</u>
Total Department of Labor			<u>310,330</u>
<b>National Aeronautics and Space Administration</b>			
Passed through United Negro College Fund Special Programs Corporation:			
Jet Propulsion Laboratory	43.001	(1)	<u>1,041</u>
Total National Aeronautics and Space Administration			<u>1,041</u>
<b>Small Business Administration</b>			
Passed through Long Beach Community College District:			
Small Business Development Center (SBDC)	59.037	(1)	<u>263,274</u>
<b>Department of State</b>			
Direct:			
Community College Opportunity for Education Abroad	19.000	S-ECAAS-08-GR-143 (SM)	<u>3,864</u>
<b>Total Federal Program Expenditures</b>			<u><u>\$ 27,305,664</u></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, 2010**

	Program Revenues				Total Program Expenditures
	Cash Received	Accounts Receivable	Deferred Income	Total	
Matriculation (Credit)	\$ 849,759	\$	\$ 5,276	\$ 844,483	\$ 844,483
Matriculation (Non Credit)	22,783		997	21,786	21,786
Extended Opportunity Program and Services (EOPS)	864,179			864,179	864,179
Cooperative Agencies Resources for Education (CARE)	58,820			58,820	58,820
Disabled Student Program and Services (DSPS)	1,032,033			1,032,033	1,032,033
Economic Development (Job Development Incentive)	124,981	23,806		148,787	148,787
Transfer and Articulation	7,820		6,466	1,354	1,354
Faculty & Staff Diversity	41,443		34,710	6,733	6,733
Nursing Grant	338,897		177,812	161,085	161,085
Calworks	173,562			173,562	173,562
Fostering Student Success Nursing Grant		217,982		217,982	217,982
Child Development Training	7,500			7,500	7,500
Arts Industry Standards Project		117,809		117,809	117,809
Small Business Development Center	140,293	3,967		144,260	144,260
Financial Aid Administration	752,860		95,032	657,828	657,828
Career and Technical Education Equipment	60,100		3,930	56,170	56,170
Career and Technical Education CTE III	310,000		306,874	3,126	3,126
Basic Skills Funding	1,490,766		312,711	1,178,055	1,178,055
CAHSEE Preparation II	239,325	76,500		315,825	315,825
Career Tech Education/Community Collaborative	290,038		189,280	100,758	100,758
Workforce Innovations Project	242,915		91,862	151,053	151,053
Associate Degree in Nursing to Bachelor's or Master's Degree in Nursing Collaborative	91,481		16,731	74,750	74,750
Equipment for Nursing Programs	5,544			5,544	5,544
Instructional Equipment and Library	415,216		153,841	261,375	261,375
Telecommunications	71,535		36,899	34,636	34,636
Schedule of Maintenance and Repairs-One Time	199,385			199,385	199,385
Schedule of Maintenance and Instructional Equipment-One Time	65,604		63,237	2,367	2,367
Funding Obligation Settlement (SB1133)	154,612		24,772	129,840	129,840
Clean Energy Workforce Training Program	-	3,376	-	3,376	3,376
<b>Total State Programs</b>	<b>\$ 8,051,451</b>	<b>\$ 443,440</b>	<b>\$ 1,520,430</b>	<b>\$ 6,974,461</b>	<b>\$ 6,974,461</b>

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, 2010**

	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
<b>A. Summer Intersession (Summer 2009 only)</b>			
1. Noncredit <sup>1</sup>	119.47		119.47
2. Credit	2,726.20		2,726.20
<b>B. Summer Intersession (Summer 2010 - Prior to July 1, 2010)</b>			
1. Noncredit <sup>1</sup>	N/A		N/A
2. Credit	N/A		N/A
<b>C. Primary Terms (Exclusive of Summer Intersession)</b>			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	15,473.04		15,473.04
(b) Daily Census Contact Hours	4,283.69		4,283.69
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit <sup>1</sup>	673.11		673.11
(b) Credit	43.50		43.50
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	18.85		18.85
(b) Daily Census Contact Hours	0.71		0.71
(c) Noncredit Independent Study/Distance Education Courses	N/A		N/A
<b>D. Total FTES</b>	<u>23,338.57</u>	<u>-</u>	<u>23,338.57</u>
<b>Supplemental Information (subset of above information)</b>			
E. In-Service Training Courses (FTES)	N/A		
H. Basic Skills courses and Immigrant Education			
(a) Noncredit <sup>1</sup>	46.84		
(b) Credit	2,604.48		
<b>Centers FTES</b>			
(a) Noncredit	8.19		
(b) Credit	1,261.78		

<sup>1</sup> 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, 2010**

	<u>Auxiliary Funds</u>
June 30, 2010 Annual Financial and Budget Report Fund Balance	\$ <u>2,006,239</u>
Adjustments and Reclassifications:	
Post Closing Entries	<u>81,974</u>
Net Adjustments and Reclassifications	<u>81,974</u>
June 30, 2010 Audited Financial Statements Fund Balance	\$ <u>2,088,213</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, 2010

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
<b>Revenue from Federal Sources</b>			
Higher Education Act	\$ 2,892,144	\$ 2,148,809	\$ (743,335)
Workforce Investment Act	163,098	30,089	(133,009)
Temporary Assistance for Needy Families (TANF)	52,106	52,105	(1)
Student Financial Aid	125,639	111,669	(13,970)
Career & Technical Education	677,741	601,389	(76,352)
Other Federal Revenue	4,559,753	2,746,320	(1,813,433)
<b>Revenue from State Sources</b>			
General Apportionments	84,184,986	81,856,819	(2,328,167)
Categorical Apportionments	9,545,434	7,565,593	(1,979,841)
Other State Revenues	3,879,326	3,827,983	(51,343)
<b>Revenue from Local Sources</b>			
Property Taxes	11,183,344	13,318,176	2,134,832
Interest and Investment Income	373,099	234,374	(138,725)
Student Fees and Charges	38,379,839	37,957,746	(422,093)
Other Local Revenue	6,950,036	5,512,308	(1,437,728)
<b>TOTAL REVENUES</b>	<u>162,966,545</u>	<u>155,963,380</u>	<u>(7,003,165)</u>
<b>EXPENDITURES</b>			
Academic Salaries	68,769,562	67,572,386	1,197,176
Classified Salaries	35,675,466	33,303,310	2,372,156
Employee Benefits	29,445,116	27,485,899	1,959,217
Supplies and Materials	2,390,671	1,553,137	837,534
Other Operating Expenses & Services	25,159,623	21,935,529	3,224,094
Capital Outlay	4,338,304	1,430,571	2,907,733
<b>TOTAL EXPENDITURES</b>	<u>165,778,742</u>	<u>153,280,832</u>	<u>12,497,910</u>
Excess (deficiencies) of revenues over expenditures	<u>(2,812,197)</u>	<u>2,682,548</u>	<u>5,494,745</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund Transfers In	219,140	633,200	414,060
Interfund Transfers Out	(513,827)	(1,605,898)	(1,092,071)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(294,687)</u>	<u>(972,698)</u>	<u>(678,011)</u>
Excess (deficiencies) of revenues over expenditures and other sources (uses)	<u>\$ (3,106,884)</u>	<u>1,709,850</u>	<u>\$ 4,816,734</u>
Fund balance, beginning of year		<u>22,387,728</u>	
Fund balance, end of year		<u>\$ 24,097,578</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, 2010**

**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, 2010 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, 2010, and have issued our report thereon dated December 15, 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as findings 10-1, 10-2, and 10-3 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Santa Monica Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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 15, 2010



**INDEPENDENT AUDITOR'S 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, 2010. 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, 2010.

**INDEPENDENT AUDITOR'S 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, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 15, 2010



## 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, 2010, and have issued our report thereon dated December 15, 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 those 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.
- Whether the District has acted to ensure that the residency of each student is properly classified and that only the attendance of California residents is claimed for apportionment purposes.

## REPORT ON STATE COMPLIANCE

- 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.
- For programs not impacted by the provisions of Education Code Section 84043, 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.
- For programs impacted by the provisions of Education Code Section 84043, whether the District held a regularly scheduled public hearing before funds were redirected and whether the funds were redirected among designated programs.
- 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 15, 2010

## **FINDINGS AND QUESTIONED COSTS**

**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, 2010**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?  Yes  No

Significant deficiencies identified not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

*Federal Awards*

Internal control over major programs:

Material weaknesses identified?  Yes  No

Significant deficiencies identified not considered to be material weaknesses?  Yes  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  No

*Identification of major programs tested*

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.375 and 84.063 11.000	Student Financial Assistance Cluster of Programs Corporation for Public Broadcasting and American Recovery and Reinvestment Act: Corporation for Public Broadcasting
84.394	American Recovery and Reinvestment Act: State Fiscal Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$ 819,170

Auditee qualified as low-risk auditee?  Yes  No

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
RELATED TO FINANCIAL STATEMENTS**

**June 30, 2010**

NOTE: Each of the findings and recommendations below include details about the criteria or specific requirements, the condition, the effect and the cause. Question costs, if applicable, are listed separately. The District response that follows the finding is the District's corrective action plan.

**FINDING 10-1 HUMAN RESOURCE - W-4 SUPPORTING DOCUMENTS**

**Finding:** Payroll W-4 forms should be maintained for all employees. The W-4 form for one out of 10 employees reviewed did not match the payroll system. Missing current W-4 forms represents pertinent payroll documentation not on file. This has been an ongoing issue since approximately the 2008 fiscal year.

**Questioned Costs:** Not Applicable

**Recommendation:** Establish procedures to ensure pertinent payroll documentation is obtained and properly filed. Develop standard procedures to review information filed in employees' personnel files to ensure all W-4 information is updated.

**District Response:** In 2009-10 the Human Resources Office initiated the process of auditing all full-time employee's personnel files to ensure they contain proper W-4 forms and that the payroll system (HRS) reflects the most current and accurate information. Currently all full-time faculty and active part-time faculty have been audited. The Human Resources Office is in the process of auditing all full-time classified personnel files and expects to complete the process by the end of the fiscal year.

To ensure that both the personnel file contains the proper information and the HRS system is updated appropriately, the Human Resources Office has implemented a W-4 procedure that requires immediate updating of the HRS system when W-4's are received, the immediate filing of W-4 forms after updating of the HRS system and staff review of daily change registers provided from the HRS system to monitor changes in the HRS system related to W-4 information. Additionally management is reinforcing through staff meetings and trainings the importance of accurate entries into the HRS system and the importance of maintaining documentation in the personnel files on a continuous basis.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**FINDING 10-2 HUMAN RESOURCE – PERSONNEL FILES**

**Finding:** Employees files should contain evidence that all instructors meet minimum qualifications to teach. Minimum qualifications are met if a person has a valid, unrevoked credential or meets minimum qualifications adopted by the Board of Governors for the particular discipline (CCR, Title 5, Section 58060, and 53400). During our testing of salaries of classroom instructors, the documentation supporting equivalency for one out of ten instructors was not available at the time of testing. Valid documentation was later provided by the District noting the instructor is qualified; therefore, this is not considered a finding for non-compliance with State requirements.

**Questioned Costs:** Not Applicable

**Recommendation:** Establish procedures to ensure that pertinent minimum qualification documentation is obtained and properly filed in the personnel file during the hiring process.

**District Response:** In the faculty hiring process, required documentation consists of a completed district “Authorization to Hire” form, a signed district application for employment, a resume, and, if applicable, a completed equivalency form. At a minimum, an unofficial transcript or copy of the degree should accompany the initial application to verify degree earned and discipline. If a faculty member is qualifying through the equivalency process, the equivalency form must be accompanied by appropriate supporting documentation (such as letters verifying years of employment). All of these materials must be received by Human Resources before employee processing can begin. All required documentation then becomes part of the employee’s personnel file.

Since the file in question was that of a part-time faculty member hired more than fifteen years ago (Fall 1994), it has not been possible to determine why key supporting documentation relating to qualifications was not included in the personnel file. As a result of this finding, Human Resources will conduct an audit of active personnel files to ensure that they include all required documentation relating to qualifications.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**FINDING 10-3 INTERNAL CONTROL – ATTENDANCE REPORTING**

**Finding:** CCR, Title 5, sections 58020 through 58024, requires the district to maintain detailed documentation to substantiate the data reported on the “Apportionment Attendance Report” Form CCFS-320. This documentation must show the accuracy of the data submitted by the District as a basis for state funding. During our testing of the annual attendance report, we noted that the resident noncredit FTES was overstated by 104.64. The District revised their 320 report and filed it with Chancellor’s Office; therefore, this is not considered a finding for non-compliance with State requirements.

**Questioned Costs:** Not Applicable

**Recommendation:** Review the report before final submission to the Chancellor’s Office to ensure that the CCFS-320 report is completed accurately; the review should be done by someone independent of the report preparation and include verification that the amounts reconcile to the supporting documentation.

**District Response:** This overstatement was the result of a data entry error in a single cell of the report. Although the report is currently reviewed by the preparer and one other knowledgeable employee before submission, at least one additional reviewer will be used in the preparation of future reports to guard against such errors. Correction of this error created no financial impact; it simply reduced the amount of unfunded noncredit FTES reported by the District.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FEDERAL AWARDS**  
**June 30, 2010**

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2010.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**June 30, 2010**

There were no prior year findings and questioned costs for the year ended June 30, 2009.

**CONTINUING DISCLOSURE INFORMATION**

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**  
**CONTINUING DISCLOSURE INFORMATION (UNAUDITED)**  
**June 30, 2010**

Assessed valuation for fiscal year 2009-10	\$35,455,239,985	(2)
Secured tax levies for fiscal year 2009-10	\$ 11,114,713	(1)
Secured tax delinquencies for fiscal year 2009-10	\$ 978,690	(1)
Secured tax collections for fiscal year 2009-10	\$ 10,136,023	(1)

**2009-10 Largest Local Secured Taxpayers**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2009-10 Assessed Valuation</u>	<u>% of Total(2)</u>
1. CA Colorado Center LLC	Office Building	\$ 470,425,014	1.33%
2. Water Garden Realty Holding LLC	Office Building	455,920,473	1.29
3. Douglas Emmett LLC	Office Building	306,820,065	0.87
4. SC Enterprises SMBP LLC	Commercial	304,000,000	0.86
5. CREP 2700 Holdings LLC	Office Building	226,807,200	0.64
6. Maguire Properties	Office Building	174,698,498	0.49
7. Ocean Avenue LLC	Hotel	145,571,407	0.41
8. Equity Office Properties Trust	Office Building	138,500,000	0.39
9. New Santa Monica Beach Hotel LLC	Hotel	138,119,347	0.39
10. Rand Corp.	Office Building	132,635,402	0.37
11. Shores Barrington LLC	Apartments	109,348,419	0.31
12. CLPF Arboretum LP	Office Building	105,142,576	0.30
13. 1299 Ocean LLC	Office Building	105,000,000	0.30
14. Macerich Santa Monica LLC	Shopping Center	102,903,262	0.29
15. HRL Laboratories LLC	Industrial	94,244,991	0.27
16. Kilroy Realty LP	Office Building	83,275,870	0.23
17. ASN Santa Monica LLC	Apartments	82,310,600	0.23
18. Tishman Speer Archstone Smith Santa Monica	Commercial	78,878,674	0.22
19. Hines 26th Street LLC	Industrial	76,500,000	0.22
20. Searise Associates	Office Building	<u>75,300,000</u>	<u>0.21</u>
		\$3,406,401,798	9.61%

- (1) Information obtained from the Los Angeles County Auditor-Controller's Office.  
(2) 2009-10 Local Secured Assessed Valuation \$35,455,239,985.