

SANTA MONICA COMMUNITY COLLEGE DISTRICT

LOS ANGELES COUNTY

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

June 30, 2005

**SANTA
MONICA
COLLEGE**

The logo for Santa Monica College, featuring a stylized wave or ribbon design that curves under the word "COLLEGE".

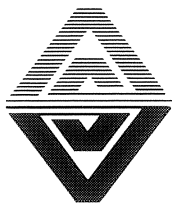
SANTA MONICA COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2005

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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, 2005 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, 2005, 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 November 17, 2005 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 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

Our audit was conducted for the purpose of forming an opinion on the Santa Monica Community College District's financial statements. The management's discussion and analysis section and supplementary section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The supplementary information, including the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The management's discussion and analysis section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

November 17, 2005

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

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, 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

Santa Monica Community College today is the preeminent educational, cultural, and economic development institution in the City of Santa Monica. We offer programs of the highest quality for Santa Monica, Malibu, and other students who continue on with their higher education studies; programs of remediation and reentry; a leading community provider of programs for seniors; offer cultural and arts programs of national distinction; programs of exceptional depth in professional training, job training and workforce development; and community service programs of personal interest.

Santa Monica College has achieved a remarkable standard of services as shown by the following measures; 1) more than 29,900 Santa Monica residents have taken academic classes at the college during the past ten years; 2) members of two out of three families have attended the college; 3) more than 6,700 Santa Monica residents attended the college for academic courses this past year; 4) more than 3,000 Santa Monica residents attend our community services and extension classes each year; 5) an estimated 10,000 Santa Monica residents attend or participate in at least one cultural or recreational activity through the college each year. In addition, there are approximately 6,300 Santa Monica resident subscribers to our radio station, KCRW.

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 fiscal year 2001-02 using the Business Type Activity (BTA) model. The California Community College Chancellor's Office, 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

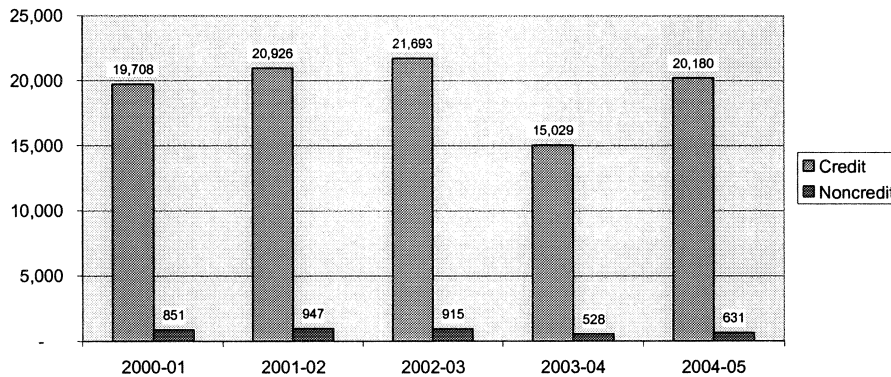
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

Selected Highlights

- During 2004-05, total full-time equivalent students increased approximately 34% for credit and increased approximately 20% for non-credit courses. Credit and non-credit FTES, along with other workload measures, are the basis for the District's state apportionment. This increase was directly due to the increase of course offerings. In the 2004-05 school year, District personnel mounted an aggressive enrollment plan to recoup the FTES lost in 2003-04, hence the increase.

ENROLLMENT
Full-Time Equivalent Students (FTES)



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Assets is a point of time financial statement whose purpose is to present to the readers a fiscal snapshot of the District. The Statement of Net Assets presents end-of-year data concerning assets, liabilities and net assets.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the District.

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

The Statements of Net Assets as of June 30, 2005 and June 30, 2004 are summarized below:

	(in thousands)	(in thousands)	
	<u>2005</u>	<u>2004 *</u>	<u>Change</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 72,284	\$ 37,261	94%
Receivables	16,197	23,375	-31%
Due from fiduciary funds	134	2,791	-95%
Inventories	2,192	1,600	37%
Prepaid expenses	1,518	1,909	-20%
Prepaid COP issue costs - current portion	29	29	0%
Total current assets	<u>92,354</u>	<u>66,965</u>	38%
Non-current assets			
Restricted cash and cash equivalents	11,299	6,960	62%
Prepaid COP issue costs - non-current portion	422	451	-6%
Long-term investments	2,478	2,399	3%
Capital assets, net of accumulated depreciation	<u>186,741</u>	<u>151,826</u>	23%
Total non-current assets	<u>200,940</u>	<u>161,636</u>	24%
TOTAL ASSETS	<u>293,294</u>	<u>228,601</u>	28%
LIABILITIES			
Current liabilities			
Bank overdraft	2,029	1,314	54%
Accounts payable and accrued liabilities	19,273	11,728	64%
Deferred revenue	9,035	10,626	-15%
Compensated absences	4,537	4,738	-4%
Long-term liabilities - current portion	<u>13,075</u>	<u>6,698</u>	95%
Total current liabilities	<u>47,949</u>	<u>35,104</u>	37%
Non-current liabilities			
Long-term liabilities less current portion	<u>173,811</u>	<u>126,465</u>	37%
Total non-current liabilities	<u>173,811</u>	<u>126,465</u>	37%
TOTAL LIABILITIES	<u>221,760</u>	<u>161,569</u>	37%
NET ASSETS			
Invested in capital assets, net of related debt	50,532	44,615	13%
Restricted	11,798	12,202	-3%
Unrestricted	<u>9,204</u>	<u>10,215</u>	-10%
TOTAL NET ASSETS	<u>\$ 71,534</u>	<u>\$ 67,032</u>	7%

* Certain amounts related to cash and cash equivalents, long-term investments and long-term liabilities have been reclassified to follow current year classifications.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

- A major portion of the cash balance is cash deposited in the Los Angeles County Treasury. Further discussion is located in the section labeled "Statement of Cash Flows," along with an additional explanation on change in cash balances.
- There was a 94% increase in cash and cash equivalents due to the net effect of the \$58 million in bond proceeds for construction activity.
- Accounts receivable balances showed a decrease of 31% due to the decrease of approximately \$10 million in the accounts receivable related to state aid from the previous year.
- Restricted cash and cash equivalents increased 62% due to the increased cash balance in the Bond Interest and Redemption Fund for debt service.
- Compared with 2003-04, capital assets had a net increase of 23%. The following construction projects were completed in 2004-2005: Drescher Hall HVAC, Bundy site, Library Gap, Physical Education offices and the campus perimeter project. The capital asset section of this discussion and analysis provides greater detail.
- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2005. The majority of the increase in the accounts payable balance is due to the increase in the construction activity currently taking place on campus. These are increased balances in the Measure U fund and the new Measure S fund.
- Long-term liabilities current portion increased 95% as a result of the current portion of the new \$58 million bond issue.
- Long-term liabilities less current portion under the non-current liabilities section show an increase of 37% as a result of issuing the new bonds for \$58 million.

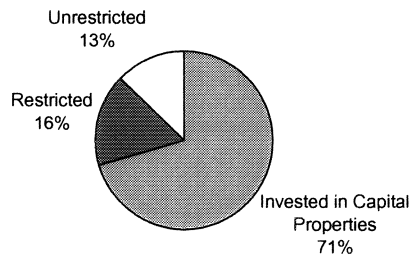
SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

- The District currently has three different Certificate of Participation debt issues outstanding that amount to approximately \$66.3 million (excluding deferred charges). This \$66.3 million consists of \$19.6 million outstanding for 1999, \$35.6 million outstanding for 2002 and \$11.1 million outstanding for 2004. \$318 million of general obligation bonding was authorized by the voters in three separate bond elections. Additional information regarding long term debt is included in the Debt Administration section of this discussion and analysis.

**Net Assets
June 30, 2005**



Statement of Revenues, Expenses and Change in Net Assets

The change in total net assets is presented on the Statement of Net Assets are 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 2004-05 and 2003-04 is provided on the following page.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

The Statements of Revenues, Expenses and Change in Net Assets for the year ended June 30, 2005 and June 30, 2004 is summarized below:

	(in thousands)	(in thousands)	
	<u>2005</u>	<u>2004</u>	<u>Change</u>
Operating Revenues			
Net tuition and fees	\$ 28,309	\$ 25,521	11%
Grants and contracts, non-capital	26,158	20,864	25%
Auxiliary sales and charges	<u>8,467</u>	<u>8,061</u>	5%
Total operating revenues	<u>62,934</u>	<u>54,446</u>	16%
Operating Expenses			
Salaries and benefits	103,671	94,495	10%
Supplies, materials and other operating expenses and services	24,899	25,502	-2%
Financial aid	12,381	8,842	40%
Utilities	2,422	2,489	-3%
Depreciation	<u>3,264</u>	<u>3,022</u>	8%
Total operating expenses	<u>146,637</u>	<u>134,350</u>	9%
Operating loss	<u>(83,703)</u>	<u>(79,904)</u>	-5%
Non-operating revenues (expenses)			
State apportionments, non-capital	57,802	48,424	19%
Local property taxes	16,392	23,693	-31%
State taxes and other revenues	4,697	4,034	16%
Contributions, gifts and grants, non-capital	3,671	3,032	21%
Investment income (expense), net	733	(292)	-351%
Other local revenue, non capital	<u>7,422</u>	<u>6,814</u>	9%
Total non-operating revenues (expenses)	<u>90,717</u>	<u>85,705</u>	6%
Other revenues, expenses, gains or losses			
State apportionments, capital	1,298	1,595	-19%
Local property taxes and revenues, capital	1,897	3,353	-43%
Interest expense on capital-related debt	<u>(5,182)</u>	<u>(6,471)</u>	-20%
Total other revenues, expenses, gains or losses	<u>(1,987)</u>	<u>(1,523)</u>	30%
Change in net assets	<u>5,027</u>	<u>4,278</u>	18%
Net assets, beginning of year as previously reported	67,032	63,434	6%
Adjustment for restatement	<u>(525)</u>	<u>(680)</u>	-23%
Net assets, beginning of year as restated	<u>66,507</u>	<u>62,754</u>	6%
Net assets, end of year	<u>\$ 71,534</u>	<u>\$ 67,032</u>	7%

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

- Tuition and fees are paid by resident, non-resident and foreign students attending Santa Monica Community College District. Some of these fees are restricted; such as health fees, parking fees and community services classes. Due to the increase in the tuition rate and the increase in the number of non-resident and international students attending Santa Monica Community College District, the amount of tuition received increased.
- Non-capital grants and contracts are primarily those received from federal and state sources and used in institutional programs. These amounts changed 25% from the prior year due to the District receiving two new Title V grants. The District received these two prestigious grants that are awarded to Hispanic-serving institutions and are designed to increase student retention and success.
- Financial aid increased 40% due to large increases in federal and state financial aids including Pell grants, SEOG and CAL grants awarded to students. Due to large increases in our student population, more students received State and Federal aid.
- Operating expenses are over 70% related to personnel costs. During the 2004-2005 year, the district saw an increase in enrollment, and hired back many part-time teachers to teach the increased course schedule. Thus, there was an increase in the salaries and benefits expenditures for the year. Also during the 2004-05 year, there were significant increases in health benefits costs that were passed along to the District by the benefits providers. This was a substantial cost increase to the District. The District made several attempts to contain these costs by creating a Benefits Committee which included members of the faculty, classified staff and administration. The committee was tasked with exploring what benefits were currently offered to employees and what costs might be saved by exploring other benefits options. With regard to salary expenses, the District is currently in negotiations with the faculty union to come up with a contract. The balance of operating expenses is for supplies and other services, capital outlay items below the capitalization threshold, insurance, utilities and depreciation expense.
- State apportionment is generated based on the workload measures reported to the state by the District. Enrollment fees are classified as operating revenue; and property taxes and apportionment are called non-operating revenue. The state 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 taxes would lower the apportionment.

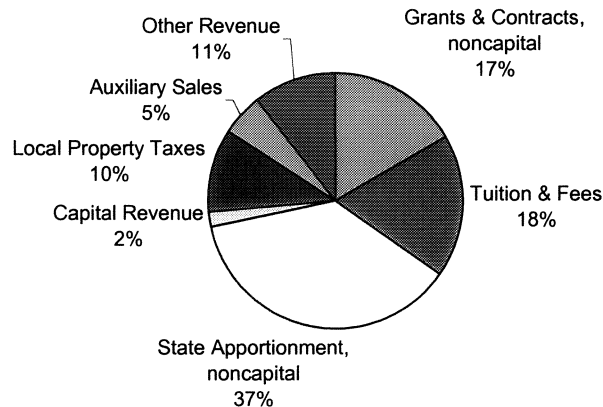
SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

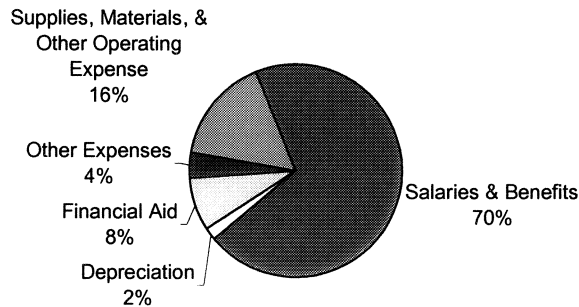
- Local property taxes are received through the Auditor-Controller's Office for Los Angeles County. There was a 31% decrease in property tax revenues in 2004-05 due primarily to a \$7.8 million decrease in funding from ERAF (Education Revenue Augmentation Fund). The amount received for property taxes is deducted from the total state apportionment amount for general revenue calculated by the state for the District. So any increase in property taxes would not mean an increase in net revenue.
- State tax and other revenues increased 16% during the year. This revenue category includes a variety of revenues such as homeowner's property tax relief, lottery apportionments, state mandated cost reimbursement and general and other state revenues.
- State apportionments, capital are the amount of capital outlay, deferred maintenance, architectural barrier removal and hazardous substance funding received from the state through the Department of Finance. This amount decreased 19% as this was not fully funded in the Governor's state budget, thus the district received fewer funds in 2004-05 than they had in the past.

Total Revenue 2004-05



SANTA MONICA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Total Expenses 2004-05



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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

	<u>(in thousands)</u> 2005	<u>(in thousands)</u> 2004 *	<u>Change</u>
Cash Provided By (Used in)			
Operating activities	\$ (70,927)	\$ (74,046)	4%
Non-capital financing activities	88,351	66,743	32%
Capital and related financing activities	21,678	8,564	153%
Investing activities	<u>260</u>	<u>11,124</u>	-98%
Net increase/(decrease) in cash and cash equivalents	39,362	12,385	218%
Cash balance, beginning of year	<u>44,221</u>	<u>31,836</u>	39%
Cash balance, end of year	<u>\$ 83,583</u>	<u>\$ 44,221</u>	89%

* Certain amounts related to cash and cash equivalents and long-term investments have been reclassified to follow current year classifications.

- Cash receipts from operating activities are from student tuition and from federal, state and local grants. Uses of cash are payments to employees, vendors and students related to the instructional program.
- There was an increase in non-capital financing during the 2004-05 year. Non-capital financing includes state apportionment, state taxes, other grants and property taxes. The increases are due to the substantial recovery of FTES during the 2004-2005.
- The increase in capital and related financing activities for fiscal year 2004-05 compared to 2003-04 were attributed to the net effect of bond proceeds, state apportionment, purchase of capital assets and an increase in debt payments.
- Cash from investing activities is interest earned on cash in bank and cash invested through the Los Angeles County pool and on investments with fiduciaries. Decreases are due to the the decline in interest rates.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

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.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2005, the District had net governmental capital assets of \$186.7 million consisting of land, buildings and building improvements, construction in progress, vehicles, data processing equipment and other office and instructional equipment; these assets have accumulated depreciation of \$28.5 million. Net additions in 2004-05 consisted mainly of construction in progress since there has been a substantial increase in the amount of construction happening on campus due to the passage of Measure "U" and Measure "S." Significant projects that were completed and added to the books in 2004-2005 include Drescher Hall HVAC, Library Gap, Bundy Campus and the Physical Education offices. It is important to recognize that all valuations are based on historical cost. The 38 acres of the main campus would have a significantly greater value today than it did in 1950.

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

	<u>Balance June 30, 2005</u>
Land	\$ 46,202,579
Site and Site Improvements	119,125,661
Equipment	9,611,932
Construction in Progress	<u>40,373,565</u>
Totals at historical cost	<u>215,313,737</u>
Less accumulated depreciation for:	
Site and Site Improvements	(22,585,146)
Equipment	<u>(5,987,749)</u>
Total accumulated depreciation	<u>(28,572,895)</u>
Governmental capital assets, net	<u>\$ 186,740,842</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

Debt

At June 30, 2005, the District had approximately \$186.9 million in debt; \$632,377 from capital lease obligations, \$119.6 million from general obligation bonds and \$65.5 million from obligations under certificates of participation. During 2004-05, the District issued \$58 million of general obligation bonds. The general obligation bonds and certificates of participation were issued to fund various projects related to construction, purchase and renovation of instructional facilities, laboratories, centers, administrative facilities and parking structures. Debt payments on the bonds will be funded through property tax receipts collected over the term of the bonds. Debt payments on the certificates of participation will be funded through parking revenues, additional funding sources related to student enrollment and other sources identified within the Capital Funds. The District's bond rating of AA- has not changed from the prior year.

Note 10 to the financial statements provides additional information on long-term liabilities. A summary of long-term debt is presented below:

	<u>Balance June 30, 2005</u>
Capital leases	\$ 632,377
Certificates of participation	65,504,332
General obligation bonds	119,638,484
Accreted interest	<u>1,111,164</u>
	<u>\$ 186,886,357</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

Budgeting for the Future

Unrestricted general fund revenue (apportionment + taxes + enrollment fees) has traditionally increased each year. However, this was only possible because of growth funding.

The unrestricted general fund expenses of the District showed a dramatic increase beginning in 2001-02. Salary and benefits normally account for over 80% of the operating budget of the general fund. Unusual increases in expenses, such as the jump in benefits, utilities and contract services, when added to the employee cost increases resulted in expenses exceeding revenue in 2001-02. Expenditure cuts were made in 2004-05 to reduce the gap between revenue and expenditures.

In the past, Santa Monica Community College District has always grown its way out of financial trouble. This was not possible because with the 2003-04 cuts in enrollment (FTES). 2003-04 saw major decreases of approximately 30% in FTES. College administration cited the re-growth of the FTES numbers as its major goal for 2004-05 and 2005-06 and has almost re-grown back to its "pre-budget cut" enrollment numbers. This is a huge success for the enrollment management team as well as the District financially. While the District does not expect to re-grow back to its "base" until 2006-07, it is important to note that equalization funding on a State-wide basis was started in 2004-05. This helped the District from a financial perspective since historically Santa Monica Community College District has been one of the two lowest funded districts in the State when compared to other districts on a dollars per FTES scale.

In light of 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. To do so, expenses were cut heading into 2005-06 in the areas of supplies and contract services. The District has also formed a Benefits Committee to examine ways to lower benefits costs while still offering the same benefits to employees. These measures, combined with the enrollment recovery efforts should allow the District to grow its fund balance each year until such time as it reaches a level that is agreed upon for it to be financially sound and reach the 5% the State recommends. Unfortunately during the 2004-05 fiscal year, the General Fund ending fund balance decreased. This makes the 2005-06 cost saving measures even more important.

BASIC FINANCIAL STATEMENTS

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

ASSETS

Current Assets:

Cash and cash equivalents	\$ 72,284,012
Accounts receivable, net	16,196,734
Due from fiduciary funds	134,416
Inventories	2,191,847
Prepaid expenses and deposits	1,518,443
Prepaid Certificates of Participation issue costs - current portion	<u>29,103</u>
Total Current Assets	<u>92,354,555</u>

Non-Current Assets:

Restricted cash and cash equivalents	11,298,795
Prepaid Certificates of Participation issue costs - non-current portion	421,985
Long-term investments	2,478,055
Capital assets, net of accumulated depreciation	<u>186,740,842</u>
Total Non-Current Assets	<u>200,939,677</u>

TOTAL ASSETS **\$ 293,294,232**

LIABILITIES AND NET ASSETS

Current Liabilities:

Bank overdraft	\$ 2,028,617
Accounts payable	13,177,952
Accrued liabilities	6,094,914
Deferred revenue	9,035,556
Compensated absences	4,536,892
Capital leases - current portion	295,345
COPS payable - current portion	2,310,000
GO Bonds payable - current portion	<u>10,470,000</u>
Total Current Liabilities	<u>47,949,276</u>

Non-Current Liabilities:

Capital leases	337,032
COPS payable	63,194,332
GO Bonds payable	<u>110,279,648</u>
Total Non-Current Liabilities	<u>173,811,012</u>

TOTAL LIABILITIES **221,760,288**

NET ASSETS

Invested in capital assets, net of related debt	50,531,976
Restricted for:	
Capital projects	2,785,842
Debt service	9,012,938
Unrestricted	<u>9,203,188</u>

TOTAL NET ASSETS **71,533,944**

TOTAL LIABILITIES AND NET ASSETS **\$ 293,294,232**

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, 2005

OPERATING REVENUES	
Enrollment, tuition and other fees (gross)	\$ 32,518,426
Less: Scholarship discounts and allowances	<u>(4,209,695)</u>
Net enrollment, tuition and other fees	28,308,731
Grants and contracts, non-capital:	
Federal	14,034,081
State	11,141,226
Local	983,637
Auxiliary enterprise sales and charges, net	<u>8,466,702</u>
TOTAL OPERATING REVENUES	<u>62,934,377</u>
OPERATING EXPENSES	
Salaries	82,036,330
Employee benefits	21,634,578
Supplies, materials and other operating expenses and services	24,898,615
Financial aid	12,381,159
Utilities	2,422,453
Depreciation	<u>3,264,182</u>
TOTAL OPERATING EXPENSES	<u>146,637,317</u>
OPERATING LOSS	<u>(83,702,940)</u>
NON-OPERATING REVENUES (EXPENSES)	
State apportionments, non-capital	57,802,003
Local property taxes	16,392,046
State taxes and other revenues	4,697,230
Investment income, net	733,417
Contributions, gifts and grants, non-capital	3,671,125
Other local revenue, non-capital	<u>7,421,933</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>90,717,754</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)	<u>7,014,814</u>
OTHER REVENUES, EXPENSES, GAINS (LOSSES)	
State apportionments, capital	1,298,366
Interest expense on capital-related debt	(5,182,949)
Local property taxes and revenues, capital	<u>1,897,189</u>
TOTAL OTHER REVENUES, EXPENSES, GAINS (LOSSES)	<u>(1,987,394)</u>
INCREASE IN NET ASSETS	<u>5,027,420</u>
NET ASSETS AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	67,032,394
Adjustment for restatement (see Note 16)	<u>(525,870)</u>
NET ASSETS AT BEGINNING OF YEAR, AS RESTATED	<u>66,506,524</u>
NET ASSETS, END OF YEAR	<u>\$ 71,533,944</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, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 28,079,225
Federal grants and contracts	13,833,350
State grants and contracts	10,204,182
Local grants and contracts	1,206,887
Auxiliary operation sales	8,569,714
Payments to suppliers	(20,029,661)
Payments to/on-behalf of employees	(103,104,599)
Payments to/on-behalf of students	(12,343,069)
Other receipts (payments)	<u>2,656,512</u>
Net cash used by operating activities	<u>(70,927,459)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State apportionments and receipts	65,587,193
Property taxes	16,335,755
State taxes and other revenue	3,962,736
Grants and gifts for other than capital purposes	<u>2,465,312</u>
Net cash provided by non-capital financing activities	<u>88,350,996</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	69,140,000
State apportionment for capital purposes	1,606,837
Local revenue for capital purposes	1,708,994
Tax revenue for payment of capital debt	9,339,510
Purchase of capital assets	(38,179,011)
Principal paid on capital debt	(6,473,384)
Deposit to escrow fund to defease capital debt	(10,932,128)
Interest paid on capital debt	(5,132,925)
Interest on capital investments	<u>600,810</u>
Net cash provided by capital and related financing activities	<u>21,678,703</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	338,642
Purchase of investments, net	<u>(78,820)</u>
Net cash provided by investing activities	<u>259,822</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	39,362,062
CASH BALANCE - Beginning of Year	<u>44,220,745</u>
CASH BALANCE - End of Year	<u>\$ 83,582,807</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, 2005

Reconciliation of Operating Loss to
Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (83,702,940)
Adjustments to reconcile net loss to net cash (used) by operating activities:	
Depreciation expense	3,264,182
Changes in assets and liabilities:	
Receivables, net	(345,004)
Due from Auxiliary	2,656,512
Inventory	(591,910)
Prepaid expenses and deposits	390,803
Bank overdraft	714,109
Accounts payable	7,981,988
Accrued liabilities	(376,956)
Deferred revenue	(717,163)
Compensated absences	<u>(201,080)</u>
Net cash used by operating activities	\$ <u>(70,927,459)</u>

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2005

	Trust and Agency Fund	Associated Student Body Fund
ASSETS		
Cash on hand and in banks	\$ 9,033,533	1,104,710
Investments	3,132,702	
Accounts receivable:		
Miscellaneous	173,469	85,426
Prepaid expenses	_____	2,862
TOTAL ASSETS	\$ 12,339,704	\$ 1,192,998
LIABILITIES		
Accounts payable	\$ 51,411	\$ 14,232
Due to governmental funds	134,416	
Funds held in trust	12,153,877	1,184,019
TOTAL LIABILITIES	12,339,704	1,198,251
NET ASSETS		
Unrestricted	_____	(5,253)
TOTAL NET ASSETS	-	(5,253)
TOTAL LIABILITIES AND NET ASSETS	\$ 12,339,704	\$ 1,192,998

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, 2005

	Associated Student Body Fund
ADDITIONS	
Other local revenues	\$ 251,923
TOTAL ADDITIONS	<u>251,923</u>
DEDUCTIONS	
Supplies and materials	133,695
Services and other operating expenses	125,889
Capital outlay	<u>798</u>
TOTAL DEDUCTIONS	<u>260,382</u>
Change in net assets	(8,459)
NET ASSETS AT BEGINNING OF YEAR	<u>3,206</u>
NET ASSETS, END OF YEAR	<u><u>\$ (5,253)</u></u>

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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, 2005

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

A. REPORTING ENTITY (continued)

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

Based upon the application of the criteria listed above, the following potential component units have been included as part of the District's reporting entity:

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 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.

Based upon the application of the criteria listed above, the following potential component units have been excluded from the District's reporting entity as the third criterion listed above was not met:

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

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

Separate Foundation financial statements can be obtained through the District.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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

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 \$(925,089) on June 30, 2005, which represents advance payments of payroll deductions. The Warrant Pass-Through Fund is not reported in the basic financial statements.

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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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

C. BASIS OF ACCOUNTING (continued)

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

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

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

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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

Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31. 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.

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. Accounts receivable are recorded net of estimated uncollectible amounts, as well as items held for resale through the bookstore and food service operations.

3. Inventories

Inventories are presented at cost 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 and food service operations.

4. Prepaid Expenses

Prepaid expenses consist primarily of a prepaid rent of \$733,000, Health and Welfare payment of \$96,000 and PERS payment of \$618,000.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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

C. BASIS OF ACCOUNTING (continued)

5. Prepaid Certificates of Participation Issue Costs

Associated issuance costs are recorded as deferred charges on the statement of net assets and are amortized to interest expense over the life of the liability. Original issuance costs of \$509,294 are amortized using the straight-line method. Amortization of \$29,103 was recognized during 2004-05.

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 of \$13,177,952.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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 \$6,094,914.

10. Deferred Revenue

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

11. Compensated Absences

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

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

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave.

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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.

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 2006 will be recorded in the year computed by the State.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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

C. BASIS OF ACCOUNTING (continued)

14. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31.

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

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 \$857,900 for STRS.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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, such as investment income.

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, 2005

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.

19. Reclassifications

Certain amounts related to cash and cash equivalents, long-term investments and long-term liabilities have been reclassified from the previous year's presentation to more accurately reflect the liquidity of the asset or liability.

NOTE 2 - DEPOSITS AND INVESTMENTS:

A. **Deposits**

Custodial Credit Risk - Deposits

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. As of June 30, 2005, \$18,072,108 of the District's bank balance of \$20,414,888 was exposed to credit risk by being uninsured and uncollateralized in the District's name.

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, 2005, as provided by the pool sponsor, was \$71,257,659. 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, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

B. Cash in Bank Overdraft

The Bookstore Fund has a Cash in Bank overdraft balance of \$2,028,617 at June 30, 2005. 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, 2005 the pooled accounts had a positive balance of \$174,444.

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

Investments for both the governmental and fiduciary fund types at June 30, 2005 are presented below:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard & Poor's/ Moody's Rating</u>
GE Capital Internotes	12/15/2005	\$ 14,936	AAA/AAA
BankAmerica Corp	9/15/2005	125,709	A+/AA3
U.S. Treasury Note	11/15/2005	302,813	(1)
U.S. Treasury Note	7/7/2005	19,991	(1)
Federal Home Loan Bank Cons	11/10/2005	994,690	(3)
Federal Home Loan Bank Cons	2/24/2006	1,411,125	(3)
Federal Home Loan Bank Cons	2/24/2006	203,719	(3)
Federal Home Loan Bank Cons	8/18/2006	59,719	(3)
AIG Match Funding Corp.	5/14/2024	1,591,223	(2)
Federated Treasury Obligation 398	2/1/07-2/1/27	26,281	(1)
Federated Treasury Obligation 398	2/1/07-2/1/27	<u>860,551</u>	(1)
Total		<u>\$5,610,757</u>	

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

(2) Amount is in guaranteed investment contract (GIC); therefore, there is no risk disclosed.

(3) Amount is in government-sponsored agency securities. While these securities are not explicitly guaranteed by the U.S. government, their credit risk is still low due to implied government guarantee.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

C. **Investments** (continued)

Interest Rate Risk

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

Government Code Section 16430 allows 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

The District places no limit on the amount that may be invested in any one issuer. More than 50% of the District's investments are with U.S. Treasury Bills or in Guaranteed Investment Contracts and are not exposed to risk.

NOTE 3 - ACCOUNTS RECEIVABLE:

The accounts receivable balance as of June 30, 2005 consist of the following:

Federal and State	\$12,824,139
Local	805,746
Miscellaneous	2,566,849

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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, 2005 are as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 134,416	\$
Associated Student Body Fund		134,416
Totals	\$ 134,416	\$ 134,416

NOTE 5 - CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Land	\$ 46,202,579	\$	\$	\$ 46,202,579
Site and site improvements	112,302,898	6,822,763		119,125,661
Equipment	8,609,769	1,002,163		9,611,932
Construction in progress	10,019,480	37,176,848	6,822,763	40,373,565
Total Cost	177,134,726	45,001,774	6,822,763	215,313,737
Site and site improvements	(20,184,675)	(2,400,471)		(22,585,146)
Equipment	(5,124,038)	(863,711)		(5,987,749)
Total Accumulated Depreciation	(25,308,713)	(3,264,182)	-	(28,572,895)
Net Capital Assets	\$151,826,013	\$41,737,592	\$ 6,822,763	\$186,740,842

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 6 - TAX REVENUE ANTICIPATION NOTES (TRANS):

The District issued \$5,000,000 of Tax Revenue Anticipation Notes dated July 1, 2004 through the Los Angeles County Schools Pooled Finance Program (Series 2004-05). The notes matured on June 30, 2005 and yielded 1.61% interest. The notes were sold by the District to supplement its cash flow.

The funds were held in a Guaranteed Investment Contract. Repayment requirements were that \$2,500,000 be deposited in both April and May, 2005. All repayment requirements were met. As the notes were in-substance defeased on June 30, 2005, they are not reflected as a liability in these financial statements.

NOTE 7 - LEASES:

A. Capital Leases

The District leases equipment valued at approximately \$1,814,800 through agreements which provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	\$ 295,345	\$ 24,911	\$ 320,256
2006-2007	310,455	9,801	320,256
2007-2008	<u>26,577</u>	<u>111</u>	<u>26,688</u>
Total	\$ <u>632,377</u>	\$ <u>34,823</u>	\$ <u>667,200</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment. Interest expenses for fiscal year 2004-05 was approximately \$43,500.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 7 - LEASES: (continued)

B. Operating Leases

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

<u>Fiscal Year</u>	<u>Lease Payment</u>
2005-2006	\$ 986,120
2006-2007	986,120
2007-2008	986,120
2008-2009	800,000
2010-2014	4,000,000
2015-2019	4,000,000
2020-2024	4,000,000
2025-2029	4,000,000
2030-2034	4,000,000
2035-2039	4,000,000
2040-2044	4,000,000
2045-2049	4,000,000
2050-2054	4,000,000
2055-2056	<u>1,600,000</u>
Total	<u>\$41,358,360</u>

Current year expenditures for operating leases is approximately \$1,021,100. 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, 2005

NOTE 8 - CERTIFICATES OF PARTICIPATION:

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

The Corporation's funds for the advance refunding and for acquiring these items were generated by the issuance of \$24,905,000 of Certificates of Participation (COPs). COPs are long-term debt instruments which are tax exempt and therefore issued at interest rates below current market levels for taxable investments which range from 2.90% to 4.90% for the length of the issuance.

Lease Payments - Lease payments are required to be made by the District under the lease agreement on each June 1 for use and possession of the capital improvements for the period commencing June 1, 1999 and terminating June 1, 2024. Lease payments will be funded in part from the proceeds of the Certificates.

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 8 - CERTIFICATES OF PARTICIPATION: (continued)

<u>Lease Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
December 1, 2005	\$	459,506	459,506
June 1, 2006	685,000	459,506	1,144,506
December 1, 2006		446,491	446,491
June 1, 2007	710,000	446,491	1,156,491
December 1, 2007		432,646	432,646
June 1, 2008	735,000	432,646	1,167,646
December 1, 2008		417,940	417,940
June 1, 2009	765,000	417,940	1,182,940
December 1, 2009		402,264	402,264
June 1, 2010	800,000	402,264	1,202,264
2011-2015	4,535,000	3,470,778	8,005,778
2016-2020	5,710,000	2,299,925	8,009,925
2021-2024	<u>5,685,000</u>	<u>727,754</u>	<u>6,412,754</u>
Total	<u>\$19,625,000</u>	<u>\$10,816,151</u>	<u>\$30,441,151</u>

- B.** The agreement dated December 1, 2001, is between the Santa Monica Community College District as the "lessee" and the Los Angeles County Schools Regionalized Business Services Corporation as the "lessor" or "corporation". The Corporation is a legally separate entity which was formed for the sole purpose of financing the costs of acquisition of certain parcels of real property to be used for the future public education activities of the District and then leasing such items to the District.

The Corporation's funds for acquiring these items were generated by the issuance of \$36,995,000 of variable rate demand taxable Certificates of Participation (COPs). COPs are long-term debt instruments.

Lease Payments – The principal portion of lease payments are required to be made by the District under the lease agreement on each December 1 for use and possession of the property for the period commencing December 1, 2004 and terminating December 1, 2021. The interest portion of the lease payment is due monthly at a variable rate. Lease payments will be funded in part from the proceeds of the Certificates and from the District's sub-lease of the property to BAE for its commercial purposes.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 8 - 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>
December 1, 2005	\$ 1,450,000	\$ 1,171,552	\$ 2,621,552
December 1, 2006	1,515,000	1,121,410	2,636,410
December 1, 2007	1,580,000	1,069,076	2,649,076
December 1, 2008	1,650,000	1,014,454	2,664,454
December 1, 2009	1,725,000	957,375	2,682,375
2011-2015	9,830,000	3,838,627	13,668,627
2016-2020	12,195,000	1,983,119	14,178,119
2021-2022	<u>5,665,000</u>	<u>177,107</u>	<u>5,842,107</u>
Total debt service	<u>\$35,610,000</u>	<u>\$11,332,720</u>	<u>\$46,942,720</u>

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

The Corporation's funds for the advance refunding was 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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 8 - 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 \$436,300. The present value of the economic gain to the District amounts to approximately \$411,800. 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 the life of the new debt. Amortization of \$41,460 was recognized during the 2004-05 year. The balance of the in-substance defeased debt as of June 30, 2005 is \$9,795,000; approximately \$10,557,700 was in an escrow account at June 30, 2005 to pay off this debt.

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, 2005

NOTE 8 - 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, 2005	\$	\$ 253,075	\$ 253,075
January 15, 2006	175,000	253,075	428,075
July 15, 2006		250,450	250,450
January 15, 2007	290,000	250,450	540,450
July 15, 2007		246,100	246,100
January 15, 2008	330,000	246,100	576,100
July 15, 2008		241,150	241,150
January 15, 2009	365,000	241,150	606,150
July 15, 2009		235,675	235,675
January 15, 2010	370,000	235,675	605,675
2011-2015	2,095,000	2,130,600	4,225,600
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>
Total debt service	11,140,000	\$ <u>7,268,187</u>	\$ <u>18,408,187</u>
Deferred charge on refunding	<u>(870,668)</u>		
Total	<u>\$10,269,332</u>		

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 9 – BONDS PAYABLE:

- A. 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 \$5,000,000 of the bonds. Interest rates range from 5.45% to 5.75% 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>
2006	\$ 175,000	\$ 190,605	\$ 365,605
2007	185,000	181,680	366,680
2008	195,000	171,968	366,968
2009	205,000	161,535	366,535
2010	195,000	150,362	345,362
2011-2015	1,175,000	569,250	1,744,250
2016-2019	<u>1,245,000</u>	<u>184,290</u>	<u>1,429,290</u>
Total	<u>\$3,375,000</u>	<u>\$1,609,690</u>	<u>\$4,984,690</u>

- B. On November 1, 1995, the District issued an additional \$10,000,000 of the bond issue. Interest rates range from 5.375% to 7.0% payable semiannually on January 1, and July 1.

Debt service requirements on these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 320,000	\$ 438,569	\$ 758,569
2007	340,000	422,889	762,889
2008	355,000	405,889	760,889
2009	370,000	388,138	758,138
2010	390,000	368,899	758,899
2011-2015	2,310,000	1,498,044	3,808,044
2016-2020	3,060,000	754,975	3,814,975
2021	<u>720,000</u>	<u>41,400</u>	<u>761,400</u>
Total	<u>\$7,865,000</u>	<u>\$4,318,803</u>	<u>\$12,183,803</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 9 – BONDS PAYABLE: (continued)

- C. On February 1, 2000, the District issued an additional \$8,000,000 of the bond issue. Interest rates range from 3.0% to 5.5% 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>
2006	\$ 230,000	\$ 343,920	\$ 573,920
2007	240,000	333,570	573,570
2008	255,000	320,370	575,370
2009	270,000	306,345	576,345
2010	290,000	291,495	581,495
2011-2015	1,655,000	1,225,910	2,880,910
2016-2020	2,010,000	786,750	2,796,750
2021-2024	<u>1,920,000</u>	<u>246,000</u>	<u>2,166,000</u>
Total	<u>\$ 6,870,000</u>	<u>\$ 3,854,360</u>	<u>\$10,724,360</u>

- D. 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>
2006	\$ 4,110,000	\$ 817,913	\$ 4,927,913
2007	670,000	694,613	1,364,613
2008	650,000	674,513	1,324,513
2009	650,000	653,388	1,303,388
2010	650,000	632,263	1,282,263
2011-2015	3,250,000	2,769,688	6,019,688
2016-2020	3,400,000	2,075,138	5,475,138
2021-2025	3,760,000	1,224,475	4,984,475
2026-2028	<u>2,500,000</u>	<u>258,808</u>	<u>2,758,808</u>
Total	<u>\$19,640,000</u>	<u>\$ 9,800,799</u>	<u>\$29,440,799</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 9 – BONDS PAYABLE: (continued)

- E. 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, 2005 is \$1,111,164.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2006	\$ 3,790,000	\$ 1,012,725	\$	\$ 4,802,725
2007	570,000	861,125		1,431,125
2008	585,000	844,025		1,429,025
2009	610,000	820,625		1,430,625
2010	630,000	796,225		1,426,225
2011-2015	3,630,000	3,518,000		7,148,000
2016-2020	4,610,000	2,528,788		7,138,788
2021-2025	5,890,000	1,252,250		7,142,250
2026-2029	<u>1,684,971</u>	<u>68,000</u>	<u>3,950,029</u>	<u>5,703,000</u>
Total	<u>\$21,999,971</u>	<u>\$11,701,763</u>	<u>\$ 3,950,029</u>	<u>\$37,651,763</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 9 – BONDS PAYABLE: (continued)

F. 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.

Debt service requirements on these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,845,000	\$ 2,570,272	\$ 4,415,272
2007	3,700,000	2,680,062	6,380,062
2008	1,325,000	2,513,563	3,838,563
2009	1,385,000	2,453,937	3,838,937
2010	1,450,000	2,384,688	3,834,688
2011-2015	8,230,000	10,952,538	19,182,538
2016-2020	10,370,000	8,811,000	19,181,000
2021-2025	13,085,000	6,095,149	19,180,149
2026-2028	<u>16,610,000</u>	<u>2,572,750</u>	<u>19,182,750</u>
Total debt service	58,000,000	<u>\$41,033,959</u>	<u>\$99,033,959</u>
Unamortized bond premium	<u>1,888,513</u>		
Total	<u>\$59,888,513</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 A bonds included a premium of \$1,888,513. This amount is amortized using the straight-line method. No amortization was recognized during 2004-05.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 10 – LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2005 is shown below:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
Capital Leases	\$ 970,761	\$	\$ 338,384	\$ 632,377
Certificates of Participation	67,300,000	10,227,872	12,023,540	65,504,332
General Obligation Bonds	63,839,971	59,888,513	4,090,000	119,638,484
Accreted Interest	<u>1,052,334</u>	<u>58,830</u>	<u></u>	<u>1,111,164</u>
Totals	<u>\$133,163,066</u>	<u>\$ 70,175,215</u>	<u>\$ 16,451,924</u>	<u>\$186,886,357</u>

NOTE 11 - 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).

State Teachers' Retirement System (STRS)

Plan Description

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

State Teachers' Retirement System (STRS) (continued)

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2004-05 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Public Employees' Retirement System (PERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The average required employer contribution for fiscal year 2004-05 was 9.952% 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, 2005

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

Contributions to STRS and PERS

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

Year Ended <u>June 30,</u>	STRS		PERS	
	<u>Required Contribution</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2003	\$3,274,164	100%	\$ 950,463	100%
2004	3,230,925	100%	2,093,460	100%
2005	3,509,146	100%	2,447,008	100%

NOTE 12 - RETIREE BENEFITS:

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. Medical, dental and vision benefits are paid to retirees up until the age of 65. The District contributes 100% of the amount of premiums incurred by retirees and their dependents. For all retirees above the age of 65, medical benefits are paid, not-to-exceed a maximum amount determined by the District, for life. Currently, 245 employees meet those eligibility requirements. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis when premiums are paid. During the year, the approximate expenditures for the retirees health care benefits were \$1,487,645. For 2005-06, \$1,200,000 has been budgeted for these benefits.

The estimated total future liability of these benefits is \$8,899,905 as determined by an actuarial study performed in July 1995. However, this liability is not reflected within these financial statements, awaiting implementation of GASB Statement No. 45. See Note 18A. An actuarial study is currently being conducted to determine a more current estimate of total future liability of these benefits.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 13 - JOINT POWERS AGREEMENT:

The Santa Monica Community College District participates in four joint powers agreement (JPA) entities; the Los Angeles Regionalized Insurance Service Authority (LARISA); the Southern California Community College District Joint Powers Agency (SCCCD-JPA); the Statewide Association of Community Colleges (SWACC); and the California Statewide Delinquent Tax Finance Authority (CSDTFA). 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.

LARISA 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 made. Claim liabilities of the JPA are recomputed periodically by an actuary to produce current estimates that reflect trend and claim lag time.

SCCCD-JPA provides workers' compensation and retiree health insurance coverage for its six member districts. Payments transferred to funds maintained under the JPA are expensed when made. 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; however, the reserve for retiree health insurance is not yet sufficient to cover future potential payments.

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 beyond their representation on the Board. Each member shares surpluses and deficits proportionately to its participation in SWACC.

CSDTFA purchases delinquent ad valorem property taxes from school agencies in Los Angeles County who receive additional unrestricted revenues through the financing of property tax delinquencies. CSDTFA is a pass-through entity and financial information is not provided to the member districts.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 13 - JOINT POWERS AGREEMENT: (continued)

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

	LARISA 6/30/2005 (Audited)	SCCCD-JPA 6/30/2004 (Audited)	SWACC 6/30/2005 (Unaudited)
		Workers Compensation Insurance Fund	Retiree Health Insurance Fund
Total assets	\$15,979,842	\$16,378,631	\$64,393,051
Total liabilities	<u>13,997,679</u>	<u>1,186,071</u>	<u>12,212</u>
Retained earnings	\$ <u>1,982,163</u>	\$ <u>15,192,560</u>	\$ <u>64,380,839</u>
Total revenues	\$ 2,348,506	\$ 5,814,721	\$ 3,222,735
Total expenditures	<u>1,890,960</u>	<u>6,463,616</u>	<u>52,560</u>
Net increase/(decrease) in retained earnings	\$ <u>457,546</u>	\$ <u>(648,895)</u>	\$ <u>3,170,175</u>

NOTE 14 – FUNCTIONAL EXPENSE:

	Salaries	Benefits	Supplies, Materials, Utilities, Other Expenses and Services	Financial Aid	Depreciation	Total
Instructional Activities	\$ 44,834,074	\$ 9,642,704	\$ 538,314	\$	\$	\$ 55,015,092
Academic Support	7,727,659	2,104,680	718,541			10,550,880
Student Services	11,670,271	2,797,540	1,700,848			16,168,659
Operation & Maintenance of Plant	3,531,886	1,354,196	1,360,873			6,246,955
Institutional Support Services	9,219,467	4,349,285	2,995,210			16,563,962
Community Services & Economic Development	791,028	244,525	106,387			1,141,940
Ancillary Services & Auxiliary Operations	4,235,247	1,133,500	2,259,740			7,628,487
Physical Property & Related Acquisitions	26,698	8,148	17,641,155			17,676,001
Student Financial Aid				12,381,159		12,381,159
Depreciation Expense					3,264,182	3,264,182
	<u>\$ 82,036,330</u>	<u>\$ 21,634,578</u>	<u>\$ 27,321,068</u>	<u>\$ 12,381,159</u>	<u>\$ 3,264,182</u>	<u>\$ 146,637,317</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 15 – NEGATIVE FUND BALANCE – MEASURE U BOND FUND:

The Measure U Bond Fund ended the year with a negative \$2,381,564 fund balance. Expenses were charged against the Series C issuance prior to proceeds being received in August 2005. (Note 18B)

NOTE 16 – ADJUSTMENT FOR RESTATEMENT:

Net assets were restated by \$(525,870) to reflect the write-off of uncollectible accounts receivable related to restricted categorical programs.

NOTE 17 – COMMITMENTS AND CONTINGENCIES:

A. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes, including reimbursement of mandated costs, 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. Purchase Commitments

As of June 30, 2005, the District had the following commitments with respect to construction costs for the following projects:

<u>Project</u>	
Bundy West Building	\$ 342,304
PE Offices	121,608
Liberal Arts	10,816,794
Main Stage	9,393,448
Madison	<u>26,801,873</u>
Total	<u>\$47,476,027</u>

Projects will be funded through bond proceeds, Certificates of Participation proceeds and State scheduled maintenance allocations.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 18- SUBSEQUENT EVENTS:

A. GASB Statement No. 45

The Governmental Accounting Standards Board (GASB) has recently issued Statement No. 45 outlining new accounting standards for governmental agencies regarding other post-employment benefits. The statement would be effective for phase one GASB Statement No. 34 implementers in fiscal year 2007-08. The statement requires governmental agencies to record and disclose the actuarially determined cost based on the benefits expected to be earned by employees in the future, as well as those benefits the employees have already earned. Annual required contributions shall include the employer's normal cost and a provision(s) for amortizing the total unfunded actuarial accrued liability for a period not to exceed 30 years. The statement also requires that an actuarial valuation be performed every two years for a plan with more than 200 members and every three years for plans with fewer than 200 members.

B. General Obligation Bonds

On August 31, 2005, the District issued 2002 election, Series C bonds totaling \$22,690,000 of current interest bonds and \$67,309,923 of capital appreciation bonds. The bonds were issued to finance the construction, acquisition, furnishing and equipping of District facilities. The bonds have interest rates ranging from 3.12%-5.00%.

SUPPLEMENTARY INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT

HISTORY AND ORGANIZATION

June 30, 2005

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>
Carole Currey	Chairperson	November, 2006
Dr. Nancy Greenstein	Vice Chairperson	November, 2006
Dr. Susan Aminoff	Member	November, 2008
Dr. Dorothy Ehrhart-Morrison	Member	November, 2006
Dr. Margaret Quiñones	Member	November, 2008
Rob Rader	Member	November, 2008
Herbert Roney	Member	November, 2006
Belinda Phillips	Student Trustee	June, 2006

ADMINISTRATION

Thomas J. Donner	Interim Superintendent/President and Executive Vice President of Business and Administration
Randal Lawson	Executive Vice President
Robert Adams	Vice President of Student Affairs
Robert Sammis	Vice President of Planning and Development
Jeffery Shimizu	Vice President of Academic Affairs
Lynn Solomita	Interim Vice President of Human Resources
David Muller	Associate Vice President of Facilities
Reagan Romali	Associate Vice President of Fiscal Services
Marvin Martinez	Provost

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2005

	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
Department of Education:			
Administrative Allowances	84.000	N/A	\$ 47,527
TRIO - Student Support Services	84.042	N/A	313,825
Title III - Strengthening Institutions	84.013A	N/A	243,909
Title V - Hispanic Serving Institutions Programs	84.031S	N/A	321,109
Federal Work Study	84.033	N/A	586,840
SEOG Grant	84.007	N/A	1,185,189
Pell Grant	84.063	N/A	9,245,352
Vocational and Applied Technology Education Act	84.048	03577	520,469
Tech Prep Education	84.243	N/A	68,800
Even Start	84.213	N/A	152,811
CCAMPIS	84.000	N/A	61,542
Child Care Training		N/A	41,944
Department of Commerce			
Corporation for Public Broadcasting	11.000	N/A	1,156,873
National Telecommunication and Information Administration	11.550	N/A	5,385
Department of Health and Human Services			
TANF	93.558	N/A	82,506
			<u>\$ 14,034,081</u>

N/A - Pass-through number is either not available or not applicable

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, 2005

	Program Entitlements			Program Revenues				Total Program Expenditures
	Current Year	Prior Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Income	Total	
Matriculation (Credit)	\$ 730,493	\$ 334,933	\$ 1,065,426	\$ 1,065,426	\$	\$ 31,122	\$ 1,034,304	\$ 1,034,304
Matriculation (Non Credit)	35,366	20,157	55,523	55,523		20,157	35,366	35,366
Extended Opportunity Program and Services	1,188,662		1,188,662	1,188,662		1,676	1,186,986	1,186,986
Disabled Student Program and Services	1,177,733	1,539	1,179,272	1,175,822	3,450		1,179,272	1,179,272
Economic Development	300,000		300,000	252,000	48,000		300,000	300,000
Block Grant	340,576	60,761	401,337	401,337		379,392	21,945	21,945
Instructional Equipment - Block Grant	382,010	520,544	902,554	902,554		385,811	516,743	516,743
Telecom Technology Infrastructure Prog	53,103	177,651	230,754	230,754		175,986	54,768	54,768
CAN Articulation		5,000	5,000	5,000		725	4,275	4,275
TRDP	10,500	29,057	39,557	39,557		36,057	3,500	3,500
Faculty & Staff Diversity	18,443	34,928	53,371	53,371		26,321	27,050	27,050
Staff Development		9,824	9,824	9,824		847	8,977	8,977
Nursing Grant	91,312		91,312	91,312		55,298	36,014	36,014
Calworks	400,181	17,123	417,304	417,304		36,374	380,930	380,930
Launchpad/MCHS-Yr5 and Yr6-Inc	92,250	128,571	220,821	95,250	73,762		169,012	169,012
ETP Grant	181,608		181,608		181,608		181,608	181,608
ETP Health Bus	62,491		62,491		62,491		62,491	62,491
Arts Industry Standars Project	51,777		51,777	29,329	22,448		51,777	51,777
Multimedia Entertainment Center	28,620		28,620	28,620			28,620	28,620
Financial Aid Administration	776,770	579,556	1,356,326	1,356,326		55,652	1,300,674	1,300,674
Total State Programs	\$ 5,921,895	\$ 1,919,644	\$ 7,841,539	\$ 7,397,971	\$ 391,759	\$ 1,205,418	\$ 6,584,312	\$ 6,584,312

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR PROGRAM-BASED FUNDING

For the Fiscal Year Ended June 30, 2005

Categories

A.	Credit Full-Time Equivalent Students	
	Weekly census	13,966.77
	Daily census	3,289.05
	Actual hour of attendance	63.96
	Independent study/work experience	21.24
	Summer intersession	<u>2,839.11</u>
	Total	<u><u>20,180.13</u></u>
B.	Non-Credit FTES	
	Actual hour of attendance	556.30
	Summer intersession	<u>75.11</u>
	Total	<u><u>631.41</u></u>
C.	Gross Square Footage	
	Existing facilities	<u><u>1,004,154</u></u>
D.	FTES in Leased Facilities	<u><u>630.32</u></u>

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

	<u>General Fund</u>	<u>Bookstore Fund</u>	<u>Capital Outlay Fund</u>
June 30, 2005 Annual Financial and Budget Report Fund Balance	\$ <u>5,586,995</u>	\$ <u>2,567,446</u>	\$ <u>50,989,636</u>
Adjustments and Reclassifications:			
Post Closing Entries		81,973	
Over Statement of Accounts Payable			217,443
Under Statement of Accrued Vacation	<u>(460,230)</u>		
Net Adjustments and Reclassifications	<u>(460,230)</u>	<u>81,973</u>	<u>217,443</u>
June 30, 2005 Audited Financial Statements Fund Balance	\$ <u>5,126,765</u>	\$ <u>2,649,419</u>	\$ <u>51,207,079</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.

Notes:

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.

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, 2005**

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, 2005 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 Measures for Program-Based Funding

The Schedule of Workload Measures for Program-Based Funding represents the basis of apportionment of the Santa Monica Community College District's annual source of funding.

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

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

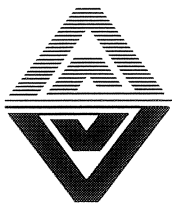
SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2005

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

Excesses of expenditures over appropriations for governmental funds, by major object accounts, occurred in the following funds:

General Fund:	
Employee Benefits	\$ 633,814
Interfund Transfers Out	1,505,847
Bookstore Fund:	
Salaries	1,105,211
Employee Benefits	1,224,949
Supplies and Materials	5,719,908
Other Operating Expenses and Services	228,757
Capital Outlay	10,868
Capital Outlay Fund:	
Supplies and Materials	637,276
Interfund Transfers Out	512,996
COPS Capital Projects Fund: (No budget)	
Other Operating Expenses and Services	323,691
Building Fund:	
Supplies and Materials	33,000
Enterprise Fund:	
Employee Benefits	6,021
Other Auxiliary:	
Salaries	5,752
Supplies and Materials	149,939
Capital Outlay	118,662



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

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

Chairman

ROYCE A. STUTZMAN

Partners

PETER F. GAUTREAU

RENÉE S. GRAVES

WADE N. McMULLEN

KARIN HECKMAN NELSON

CARL PON

GEMA M. PTASINSKI

MARY ANN QUAY

LINDA M. SADDLEMIRE

Principal

JERI A. WENGER

Senior Managers

JANETTE CAMPS

CLAUDETTE ELIAS DAIN

TIMOTHY D. EVANS

PRISCILLA OSBORNE FLORES

PHEBE M. McCUTCHEON

SHARI PROSSER

COLLEEN K. TAYLOR

We have audited the financial statements of Santa Monica Community College District (the District) as of and for the year ended June 30, 2005, and have issued our report thereon dated November 17, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**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**

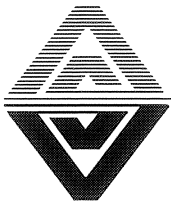
Compliance and Other Matters

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 instances of noncompliance and other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as items 05-1 and 05-2.

This report is intended solely for the information and use of the Board, management, the State Department of Finance, the State Chancellor's Office and federal awarding agencies 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

November 17, 2005



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

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

Chairman

ROYCE A. STUTZMAN

Partners

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SHARI PROSSER

COLLEEN K. TAYLOR

Compliance

We have audited the compliance of Santa Monica Community College 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, 2005. Santa Monica Community College District's major federal programs are identified in the summary of auditor 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 Santa Monica Community College District's management. Our responsibility is to express an opinion on Santa Monica Community College 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 Santa Monica Community College 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 on Santa Monica Community College District's compliance with those requirements.

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

In our opinion, Santa Monica Community College 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, 2005.

Internal Control Over Compliance

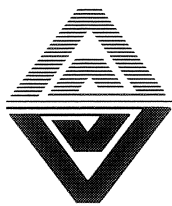
The management of the Santa Monica Community College District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Santa Monica Community College 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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


VICENTI, LLOYD & STUTZMAN LLP

November 17, 2005



Chairman

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REPORT ON STATE COMPLIANCE

Principal

JERI A. WENGER

Senior Managers

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PHEBE M. McCUTCHEON

SHARI PROSSER

COLLEEN K. TAYLOR

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, 2005, and have issued our report thereon dated November 17, 2005.

Our examination was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we performed an audit for compliance as required in Part II, State and Federal Compliance Requirements for those programs identified in the State Department of Finance's 2005 transmittal of audit requirements for community colleges. The objective of the examination of compliance applicable to Santa Monica Community College District is to determine with reasonable assurance, based on the suggested audit procedures:

- 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 resident students is claimed for apportionment purposes.

REPORT ON STATE COMPLIANCE

- Whether District has complied with all requirements necessary to claim FTES for the attendance of concurrently enrolled K-12 pupils.
- Whether the District had local funds to support at least 75 percent of the credit matriculation activities and that all matriculation expenditures are consistent with the District's State approved matriculation plan.
- Whether the District's salaries of instructors teaching FTES generating classes, school counselors providing advisement, student services at the Dean level or above, and financial aid officers conducting need analysis, are not considered supportable charges against either Extended Opportunity Programs and Services (EOPS) or Disabled Student Program Services (DSP&S) accounts unless their activities require them to perform additional functions for the EOPS or DSP&S program which are beyond the scope of services provided to all students in the normal performance of the regular duty assignments.
- Whether the District contributed 100% of the salary and benefits for the EOPS Director/Administrator from funds other than EOPS. In addition, the District must employ a full-time 100% Director to manage the daily operations of the EOPS program unless a waiver has been obtained.
- 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 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 regulations consistent with the "Standards of Scholarship" contained in the California Code of Regulations and has published statements of those regulations in the College catalog.
- Whether the District has adopted policies or regulations regarding the authority of the District to require students to provide various types of instructional materials.

REPORT ON STATE COMPLIANCE

In our opinion, except for findings 05-1 and 05-2 described in the accompanying schedule of findings and questioned costs as related to financial statements, 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.

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 the Board, management, the State Department of Finance, the State Chancellor's Office and federal awarding agencies 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

November 17, 2005

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, 2005

Financial Statements

Type of auditor's report issued: Unqualified

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

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

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

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

Identification of major programs tested

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033 and 84.063	Student Financial Assistance Cluster of Programs
84.048	Vocational and Applied Technology Education Act
84.031S	Title V Hispanic Serving Institutions Programs

Dollar threshold used to distinguish between Type A
 and Type B programs: \$ 421,022

Auditee qualified as low-risk auditee? Yes X No

SANTA MONICA COMMUNITY COLLEGE DISTRICT

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

June 30, 2005

FINDING 05-1 – MINIMUM CONDITIONS – “STANDARDS OF SCHOLARSHIP”

Finding: Districts may claim apportionment for one repetition for the attendance of a student repeating a course in which a student receives a grade if the student is repeating the course to alleviate substandard work, there were extenuating circumstances or there has been a significant lapse of time between attempts (CCR 58161). Districts may allow additional repetitions, however, they should not grant credit and should not report the students for apportionment purposes.

We noted the following when reviewing course repetition procedures:

- The record of counselor approval for repetitions was removed from the attendance system when the counselor’s employment ended. Upon further investigation, the information systems department was able to recover that information, however, it cannot be viewed by the normal end user.
- Eight of eleven students tested had repeated a class more than one time and the FTES were not removed for apportionment reporting. The attendance system contains a screen allowing the user to indicate that the repeat class is not eligible for apportionment, however, in all cases, this screen was blank. We estimate that for the students tested, 21 classes were over reported. Assuming an average of 3 contact hours per week, we estimate the total over reported to be 2 FTES or \$8,700 for the sample tested.
- The individual class repetition limits were not consistent between the course catalog and schedule of classes and actual practice. We selected four students who had repeated a course with content that would appear to allow for a maximum of three repeats as indicated in CCR 58161(d). The course catalog did not indicate that the classes were eligible for three repeats, however, students were allowed to enroll more than twice without obtaining authorization from a counselor.
- One student was allowed to enroll in ESL 21B six times with only one counselor approval.

Questioned Costs: Estimated at \$8,700

SANTA MONICA COMMUNITY COLLEGE DISTRICT

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

June 30, 2005

FINDING 05-1 – MINIMUM CONDITIONS – “STANDARDS OF SCHOLARSHIP”

(continued)

Recommendation:

- The District should attempt to restore the deleted documentation of counselor approval on all student records. There should also be verification that any additional employment separations do not cause a similar situation.
- The District should further investigate this situation to determine the amount of over reported FTES. The CCFS-320 report should be revised and resubmitted. Additionally, procedures should be revised and may include shifting the responsibility for marking a class as ineligible for apportionment to another department. Our understanding is that the responsibility to update the attendance system with this information is with Admissions and Records. Because the District has shifted to completing more of the registration process electronically, many students no longer need to go to Admissions and Records to enroll in classes. This eliminated the department from the process, thus many student repeats were not marked in the system as ineligible.
- The course catalog and schedule of classes should be revised to indicate classes eligible for three repeats.
- The instance of proper approvals not obtained should be investigated to determine if the problem is systemic. The CCFS-320 report should be revised and resubmitted.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

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

June 30, 2005

FINDING 05-1 – MINIMUM CONDITIONS – “STANDARDS OF SCHOLARSHIP”

(continued)

District Response:

- The deletion of counselor information in the Student Information System upon separation from employment has been corrected. The system no longer removes these user IDs from the repeat authorization screen upon employee separation. Management Information Systems has identified that this will not be a recurring issue.
- Course repetition regulations, Administrative Regulations 4340 and 4341, were revised during the 2004-2005 academic year. The revised regulations state more clearly the required limitations on course repetitions, therefore removing the primary incentive (GPA improvement) for students to request additional repeats. In accordance with this regulation change, the 2005-2006 college catalog and schedules of classes have been revised to reflect the accurate limits. The Student Information System is being programmed to automatically recognize courses repeated after a non-substandard grade and after the first repeat of a substandard grade and to automatically exclude these from apportionment, thus eliminating the former dependence upon individual user entry to accomplish this. The new program accommodates electronic enrollment procedures, while ensuring compliance with attendance reporting guidelines.
- Academic Affairs and Management Information Systems staff are working together to revise the course repetition feature of the College's electronic course catalog to ensure that course repetition information "follows" courses when they are updated through the curriculum process. (The current system relies upon a manual process of entering a unique "course equivalency" ID number and is therefore vulnerable to user entry error.) Academic Affairs staff members are working to develop a clearer means of expressing course repetition schemes in the printed and online course catalog and schedules of classes. (In many cases, students are allowed a total of four experiences in a group of related courses rather than four experiences in an individual course, and the current method of designating repeats does not express this clearly.)
- Information Technology researched the problem and found this to be an anomaly related to the above response, not a systemic problem. The catalog record for this course has been corrected.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

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

June 30, 2005

FINDING 05-2 – STATE COMPLIANCE – CONCURRENT ENROLLMENT

Original Finding No. 04-3

Finding: We noted two physical education course sections with a 14% enrollment of concurrently enrolled high school students. This is in excess of the 10% maximum allowable enrollment percentage per Education Code Section 76002(a)(4). This was usually the result of regular students dropping the class, thus causing the percentage of concurrently enrolled high school students to increase. The total FTES generated by these two classes was 6.01 FTES.

Questioned Costs: Approximately \$26,200

Recommendation: We recommend that the college monitor all physical education courses to ensure that no section exceeds the 10% maximum allowable enrollment percentage of concurrently enrolled high school students. Additionally, the college should amend the CCFS-320 to exclude the FTES reported for this section.

District Response: District procedures have been revised and prohibit high school students from enrolling in any physical education class.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

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

June 30, 2005

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2005.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2005

Finding No.	Finding	Recommendation	Current Status
04-1	<p><u>REPORTING OF CATEGORICAL PROGRAMS</u></p> <p>During our testing of the federal and state categorical programs, we noted that revenues did not agree to the expenditures reported in the general ledger for federal or state programs. The differences were the result of the District booking the incorrect amount of accounts receivable and deferred revenue.</p>	<p>Implement procedures to require a reconciliation of federal and state categorical revenues. The District should ensure that someone is assigned the responsibility to monitor and maintain grant activities occurring within the fiscal year. Doing so will enable the District to reconcile the federal and state categorical revenues reported to the actual program expenditures reported on the general ledger.</p>	Implemented.
04-2	<p><u>BENEFITS PAYABLE</u></p> <p>During 2003-04, there was no process in place to review and reconcile amounts reported in the various benefits payable accounts. There were significant changes to the accounting related to these accounts as a result of the Los Angeles County Office of Education implementation of PeopleSoft. Because these changes were not communicated to the District and due to staffing changes in the business office, these revised accounting procedures were not identified and the accounts were not reconciled. This resulted in approximately \$523,000 of unrecorded health and welfare expenditures. It should be noted that these expenditures included payment for retirees not reported as expenses, overpayments made to PERS for employees who were no longer eligible, such as family plan when only two party coverage applied, or two party when only one party was covered, and benefit premiums continued to be paid after the employee left District employment.</p>	<p>The District should implement procedures to require a reconciliation of all benefits payable accounts on a monthly basis. This should include a reconciliation to the records kept in Human Resources and Risk Management to identify non-eligible employees and/or dependents. In addition, a complete reconciliation of the health and welfare account for 2003-04 should be performed and any overpayments should be identified and reimbursement requested.</p>	Implemented.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
 June 30, 2005

<u>Finding No.</u>	<u>Finding</u>	<u>Recommendation</u>	<u>Current Status</u>
04-3	<p><u>STATE COMPLIANCE – CONCURRENT ENROLLMENT</u></p> <p>We noted a course section where one of eight students enrolled was a high school student. This equates to 12.5% enrollment of concurrently enrolled high school students and is in excess of the 10% maximum allowable enrollment percentage per Education Code Section 76002(a)(4).</p>	<p>We recommend that the college monitor all physical education courses to ensure that no section exceeds the 10% maximum allowable enrollment percentage of concurrently enrolled high school students. Additionally, the college should amend the CCFS-320 to exclude the FTES reported for this section.</p>	<p>Exceptions noted in 2005-06. See finding 05-2.</p>
04-4	<p><u>FEDERAL WORK STUDY – DISTRICT MATCH</u></p> <p>Federal Program: Federal Work Study Federal Catalog No.: 84.033 Program Expenditures: \$569,574</p> <p>The Fiscal Operations Report and Application to Participate (FISAP) that is prepared by the Financial Aid office incorrectly reported the Federal Share of FWS. This was the result of a lack of reconciliation between the financial aid office records and the District accounting records.</p>	<p>Implement procedures to require that the general ledger reflect federal expenses and District match funds. Procedures should also require that the financial aid office records be reconciled to the District accounting records on a regular basis, especially at year end to insure the FISAP is accurately prepared.</p>	<p>Implemented.</p>

SANTA MONICA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2005

Finding No.	Finding	Recommendation	Current Status
04-5	<p><u>VOCATIONAL AND APPLIED TECHNOLOGY EDUCATION ACT</u></p> <p>Federal Program: Vocational and Applied Technology Education Act (VTEA) Federal Catalog No.: 84.048 Program Expenditures: \$687,436</p> <p>The following items were noted during our audit of the VTEA program:</p> <ul style="list-style-type: none"> • Administrative costs are not tracked separately, resulting in the inability to verify that the maximum allowable administrative cost rate of 5% was not exceeded. • Physical inventory of VTEA equipment has not been taken in the prior two years. • Equipment purchased with VTEA funds cannot be identified on the District's equipment inventory listing. 	<ul style="list-style-type: none"> • Administrative costs should be monitored throughout the year and separated in the financial records. This will allow the District to verify that the maximum allowable rate has not been exceeded. • Equipment purchased with federal funds should be inventoried every other year as required by OMB Circular A-133. This can be accomplished either through a district-wide inventory or individually by program staff. Once completed, the physical inventory must be compared to the equipment listing and any discrepancies researched. • OMB Circular A-133 requires the following information to be included in the inventory record: <ul style="list-style-type: none"> Description Source of funds used for purchase Percent of federal use Who holds the title Acquisition date and cost Location and condition Date of disposal, sales price and fair market value method used 	Implemented.
			<p>The District should revise procedures to collect and incorporate this information into their equipment tracking process.</p>