

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**LOS ANGELES COUNTY**

**REPORT ON  
AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
INCLUDING REPORTS ON COMPLIANCE  
June 30, 2004**

**SANTA  
MONICA  
COLLEGE**

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

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**AUDIT REPORT**

**June 30, 2004**

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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, 2004 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, 2004, 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 11, 2004 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 11, 2004

# **SANTA MONICA COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2004**

### **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, 2004. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

Santa Monica College today is the preeminent educational, cultural, and economic development institution in the City of Santa Monica. 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**

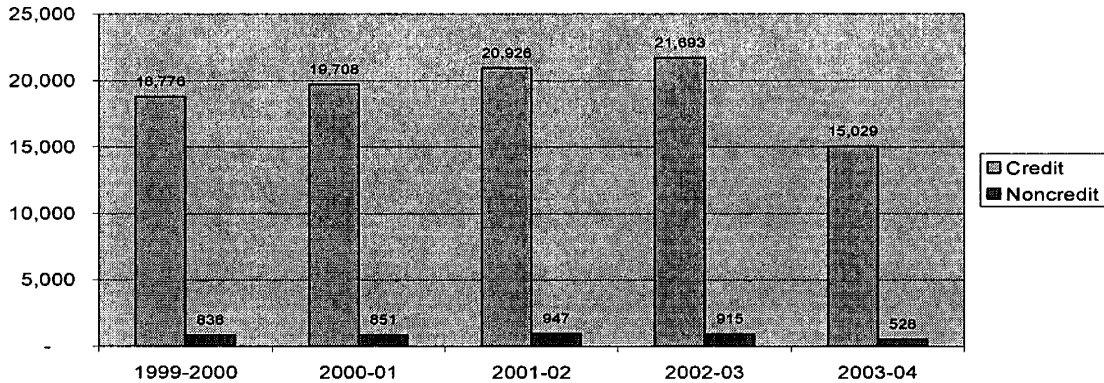
**June 30, 2004**

**(Continued)**

Selected Highlights

- During 2003-04, total full-time equivalent students decreased approximately 30% for credit and decreased approximately 42% for non-credit courses. Credit and non-credit FTES, along with other workload measures, are the basis for the District's state apportionment. This decrease was directly due to the decrease of course offerings that came about after the mid-year state budget cuts enacted by the Governor last year. In the 2004-05 school year, district personnel have mounted an aggressive enrollment plan to recoup the FTES lost in 2002-03.

**ENROLLMENT**  
Full-Time Equivalent Students (FTES)



**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2004**

**(Continued)**

**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, 2004**

**(Continued)**

The Statements of Net Assets as of June 30, 2004 and 2003 are summarized below:

|   | (in thousands)   | (in thousands)   |               |
|---|------------------|------------------|---------------|
|   | <u>2004</u>      | <u>2003</u>      | <u>Change</u> |
| <b>ASSETS</b>                                   |                  |                  |               |
| Current assets                                  |                  |                  |               |
| Cash and cash equivalents                       | \$ 28,904        | \$ 10,997        | 163%          |
| Receivables                                     | 23,375           | 10,413           | 124%          |
| Due from fiduciary funds                        | 2,791            | 931              | 200%          |
| Inventories                                     | 1,600            | 2,053            | -22%          |
| Prepaid expenses                                | 1,909            | 1,543            | 24%           |
| Total current assets                            | <u>58,579</u>    | <u>25,937</u>    | 126%          |
| Non-current assets                              |                  |                  |               |
| Restricted cash and cash equivalents            | 6,960            | 20,839           | -67%          |
| Long-term investments                           | 10,756           | 13,303           | -19%          |
| COPS issue costs, net of amortization           | 480              | 509              | -6%           |
| Capital assets, net of accumulated depreciation | 151,826          | 137,960          | 10%           |
| Total non-current assets                        | <u>170,022</u>   | <u>172,611</u>   | -1%           |
| <b>TOTAL ASSETS</b>                             | <u>228,601</u>   | <u>198,548</u>   | 15%           |
| <b>LIABILITIES</b>                              |                  |                  |               |
| Current liabilities                             |                  |                  |               |
| Bank overdraft                                  | 1,314            | 1,912            | -31%          |
| Accounts payable and accrued liabilities        | 16,466           | 13,410           | 23%           |
| Due to fiduciary funds                          |                  | 67               | -100%         |
| Deferred revenue                                | 10,626           | 5,742            | 85%           |
| Long-term liabilities - current portion         | 6,698            | 3,872            | 73%           |
| Total current liabilities                       | <u>35,104</u>    | <u>25,003</u>    | 40%           |
| Non-current liabilities                         |                  |                  |               |
| Long-term liabilities less current portion      | <u>126,465</u>   | <u>110,111</u>   | 15%           |
| Total non-current liabilities                   | <u>126,465</u>   | <u>110,111</u>   | 15%           |
| <b>TOTAL LIABILITIES</b>                        | <u>161,569</u>   | <u>135,114</u>   | 20%           |
| <b>NET ASSETS</b>                               |                  |                  |               |
| Invested in capital assets, net of related debt | 44,615           | 40,373           | 11%           |
| Restricted                                      | 12,202           | 19,246           | -37%          |
| Unrestricted                                    | 10,215           | 3,815            | 168%          |
| <b>TOTAL NET ASSETS</b>                         | <u>\$ 67,032</u> | <u>\$ 63,434</u> | 6%            |



**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2004**

**(Continued)**

- 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.
- Accounts receivable balances showed an increase between 2002-03 and 2003-04 of 124%. This is due to the fact that at year-end (June 30<sup>th</sup>) the state had not paid the district all of the apportionment money that was owed. The state scheduled to send the apportionment money to the District on July 6, 2004. Thus, at year-end there was a large receivable for the remaining amount of apportionment owed. The money was received on July 6, 2004 as scheduled.
- Long-term investments went down 19% because funds were used for the construction or purchase of capital assets.
- Compared with 2002-03 capital assets had a net increase of 10%. Construction and the purchase of real property during 2003-04 added \$17.1 million to capital assets. Depreciation expense of \$3.0 million was recognized during 2003-04. 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, 2004. The increase in the accounts payable balance is due to the increase in the construction activity currently taking place on campus.
- Deferred revenue increased 85% largely due to the number of grants that came into the District mid-year. Deferred revenue indicates monies that have been received but not yet spent. As such, since many grants came in mid-year, the monies weren't completely spent by June 30<sup>th</sup>, thus leaving deferred revenue. Since many grants operate on the federal fiscal year (October 1 – September 30), the use of said grant monies crosses the fiscal year in place at SMC (July 1 – June 30). Thus it is not uncommon to have monies unspent at June 30<sup>th</sup> since the grant programs don't actually end until September 30.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

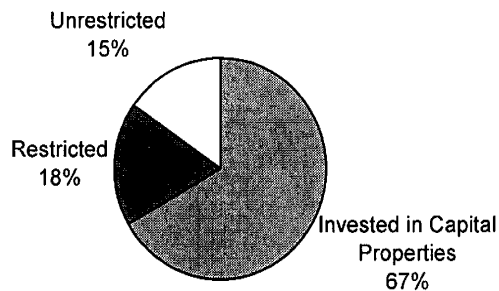
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2004**

**(Continued)**

- The District currently has three different Certificate of Participation debt issues outstanding that amount to \$67 million. In 1992 and in 2002, \$183 million of general obligation bonding was authorized by the voters in two separate bond elections. Additional information regarding long term debt is included in the Debt Administration section of this discussion and analysis
- Invested in capital assets, net of debt has increased in 2003-04 compared to 2002-03 because of the construction on campus.

**Net Assets**  
**June 30, 2004**



**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2004**

**(Continued)**

**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 2003-04 and 2002-03 is provided on the following page.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2004**

**(Continued)**

The Statements of Revenues, Expenses and Change in Net Assets for the year ended June 30, 2004 and June 30, 2003 is summarized below:

|   | (in thousands)   | (in thousands)   |               |
|---|------------------|------------------|---------------|
|   | <u>2004</u>      | <u>2003</u>      | <u>Change</u> |
| Operating Revenues  |                  |                  |               |
| Net tuition and fees  | \$ 25,521        | \$ 22,960        | 11%           |
| Grants and contracts, non-capital                             | 20,864           | 21,227           | -2%           |
| Auxiliary sales and charges                                   | <u>8,061</u>     | <u>8,524</u>     | -5%           |
| Total operating revenues                                      | <u>54,446</u>    | <u>52,711</u>    | 3%            |
| Operating Expenses  |                  |                  |               |
| Salaries and benefits   | 94,495           | 101,430          | -7%           |
| Supplies, materials and other operating expenses and services | 25,502           | 22,929           | 11%           |
| Financial aid   | 8,842            | 9,943            | -11%          |
| Utilities   | 2,489            | 2,198            | 13%           |
| Depreciation  | <u>3,022</u>     | <u>2,556</u>     | 18%           |
| Total operating expenses                                      | <u>134,350</u>   | <u>139,056</u>   | -3%           |
| Operating loss  | <u>(79,904)</u>  | <u>(86,345)</u>  | 7%            |
| Non-operating revenues (expenses)                             |                  |                  |               |
| State apportionments, non-capital                             | 48,424           | 42,439           | 14%           |
| Local property taxes  | 23,693           | 30,369           | -22%          |
| State taxes and other revenues                                | 4,034            | 10,051           | -60%          |
| Investment income (expense), net                              | (292)            | (800)            | -64%          |
| Contributions, gifts and grants, non-capital                  | 3,032            | 3,149            | -4%           |
| Other local revenue, non capital                              | <u>6,814</u>     | <u>4,840</u>     | 41%           |
| Total non-operating revenues (expenses)                       | <u>85,705</u>    | <u>90,048</u>    | -5%           |
| Other revenues, expenses, gains or losses                     |                  |                  |               |
| Federal grants and contracts, capital                         |                  | 4,261            | -100%         |
| State apportionments, capital                                 | 1,595            | 8,256            | -81%          |
| Interest expense on capital-related debt                      | (6,471)          | (2,181)          | 197%          |
| Local property taxes and revenues, capital                    | <u>3,353</u>     | <u>3,787</u>     | -11%          |
| Total other revenues, expenses, gains or losses               | <u>(1,523)</u>   | <u>14,123</u>    | -111%         |
| Change in net assets  | <u>4,278</u>     | <u>17,826</u>    | -76%          |
| Net assets, beginning of year as previously reported          | 63,434           | 43,408           | 46%           |
| Adjustment for restatement                                    | <u>(680)</u>     | <u>2,200</u>     | -131%         |
| Net assets, beginning of year as restated                     | <u>62,754</u>    | <u>45,608</u>    | 38%           |
| Net assets, end of year                                       | <u>\$ 67,032</u> | <u>\$ 63,434</u> | 6%            |

## SANTA MONICA COMMUNITY COLLEGE DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

(Continued)

- Tuition and fees are generated by the resident, non-resident and foreign students attending Santa Monica Community College District, including fees such as health fees, parking fees, community services classes and other related fees. Due to the increase in the number of international students attending Santa Monica College, and a \$7 per unit increase in enrollment fees, the amount of tuition received increased. The college also saw an increase in non-residents, resulting in increased tuition revenue.
- Non-capital grants and contracts are primarily those received from federal and state sources and used in institutional programs and did not change significantly from the prior year.
- Operating expenses are over 70% related to personnel costs. During the 2003-2004 year, there were significant increases in health benefits costs that were passed along to the college 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. The committee reached an impasse, was not able to provide a workable solution and subsequently disbanded. The Board of Trustees tasked the administration to form another Benefits Committee to look for ways to provide employees the same level of benefits at a reduced cost to the district. This committee is currently being formed. With regard to salary expenses, the district is currently in negotiations with the both the faculty and staff unions 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. The primary factor contributing to the increase in these expenses was an increase in the purchase of non-capitalizable capital outlay.
- State apportionment is generated based on the workload measures reported to the state by the District. The District has experienced decreases in the various workload measures due to the decrease in FTES reported. However, the financial statement reporting requirements do not follow the method of calculating state general revenue. 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, 2004

(Continued)

- Local property taxes are received through the Auditor-Controller's Office for Los Angeles County. There was a decrease in property tax revenues in 2003-04 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 decreased 60% 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. The district received no state mandated cost reimbursements this year since the Governor's budget did not have these reimbursements in it for 2003-04; and lottery apportionment went down since it is based upon FTES and the district saw a substantial decrease in FTES during the year. Additionally, Partnership for Excellence funding decreased by approximately \$700,000.
- Other local revenue saw an increase of 41% during 2003-04. Other local revenue is primarily the tax revenues collected in the bond interest and redemption fund. Since the district had an extra bond issue last year, the county collected more taxes from the taxpayers to pay for this issue, thus the increase in revenue.
- The federal grants, capital portion saw a 100% decrease during the 2003-04 year, which was due to the fact that these funds were FEMA funds. FEMA projects taking place at the district have already been completed and all related monies have been claimed in 2002-03, thus no additional monies were received during the year.
- 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 81% as this was not fully funded in the Governor's state budget, thus the district received fewer funds in 2003-04 than they had in the past.
- Interest expenses showed an increase of 197% because the district entered the repayment phase of the one additional bond. The year 2003-04 was the first full year of payments on the bond issued in August, 2002, thus an increase in interest expense. Furthermore, during the first few payments made on any bond, the interest expenses are significantly higher than the principal payments, hence the increase of expenses in this category.

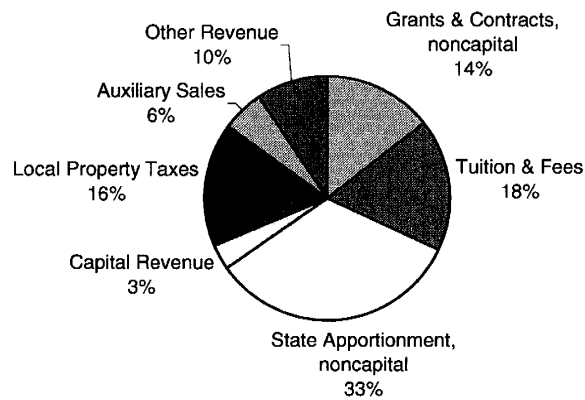
**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

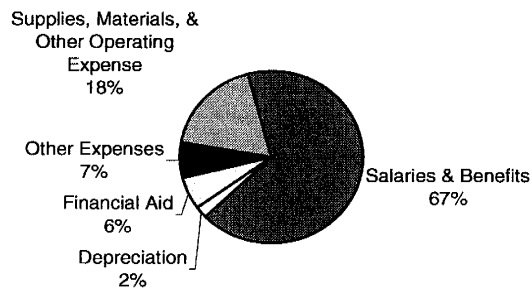
**June 30, 2004**

**(Continued)**

**Total Revenue 2003-04**



**Total Expenses 2003-04**



**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2004**

**(Continued)**

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, 2004**

**(Continued)**

|  | (in thousands)<br><u>2004</u> | (in thousands)<br><u>2003</u> | <u>Change</u> |
|--|-------------------------------|-------------------------------|---------------|
| Cash Provided By (Used in)                           |                               |                               |               |
| Operating activities                                 | \$ (74,046)                   | \$ (83,458)                   | 11%           |
| Non-capital financing activities                     | 66,743                        | 86,043                        | -22%          |
| Capital and related financing activities             | 8,564                         | 11,236                        | -24%          |
| Investing activities                                 | <u>2,767</u>                  | <u>3,430</u>                  | -19%          |
| Net increase/(decrease) in cash and cash equivalents | 4,028                         | 17,251                        | -77%          |
| Cash balance, beginning of year                      | 31,836                        | 14,585                        | 118%          |
| Cash balance, end of year                            | <u>\$ 35,864</u>              | <u>\$ 31,836</u>              | 13%           |

- Cash receipts from operating activities are from student tuition and from federal, state and local grants. Uses of cash are payments to employees, vendors and students related to the instructional program. The increase is the result of an increase in revenue and a decrease in expenditures due to budget cuts done locally.
- There was a decrease in non-capital financing during the 2003-04 year. Non-capital financing includes state apportionment, state taxes, other grants and property taxes. The decreases that are material include state apportionment (\$7.6 million) and property taxes (\$6.9 million).
- The decrease in capital and related financing activities for fiscal year 2003-04 compared to 2002-03 were attributed to bond proceeds (\$3 million), state apportionment (\$9.2 million), purchase of capital assets (\$11 million) and an increase in debt payments of \$3.7 million.
- 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 decline in interest rates.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

(Continued)

**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 we 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, 2004, the District had net governmental capital assets of \$151.8 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 \$25.3 million. Net additions of \$16.9 million in 2003-04 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." 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<br/>June 30, 2004</u> |
|------------------------------------|----------------------------------|
| Land                               | \$ 46,202,579                    |
| Site and Site Improvements         | 112,302,898                      |
| Equipment                          | 8,609,769                        |
| Construction in Progress           | <u>10,019,480</u>                |
| Totals at historical cost          | <u>177,134,726</u>               |
| Less accumulated depreciation for: |                                  |
| Site and Site Improvements         | (20,184,675)                     |
| Equipment                          | <u>(5,124,038)</u>               |
| Total accumulated depreciation     | <u>(25,308,713)</u>              |
| Governmental capital assets, net   | <u>\$ 151,826,013</u>            |

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2004**

**(Continued)**

**Debt**

At June 30, 2004, the District had approximately \$133 million in debt; \$1.0 million from capital lease obligations, \$63.8 million from general obligation bonds and \$67.3 million from obligations under certificates of participation. During 2003-04, the District issued \$22 million of general obligation bonds. This is the second issue and brings the total amount issued to \$47 million of the \$160 million authorized by the voters in March 2002. The remaining balance of bonded debt is from debt approved by the voters in November 1992. 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:

|                               | Balance<br>June 30, 2004 |
|-------------------------------|--------------------------|
| Capital leases                | \$ 970,761               |
| Certificates of participation | 67,300,000               |
| General obligation bonds      | 63,839,971               |
| Accreted interest             | 1,052,334                |
|                               | <u>\$ 133,163,066</u>    |

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2004**

**(Continued)**

**Budgeting for the Future**

Unrestricted general fund revenue (apportionment + taxes + enrollment fees + prior year adjustment) has traditionally increased each year. However, this was only possible because of growth funding. For example, in 2002-03 when the state budget was reduced, the District's 2002-03 general revenue still increased 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. Collective bargaining settlements and the cost of those agreements were a major part of the increase in expenses. The Faculty agreement settled in 2001-02 provided increases each year for a three year period. Unusual increases in expenses, such as the jump in benefits, utilities and contract services, when added to the above increases resulted in expenses exceeding revenue in 2001-02. Expenditure cuts were made in 2003-04 to reduce the gap between revenue and expenditures.

In the past, Santa Monica College has always grown its way out of financial trouble. This was not possible because with the 2002-03 cuts in FTES, SMC was not able to take advantage of any growth funding available. Thus, 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 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" and also experience growth in order to take advantage of growth dollars available, it's important to note that a substantial increase in FTES was experienced in 2004-05. This will help the district from a financial perspective.

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 2004-05 in the areas of supplies and contract services. The college 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 growth 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. During the 2003-04 fiscal year, the general fund ending fund balance was increased and in 2004-05 it is anticipated that fund balance will increase again.

## **BASIC FINANCIAL STATEMENTS**

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF NET ASSETS**

**June 30, 2004**

|   |                              |
|---|------------------------------|
| <b>ASSETS</b>                                   |                              |
| Current Assets:                                 |                              |
| Cash and cash equivalents                       | \$ 28,903,779                |
| Accounts receivable, net                        | 23,375,252                   |
| Due from fiduciary funds                        | 2,790,928                    |
| Inventories                                     | 1,599,937                    |
| Prepaid expenses and deposits                   | <u>1,909,245</u>             |
| Total Current Assets                            | <u>58,579,141</u>            |
| Non-Current Assets:                             |                              |
| Restricted cash and cash equivalents            | 6,960,099                    |
| Long-term investments                           | 10,756,102                   |
| COPS issue costs, net                           | 480,191                      |
| Capital assets, net of accumulated depreciation | <u>151,826,013</u>           |
| Total Non-Current Assets                        | <u>170,022,405</u>           |
| <b>TOTAL ASSETS</b>                             | <b><u>\$ 228,601,546</u></b> |
| <b>LIABILITIES AND NET ASSETS</b>               |                              |
| Current Liabilities:                            |                              |
| Bank overdraft                                  | \$ 1,314,508                 |
| Accounts payable                                | 5,255,801                    |
| Accrued liabilities                             | 6,471,870                    |
| Deferred revenue                                | 10,625,935                   |
| Compensated absences                            | 4,737,972                    |
| Capital leases - current portion                | 338,384                      |
| COPS payable - current portion                  | 2,270,000                    |
| GO Bonds payable - current portion              | <u>4,090,000</u>             |
| Total Current Liabilities                       | <u>35,104,470</u>            |
| Non-Current Liabilities:                        |                              |
| Capital leases                                  | 632,377                      |
| COPS payable                                    | 65,030,000                   |
| GO Bonds payable                                | <u>60,802,305</u>            |
| Total Non-Current Liabilities                   | <u>126,464,682</u>           |
| <b>TOTAL LIABILITIES</b>                        | <b><u>161,569,152</u></b>    |
| <b>NET ASSETS</b>                               |                              |
| Invested in capital assets, net of related debt | 44,615,165                   |
| Restricted for:                                 |                              |
| Capital projects                                | 4,686,415                    |
| Debt service                                    | 6,506,023                    |
| Special purposes                                | 1,009,809                    |
| Unrestricted                                    | <u>10,214,982</u>            |
| <b>TOTAL NET ASSETS</b>                         | <b><u>67,032,394</u></b>     |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <b><u>\$ 228,601,546</u></b> |

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, 2004**

|  |                      |
|--|----------------------|
| <b>OPERATING REVENUES</b>                                      |                      |
| Enrollment, tuition and other fees (gross)                     | \$ 27,786,788        |
| Less: Scholarship discounts and allowances                     | <u>(2,266,011)</u>   |
| Net enrollment, tuition and other fees                         | 25,520,777           |
| Grants and contracts, non-capital:                             |                      |
| Federal  | 10,318,999           |
| State  | 10,017,964           |
| Local  | 527,389              |
| Auxiliary enterprise sales and charges, net                    | <u>8,060,744</u>     |
| <b>TOTAL OPERATING REVENUES</b>                                | <u>54,445,873</u>    |
| <b>OPERATING EXPENSES</b>                                      |                      |
| Salaries   | 75,216,279           |
| Employee benefits  | 19,279,150           |
| Supplies, materials and other operating expenses and services  | 25,501,717           |
| Financial aid  | 8,842,392            |
| Utilities  | 2,488,658            |
| Depreciation   | <u>3,021,778</u>     |
| <b>TOTAL OPERATING EXPENSES</b>                                | <u>134,349,974</u>   |
| OPERATING LOSS   | <u>(79,904,101)</u>  |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>                       |                      |
| State apportionments, non-capital                              | 48,424,197           |
| Local property taxes   | 23,693,418           |
| State taxes and other revenues                                 | 4,033,572            |
| Investment expense, net  | (292,328)            |
| Contributions, gifts and grants, non-capital                   | 3,032,446            |
| Other local revenue, non-capital                               | <u>6,814,190</u>     |
| <b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>                 | <u>85,705,495</u>    |
| INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)      | <u>5,801,394</u>     |
| <b>OTHER REVENUES, EXPENSES, GAINS (LOSSES)</b>                |                      |
| State apportionments, capital                                  | 1,594,833            |
| Interest expense on capital-related debt                       | (6,470,684)          |
| Local property taxes and revenues, capital                     | <u>3,352,738</u>     |
| <b>TOTAL OTHER REVENUES, EXPENSES, GAINS (LOSSES)</b>          | <u>(1,523,113)</u>   |
| INCREASE IN NET ASSETS   | <u>4,278,281</u>     |
| <b>NET ASSETS AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED</b> | 63,434,155           |
| Adjustment for restatement (see Note 15)                       | <u>(680,042)</u>     |
| <b>NET ASSETS AT BEGINNING OF YEAR, AS RESTATED</b>            | <u>62,754,113</u>    |
| <b>NET ASSETS, END OF YEAR</b>                                 | <u>\$ 67,032,394</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, 2004**

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |                         |
|---|-------------------------|
| Tuition and fees                          | \$ 28,272,229           |
| Federal grants and contracts              | 10,860,337              |
| State grants and contracts                | 10,471,544              |
| Local grants and contracts                | 560,800                 |
| Auxiliary operation sales                 | 9,130,242               |
| Payments to suppliers                     | (25,392,539)            |
| Payments to/on-behalf of employees        | (96,508,436)            |
| Payments to/on-behalf of students         | (8,840,996)             |
| Other receipts (payments)                 | <u>(2,599,040)</u>      |
| <br>Net cash used by operating activities | <br><u>(74,045,859)</u> |

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

|   |                       |
|---|-----------------------|
| State apportionments and receipts                         | 35,141,079            |
| Property taxes  | 23,486,752            |
| State taxes and other revenue                             | 3,742,531             |
| Grants and gifts for other than capital purposes          | <u>4,372,966</u>      |
| <br>Net cash provided by non-capital financing activities | <br><u>66,743,328</u> |

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

|   |                      |
|---|----------------------|
| Proceeds from capital debt  | 21,999,971           |
| State apportionment for capital purposes                          | 2,697,145            |
| Local revenue for capital purposes                                | 2,649,782            |
| Tax revenue for payment of capital debt                           | 6,069,357            |
| Purchase of capital assets  | (16,887,514)         |
| Principal paid on capital debt                                    | (3,871,777)          |
| Interest paid on capital debt                                     | (4,528,254)          |
| Interest on capital investments                                   | <u>434,877</u>       |
| <br>Net cash provided by capital and related financing activities | <br><u>8,563,587</u> |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|   |                      |
|---|----------------------|
| Interest on investments                       | 220,833              |
| Proceeds from sale of investments             | <u>2,546,044</u>     |
| <br>Net cash provided by investing activities | <br><u>2,766,877</u> |

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

4,027,933

**CASH BALANCE - Beginning of Year**

31,835,945

**CASH BALANCE - End of Year**

\$ 35,863,878

See the accompanying notes to the financial statements.



SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2004

Reconciliation of Operating Loss to  
Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

|  |                        |
|--|------------------------|
| Operating Loss   | \$ (79,904,101)        |
| Adjustments to reconcile net loss to net cash<br>(used) by operating activities: |                        |
| Depreciation expense   | 3,021,778              |
| Amortization expense   | 29,103                 |
| Changes in assets and liabilities:   |                        |
| Receivables, net   | (2,916,879)            |
| Inventory  | 453,490                |
| Prepaid expenses and deposits  | 722,157                |
| Bank overdraft   | (597,782)              |
| Accounts payable   | 3,661,110              |
| Accrued liabilities  | (2,481,586)            |
| Compensated absences   | 288,399                |
| Deferred revenue   | <u>3,678,452</u>       |
| Net cash used by operating activities  | <u>\$ (74,045,859)</u> |

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2004

|   | <u>Trust and<br/>Agency Fund</u> | <u>Associated<br/>Student<br/>Body Fund</u> |
|---|----------------------------------|---|
| <b>ASSETS</b>                           |                                  |   |
| Cash on hand and in banks               | \$ 7,505,168                     | \$ 417,267                                  |
| Investments                             | 5,033,741                        | 753,098                                     |
| Accounts receivable:                    |                                  |   |
| Miscellaneous                           | 1,933                            | 146,399                                     |
| Stores inventory                        | 23,475                           |   |
| Prepaid expenses                        | <u>                    </u>      | <u>2,934</u>                                |
| <b>TOTAL ASSETS</b>                     | <u>\$ 12,564,317</u>             | <u>\$ 1,319,698</u>                         |
| <b>LIABILITIES</b>                      |                                  |   |
| Accounts payable                        | \$ 52,948.00                     | \$ 3,295                                    |
| Deferred revenue                        | 1,783                            |   |
| Due to governmental funds               | 2,735,185                        | 55,743                                      |
| Funds held in trust                     | <u>9,774,401</u>                 | <u>1,257,454</u>                            |
| <b>TOTAL LIABILITIES</b>                | <u>12,564,317</u>                | <u>1,316,492</u>                            |
| <b>NET ASSETS</b>                       |                                  |   |
| Unrestricted                            | <u>                    </u>      | <u>3,206</u>                                |
| <b>TOTAL NET ASSETS</b>                 | <u>-</u>                         | <u>3,206</u>                                |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <u>\$ 12,564,317</u>             | <u>\$ 1,319,698</u>                         |

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 For the Fiscal Year Ended June 30, 2004

|  | <u>Associated<br/>Student Body<br/>Fund</u> |
|--|---|
| <b>ADDITIONS</b>   |   |
| Other local revenues   | \$ <u>289,313</u>                           |
| <b>TOTAL ADDITIONS</b>   | <u>289,313</u>                              |
| <b>DEDUCTIONS</b>  |   |
| Services and other operating expenses                          | 351,931                                     |
| Capital outlay   | <u>12,100</u>                               |
| <b>TOTAL DEDUCTIONS</b>  | <u>364,031</u>                              |
| Change in net assets   | <u>(74,718)</u>                             |
| <b>NET ASSETS AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED</b> | 238,723                                     |
| Adjustment for restatement (see Note 15)                       | <u>(160,799)</u>                            |
| <b>NET ASSETS AT BEGINNING OF YEAR, AS RESTATED</b>            | <u>77,924</u>                               |
| <b>NET ASSETS, END OF YEAR</b>                                 | <u>\$ <u>3,206</u></u>                      |

See the accompanying notes to the financial statements.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**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, 2004**

**(Continued)**

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

**A. REPORTING ENTITY (continued)**

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

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

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.

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, 2004**

**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 \$(721,233) on June 30, 2004, 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, 2004

(Continued)

**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, 2004

(Continued)

**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 \$767,000 and Workers Compensation payment of \$321,000.



SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

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

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

5. 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.

6. COPS issue costs, net

COPS issue costs of \$552,948 associated with the 2002 issue will be amortized over the life of the COPS. Accumulated amortization is \$72,757 with current year amortization of \$29,103.

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 \$5,255,801.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

**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 \$6,471,870.

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, 2004

(Continued)

**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 2005 will be recorded in the year computed by the State.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

**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.

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 and Public Employees Retirement Systems on behalf of all community college and school districts in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at \$1,762,000 for STRS and \$18,000 for PERS.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

**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, 2004**

**(Continued)**

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

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

18. Estimates

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

**NOTE 2 - DEPOSITS AND INVESTMENTS:**

**A. Deposits:**

Cash in the Governmental and Fiduciary Funds at June 30, 2004, consisted of the following:

|  | <u>Statement<br/>of<br/>Net Assets</u> | <u>Statement of<br/>Fiduciary<br/>Net Assets</u> | <u>Total</u> |
|--|--|--|--------------|
| Deposits:                                      |  |  |              |
| Cash on Hand and in Banks                      | \$ 2,243,302                           | \$ 7,922,435                                     | \$10,165,737 |
| Cash in Revolving Fund                         | 25,000                                 |  | 25,000       |
| Cash Collections Awaiting Deposit              | 4,270,137                              |  | 4,270,137    |
| Bank Overdraft (See Note 2 B)                  | (1,314,508)                            |  | (1,314,508)  |
| Pooled Funds (not required to be categorized): |  |  |              |
| Cash in County Treasury                        | 29,325,439                             |  | 29,325,439   |

Cash balances held in banks and in revolving funds are fully insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is partially insured or collateralized.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**(Continued)**

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

**A. Deposits: (continued)**

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, 2004, as provided by the pool sponsor, was \$29,303,379. 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.

Deposits at June 30, 2004, held on behalf of the Santa Monica Community College District, are presented below, categorized separately to give an indication of the level of risk associated with each deposit:

|                                      | <u>Category*</u> |                             |                     | <u>Bank<br/>Balance</u> | <u>Carrying<br/>Amount</u> |
|--------------------------------------|------------------|-----------------------------|---------------------|-------------------------|----------------------------|
|                                      | <u>1</u>         | <u>2</u>                    | <u>3</u>            |                         |                            |
| Cash on Hand and in Banks**          | \$284,537        | \$                          | \$ 9,421,722        | \$ 9,706,259            | \$ 8,851,229               |
| Cash in Revolving Fund               | 15,463           |                             |                     | 15,463                  | 25,000                     |
| Cash Collections Awaiting<br>Deposit | <u>100,000</u>   | <u>                    </u> | <u>5,435,989</u>    | <u>5,535,989</u>        | <u>4,270,137</u>           |
| Total                                | <u>\$400,000</u> | <u>\$          0</u>        | <u>\$14,857,711</u> | <u>\$15,257,711</u>     | <u>\$13,146,366</u>        |

\* Category 1 includes amounts that are insured or collateralized. Category 2 includes amounts that are insured or collateralized by the pledging financial institution's trust department or agent in the District's name. Category 3 includes amounts that are fully insured or collateralized, but not in the District's name.

\*\* Includes bank overdraft of \$1,314,508. (See Note 2B)

**B. Cash in Bank Overdraft:**

The Bookstore Fund has a Cash in Bank overdraft balance of \$1,314,508 at June 30, 2004. 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, 2004 the pooled accounts had a positive balance of \$63,700.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**(Continued)**

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

**C. Investments:**

Government Code Section 16430 allows governmental entities to invest surplus moneys in certain eligible securities as listed in the code.

The District did not violate any provisions of the Government Code during the 2003-04 fiscal year, nor were they involved in any reverse repurchase agreements during 2003-04.

Investments in the Governmental and Fiduciary Funds at June 30, 2004, held on behalf of the Santa Monica Community College District, are presented below, categorized separately to give an indication of the level of custodial risk associated with each investment:

|                           | Category**  |             |                     | Carrying<br>Amount  | Fair<br>Value       |
|---------------------------|-------------|-------------|---------------------|---------------------|---------------------|
|                           | 1           | 2           | 3                   |                     |                     |
| Corporate Bonds           | \$          | \$          | \$ 256,090          | \$ 256,090          | \$ 256,090          |
| Mutual Funds              |             |             | 808,003             | 808,003             | 808,003             |
| U.S. Treasury Obligations |             |             | 10,692,766          | 10,692,766          | 10,692,766          |
| Investment Agreements     |             |             | 1,591,222           | 1,591,222           | 1,591,222           |
| Certificates of Deposit   |             |             | <u>3,194,860</u>    | <u>3,194,860</u>    | <u>3,194,860</u>    |
| Total Investments         | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$16,542,941</u> | <u>\$16,542,941</u> | <u>\$16,542,941</u> |

\*\* Category 1 includes amounts that are insured or collateralized. Category 2 includes amounts that are insured or collateralized by the pledging financial institution's trust department or agent in the District's name. Category 3 includes amounts that are fully insured or collateralized, but not in the District's name.

**NOTE 3 - ACCOUNTS RECEIVABLE:**

The accounts receivable balance as of June 30, 2004 consist of the following:

|                   |              |
|-------------------|--------------|
| Federal and State | \$20,161,903 |
| Local             | 593,263      |
| Miscellaneous     | 2,620,086    |



**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**(Continued)**

**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, 2004 are as follows:

| Fund                         | Interfund<br>Receivables | Interfund<br>Payables |
|------------------------------|--------------------------|-----------------------|
| General Fund                 | \$ 2,790,928             | \$                    |
| Trust and Agency Fund        |                          | 2,735,135             |
| Associated Student Body Fund |                          | 55,743                |
| Totals                       | \$ 2,790,928             | \$ 2,790,928          |

**NOTE 5 - CAPITAL ASSETS:**

The following provides a summary of changes in capital assets for the year ended June 30, 2004:

|                                | Balance<br>July 1, 2003 | Additions    | Deletions  | Balance<br>June 30, 2004 |
|--------------------------------|-------------------------|--------------|------------|--------------------------|
| Land                           | \$ 45,565,752           | \$ 636,827   | \$         | \$ 46,202,579            |
| Site and site improvements     | 104,069,972             | 8,232,926    |            | 112,302,898              |
| Equipment                      | 8,474,158               | 135,611      |            | 8,609,769                |
| Construction in progress       | 2,137,330               | 8,148,451    | 266,301    | 10,019,480               |
| Total Cost                     | 160,247,212             | 17,153,815   | 266,301    | 177,134,726              |
| Site and site improvements     | (17,935,437)            | (2,249,238)  |            | (20,184,675)             |
| Equipment                      | (4,351,498)             | (772,540)    |            | (5,124,038)              |
| Total Accumulated Depreciation | (22,286,935)            | (3,021,778)  | 0          | (25,308,713)             |
| Net Capital Assets             | \$137,960,277           | \$14,132,037 | \$ 266,301 | \$151,826,013            |

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**(Continued)**

**NOTE 6 - TAX REVENUE ANTICIPATION NOTES (TRANS):**

The District issued \$5,000,000 of Tax Revenue Anticipation Notes dated July 1, 2003 through the Los Angeles County Schools Pooled Finance Program (Series 2003-04). The notes matured on June 30, 2004 and yielded 0.92% 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, 2004. All repayment requirements were met. As the notes were in-substance defeased on June 30, 2004, they are not reflected as a liability in these financial statements.

**NOTE 7 - LEASES:**

**A. Capital Leases**

The District leases equipment valued at approximately \$1,876,000 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>        |
|--------------------|-------------------|------------------|---------------------|
| 2004-2005          | \$ 338,384        | \$ 43,517        | \$ 381,901          |
| 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>970,761</u> | \$ <u>78,340</u> | \$ <u>1,049,101</u> |

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment. Interest expenses for fiscal year 2003-04 was approximately \$73,400.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

**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> |
|--------------------|----------------------|
| 2004-2005          | \$ 1,021,120         |
| 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>\$42,379,480</u>  |

Current year expenditures for operating leases is approximately \$1,406,000. The District will receive no sublease rental revenues nor pay any contingent rentals for these leases.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**(Continued)**

**NOTE 8 - CERTIFICATES OF PARTICIPATION:**

- A. The agreement dated February 1, 1997, 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 remodeling and upgrading an entertainment and technology center, including a parking area and then leasing such items to the District.

The Corporation's funds for acquiring these items were generated by the issuance of \$11,315,000 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 4.10% to 5.75% for the length of the issuance.

Lease Payments - Lease payments are required to be made by the District under the lease agreement on each February 1 for use and possession of the capital improvements for the period commencing August 1, 1997 and terminating February 1, 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, 2004**

**(Continued)**

**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:

| Lease<br>Payment<br>Date | <u>Principal</u>    | <u>Interest</u>     | <u>Total<br/>Payments</u> |
|--------------------------|---------------------|---------------------|---------------------------|
| August 1, 2004           | \$                  | \$ 289,205          | \$ 289,205                |
| February 1, 2005         | 225,000             | 289,205             | 514,205                   |
| August 1, 2005           |                     | 283,749             | 283,749                   |
| February 1, 2006         | 240,000             | 283,749             | 523,749                   |
| August 1, 2006           |                     | 277,749             | 277,749                   |
| February 1, 2007         | 245,000             | 277,749             | 522,749                   |
| August 1, 2007           |                     | 271,501             | 271,501                   |
| February 1, 2008         | 265,000             | 271,501             | 536,501                   |
| August 1, 2008           |                     | 264,678             | 264,678                   |
| February 1, 2009         | 275,000             | 264,677             | 539,677                   |
| 2010-2014                | 1,610,000           | 2,405,945           | 4,015,945                 |
| 2015-2019                | 2,145,000           | 1,875,370           | 4,020,370                 |
| 2020-2024                | 2,865,000           | 1,160,530           | 4,025,530                 |
| 2025-2027                | <u>2,150,000</u>    | <u>258,715</u>      | <u>2,408,715</u>          |
| Total                    | <u>\$10,020,000</u> | <u>\$ 8,474,323</u> | <u>\$18,494,323</u>       |

- B. 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.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**(Continued)**

**NOTE 8 - CERTIFICATES OF PARTICIPATION: (continued)**

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). As of June 30, 2004, the 1991 Certificates of Participation were paid in full. 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 follows:

| <u>Lease<br/>Payment<br/>Date</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total<br/>Payments</u> |
|-----------------------------------|---------------------|---------------------|---------------------------|
| December 1, 2004                  | \$                  | \$ 471,716          | \$ 471,716                |
| June 1, 2005                      | 660,000             | 471,716             | 1,131,716                 |
| 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                 |
| 2010-2014                         | 4,345,000           | 3,662,723           | 8,007,723                 |
| 2015-2019                         | 5,445,000           | 2,565,508           | 8,010,508                 |
| 2020-2024                         | <u>6,940,000</u>    | <u>1,074,753</u>    | <u>8,014,753</u>          |
| Total                             | <u>\$20,285,000</u> | <u>\$11,759,584</u> | <u>\$32,044,584</u>       |

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**(Continued)**

**NOTE 8 - CERTIFICATES OF PARTICIPATION: (continued)**

- C. 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.

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<br/>Payment<br/>Date</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total<br/>Payments</u> |
|-----------------------------------|---------------------|---------------------|---------------------------|
| December 1, 2004                  | \$ 1,385,000        | \$ 1,243,787        | \$ 2,628,787              |
| December 1, 2005                  | 1,450,000           | 1,183,932           | 2,633,932                 |
| December 1, 2006                  | 1,515,000           | 1,112,788           | 2,627,788                 |
| December 1, 2007                  | 1,580,000           | 1,038,608           | 2,618,608                 |
| December 1, 2008                  | 1,650,000           | 964,239             | 2,614,239                 |
| 2010-2014                         | 9,415,000           | 3,623,224           | 13,038,224                |
| 2015-2019                         | 11,680,000          | 1,860,559           | 13,540,559                |
| 2020-2022                         | <u>8,320,000</u>    | <u>596,567</u>      | <u>8,916,567</u>          |
| Total                             | <u>\$36,995,000</u> | <u>\$11,623,704</u> | <u>\$48,618,704</u>       |

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**(Continued)**

**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>       |
|--------------------|--------------------|--------------------|--------------------|
| 2005               | \$ 165,000         | \$ 198,855         | \$ 363,855         |
| 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            |
| 2010-2014          | 1,105,000          | 632,787            | 1,737,787          |
| 2015-2019          | <u>1,510,000</u>   | <u>271,115</u>     | <u>1,781,115</u>   |
| Total              | <u>\$3,540,000</u> | <u>\$1,808,545</u> | <u>\$5,348,545</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>        |
|--------------------|---------------------|--------------------|---------------------|
| 2005               | \$ 310,000          | \$ 457,168         | \$ 767,168          |
| 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             |
| 2010-2014          | 2,185,000           | 1,619,981          | 3,804,981           |
| 2015-2019          | 2,890,000           | 921,150            | 3,811,150           |
| 2020-2021          | <u>1,405,000</u>    | <u>122,187</u>     | <u>1,527,187</u>    |
| Total              | <u>\$ 8,175,000</u> | <u>\$4,775,971</u> | <u>\$12,950,971</u> |



SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

**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>        |
|--------------------|---------------------|---------------------|---------------------|
| 2005               | \$ 215,000          | \$ 351,660          | \$ 566,660          |
| 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             |
| 2010-2014          | 1,580,000           | 1,302,655           | 2,882,655           |
| 2015-2019          | 1,950,000           | 884,250             | 2,834,250           |
| 2020-2024          | <u>2,345,000</u>    | <u>363,250</u>      | <u>2,708,250</u>    |
| Total              | <u>\$ 7,085,000</u> | <u>\$ 4,206,020</u> | <u>\$11,291,020</u> |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

**NOTE 9 – BONDS PAYABLE:** (continued)

- 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>        |
|--------------------|---------------------|---------------------|---------------------|
| 2005               | \$ 3,400,000        | \$ 868,913          | \$ 4,268,913        |
| 2006               | 4,110,000           | 756,263             | 4,866,263           |
| 2007               | 670,000             | 684,562             | 1,354,562           |
| 2008               | 650,000             | 663,950             | 1,313,950           |
| 2009               | 650,000             | 642,825             | 1,292,825           |
| 2010-2014          | 3,250,000           | 2,835,500           | 6,085,500           |
| 2015-2019          | 3,350,000           | 2,148,912           | 5,498,912           |
| 2020-2024          | 3,660,000           | 1,316,456           | 4,976,456           |
| 2025-2029          | <u>3,300,000</u>    | <u>343,375</u>      | <u>3,643,375</u>    |
| Total              | <u>\$23,040,000</u> | <u>\$10,260,756</u> | <u>\$33,300,756</u> |

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**(Continued)**

**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, 2004 is \$1,052,334.

| <u>Fiscal Year</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Accreted<br/>Interest<br/>Component</u> | <u>Total</u>        |
|--------------------|---------------------|---------------------|--|---------------------|
| 2005               | \$                  | \$ 939,584          | \$   | \$ 939,584          |
| 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           |
| 2010-2014          | 3,460,000           | 3,683,125           |  | 7,143,125           |
| 2015-2019          | 4,395,000           | 2,746,638           |  | 7,141,638           |
| 2020-2024          | 5,610,000           | 1,532,750           |  | 7,142,750           |
| 2025-2029          | <u>2,979,971</u>    | <u>200,750</u>      | <u>3,950,029</u>                           | <u>7,130,750</u>    |
| Total              | <u>\$21,999,971</u> | <u>\$12,641,346</u> | <u>\$ 3,950,029</u>                        | <u>\$38,591,346</u> |

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**(Continued)**

**NOTE 10 – LONG-TERM DEBT:**

A schedule of changes in long-term debt for the year ended June 30, 2004 is shown below:

|                               | <u>Balance</u><br><u>July 1, 2003</u> | <u>Additions</u>     | <u>Deductions</u>           | <u>Balance</u><br><u>June 30, 2004</u> |
|-------------------------------|---------------------------------------|----------------------|-----------------------------|--|
| Capital Leases                | \$ 1,352,538                          | \$                   | \$ 381,777                  | \$ 970,761                             |
| Certificates of Participation | 68,150,000                            |                      | 850,000                     | 67,300,000                             |
| General Obligation Bonds      | 44,480,000                            | 21,999,971           | 2,640,000                   | 63,839,971                             |
| Accreted Interest             | <u>                    </u>           | <u>1,052,334</u>     | <u>                    </u> | <u>1,052,334</u>                       |
| Totals                        | <u>\$113,982,538</u>                  | <u>\$ 23,052,305</u> | <u>\$ 3,871,777</u>         | <u>\$133,163,066</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, 2004**

**(Continued)**

**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 2003-04 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 2003-04 was 10.42% 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, 2004

(Continued)

**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<br>June 30, | STRS                             |                                | PERS                             |                                |
|------------------------|----------------------------------|--------------------------------|----------------------------------|--------------------------------|
|                        | <u>Required<br/>Contribution</u> | <u>Percent<br/>Contributed</u> | <u>Required<br/>Contribution</u> | <u>Percent<br/>Contributed</u> |
| 2002                   | \$2,423,181                      | 100%                           | \$ 0                             | 100%                           |
| 2003                   | 3,274,164                        | 100%                           | 950,463                          | 100%                           |
| 2004                   | 3,230,925                        | 100%                           | 2,093,460                        | 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 \$912,380. For 2004-05, \$1,000,000 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, pending completion of the Post Employment Benefits project by the Governmental Accounting Standards Board. See Note 18B.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**(Continued)**

**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, 2004**

**(Continued)**

**NOTE 13 - JOINT POWERS AGREEMENT: (continued)**

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

|   | LARISA<br>6/30/2004<br><u>(Audited)</u> | SCCCJ-JPA<br>6/30/2003<br><u>(Audited)</u>   | SWACC<br>6/30/2004<br><u>(Audited)</u> |
|---|---|--|--|
|   |   | Workers<br>Compensation<br>Insurance<br>Fund | Retiree<br>Health<br>Insurance<br>Fund |
| Total assets                                    | \$14,109,335                            | \$16,811,597                                 | \$61,221,932                           |
| Total liabilities                               | <u>12,584,718</u>                       | <u>970,142</u>                               | <u>11,268</u>                          |
| Retained earnings                               | \$ <u>1,524,617</u>                     | \$ <u>15,841,455</u>                         | \$ <u>61,210,664</u>                   |
| Total revenues                                  | \$ 2,127,587                            | \$ 4,664,646                                 | \$ 5,323,854                           |
| Total expenditures                              | <u>2,023,115</u>                        | <u>5,047,588</u>                             | <u>52,345</u>                          |
| Net increase/(decrease)<br>in retained earnings | \$ <u>104,472</u>                       | \$ <u>(382,942)</u>                          | \$ <u>5,271,509</u>                    |
|   |   | \$ <u>1,896,163</u>                          |  |

**NOTE 14 – FUNCTIONAL EXPENSE:**

|  | Salaries             | Employee<br>Benefits | Supplies,<br>Materials,<br>Utilities,Other<br>Expenses and<br>Services | Student Aid         | Depreciation        | Total                 |
|--|----------------------|----------------------|--|---------------------|---------------------|-----------------------|
| Instructional                                  | \$ 38,663,779        | \$ 8,360,636         | \$ 1,674,661   | \$ 35,484           | \$                  | \$ 48,734,560         |
| Academic Support                               | 7,597,332            | 2,143,275            | 1,108,251  | 105,210             |                     | 10,954,068            |
| Student Services                               | 10,055,995           | 2,560,347            | 2,927,309  | 631,385             |                     | 16,175,036            |
| Operation & Maintenance of Plant               | 3,855,685            | 1,479,449            | 3,350,791  |                     |                     | 8,685,925             |
| Institutional Support                          | 8,981,392            | 3,159,291            | 6,179,084  |                     |                     | 18,319,767            |
| Community Services and<br>Economic Development | 1,122,365            | 263,739              | 328,303  | 2,466               |                     | 1,716,873             |
| Ancillary Services and<br>Auxiliary Operations | 4,939,731            | 1,312,413            | 9,478,593  | 15,128              |                     | 15,745,865            |
| Physical Property                              |                      |                      | 2,943,384  |                     |                     | 2,943,384             |
| Student Aid                                    |                      |                      |  | 8,052,719           |                     | 8,052,719             |
| Depreciation Expense                           |                      |                      |  |                     | 3,021,778           | 3,021,778             |
| <b>Total</b>                                   | <u>\$ 75,216,279</u> | <u>\$ 19,279,150</u> | <u>\$ 27,990,375</u>   | <u>\$ 8,842,392</u> | <u>\$ 3,021,778</u> | <u>\$ 134,349,975</u> |



**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**(Continued)**

**NOTE 15 – ADJUSTMENT FOR RESTATEMENT:**

Beginning net assets was restated by \$680,042 to correct amounts for the prior year under-accrual of compensated absences payable.

Beginning net assets in the Associated Student Body Fund was restated by \$160,799 to correct for prior year amounts under-reported for interfund transfers.

**NOTE 16 – NEGATIVE FUND BALANCE – CAPITAL OUTLAY FUND:**

During 2003-04, the District transferred \$1,650,941 of expenses for the Library project into the Capital Outlay Fund. This resulted in a negative fund balance of \$491,474.

**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, 2004, the District had the following commitments with respect to construction costs for the following projects:

|                           |            |
|---------------------------|------------|
| Literacy Center           | \$ 333,078 |
| Drescher Hall HVAC        | 17,500     |
| Main Stage Project        | 522,570    |
| Liberal Arts              | 522,506    |
| Madison Theater           | 531,154    |
| Bundy Campus West         | 116,619    |
| Madison Remodel for Music | 2,351,588  |
| PE Offices                | 207,500    |

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, 2004

(Continued)

**NOTE 18- SUBSEQUENT EVENTS:**

**A. Tax Revenue and Anticipation Notes**

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

The funds will be held in a Guaranteed Investment Contract. Repayment requirements are that \$2,500,000 plus an amount sufficient to cover interest expense be deposited in April and May, 2005.

**B. GASB Exposure Draft**

The Governmental Accounting Standards Board (GASB) has recently issued a new accounting standards for governmental agencies regarding other post-employment benefits. The statement will be effective for phase one GASB Statement No. 34 implementers in fiscal year 2007-08. The statement will require governmental agencies to record 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.

**C. Certificate of Participation**

On July 16, 2004 the District issued Certificates of Participation of \$11,140,000 through the Los Angeles County Schools Regionalized Business Services Corporation. The certificates were sold to defease the 1997 Certificates of Participation that have an outstanding principal balance of \$10,020,000. The 2004 certificates have interest rates that range from 3.0% to 4.75%.

**D. General Obligation Bonds**

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 million. Proceeds from the sale of the bonds will be used to finance certain capital improvements as approved by the voters.

**SUPPLEMENTARY INFORMATION**

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**HISTORY AND ORGANIZATION**

**June 30, 2004**

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> |
|------------------------------|------------------|---------------------|
| Dr. Margaret Quiñones        | Chairperson      | November 2004       |
| Carole Currey                | Vice Chairperson | November 2006       |
| Dr. Dorothy Ehrhart-Morrison | Member           | November 2006       |
| Dr. Nancy Greenstein         | Member           | November 2006       |
| Graham Pope                  | Member           | November 2004       |
| Herbert Roney                | Member           | November 2006       |
| Annette Shamey               | Member           | November 2004       |
| Dina Cervantes               | Student Trustee  | June 2005           |

**ADMINISTRATION**

|                     |   |
|---------------------|---|
| Piedad F. Robertson | Superintendent and President                            |
| Thomas J. Donner    | Executive Vice President of Business and Administration |
| Robert Adams        | Vice President of Student Affairs                       |
| Randal Lawson       | Vice President of Academic Affairs                      |
| Robert Sammis       | Vice President of Human Resources                       |
| Marvin Martinez     | Associate Vice President of Planning and Development    |
| Reagan Romali       | Associate Vice President of Fiscal Services             |
| David Muller        | Associate Vice President of Facilities                  |

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

**HISTORY AND ORGANIZATION**

**June 30, 2004**

SANTA MONICA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For Fiscal Year Ended June 30, 2004**

|   | <u>Federal<br/>Catalog<br/>Number</u> | <u>Pass-Through<br/>Entity Identifying<br/>Number *</u> | <u>Total Program<br/>Expenditures</u> |
|---|---------------------------------------|---|---------------------------------------|
| <b>Department of Education:</b>                           |                                       |   |                                       |
| TRIO - Student Support Services                           | 84.042                                | N/A   | \$ 156,028                            |
| Title III- Strengthening Institutions                     | 84.013A                               | N/A   | 249,590                               |
| Federal Work Study  | 84.033                                | N/A   | 569,574                               |
| SEOG Grant  | 84.007                                | N/A   | 828,902                               |
| Pell Grant  | 84.063                                | N/A   | 6,325,378                             |
| Vocational and Applied Technology<br>Education Act        | 84.048                                | 03577   | 687,436                               |
| Tech Prep Education                                       | 84.243                                | N/A   | 38,799                                |
| Even Start  | 84.213                                | N/A   | 130,394                               |
| Adult Basic Education Program (CASAS)                     | 84.002A                               | N/A   | 36,488                                |
| CCAMPIS   | 84.000                                | N/A   | 26,359                                |
| <b>Department of Commerce</b>                             |                                       |   |                                       |
| Corporation for Public Broadcasting                       | 11.000                                | N/A   | 975,000                               |
| Summer Internship at NIST                                 | 11.609                                | N/A   | 330                                   |
| National Telecommunication and Information Administration | 11.550                                | N/A   | 60,312                                |
| <b>Department of Health and Human Services</b>            |                                       |   |                                       |
| TANF  | 93.558                                | N/A   | 92,024                                |
|   |                                       |   | <u>10,176,614</u>                     |
| Federal Work Study Match                                  | 84.033                                | N/A   | 142,385                               |
|   |                                       |   | <u>\$ 20,495,613</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 Fiscal Year Ended June 30, 2004**

|   | Program Entitlements |                      |                     | Program Revenues    |                     |                     |                     | Total Program Expenditures |
|---|----------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------------|
|   | Current Year         | Prior Year Carryover | Total               | Cash Received       | Accounts Receivable | Deferred Income     | Total               |                            |
| Matriculation                             | \$ 820,573           | \$ 312,552           | \$ 1,133,125        | \$ 1,133,125        | \$                  | \$ 433,471          | \$ 699,654          | \$ 699,654                 |
| Extended Opportunity Program and Services | 1,213,905            | 238,454              | 1,452,359           | 1,452,359           |                     |                     | 1,452,359           | 1,452,359                  |
| Disabled Student Program and Services     | 1,071,790            | 1,079,476            | 2,151,266           | 1,079,476           |                     |                     | 1,079,476           | 1,079,476                  |
| Economic Development                      | 49,882               |                      | 49,882              | 49,882              |                     | 49,882              |                     |                            |
| Block Grant                               |                      | 309,510              | 309,510             | 309,510             |                     | 61,762              | 247,748             | 247,748                    |
| Instructional Equipment - Block Grant     | 504,332              | 382,285              | 886,637             | 886,637             |                     | 520,544             | 366,093             | 366,093                    |
| Telecom Technology Infrastructure Prog    | 64,234               | 213,348              | 277,582             | 277,582             |                     | 172,385             | 105,197             | 105,197                    |
| CAN Articulation                          | 5,000                |                      | 5,000               | 5,000               |                     |                     | 5,000               | 5,000                      |
| TRDP                                      | 100,250              |                      | 100,250             | 100,250             |                     | 29,057              | 71,193              | 71,193                     |
| Faculty & Staff Diversity                 | 23,845               |                      | 23,845              | 23,845              |                     | 20,012              | 3,833               | 3,833                      |
| Staff Development                         |                      | 17,961               | 17,961              | 17,961              |                     | 9,824               | 8,137               | 8,137                      |
| UCLA LVN Nursing Program                  | 21,824               |                      | 21,824              |                     | 21,284              |                     | 21,284              | 21,284                     |
| Nursing Grant                             | 35,798               |                      | 35,798              | 9,552               | 26,246              |                     | 35,798              | 35,798                     |
| Catworks                                  | 406,876              |                      | 406,876             | 406,876             |                     | 67,181              | 339,695             | 339,695                    |
| Launchpad/MCHS-Yr5 and Yr6-Inc            | 118,260              |                      | 118,260             |                     | 118,260             |                     | 118,260             | 118,260                    |
| ETP Grant                                 | 106,467              |                      | 106,467             | 106,467             |                     | 24,014              | 82,453              | 82,453                     |
| ETP Health Bus                            | 288,473              |                      | 288,473             | 288,473             |                     |                     | 288,473             | 288,473                    |
| Tech Prep-Launch Pad Interact             | 131,045              |                      | 131,045             | 92,246              | 7,046               |                     | 99,292              | 99,292                     |
| Recycling Grant                           | 25,653               |                      | 25,653              |                     | 25,653              |                     | 25,653              | 25,653                     |
| Financial Aid Administration              | 829,670              |                      | 829,670             | 829,670             |                     | 579,556             | 250,114             | 250,114                    |
| <b>Total State Programs</b>               | <b>\$ 5,817,897</b>  | <b>\$ 2,553,586</b>  | <b>\$ 8,371,483</b> | <b>\$ 7,068,911</b> | <b>\$ 198,489</b>   | <b>\$ 1,967,688</b> | <b>\$ 5,299,712</b> | <b>\$ 5,299,712</b>        |

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, 2004**

Categories

|    |                                      |                  |
|----|--------------------------------------|------------------|
| A. | Credit Full-Time Equivalent Students |                  |
|    | 1. Weekly census                     | 12,476.27        |
|    | 2. Daily census                      | 2,351.60         |
|    | 3. Actual hour of attendance         | 89.27            |
|    | 4. Independent study/work experience | 43.30            |
|    | 5. Summer intersession               | 68.67            |
|    | Total                                | <u>15,029.11</u> |
| B. | Non-Credit FTES                      |                  |
|    | 1. Actual hour of attendance         | 444.03           |
|    | 2. Summer intersession               | 84.06            |
|    | Total                                | <u>528.09</u>    |
| C. | Gross Square Footage                 |                  |
|    | Existing facilities                  | <u>906,164</u>   |
| D. | FTES in Leased Facilities            | <u>486.73</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, 2004**

|  | <u>General<br/>Fund</u> | <u>Bookstore<br/>Fund</u> | <u>Financial Aid<br/>Fund</u> | <u>Capital Outlay<br/>Fund</u> |
|--|-------------------------|---------------------------|-------------------------------|--------------------------------|
| June 30, 2004 Annual Financial and Budget<br>Report Fund Balance                           | \$ <u>7,843,891</u>     | \$ <u>1,958,439</u>       | \$ <u>0</u>                   | \$ <u>27,625,242</u>           |
| <b>Adjustments and Reclassifications:</b>  |                         |                           |                               |                                |
| Prior Year Post Closing Entries<br>(Over Statement)/Under Statement of Accounts Receivable | (903,299)               | 77,711                    | 73,991                        | 1,025,780                      |
| Under Statement of Due From Other Funds  |                         |                           |                               | 231,355                        |
| Under Statement of Accounts Payable  | (523,221)               |                           |                               |                                |
| Under Statement of Deferred Revenue  | (756,300)               |                           |                               |                                |
| Under Statement of Accrued Vacation  | <u>(460,230)</u>        |                           |                               |                                |
| Net Adjustments and Reclassifications  | <u>(2,643,050)</u>      | <u>77,711</u>             | <u>73,991</u>                 | <u>1,257,135</u>               |
| June 30, 2004 Audited Financial Statements Fund Balance                                    | <u>\$ 5,200,841</u>     | <u>\$ 2,036,150</u>       | <u>\$ 73,991</u>              | <u>\$ 28,882,377</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 to 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, 2004**

**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, 2004 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, 2004**

**(Continued)**

**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:                           |             |
| Interfund Transfers Out                 | \$1,346,641 |
| Bookstore Fund:                         |             |
| Employee Benefits                       | 40,482      |
| Supplies and Materials                  | 5,180,156   |
| Capital Outlay Fund:                    |             |
| Interfund Transfers Out                 | 750,466     |
| COPS Capital Projects Fund: (No budget) |             |
| Other Operating Expenses and Services   | 1,739,341   |



**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**

**Chairman**

ROYCE A. STUTZMAN

**Partners**

PETER F. GAUTREAU

RENÉE S. GRAVES

WADE N. McMULLEN

KARIN HECKMAN NELSON

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**Senior Managers**

TIMOTHY D. EVANS

PHEBE M. McCUTCHEON

SHARI PROSSER

GEMA M. PTASINSKI

COLLEEN K. TAYLOR

DEAN WEST

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

We have audited the financial statements of Santa Monica Community College District (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 11, 2004. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Santa Monica Community College District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs at items 04-1 and 04-2.



**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**

**(Continued)**

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe findings 04-1 and 04-2 of the reportable conditions described above are material weaknesses.

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 an instance of noncompliance and other matters that are required to be reported under Government Auditing Standards which is described in the accompanying schedule of findings and questioned costs as item 04-3.

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 11, 2004



**Chairman**

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**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

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, 2004. 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**

**(Continued)**

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, 2004.

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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Santa Monica Community College District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-4 and 04-5.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses.

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

**(Continued)**

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 11, 2004



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DEAN WEST

## REPORT ON STATE COMPLIANCE

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, 2004, and have issued our report thereon dated November 11, 2004.

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 2004 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

(Continued)

- 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.

In our opinion, except for finding 04-3 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.

## REPORT ON STATE COMPLIANCE

(Continued)

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<sub>LLP</sub>

November 11, 2004

**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, 2004**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:  
 Material weaknesses identified? X Yes      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? X Yes      None reported

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

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

Identification of major programs

| <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  |
| 11.000                    | Corporation for Public Broadcasting              |

Dollar threshold used to distinguish between Type A  
 and Type B programs: \$ 309,570

Auditee qualified as low-risk auditee?      Yes X No

The District does not qualify as a low-risk auditee due to the existence in prior years of a reportable condition identified to be a material weakness.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2004**

**FINDING # 04-1 – REPORTING OF CATEGORICAL PROGRAMS**

**Finding:** 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.

**Questioned Costs:** Not applicable

**Recommendation:** 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.

**District Response:** The District has set into place a procedure whereby an accountant will reconcile the state and federal categorical revenues on a monthly basis. The accountants, with supervision from the Accounting Manager, have been assigned the responsibility of monitoring and maintaining the grant activities during the course of the fiscal year. This will enable the District to reconcile the federal and state categorical revenues reported to the actual program expenditures reported on the general ledger.

**FINDING # 04-2 – BENEFITS PAYABLE**

**Finding:** 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.

**Questioned Costs:** Not applicable

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2004**

**(Continued)**

**FINDING # 04-2 – BENEFITS PAYABLE**  
**(continued)**

**Recommendation:** 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.

**District Response:** The District will be taking a multi-faceted approach to correcting this problem. First, the District will hire an additional professional in the Fiscal Services department who will be responsible for reconciling these benefits accounts on a monthly basis by employee to ensure accuracy. Second, a benefits listing will be sent out to all full-time employees to verify that they are receiving appropriate benefits coverage. Then, claims will be submitted to PERS to recover any overpayment when appropriate.

**FINDING # 04-3 – STATE COMPLIANCE – CONCURRENT ENROLLMENT**

**Finding:** 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).

**Questioned Costs:** Not Applicable

**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:** The District typically will run one or more sections concurrently; thus only one student in a much larger class would be less than the 10% maximum allowable enrollment percentage. When amending the CCFS-320, only the FTE from the high school student should be excluded, not the entire section's FTE. The District will make the necessary amendments.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2004**

**(Continued)**

**FINDING #04-4 – FEDERAL WORK STUDY – DISTRICT MATCH**

**Federal Program:** Federal Work Study

**Federal Catalog No.:** 84.033

**Program Expenditures:** \$569,574

**Finding:** 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.

**Questioned Costs:** Not applicable

**Recommendation:** 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.

**District Response:** The District has already implemented the above stated recommendation. A revised FISAP is being sent to the federal government showing the federal share and District match for FWS.

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2004**

**(Continued)**

**FINDING #04-5 – VOCATIONAL AND APPLIED TECHNOLOGY EDUCATION ACT**

**Federal Program:** Vocational and Applied Technology Education Act (VTEA)

**Federal Catalog No.:** 84.048

**Program Expenditures:** \$687,436

**Finding:** The following items were noted during our audit of the VTEA program:

- 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.

**Questioned Costs:** Not able to be determined

**Recommendation:**

- 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:
  - 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

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2004**

**(Continued)**

**FINDING #04-5 – VOCATIONAL AND APPLIED TECHNOLOGY EDUCATION ACT**

**(continued)**

The District should revise procedures to collect and incorporate this information into their equipment tracking process.

**District Response:** A system has been set up in Fiscal Services where administrative costs can be easily tracked separately, as per recommendation. A physical inventory is in the process of being taken by district staff and will be separately notated on the fixed assets listing of the district.



**SANTA MONICA COMMUNITY COLLEGE DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
 June 30, 2004

| <u>Finding No.</u> | <u>Finding</u>  | <u>Recommendation</u>  | <u>Current Status</u>  |
|--------------------|---|--|--|
| 03-1               | <p><b><u>GOING CONCERN</u></b></p> <p>The District, for the last two years, has experienced a deficit from General Fund operations. The deficits have been \$4,143,595 for the 2001-02 fiscal year and \$669,996 for the 2002-03 fiscal year. The General Fund ended the 2002-03 fiscal year with a fund balance of \$1,839,905. Of this amount, \$1,618,185 is reserves on fund balance for prepaid expenses, stores inventory, and revolving cash. This results in a \$221,720 available balance for Unrestricted General Fund reserves. With the serious concern about the amount of funding that will be received from the State due to the budget crisis, the District must continue to act conservatively and cannot afford to incur another deficit for the 2003-04 fiscal year.</p> | <p>Management should prepare a long-range plan in detail with various scenarios. This plan should include the impact of negotiations, long-term leases and other financing obligations and employee benefit costs. We believe it is extremely critical that management closely monitor the 2003-04 financial statements to protect the financial solvency of the District.</p> | <p>Improved. Although the current year General Fund ending balance is above the 3% recommended reserve level, it is still extremely critical that management continue to monitor the 2004-05 budget and implement measures to modify spending as needed.</p> |

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**June 30, 2004**

| <u>Finding No.</u> | <u>Finding</u>   | <u>Recommendation</u>  | <u>Current Status</u> |
|--------------------|--|--|-----------------------|
| 03-2               | <p><b><u>EQUIPMENT INVENTORY</u></b></p> <p><b>Original Finding: 99-9</b></p> <p>We noted the following items related to the equipment inventory procedures:</p> <ul style="list-style-type: none"> <li>• The inventory taken by the outside agency has not been reconciled to the in-house computer system or the internal construction projects listing.</li> <li>• The listing provided by the outside agency contained many errors as follows: <ul style="list-style-type: none"> <li>▪ \$1,935,306 for consulting costs and holding accounts was capitalized as completed buildings.</li> <li>▪ 7 projects, totaling \$1,710,110, that were not complete as of June 30, 2003 were recorded as additions.</li> <li>▪ 6 projects of 26 tested were under capitalized by \$970,271</li> <li>▪ 4 projects of 26 tested were not included on the listing provided by the outside agency</li> <li>▪ 2 projects added in prior year were under capitalized by \$1,157,983</li> </ul> </li> </ul> | <p>Our Recommendation to the above items are as follows:</p> <ul style="list-style-type: none"> <li>• The listing provided by the outside agency should be reconciled with the District's in-house inventory system and detail listing of construction projects. Any discrepancies should be researched and resolved in a timely manner.</li> <li>• The District should complete a reconciliation each year comparing the total equipment additions to the amount recorded in the general ledger. This would ensure any items received late in the year were identified and reported as additions in the proper fiscal year.</li> <li>• The fixed asset listing and construction in progress listing should be maintained throughout the year and available at the time of audit.</li> </ul> | Implemented           |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2004

| Finding No. | Finding  | Recommendation | Current Status |
|-------------|--|----------------|----------------|
| 03-2        | <p><b><u>EQUIPMENT INVENTORY</u></b> (continued)</p> <p><b>Original Finding: 99-9</b> (continued)</p> <ul style="list-style-type: none"> <li>▪ The purchase of the Emeritus site was recorded entirely as land. Approximately \$6.9 million of the purchase should have been recorded as buildings. This resulted in an under statement of depreciation of approximately \$138,000.</li> <li>• 2 of 10 pieces of equipment tested could not be located on either the internal listing or the listing provided by the outside agency. These were items received late in the year and not recorded it time for the audit.</li> <li>• Amounts for building additions, construction in progress and depreciation were not available at the time of audit. The information was provided in February, 2004.</li> </ul> |                |                |

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2004

(Continued)

| Finding No. | Finding   | Recommendation   | Current Status |
|-------------|---|--|----------------|
| 03-3        | <p><u>BOOKSTORE ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE</u></p> <p>The bookstore could not provide a detailed listing of accounts receivable or accounts payable that reconciled to the amounts reported in the general ledger. Additionally, the accounts had not been reconciled and the status of any prior year payables or receivables could not be determined.</p> | <p>Bookstore management should periodically reconcile all receivable and payable accounts reported in the general ledger. This will assist management in the timely collection of any amounts owed to the bookstore and ensure all obligations of the bookstore are handled promptly. A detailed listing of accounts receivable and accounts payable that reconciles to the general ledger should be available at the time of audit.</p> | Implemented.   |
| 03-4        | <p><u>EOPS</u></p> <p>As noted in the State Compliance Requirements section of the Contracted District Audit Manual, the EOPS Advisory Committee must meet at least once each school year. The last District EOPS Advisory Committee meeting was conducted in May, 2001.</p>  | <p>The EOPS Director should plan Advisory Committee meetings at least once each school year.</p>   | Implemented.   |

**SANTA MONICA COMMUNITY COLLEGE DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**June 30, 2004**

(Continued)

| <u>Finding No.</u> | <u>Finding</u>   | <u>Recommendation</u>  | <u>Current Status</u> |
|--------------------|--|--|-----------------------|
| 03-5               | <p><b><u>PAYROLL CLEARANCE FUND</u></b></p> <p>The Payroll Clearance Fund has not been reconciled to ensure that amounts are properly clearing out in the subsequent period.</p>   | <p>The District should perform a monthly reconciliation of the Payroll Clearance Fund to ensure that amounts are properly clearing out in the subsequent period.</p>   | Implemented.          |
| 03-6               | <p><b><u>PREPAID EXPENSES</u></b></p> <p>Prepaid expenses set up in the Restricted General Fund during the 2000-2001 fiscal year have not been reversed.</p>   | <p>Any amounts in prepaid accounts should be analyzed and reversed each fiscal year to ensure proper matching of revenues and expenditures.</p>  | Implemented.          |
| 03-1               | <p><b><u>MULTI-FUNDED EMPLOYEES</u></b></p> <p><b>Federal Program: Adult ESL</b><br/> <b>Federal Catalog No.: 84.002A</b></p> <p><b>Original Federal Finding: #02-1</b></p> <p>While researching the status of the prior year finding, we noted that the District has not properly documented the allocation of time for multi-funded employees whose salaries are charged partially to the Adult ESL Program. Salaries charged to a federally funded program must have proper documentation as required by OMB Circular A-87.</p> | <p>Develop procedures to properly document and track the time of employees in multi-funded positions. An individual independent of the program should be responsible for confirming that the actual percentages used to allocate salaries and benefits are reasonable compared to the actual time spent. Any changes in percentages must be communicated to the payroll and accounting departments in a timely manner.</p> | Implemented.          |