

SANTA MONICA COMMUNITY COLLEGE DISTRICT

LOS ANGELES COUNTY

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

June 30, 2006

**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, 2006

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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, 2006 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, 2006, 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 15, 2006 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 15, 2006

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

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, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

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

Financial Highlights

This section is to provide an overview of the District's financial activities. The District was required to implement the reporting standards of Governmental Accounting Standards Board Statements No. 34 and 35 during 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.

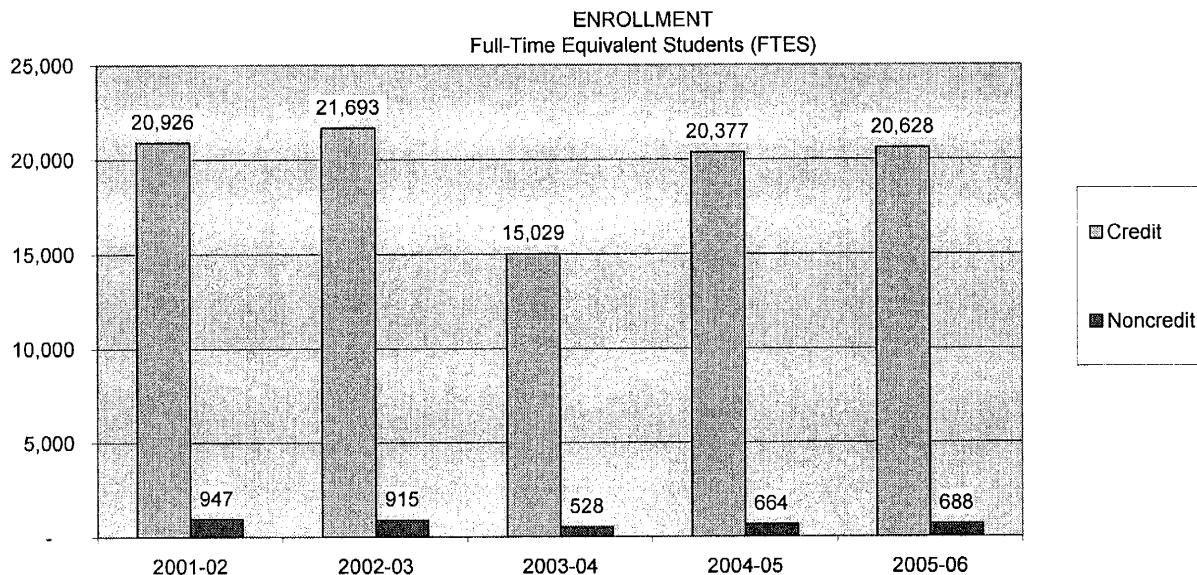
SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Selected Highlights

- During 2005-06, total full-time equivalent students increased approximately 1.23% for credit and increased approximately 3.54% for non-credit courses. Credit and non-credit FTES, along with other workload measures, are the basis for the District's state apportionment. The increase in non-credit FTES is the result of a slight increase in the District's small non-credit course offering. The increase in credit FTES is the result of an instructional services agreement with the Compton Community College District for Santa Monica College to deliver Summer 2006 intersession instruction at Compton Community College.



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

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, 2006

The Statements of Net Assets as of June 30, 2006 and June 30, 2005 are summarized below:

	(in thousands)	(in thousands)	
	<u>2006</u>	<u>2005</u>	<u>Change</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 87,008	\$ 72,284	20%
Receivables	21,180	16,197	31%
Due from fiduciary funds	1,031	134	669%
Inventories	2,123	2,192	-3%
Prepaid expenses	1,587	1,518	5%
Prepaid issue costs - current portion	48	29	66%
Total current assets	<u>112,977</u>	<u>92,354</u>	22%
Non-current assets			
Restricted cash and cash equivalents	6,929	11,299	-39%
Prepaid issue costs - non-current portion	1,106	422	162%
Long-term investments	2,459	2,478	-1%
Capital assets, net of accumulated depreciation	224,840	186,741	20%
Total non-current assets	<u>235,334</u>	<u>200,940</u>	17%
TOTAL ASSETS	<u>348,311</u>	<u>293,294</u>	19%
LIABILITIES			
Current liabilities			
Bank overdraft	1,250	2,029	-38%
Accounts payable and accrued liabilities	19,655	19,273	2%
Due to fiduciary funds	75		100%
Deferred revenue	7,635	9,035	-15%
Compensated absences	5,078	4,537	12%
Long-term liabilities - current portion	7,077	13,075	-46%
Total current liabilities	<u>40,770</u>	<u>47,949</u>	-15%
Non-current liabilities			
Long-term liabilities less current portion	224,225	173,811	29%
Total non-current liabilities	<u>224,225</u>	<u>173,811</u>	29%
TOTAL LIABILITIES	<u>264,995</u>	<u>221,760</u>	19%
NET ASSETS			
Invested in capital assets, net of related debt	65,162	50,532	29%
Restricted	11,157	11,798	-5%
Unrestricted	6,997	9,204	-24%
TOTAL NET ASSETS	<u>\$ 83,316</u>	<u>\$ 71,534</u>	16%

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

- A major portion of the cash balance is cash deposited in the Los Angeles County Treasury. Further discussion is located in the section labeled "Statement of Cash Flows," along with an additional explanation on change in cash balances.
- There was a 20% increase in cash and cash equivalents due to the net effect of the \$90 million in bond proceeds for construction activity.
- Accounts receivable balances showed an increase of 31% due to the increase of approximately \$5.3 million in the accounts receivable related to state apportionment.
- There was a 669% increase in due from fiduciary funds from the Auxiliary Fund to the General Fund that was caused by a timing difference related to the transfer of revenue and payroll reimbursements which were owed to the District.
- Prepaid issue costs – current portion showed an increase of 66% as a result of the issuance of \$90 million in new bonds.
- Restricted cash and cash equivalents decreased 39% due to the decreased cash balance in the Bond Interest and Redemption Fund for debt service.
- Prepaid issue costs – non-current portion under the non-current assets section shows an increase of 162% as a result of the issuance of \$90 million in new bonds.
- Compared with 2004-05, capital assets had a net increase of 20%. The following construction projects were completed in 2005-06: Bundy Campus West Building, Student Activities Boiler, and the Math Complex (a remodel of the Library Village). The capital asset section of this discussion and analysis provides greater detail.
- The liability related to compensated absences increase 12% as a result of salary increases and new hires.
- Long-term liabilities current portion decreased by 46% as a result of the closing of the 2001 COP and the issuance of \$90 million in new bonds.
- Long-term liabilities less current portion under the non-current liabilities section shows an increase of 29% as a result of issuing the new bonds for \$90 million.

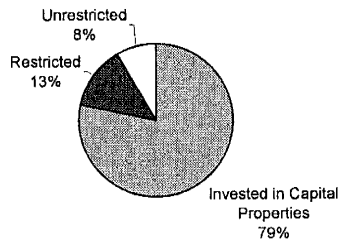
SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

- The District currently has two different Certificate of Participation debt issues outstanding that amount to approximately \$28.6 million (including deferred charges). \$318 million of general obligation bonding was authorized by the voters in three separate bond elections. Additional information regarding long term debt is included in the Debt Administration section of this discussion and analysis.

Net Assets
June 30, 2006



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 2005-06 and 2004-05 is provided on the following page.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The Statements of Revenues, Expenses and Change in Net Assets for the year ended June 30, 2006 and June 30, 2005 is summarized below:

	(in thousands) <u>2006</u>	(in thousands) <u>2005</u>	<u>Change</u>
Operating Revenues			
Net tuition and fees	\$ 28,970	\$ 28,309	2%
Grants and contracts, non-capital	25,048	26,158	-4%
Auxiliary sales and charges	<u>8,488</u>	<u>8,467</u>	0%
Total operating revenues	<u>62,506</u>	<u>62,934</u>	-1%
Operating Expenses			
Salaries and benefits	108,651	103,671	5%
Supplies, materials and other operating expenses and services	25,830	24,899	4%
Financial aid	12,893	12,381	4%
Utilities	2,833	2,422	17%
Depreciation	<u>3,203</u>	<u>3,264</u>	-2%
Total operating expenses	<u>153,410</u>	<u>146,637</u>	5%
Operating loss	<u>(90,904)</u>	<u>(83,703)</u>	-9%
Non-operating revenues (expenses)			
State apportionments, non-capital	71,183	57,802	23%
Local property taxes	13,713	16,392	-16%
State taxes and other revenues	5,125	4,697	9%
Contributions, gifts and grants, non-capital	3,192	3,671	-13%
Investment income (expense), net	1,898	733	159%
Other local revenue, non capital	<u>11,702</u>	<u>7,422</u>	58%
Total non-operating revenues (expenses)	<u>106,813</u>	<u>90,717</u>	18%
Other revenues, expenses, gains or losses			
State apportionments, capital	709	1,298	-45%
Local property taxes and revenues, capital	4,287	1,897	126%
Interest expense on capital-related debt	<u>(9,123)</u>	<u>(5,182)</u>	76%
Total other revenues, expenses, gains or losses	<u>(4,127)</u>	<u>(1,987)</u>	108%
Change in net assets	<u>11,782</u>	<u>5,027</u>	134%
Net assets, beginning of year as previously reported	71,534	67,032	7%
Adjustment for restatement	_____	(525)	-100%
Net assets, beginning of year as restated	<u>71,534</u>	<u>66,507</u>	8%
Net assets, end of year	<u>\$ 83,316</u>	<u>\$ 71,534</u>	16%

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

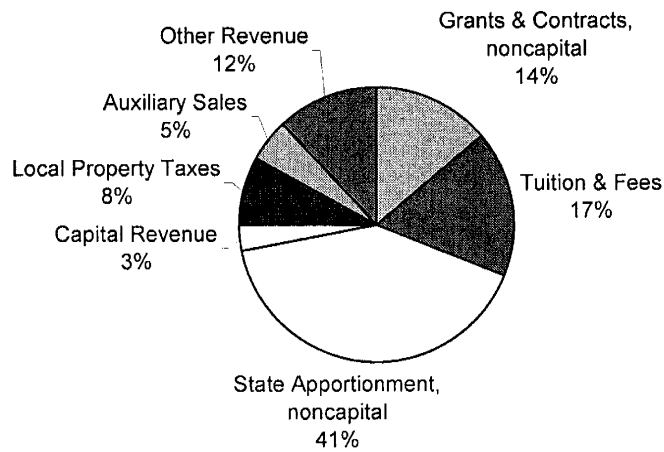
- Utilities expenditures increase 17% from 2004-2005. This increase is a result of increased costs related to usage, increased usage of facilities and new facilities going into operation in 2005-2006.
- Operating expenses are over 70% related to personnel costs. During the 2005-06 year, there were significant increases in health benefits costs that were passed along to the District by the benefits providers. This was a substantial cost increase to the District. The District made several attempts to contain these costs by creating a Benefits Committee which included members of the faculty, classified staff and administration. The committee was tasked with exploring what benefits were currently offered to employees and what costs might be saved by exploring other benefits options. The balance of operating expenses is for supplies and other services, capital outlay items below the capitalization threshold, insurance, utilities and depreciation expense.
- State apportionment is generated based on the workload measures reported to the state by the District. Enrollment fees are classified as operating revenue; and property taxes and apportionment are called non-operating revenue. The state general revenue is a workload calculation that is funded by property taxes, enrollment fees, and apportionment. If property taxes or enrollment fees go down, the apportionment goes up to cover the drop. The inverse is also true so any increase in taxes would lower the apportionment. State apportionment increased 23% as a result of factors such as COLA adjustments and adjustments to apportionment to offset the decrease in local property taxes such as ERAF.
- Local property taxes are received through the Auditor-Controller's Office for Los Angeles County. There was a 16% decrease in local property tax revenues in 2005-06 due primarily to a \$4.0 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/decrease in property taxes would not mean an increase/decrease in net revenue.
- State tax and other revenues increased 9% 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.
- Investment income increased 159% as a result of the payoff of the 2001 COP with the new bond issuance.
- There was a 58% increase in Other local revenue, non-capital as a direct result of the increased property taxes assessed to pay for debt related to bond issuances.
- 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 45% as this was not fully funded in the Governor's state budget as in years past, thus the district received fewer funds in 2005-06 than it had in the past.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

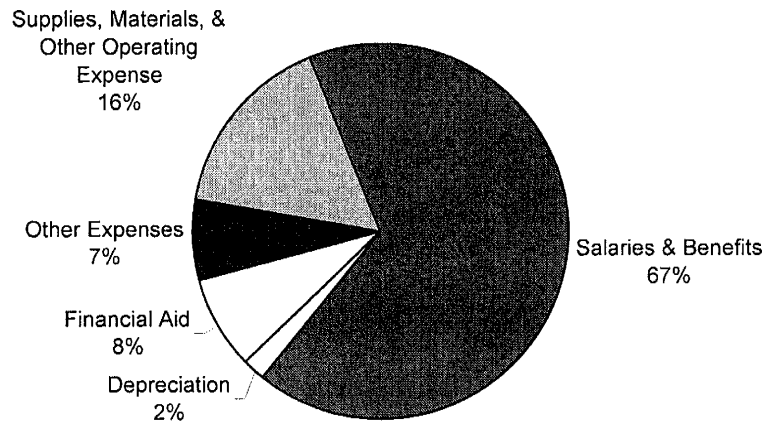
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Total Revenue 2005-06



Total Expenses 2005-06



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

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.

	(in thousands) <u>2006</u>	(in thousands) <u>2005</u>	<u>Change</u>
Cash Provided By (Used in)			
Operating activities	\$ (89,853)	\$ (70,927)	-27%
Non-capital financing activities	87,712	88,351	1%
Capital and related financing activities	11,934	21,678	45%
Investing activities	<u>561</u>	<u>260</u>	116%
Net increase/(decrease) in cash and cash equivalents	10,354	39,362	-74%
Cash balance, beginning of year	<u>83,583</u>	<u>44,221</u>	89%
Cash balance, end of year	<u>\$ 93,937</u>	<u>\$ 83,583</u>	12%

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

- Cash receipts from operating activities are from student tuition and from federal, state and local grants. Uses of cash are payments to employees, vendors and students related to the instructional program. There was a 27% increase in cash used for operating activities directly related to increases in payroll and vendor payment.
- The decrease in capital and related financing activities for fiscal year 2005-06 compared to 2004-05 was attributed to the net effect of bond proceeds, state apportionment, purchase of capital assets and an increase in debt payments.
- Cash from investing activities is interest earned on cash in bank and cash invested through the Los Angeles County pool and on investments with fiduciaries. Increases are due to higher interest rates and higher daily cash balances held by the District in interest bearing accounts.

District's Fiduciary Responsibility

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

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2006, the District had net governmental capital assets of \$224.8 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 \$31.8 million. Net additions in 2005-06 consisted mainly of construction in progress since there has been a substantial increase in the amount of construction happening on campus due to the passage of Measure "U" and Measure "S." Significant projects that were completed and added to the books in 2005-06 include Bundy Campus West Building, Student Activities Boiler, and Math Complex (a remodel of the Library Village). 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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

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

	<u>Balance June 30, 2006</u>
Land	\$ 46,270,286
Site and Site Improvements	142,850,975
Equipment	8,788,330
Construction in Progress	<u>58,706,180</u>
Totals at historical cost	<u>256,615,771</u>
Less accumulated depreciation for:	
Site and Site Improvements	(25,529,537)
Equipment	<u>(6,246,346)</u>
Total accumulated depreciation	<u>(31,775,883)</u>
Governmental capital assets, net	<u><u>\$ 224,839,888</u></u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Debt

At June 30, 2006, the District had approximately \$231.3 million in debt; \$337,032 from capital lease obligations, \$200.0 million from general obligation bonds and \$29.1 million from obligations under certificates of participation. During 2005-06, the District issued \$90 million of general obligation bonds. The general obligation bonds and certificates of participation were issued to fund various projects related to construction, purchase and renovation of instructional facilities, laboratories, centers, administrative facilities and parking structures. Debt payments on the bonds will be funded through property tax receipts collected over the term of the bonds. Debt payments on the certificates of participation will be funded through parking revenues, additional funding sources related to student enrollment and other sources identified within the Capital Funds. The District's bond rating of AA- has not changed from the prior year.

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

	<u>Balance</u> <u>June 30, 2006</u>
Capital leases	\$ 337,032
Certificates of participation	29,075,792
General obligation bonds	199,985,830
Accreted interest	1,903,284
	<u>\$ 231,301,938</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Budgeting for the Future

The unrestricted general fund of the District has shown dramatic growth over the last several years. Between 2002-03 and 2005-06, expenditures have grown \$7,584,103, while revenue has increased \$10,522,652. The District has also shown great fiscal responsibility by increasing the fund balance of the unrestricted general fund from \$1,862,057 in 2002-03 to \$7,925,406 in 2005-06. These gains in fund balance have been important in giving the District a stronger financial base, but it is important to note that much of the gain in fund balance was a direct result of equalization funding for which the District is no longer eligible under SB 361, the new state funding model, and as a result of continued borrowing of summer intersession FTES. (In 2005-06, this represented approximately \$4.4 of the District's reported revenue.) The expenditure breakdown for the unrestricted general fund in the 2005-06 fiscal year includes 88% for salary and benefits, 1 % for supplies, 10% for services, utilities and insurance, and 1% other. This is identical to the expenditure breakdown in 2002-03.

In the past, Santa Monica Community College District has always grown its way out of financial trouble. College administration cited the re-growth of the FTES as its major goal for 2005-06 and 2006-07 and has directed numerous resources to re-grow back to its "pre-budget cut" enrollment numbers. This included the creation of a new division—Enrollment Development. While the District does not expect to re-grow back to its "base" until 2007-08, it is important to note that growing back to the "pre-budget cut" enrollment FTES will not generate more revenue for the District, but will merely solidify the District's current revenue base. (This is due to the borrowing of summer intersession FTES.) The District has built the 2006-07 budget with the assumption of full growth back to base FTES numbers, but continues to look at possible scenarios in case this objective is not met.

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, especially with the possibility of a revenue base drop in future years caused by a decrease in FTES. To do so, expenditure budgets for 2006-07 were reduced in the areas of supplies and contract services. The District has also formed a Benefits Committee to examine ways to lower benefits costs, while still offering the same level of benefits to employees. These measures, combined with the enrollment recovery efforts, should allow the District to grow its fund balance each year until such time as it reaches a level that is agreed upon as financially sound.

BASIC FINANCIAL STATEMENTS

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

ASSETS

Current Assets:

Cash and cash equivalents	\$ 87,007,599
Accounts receivable, net	21,179,835
Due from fiduciary funds	1,030,838
Inventories	2,123,245
Prepaid expenses and deposits	1,587,491
Prepaid issue costs - current portion	<u>47,726</u>
Total Current Assets	<u>112,976,734</u>

Non-Current Assets:

Restricted cash and cash equivalents	6,929,742
Prepaid issue costs - non-current portion	1,105,662
Long-term investments	2,458,851
Capital assets, net of accumulated depreciation	<u>224,839,888</u>
Total Non-Current Assets	<u>235,334,143</u>

TOTAL ASSETS \$ 348,310,877

LIABILITIES AND NET ASSETS

Current Liabilities:

Bank overdraft	\$ 1,249,778
Accounts payable	13,340,151
Accrued liabilities	6,314,957
Due to fiduciary funds	75,039
Deferred revenue	7,635,301
Compensated absences	5,077,959
Capital leases - current portion	310,455
COPS payable - current portion	958,539
GO Bonds payable - current portion	<u>5,807,981</u>
Total Current Liabilities	<u>40,770,160</u>

Non-Current Liabilities:

Capital leases	26,577
COPS payable	28,117,253
GO Bonds payable	<u>196,081,133</u>
Total Non-Current Liabilities	<u>224,224,963</u>

TOTAL LIABILITIES 264,995,123

NET ASSETS

Invested in capital assets, net of related debt	65,161,931
Restricted for:	
Capital projects	4,956,317
Debt service	6,200,244
Unrestricted	<u>6,997,262</u>

TOTAL NET ASSETS 83,315,754

TOTAL LIABILITIES AND NET ASSETS \$ 348,310,877

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, 2006

OPERATING REVENUES	
Enrollment, tuition and other fees (gross)	\$ 33,636,700
Less: Scholarship discounts and allowances	<u>(4,666,428)</u>
Net enrollment, tuition and other fees	28,970,272
Grants and contracts, non-capital:	
Federal	14,833,121
State	8,538,151
Local	1,676,507
Auxiliary enterprise sales and charges, net	<u>8,488,142</u>
TOTAL OPERATING REVENUES	<u>62,506,193</u>
OPERATING EXPENSES	
Salaries	86,023,045
Employee benefits	22,628,496
Supplies, materials and other operating expenses and services	25,829,619
Financial aid	12,892,707
Utilities	2,833,478
Depreciation	<u>3,202,988</u>
TOTAL OPERATING EXPENSES	<u>153,410,333</u>
OPERATING LOSS	<u>(90,904,140)</u>
NON-OPERATING REVENUES (EXPENSES)	
State apportionments, non-capital	71,183,344
Local property taxes	13,712,960
State taxes and other revenues	5,124,744
Investment income, net	1,897,556
Contributions, gifts and grants, non-capital	3,191,924
Other local revenue, non-capital	<u>11,701,932</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>106,812,460</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)	<u>15,908,320</u>
OTHER REVENUES, EXPENSES, GAINS (LOSSES)	
State apportionments, capital	708,784
Interest expense on capital-related debt	(9,122,426)
Local property taxes and revenues, capital	<u>4,287,132</u>
TOTAL OTHER REVENUES, EXPENSES, GAINS (LOSSES)	<u>(4,126,510)</u>
INCREASE IN NET ASSETS	11,781,810
NET ASSETS, BEGINNING OF YEAR	<u>71,533,944</u>
NET ASSETS, END OF YEAR	<u>\$ 83,315,754</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, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 28,674,869
Federal grants and contracts	14,710,395
State grants and contracts	7,592,240
Local grants and contracts	1,590,918
Auxiliary operation sales	9,615,090
Payments to suppliers	(30,354,622)
Payments to/on-behalf of employees	(108,012,105)
Payments to/on-behalf of students	(12,848,217)
Payments to Trust and Agency Fund	<u>(821,383)</u>
Net cash used by operating activities	<u>(89,852,815)</u>
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State apportionments and receipts	65,897,592
Property taxes	12,718,399
State taxes and other revenue	5,904,520
Grants and gifts for other than capital purposes	<u>3,191,924</u>
Net cash provided by non-capital financing activities	<u>87,712,435</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	90,256,872
State apportionment for capital purposes	908,513
Local revenue for capital purposes	2,115,070
Tax revenue for payment of capital debt	11,747,249
Purchase of capital assets	(41,302,034)
Principal paid on capital debt	(11,625,345)
Deposit to escrow fund to defease capital debt	(35,698,284)
Interest paid on capital debt	(7,176,194)
Interest on capital investments	<u>2,708,113</u>
Net cash provided by capital and related financing activities	<u>11,933,960</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	541,750
Sale of investments, net	<u>19,204</u>
Net cash provided by investing activities	<u>560,954</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 10,354,534
CASH BALANCE - Beginning of Year	<u>83,582,807</u>
CASH BALANCE - End of Year	<u>\$ 93,937,341</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, 2006

Reconciliation of Operating Loss to
Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (90,904,140)
Adjustments to reconcile net loss to net cash (used) by operating activities:	
Depreciation expense	3,202,988
Changes in assets and liabilities:	
Receivables, net	773,296
Due from Auxiliary	(896,422)
Inventory	68,602
Prepaid expenses and deposits	(69,048)
Bank overdraft	(778,839)
Accounts payable	(1,003,996)
Accrued liabilities	220,043
Due to Auxiliary	75,039
Deferred revenue	(1,081,405)
Compensated absences	<u>541,067</u>
Net cash used by operating activities	<u>\$ (89,852,815)</u>

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Trust and Agency Fund	Associated Student Body Fund
ASSETS		
Cash on hand and in banks	\$ 11,708,310	1,138,683
Investments	3,677,849	115,946
Accounts receivable:		
Miscellaneous	27,437	2,623
Due from district		75,039
Prepaid expenses		4,329
TOTAL ASSETS	\$ 15,413,596	\$ 1,336,620
LIABILITIES		
Accounts payable	\$ 82,796	\$ 8,718
Due to governmental funds	1,030,838	
Funds held in trust	14,299,962	1,261,593
TOTAL LIABILITIES	15,413,596	1,270,311
NET ASSETS		
Unrestricted	-	66,309
TOTAL NET ASSETS	-	66,309
TOTAL LIABILITIES AND NET ASSETS	\$ 15,413,596	\$ 1,336,620

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, 2006

	Associated Student Body Fund
ADDITIONS	
Other local revenues	<u>\$ 244,825</u>
TOTAL ADDITIONS	<u>244,825</u>
DEDUCTIONS	
Supplies and materials	81,696
Services and other operating expenses	90,183
Capital outlay	<u>1,384</u>
TOTAL DEDUCTIONS	<u>173,263</u>
Change in net assets	71,562
NET ASSETS AT BEGINNING OF YEAR	<u>(5,253)</u>
NET ASSETS, END OF YEAR	<u><u>\$ 66,309</u></u>

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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, 2006

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

A. REPORTING ENTITY (continued)

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

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

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

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

Based upon the application of the criteria listed above, the following 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, 2006

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 \$(816,829) on June 30, 2006, 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, 2006

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, 2006

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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

C. BASIS OF ACCOUNTING (continued)

4. Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which goods or services are consumed.

5. Prepaid Issue Costs

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

6. Restricted Cash and Cash Equivalents

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

7. Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Buildings as well as renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Interest incurred during construction is not capitalized.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

C. BASIS OF ACCOUNTING (continued)

7. Capital Assets (continued)

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

8. Accounts Payable

Accounts payable consists of amounts due to vendors, including accrued interest on long-term debt, of \$13,340,151.

9. Accrued Liabilities

Accrued liabilities consist of salary and benefits payable of \$6,314,957.

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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

C. BASIS OF ACCOUNTING (continued)

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, 2006

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 2007 will be recorded in the year computed by the State.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

C. BASIS OF ACCOUNTING (continued)

14. Property Taxes

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

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

15. On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers' Retirement System on behalf of all community college and school districts in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at \$911,600 for STRS.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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, 2006

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

C. BASIS OF ACCOUNTING (continued)

18. Estimates

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

NOTE 2 - DEPOSITS AND INVESTMENTS:

A. Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk. As of June 30, 2006, \$14,960,217 of the District's bank balance of \$17,094,737 was exposed to credit risk by being uninsured and uncollateralized in the District's name.

Cash in County

In accordance with the Budget and Accounting Manual, the District maintains substantially all of its cash in the Los Angeles County Treasury as part of the common investment pool. These pooled funds are carried at cost which approximates fair value. The fair market value of the District's deposits in this pool as of June 30, 2006, as provided by the pool sponsor, was \$88,989,760. Interest earned is deposited quarterly into participating funds, except for the Restricted General Fund, Student Financial Aid Fund, Warrant Pass-Through, and Earthquake Capital Outlay Fund, in which case interest earned is credited to the General Fund. Any investment losses are proportionately shared by all funds in the pool.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

B. Cash in Bank Overdraft

The Bookstore Fund has a Cash in Bank overdraft balance of \$1,249,778 at June 30, 2006. 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, 2006 the pooled accounts had a positive balance of \$10,213,292.

C. Investments

The District did not violate any provisions of the California Government Code during the year ended June 30, 2006.

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

C. Investments (continued)

Investments for both the governmental and fiduciary fund types at June 30, 2006 are presented below:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard & Poor's / Moody's Rating</u>
Federal Home Loan Bank Cons	8/18/2006	\$ 59,850	(1)
Federal Home Loan Bank Cons	9/15/2006	104,475	(1)
Federal Home Loan Bank Cons	1/29/2007	99,656	(1)
Federal Home Loan Bank Cons	12/28/2007	101,719	(1)
Federal Home Loan Bank Cons	2/23/2007	1,124,678	(1)
Federal Home Loan Bank Cons	7/5/2007	104,475	(1)
Federal Home Loan Bank Cons	9/21/2007	1,261,275	(1)
Federal Home Loan Mtg Corp	4/18/2007	115,946	(1)
Federal Home Loan Mtg Corp	4/18/2007	395,405	(1)
Federal Natl Mtg Assn Global	1/15/2007	14,953	(1)
Federal Natl Mtg Assn Global	1/26/2007	114,066	(1)
Federal Natl Mtg Assn Global	4/18/2007	297,297	(1)
AIG Match Funding Corp.	5/14/2024	1,591,223	(2)
Federated Treasury Obligation 398	2/1/07-2/1/27	811	(1)
Federated Treasury Obligation 398	2/1/07-2/1/27	866,817	(1)
Total		<u>\$ 6,252,646</u>	

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

C. Investments (continued)

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Government Code Sections 16430 and 53601 allow governmental entities to invest surplus moneys in certain eligible securities. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer. All of the District's investments are in U.S. Government Obligations or in Guaranteed Investment Contracts and are not exposed to risk.

NOTE 3 - ACCOUNTS RECEIVABLE:

The accounts receivable balance as of June 30, 2006 consist of the following:

Federal and State	\$17,468,989
Local	1,904,686
Miscellaneous	1,806,160

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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, 2006 are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 1,030,838	\$ 75,039
Associated Student Body Fund	75,039	
Trust and Agency Fund	<u> </u>	<u>1,030,838</u>
Totals	<u>\$1,105,877</u>	<u>\$1,105,877</u>

NOTE 5 – CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2006:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments*</u>	<u>Balance June 30, 2006</u>
Land	\$ 46,202,579	\$	\$	\$ 67,707	\$ 46,270,286
Site and site improvements	119,125,661	21,325,314		2,400,000	142,850,975
Equipment	9,611,932	590,560		(1,414,162)	8,788,330
Construction in progress	40,373,565	39,657,929	21,325,314		58,706,180
Total cost	<u>215,313,737</u>	<u>61,573,803</u>	<u>21,325,314</u>	<u>1,053,545</u>	<u>256,615,771</u>
Site and site improvements	22,585,146	2,686,148		258,243	25,529,537
Equipment	5,987,749	614,690		(356,093)	6,246,346
Total accumulated depreciation	<u>28,572,895</u>	<u>3,300,838</u>	<u>-</u>	<u>(97,850)</u>	<u>31,775,883</u>
Net Capital Assets	<u>\$ 186,740,842</u>	<u>\$ 58,272,965</u>	<u>\$ 21,325,314</u>	<u>\$ 1,151,395</u>	<u>\$ 224,839,888</u>

*During 2005-06, the District completed an inventory of capital assets and determined that an adjustment was necessary. Management does not believe the original cost to be material to the financial statements, therefore beginning balances have not been restated.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 6 - LEASES:

A. Capital Leases

The District leases equipment valued at approximately \$1,414,200 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>
2006-2007	\$ 310,455	\$ 9,801	\$ 320,256
2007-2008	<u>26,577</u>	<u>111</u>	<u>26,688</u>
Total	<u>\$ 337,032</u>	<u>\$ 9,912</u>	<u>\$ 346,944</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment. Interest expenses for fiscal year 2005-06 was approximately \$24,900.

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>
2006-2007	\$ 986,120
2007-2008	986,120
2008-2009	800,000
2009-2010	800,000
2010-2011	800,186
2012-2016	4,000,000
2017-2021	4,000,000
2022-2026	4,000,000
2027-2031	4,000,000
2032-2036	4,000,000
2037-2041	4,000,000
2042-2046	4,000,000
2047-2051	4,000,000
2052-2056	<u>4,000,000</u>
Total	<u>\$40,372,426</u>

Current year expenditures for operating leases is approximately \$986,120. 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, 2006

NOTE 7 - CERTIFICATES OF PARTICIPATION:

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

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

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)

Lease Payment Date	Principal	Interest	Total Payments
December 1, 2006	\$ -	\$ 446,491	\$ 446,491
June 1, 2007	710,000	446,491	1,156,491
December 1, 2007		432,646	432,646
June 1, 2008	735,000	432,646	1,167,646
December 1, 2008		417,940	417,940
June 1, 2009	765,000	417,940	1,182,940
December 1, 2009		402,264	402,264
June 1, 2010	800,000	402,264	1,202,264
December 1, 2010		385,264	385,264
June 1, 2011	830,000	385,264	1,215,264
2012-16	4,740,000	3,266,303	8,006,303
2017-21	5,995,000	2,018,123	8,013,123
2022-24	4,365,000	443,503	4,808,503
	<u>\$ 18,940,000</u>	<u>\$ 9,897,139</u>	<u>\$ 28,837,139</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)

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

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

The proceeds were placed into an irrevocable escrow account and will be used to fund the future required principal and interest payments of the refunded COPs. The refunded COPs are considered in-substance defeased and are not recorded on the financial statements. The difference in cash flow requirements related to this refunding is a savings of cash outflow of approximately \$436,300. The present value of the economic gain to the District amounts to approximately \$411,800. The balance of the COPs refunded was \$912,128 less than the amount paid into the escrow account. This amount is recorded as a deferred charge on the statement of net assets and amortized to interest expense over the life of the new debt. Amortization of \$41,460 was recognized during the 2005-06 year. The balance of the in-substance defeased debt as of June 30, 2006 is \$9,555,000; approximately \$10,029,975 was in an escrow account at June 30, 2006 to pay off this debt.

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)

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

Lease Payment Date	Principal	Interest	Total Payments
<u> </u>	<u> </u>	<u> </u>	<u> </u>
July 15, 2006	\$ -	\$ 250,450	\$ 250,450
January 15, 2007	290,000	250,450	540,450
July 15, 2007		246,100	246,100
January 15, 2008	330,000	246,100	576,100
July 15, 2008		241,150	241,150
January 15, 2009	365,000	241,150	606,150
July 15, 2009		235,675	235,675
January 15, 2010	370,000	235,675	605,675
July 15, 2010		229,200	229,200
January 15, 2011	390,000	229,200	619,200
2012-2016	2,175,000	2,044,550	4,219,550
2017-2021	2,725,000	1,514,725	4,239,725
2022-2026	3,470,000	755,112	4,225,112
2027	850,000	42,500	892,500
	<u>10,965,000</u>	<u>\$ 6,762,037</u>	<u>\$ 17,727,037</u>
Deferred charge on refunding	<u>(829,208)</u>		
Total	<u>\$ 10,135,792</u>		

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 – BONDS PAYABLE:

A. Measure T

1. On November 3, 1992, at an election held within the boundaries of the District, the voters authorized bonds to be sold in the amount of \$23,000,000. Proceeds from the sale of the bonds were used to finance certain capital improvements. On August 1, 1993, the District issued \$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>
2007	\$ 185,000	\$ 181,680	\$ 366,680
2008	195,000	171,968	366,968
2009	205,000	161,535	366,535
2010	195,000	150,362	345,362
2011	205,000	139,150	344,150
2012-2016	1,255,000	501,690	1,756,690
2017-2019	960,000	112,700	1,072,700
	<u>\$ 3,200,000</u>	<u>\$ 1,419,085</u>	<u>\$ 4,619,085</u>

2. 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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 – BONDS PAYABLE: (continued)

Debt service requirements on these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 340,000	\$ 422,889	\$ 762,889
2008	355,000	405,889	760,889
2009	370,000	388,138	758,138
2010	390,000	368,899	758,899
2011	415,000	348,619	763,619
2012-2016	2,440,000	1,366,775	3,806,775
2017-2021	<u>3,235,000</u>	<u>579,025</u>	<u>3,814,025</u>
	<u>\$ 7,545,000</u>	<u>\$ 3,880,234</u>	<u>\$ 11,425,234</u>

3. 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>
2007	\$ 240,000	\$ 333,570	\$ 573,570
2008	255,000	320,370	575,370
2009	270,000	306,345	576,345
2010	290,000	291,495	581,495
2011	300,000	275,545	575,545
2012-2016	1,735,000	1,146,865	2,881,865
2017-2021	2,070,000	686,250	2,756,250
2022-2024	<u>1,480,000</u>	<u>150,000</u>	<u>1,630,000</u>
	<u>\$ 6,640,000</u>	<u>\$ 3,510,440</u>	<u>\$ 10,150,440</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 – BONDS PAYABLE: (continued)

B. Measure U

1. On March 5, 2002, at an election held within the boundaries of the District, the voters authorized bonds to be sold in the amount of \$160,000,000. Proceeds from the sale of the bonds were used to finance the construction, acquisition, furnishing and equipping of District facilities. On August 1, 2002, the District issued Series A bonds for \$25,000,000. Interest rates range from 3.0% to 5.0% payable semiannually on February 1 and August 1.

Debt service requirements on these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 670,000	\$ 694,613	\$ 1,364,613
2008	650,000	674,513	1,324,513
2009	650,000	653,388	1,303,388
2010	650,000	632,263	1,282,263
2011	650,000	606,263	1,256,263
2012-2016	3,260,000	2,636,438	5,896,438
2017-2021	3,450,000	1,920,213	5,370,213
2022-2026	3,860,000	1,034,513	4,894,513
2027-2028	1,690,000	130,683	1,820,683
	<u>\$ 15,530,000</u>	<u>\$ 8,982,887</u>	<u>\$ 24,512,887</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 – BONDS PAYABLE: (continued)

2. On May 13, 2004 the District issued Series B bonds for \$21,675,000 of current interest bonds and \$324,971 of capital appreciation bonds. Interest rates range from 3.0% to 5.0% payable semiannually on May 1 and November 1.

Capital appreciation bonds were issued with maturity dates from May 1, 2027 through May 1, 2029. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long term debt at June 30, 2006 is \$853,282.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2007	\$ 570,000	\$ 861,125	\$	\$ 1,431,125
2008	585,000	844,025		1,429,025
2009	610,000	820,625		1,430,625
2010	630,000	796,225		1,426,225
2011	655,000	772,600		1,427,600
2012-2016	3,810,000	3,338,500		7,148,500
2017-2021	4,840,000	2,298,188		7,138,188
2022-2026	6,185,000	957,750		7,142,750
2027-2028	324,971		3,950,029	4,275,000
	<u>\$ 18,209,971</u>	<u>\$ 10,689,038</u>	<u>\$ 3,950,029</u>	<u>\$ 32,849,038</u>

3. On August 2, 2005 the District issued Series C bonds for \$22,690,000 of current interest bonds and \$67,309,923 of capital appreciation bonds. Interest rates range from 3.12% to 5.07% payable semiannually on August 1 and February 1.

Capital appreciation bonds were issued with maturity dates from August 1, 2008 through August 1, 2029. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long term debt at June 30, 2006 is \$1,050,002.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 – BONDS PAYABLE: (continued)

A portion of the proceeds was used to pay off the outstanding balance of \$35,610,000 of the 2001 COP. An analysis of the economic gain or cash flow savings to the District was not completed for this type of refunding. The benefit to the District resulted by shifting the funding source for the repayment requirements from the General Fund to property tax revenues. The difference between the reacquisition price and the net carrying amount of the 2001 COP is recorded as a deferred charge of \$539,372 on the statement of net assets and amortized to interest expense over the life of the old debt. Amortization of \$33,711 was recognized during the 2005-06 year.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2006-07	\$	\$ 1,544,181	\$ 76,286	\$ 1,620,467
2007-08	2,572,427	1,134,500	207,748	3,914,675
2008-09	2,747,077	1,134,500	329,316	4,210,893
2009-10	2,909,292	1,134,500	476,594	4,520,386
2010-11	3,062,520	1,134,500	652,371	4,849,391
2012-16	16,615,353	5,672,500	6,541,067	28,828,920
2017-21	15,429,518	5,672,500	13,239,872	34,341,890
2022-26	15,047,857	5,672,500	21,574,506	42,294,863
2027-31	31,615,879	4,596,000	14,992,316	51,204,195
	<u>89,999,923</u>	<u>\$ 27,695,681</u>	<u>\$ 58,090,076</u>	<u>\$ 175,785,680</u>
Unamortized bond premium*	1,401,772			
Deferred charge for refunding	<u>(505,661)</u>			
Total	<u>\$ 90,896,034</u>			

*Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series C bonds included a premium of \$1,450,109. This amount is amortized using the straight-line method. Amortization of \$48,337 was recognized during the 2005-06 year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 – BONDS PAYABLE: (continued)

C. Measure S

On November 2, 2004, at an election held within the boundaries of the District, the voters authorized bonds to be sold in the amount of \$135,000,000. Proceeds from the sale of the bonds were used to finance the construction, acquisition, furnishing and equipping of District facilities. On May 1, 2005, the District issued Series A bonds for \$58,000,000. Interest rates range from 3.5% to 5.25% payable semiannually on May 1 and November 1.

Debt service requirements on these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 3,700,000	\$ 2,680,062	\$ 6,380,062
2008	1,325,000	2,513,563	3,838,563
2009	1,385,000	2,453,937	3,838,937
2010	1,450,000	2,384,688	3,834,688
2011	1,500,000	2,333,937	3,833,937
2012-2016	8,615,000	10,569,401	19,184,401
2017-2021	10,855,000	8,324,363	19,179,363
2022-2026	13,720,000	5,461,486	19,181,486
2027-2030	<u>13,605,000</u>	<u>1,742,250</u>	<u>15,347,250</u>
	56,155,000	<u>\$ 38,463,687</u>	<u>\$ 94,618,687</u>
Unamortized bond premium	<u>1,809,825</u>		
Total	<u>\$ 57,964,825</u>		

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series A bonds included a premium of \$1,888,513. This amount is amortized using the straight-line method. Amortization of \$78,688 was recognized during the 2005-06 year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 9 – LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2006 is shown below:

	Balance <u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2006</u>
Capital Leases	\$ 632,377	\$	\$ 295,345	\$ 337,032
Certificates of Participation	65,504,332		36,428,540	29,075,792
General Obligation Bonds	119,638,484	90,910,660	10,563,314	199,985,830
Accreted Interest	<u>1,111,164</u>	<u>792,120</u>		<u>1,903,284</u>
Total	<u>\$ 186,886,357</u>	<u>\$ 91,702,780</u>	<u>\$ 47,287,199</u>	<u>\$ 231,301,938</u>

NOTE 10 - EMPLOYEE RETIREMENT PLANS:

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

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, 2006

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

State Teachers' Retirement System (STRS) (continued)

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2005-06 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 2005-06 was 9.116% 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, 2006

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

Contributions to STRS and PERS

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

Year Ended <u>June 30,</u>	<u>STRS</u>		<u>PERS</u>	
	<u>Required Contribution</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2004	\$3,230,925	100%	\$2,093,460	100%
2005	3,509,146	100%	2,447,008	100%
2006	3,728,679	100%	2,646,388	100%

NOTE 11 - 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, 296 employees meet those eligibility requirements. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis when premiums are paid. During the year, the approximate expenditures for the retirees health care benefits were \$1,446,000. For 2006-07, \$1,982,000 has been budgeted for these benefits.

The estimated total future liability of these benefits is \$70,252,797 as determined by an actuarial study performed in May 2006. However, this liability is not reflected within these financial statements, awaiting implementation of GASB Statement No. 45. See Note 15.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 12 - 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 Tax Authority (the Authority). The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes, as explained below.

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.

The Authority purchases delinquent ad valorem property taxes from school agencies in Los Angeles County to receive additional unrestricted revenues through financing of property tax delinquencies. The Authority is a pass-through entity and financial information is not available. For the fiscal year 2005-06, the District received local revenue in the amount of \$55,928 from the Authority.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 12 - JOINT POWERS AGREEMENT: (continued)

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

	LARISA 6/30/2006 (Unaudited)	SCCCD-JPA 6/30/2005 (Audited)	SWACC 6/30/2005 (Audited)	
		Workers Compensation Insurance Fund	Retiree Health Insurance Fund	
Total assets	\$19,326,671	\$16,940,326	\$69,382,949	\$28,208,879
Total liabilities	<u>16,678,049</u>	<u>1,009,372</u>	<u>9,664</u>	<u>15,967,848</u>
Retained earnings	<u>\$ 2,648,622</u>	<u>\$15,930,954</u>	<u>\$69,373,285</u>	<u>\$12,241,031</u>
Total revenues	\$ 2,503,217	\$ 7,584,791	\$ 5,048,476	\$ 9,373,188
Total expenditures	<u>1,836,758</u>	<u>6,846,397</u>	<u>56,030</u>	<u>4,837,422</u>
Net increase in retained earnings	<u>\$ 666,459</u>	<u>\$ 738,394</u>	<u>\$ 4,992,446</u>	<u>\$ 4,535,766</u>

NOTE 13 – FUNCTIONAL EXPENSE:

	Salaries	Benefits	Supplies, Materials, Utilities, Other Expenses and Services	Financial Aid	Depreciation	Total
Instructional Activities	\$ 45,398,945	\$ 9,913,147	\$ 545,975			\$ 55,858,067
Academic Support	8,616,066	2,276,691	836,626			11,729,383
Student Services	12,585,154	2,960,822	1,799,193			17,345,169
Operation & Maintenance of Plant	4,041,066	1,501,084	1,552,402			7,094,552
Institutional Support Services	10,163,390	4,558,119	3,078,037			17,799,546
Community Services & Economic Development	745,349	197,457	114,661			1,057,467
Ancillary Services & Auxiliary Operations	4,338,336	1,178,833	2,282,421			7,799,590
Physical Property & Related Acquisitions	134,739	42,343	18,453,782			18,630,864
Student Financial Aid				12,892,707		12,892,707
Depreciation Expense					3,202,988	3,202,988
	<u>\$ 86,023,045</u>	<u>\$ 22,628,496</u>	<u>\$ 28,663,097</u>	<u>\$ 12,892,707</u>	<u>\$ 3,202,988</u>	<u>\$ 153,410,333</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 14 – 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. Litigation

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

C. Purchase Commitments

As of June 30, 2006, the District had the following commitments with respect to construction costs for the following projects:

<u>Project</u>	
Theater Arts Renovation	\$ 1,422,143
Liberal Arts North	4,600,100
Liberal Arts South	12,484,114
Music Complex	2,958,305
Performing Arts Center	<u>17,380,865</u>
Total	<u>\$38,845,527</u>

Projects will be funded through bond proceeds and State scheduled maintenance allocations.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 15- SUBSEQUENT EVENT:

GASB Statement No. 45

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

SUPPLEMENTARY INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT

HISTORY AND ORGANIZATION

June 30, 2006

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

ADMINISTRATION

Dr. Chui L. Tsang	President/Superintendent
Thomas J. Donner	Deputy Superintendent
Randal Lawson	Executive Vice President
Robert Adams	Vice President of Student Affairs
Robert Sammis	Vice President of Planning and Development
Jeffery Shimizu	Vice President of Academic Affairs
David Muller	Associate Vice President of Facilities
Regan Romali	Associate Vice President of Fiscal Services
Marvin Martinez	Provost
Sherri Lee-Lewis	Acting Associate Vice President of Human Resources

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Fiscal Year Ended June 30, 2006

	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
Student Financial Aid Cluster:			
Direct from Department of Education:			
Financial Aid Administrative Allowances	84.000	N/A	\$ 115,864
Supplemental Education Opportunity Grant (SEOG)	84.007	N/A	861,612
Federal Work Study	84.033	N/A	357,942
Pell Grant	84.063	N/A	<u>9,774,150</u>
Total Student Financial Aid Cluster			<u>11,109,568</u>
Department of Commerce			
Direct:			
Corporation for Public Broadcasting	11.000	N/A	1,442,682
Department of Education:			
Direct:			
Hispanic - Serving Institution Program (H.S.I.):			
Instructional Grant (Title V)	84.031S	N/A	626,462
TRIO - Student Support Services	84.042	N/A	277,327
Even Start Family Literacy	84.213	N/A	1,731
Child Care Access Means Parents in School (CCAMPIS)	84.335A	N/A	<u>69,535</u>
Subtotal Direct Programs			<u>975,055</u>
Passed through Chancellor's Office of the California Community Colleges:			
Vocational and Applied Technology Education Act (VTEA):			
Education Act (Title I.C.)	84.048	03577	526,477
Tech Prep Education	84.243	N/A	75,250
Passed through El Camino College:			
Hispanic - Serving Institution Program (H.S.I.):			
Preparing Tomorrow's Teachers Today (Title V CO-OP)	84.031S	N/A	326,836
Passed through The Regents of the University of California:			
Teacher Quality Improvement Grant	84.336	N/A	<u>100,504</u>
Subtotal Pass Through Programs			<u>1,029,067</u>
Total Department of Education			<u>2,004,122</u>
Department of Health and Human Services			
Passed through Chancellor's Office of the California Community Colleges:			
Temporary Assistance for Needy Families (TANF)	93.558	N/A	86,650
Department of Labor:			
Direct:			
Community Based Job Training Grant	17.261	N/A	14,505
National Aeronautics and Space Administration			
Passed through United Negro College Fund Special Programs Corporation:			
Curriculum Improvement Partnership II (CIPA II)	43.000	N/A	35,649
National Endowment for the Humanities			
Direct:			
National Endowment for the Arts	45.024	N/A	41,924
National Institute of Standards and Technology			
Direct:			
Summer Undergraduate Research Fellowship (NIST)	11.609	N/A	2,046
Small Business Administration			
Passed through Long Beach Community College District:			
Small Business Development Center (SBDC)	59.037	N/A	95,975
			<u>\$ 14,833,121</u>

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

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS
For the Fiscal Year Ended June 30, 2006

	Program Entitlements			Program Revenues				Total Program Expenditures
	Current Year	Prior Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Income	Total	
Matriculation (Credit)	\$ 987,758	\$ 31,122	\$ 1,018,880	\$ 939,860	\$ 79,020	\$ 19,445	\$ 999,435	\$ 999,435
Matriculation (Non Credit)	25,416		25,416	23,382	2,034		25,416	25,416
Extended Opportunity Program and Services	1,303,555		1,303,555	1,187,601	110,709		1,298,310	1,298,310
Disabled Student Program and Services	1,234,732		1,234,732	1,135,955	98,777		1,234,732	1,234,732
Economic Development	300,000		300,000	252,000	47,773		299,773	299,773
Block Grant	504,102	379,392	883,494	379,392		102,599	276,793	276,793
Instructional Equipment - Block Grant	52,332	385,811	438,143	849,584	40,329	126,266	763,647	763,647
Telecommunications Technology Infrastructure Program		53,103	105,435	102,568		45,051	57,517	57,517
CAN Articulation		725	725	725			725	725
Transfer and Articulation		7,167	7,167	7,167		6,373	794	794
Faculty & Staff Diversity		26,321	26,321	26,321		7,423	18,898	18,898
Staff Development		847	847	847		347	500	500
Nursing Grant	16,462	55,298	71,760	71,760		230	71,530	71,530
Calworks	427,181	36,374	463,555	349,765	77,416	2,843	424,338	424,338
Launchpad/MCHS- Yr5 and Yr6-Inc	127,000	86,560	213,560	181,810		23,263	158,547	158,547
Fostering Student Success Nursing Grant	219,702		219,702	11,205	149,822		161,027	161,027
Child Development Training	10,000		10,000	6,875			6,875	6,875
Arts Industry Standards Project	30,000	48,223	78,223	50,821	14,014		64,835	64,835
Beverage Container Recycling Program	87,400		87,400	-	78,936		78,936	78,936
Small Business Development Center	47,998		47,998	-	47,998		47,998	47,998
Financial Aid Administration	689,873	55,652	745,525	689,259	56,266		745,525	745,525
Total State Programs	\$ 6,063,511	\$ 1,166,595	\$ 7,230,106	\$ 6,266,897	\$ 803,994	\$ 333,840	\$ 6,736,151	\$ 6,736,151

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, 2006

Categories

A.	Credit Full-Time Equivalent Students	
	Weekly census	13,710.93
	Daily census	4,191.68
	Actual hour of attendance	41.08
	Summer intersession	<u>2,684.30</u>
	Total	<u><u>20,627.99</u></u>
B.	Non-Credit FTES	
	Actual hour of attendance	609.50
	Summer intersession	<u>78.10</u>
	Total	<u><u>687.60</u></u>
C.	Gross Square Footage	
	Existing facilities	<u><u>1,014,643</u></u>
D.	FTES in Leased Facilities	<u><u>733.20</u></u>

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

	<u>General Fund</u>	<u>Auxiliary Funds</u>	<u>Capital Outlay Funds</u>
June 30, 2006 Annual Financial and Budget Report Fund Balance	\$ <u>8,385,633</u>	\$ <u>2,383,935</u>	\$ <u>74,653,537</u>
Adjustments and Reclassifications:			
Post Closing Entries		148,280	
Over Statement of Accounts Payable			1,926,761
Under Statement of Accrued Vacation	<u>(460,227)</u>		
Net Adjustments and Reclassifications	<u>(460,227)</u>	<u>148,280</u>	<u>1,926,761</u>
June 30, 2006 Audited Financial Statements Fund Balance	\$ <u>7,925,406</u>	\$ <u>2,532,215</u>	\$ <u>76,580,298</u>

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

Notes:

The Chancellor's Office does not require the Certificates of Participation be recorded on the books of the District; therefore, the COPs Capital Projects Fund was not reported on the CCFS-311.

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO THE SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended June 30, 2006

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, 2006 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.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

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

Bookstore Fund:	
Salaries	\$ 62,986
Employee Benefits	6,807
Supplies and Materials	5,728,457
Other Operating Expenses and Services	312,617
Capital Outlay	13,678
Other Auxiliary:	
Supplies and Materials	115,045
Capital Outlay	70,227
Other Student Aid	1,098
Interfund Transfers Out	1,207,290



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

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

Chairman
ROYCE A. STUTZMAN

Partners
PETER F. GAUTREAU
RENÉE S. GRAVES
WADE N. McMULLEN
KARIN HECKMAN NELSON
CARL PON
GEMA M. PTASINSKI
MARY ANN QUAY
LINDA M. SADDLEMIRE

Principal
JERI A. WENGER

Senior Managers
JANETTE CAMPS
TIMOTHY D. EVANS
PRISCILLA OSBORNE FLORES
TINA HENTON
PHEBE M. McCUTCHEON
SHARI PROSSER
COLLEEN K. TAYLOR

We have audited the financial statements of Santa Monica Community College District (the District) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Monica Community College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as items 06-1, 06-2 and 06-3.

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 15, 2006



**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

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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, 2006. Santa Monica Community College District's major federal programs are identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Santa Monica Community College District's management. Our responsibility is to express an opinion on Santa Monica Community College District's compliance based on our audit.

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

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

In our opinion, Santa Monica Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Santa Monica Community College District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Santa Monica Community College District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

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

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

November 15, 2006



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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, 2006, and have issued our report thereon dated November 15, 2006.

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 2006 transmittal of audit requirements for community colleges. The objective of the examination of compliance applicable to Santa Monica Community College District is to determine with reasonable assurance, based on the suggested audit procedures:

- Whether the District's salaries of classroom instructors equal or exceed 50 percent of the District's current expense of education in accordance with Section 84362 of the Education Code.
- Whether the District has the appropriate documentation to support the FTES, if any, that are claimed for instructional service agreements/contracts.
- Whether the District has the ability to support timely accurate and complete information for workload measures used in the calculation of State General Apportionment.
- Whether the District has acted to ensure that the residency of each student is properly classified and that only the attendance of California resident students is claimed for apportionment purposes.

REPORT ON STATE COMPLIANCE

- Whether the District claimed for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date.
- Whether District has complied with all requirements necessary to claim FTES for the attendance of concurrently enrolled K-12 pupils.
- Whether the District had local funds to support at least 75 percent of the credit matriculation activities and that all matriculation expenditures are consistent with the District's State approved matriculation plan.
- Whether the 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 is reporting the total amount that students should have paid for enrollment fees for the purpose of determining the District's share of annual apportionment.
- Whether the District expended CalWORKs program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKs students.
- Whether all District courses that qualify for State apportionment are open to enrollment by the general public unless specifically exempted by statute.
- Whether the District has adopted regulations consistent with the "Standards of Scholarship" contained in the California Code of Regulations and has published statements of those regulations in the College catalog.
- Whether the District has adopted policies or regulations regarding the authority of the District to require students to provide various types of instructional materials and whether the District has advised students of the exemptions from payment of health fees and established a process to ensure that students may claim the exemptions.
- Whether the District completed the noncredit course self assessment requested in April 2005.

REPORT ON STATE COMPLIANCE

In our opinion, except for findings 06-1, 06-2 and 06-3 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.

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

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

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

November 15, 2006

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, 2006

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? Yes X No

Reporting conditions identified not considered
to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes X No

Reporting conditions identified not considered
to be material weaknesses? Yes X None reported

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

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

Identification of major programs tested

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033 and 84.063	Student Financial Assistance Cluster of Programs
84.042	TRIO – Student Support Services
84.031S	Title V Hispanic Serving Institutions Programs – Preparing Tomorrow's Teachers Today

Dollar threshold used to distinguish between Type A
and Type B programs: \$ 444,994

Auditee qualified as low-risk auditee? Yes X No

SANTA MONICA COMMUNITY COLLEGE DISTRICT

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

June 30, 2006

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

FINDING 06-1 – MINIMUM CONDITIONS – “STANDARDS OF SCHOLARSHIP”

Original finding 05-1

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

We noted the following when reviewing course repetition procedures:

- Five of ten students tested had repeated a class more than the approved amount of repetitions and the FTES were not removed for apportionment reporting. The attendance system contains a screen allowing the user to indicate that the repeat class is not eligible for apportionment, however, in all cases, this screen was blank. We estimate that for the students tested, 7 classes were over reported. Assuming an average of 3 contact hours per week, we estimate the total over reported to be .68 FTES or \$2,600 for the sample tested. We are unable to determine the total population of ineligible repetitions to allow an extrapolation of the error rate. Therefore, an estimate of total questioned cost could not be determined.
- The individual class repetition limits were not consistent between the course catalog and schedule of classes and actual practice. We selected five students who had repeated a course with content that would appear to allow for a maximum of three repeats as indicated in CCR 58161(d). The course catalog did not indicate that the classes were eligible for three repeats for four of the classes tested, however, students were allowed to enroll more than twice without obtaining authorization from a counselor.

Questioned Costs: Estimated at \$2,600 for the sample tested.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

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

June 30, 2006

FINDING 06-1 – MINIMUM CONDITIONS – “STANDARDS OF SCHOLARSHIP”
(continued)

Recommendation:

- Further investigate this situation to determine the amount of over reported FTES. Revise and resubmit the CCFS-320 report. Additionally, procedures to indicate ineligible repeats in the attendance system should be reviewed and the responsibilities revised as needed.
- Revise the course catalog and schedule of classes to indicate classes eligible for three repeats.

District Response: Beginning Summer 2006, Santa Monica College implemented a new course repetition policy that eliminated apportionment claims for non-repeatable courses after one repetition. Approved repetitions are now coded as such and discounted from the CCFS-320 report after the allowable attempts.

Staff has been working on improving the description of repeatable courses in the course catalog and schedule of classes. The first layer of improvements was done within the computerized student system. Once that work has been completed, the catalog and schedule of classes will be updated to match.

FINDING 06-2 – STATE COMPLIANCE – CONCURRENT ENROLLMENT

Finding: For all special admit K-12 students, the college should have on file an authorization form approving the student for enrollment that includes parental consent, the authorization of the high school principal and suggested course work. Two of ten students tested did not have the required authorization form on file.

Questioned Costs: Not Applicable

Recommendation: Maintain authorization forms for all special admit K-12 students and have them available for audit purposes. Enrollment procedures for K-12 students should be reviewed to ensure that the required authorizations are obtained each semester before a student is allowed to enroll in classes.

District Response: Of the students tested, the two special admit authorization forms that were missing both belonged to a special program that was administered at one of the satellite campuses. The administrator in charge of the program is no longer employed by the District and the program is now housed with the Project Managers in charge of Dual Enrollment, which has impeccable record keeping procedures. Santa Monica College requires authorization forms of all special admit students. This was an isolated incident.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

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

June 30, 2006

FINDING 06-3 – NONCREDIT COURSES

Finding: The District was directed by the State Chancellor's Office to complete a self-assessment on all noncredit courses for the 2003-04 academic year. Assessments for computer/library lab noncredit courses were required to be submitted to the Chancellor's Office, however, the remaining self-assessment checklists were to be maintained on file at the District. The District did not complete these self-assessments for any courses.

Questioned Costs: Not applicable

Recommendation: The District should complete the self-assessments for the non-credit courses that were in effect during the 2003-04 academic year for the fiscal year 2004-05.

District Response: Although the District responded to the original request from the Chancellor's Office that Santa Monica College does not offer the types of noncredit computer/library lab courses that were in question at the time, the self-assessment checklists to be filed internally for all noncredit courses were not completed. The College will now develop a process and procedure to ensure that self-assessments are completed for all noncredit courses that were in effect during the 2003-04 academic year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2006

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2006.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
 STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
 June 30, 2006

Finding No.	Finding	Recommendation	Current Status
05-1	<p><u>MINIMUM CONDITIONS – “STANDARDS OF SCHOLARSHIP”</u></p> <p>Districts may claim apportionment for one repetition for the attendance of a student repeating a course in which a student receives a grade if the student is repeating the course to alleviate substandard work, there were extenuating circumstances or there has been a significant lapse of time between attempts (CCR 58161). Districts may allow additional repetitions, however, they should not grant credit and should not report the students for apportionment purposes.</p> <p>We noted the following when reviewing course repetition procedures:</p> <ul style="list-style-type: none"> The record of counselor approval for repetitions was removed from the attendance system when the counselor’s employment ended. Upon further investigation, the information systems department was able to recover that information, however, it cannot be viewed by the normal end user. 	<ul style="list-style-type: none"> The District should attempt to restore the deleted documentation of counselor approval on all student records. There should also be verification that any additional employment separations do not cause a similar situation. 	Implemented

SANTA MONICA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2006

Finding No.	Finding	Recommendation	Current Status
05-1	<p><u>MINIMUM CONDITIONS – “STANDARDS OF SCHOLARSHIP” (continued)</u></p> <ul style="list-style-type: none"> • Eight of eleven students tested had repeated a class more than one time and the FTES were not removed for apportionment reporting. The attendance system contains a screen allowing the user to indicate that the repeat class is not eligible for apportionment, however, in all cases, this screen was blank. We estimate that for the students tested, 21 classes were over reported. Assuming an average of 3 contact hours per week, we estimate the total over reported to be 2 FTES or \$8,700 for the sample tested. • The individual class repetition limits were not consistent between the course catalog and schedule of classes and actual practice. We selected four students who had repeated a course with content that would appear to allow for a maximum of three repeats as indicated in CCR 58161(d). The course catalog did not indicate that the classes were eligible for three repeats, however, students were allowed to enroll more than twice without obtaining authorization from a counselor. • One student was allowed to enroll in ESL 21B six times with only one counselor approval. 	<ul style="list-style-type: none"> • The District should further investigate this situation to determine the amount of over reported FTES. The CCFS-320 report should be revised and resubmitted. Additionally, procedures should be revised and may include shifting the responsibility for marking a class as ineligible for apportionment to another department. Our understanding is that the responsibility to update the attendance system with this information is with Admissions and Records. Because the District has shifted to completing more of the registration process electronically, many students no longer need to go to Admissions and Records to enroll in classes. This eliminated the department from the process, thus many student repeats were not marked in the system as ineligible. • The course catalog and schedule of classes should be revised to indicate classes eligible for three repeats. • The instance of proper approvals not obtained should be investigated to determine if the problem is systemic. The CCFS-320 report should be revised and resubmitted. 	<p>Not implemented. See current year finding 06-1.</p> <p>Not implemented. See current year finding 06-1.</p> <p>Implemented.</p>

