

SANTA MONICA COMMUNITY COLLEGE DISTRICT

LOS ANGELES COUNTY

**REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2008**

**SANTA
MONICA
COLLEGE**

The logo for Santa Monica College, featuring the words "SANTA MONICA COLLEGE" in a blue, serif font. The word "COLLEGE" is positioned below "MONICA" and has a decorative, wavy flourish extending from its base.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2008

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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, 2008 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, 2008, and the results of its operations, changes in net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

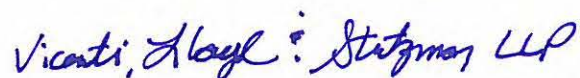
As described in Note 11 to the financial statements, the Santa Monica Community College District adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2008.

Board of Trustees
Santa Monica Community College District

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008 on our consideration of the Santa Monica Community College District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the Santa Monica Community College District's basic financial statements. The supplementary section is 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.



VICENTI, LLOYD & STUTZMAN LLP

December 15, 2008

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

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, 2008. 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.

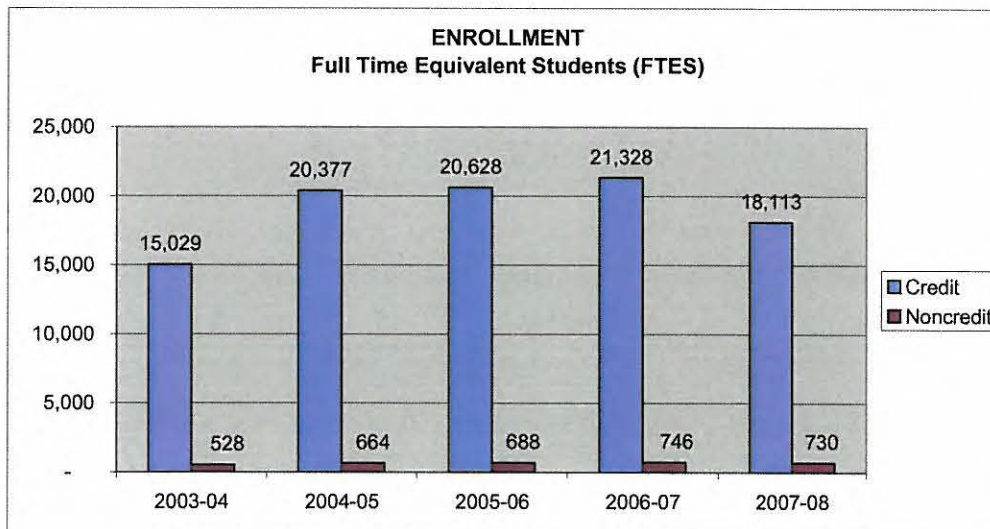
Financial Highlights

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, 2008

Selected Highlights

- During 2007-08, total Full-Time Equivalent Students (FTES) reported to the State decreased approximately 15% for credit and decreased approximately 2% for non-credit courses. Credit and non-credit FTES are the basis for the District's state apportionment. The decrease in credit FTES is primarily the result of the loss of FTES that had been generated through an instructional services agreement with the Compton Community College District for Santa Monica College to deliver Summer 2006 intersession instruction at Compton Community College. While FTES is the basis for the amount of state apportionment the District receives, the District realized no revenue loss for the reduced FTES in the 2007-08 fiscal year under a funding mechanism called stabilization. This mechanism provided funding to the District at the pre-decline levels for the 2007-08 fiscal year. The District projects that full restoration of FTES will occur in the 2008-09 fiscal year resulting in no loss of funding, as it relates to FTES fluctuations, over the three-year period of 2006-07 to 2008-09.



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

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, 2008

The Statements of Net Assets as of June 30, 2008 and June 30, 2007 are summarized below:

	(in thousands) <u>2008</u>	(in thousands) <u>2007</u>	<u>Change</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 81,585	\$ 93,160	-12%
Receivables	15,913	15,443	3%
Due from fiduciary funds	2,120	1,089	95%
Inventories	2,439	3,180	-23%
Prepaid expenses	881	1,352	-35%
Prepaid issue costs - current portion	138	138	0%
Total current assets	<u>103,076</u>	<u>114,362</u>	-10%
Non-current assets			
Restricted cash and cash equivalents	21,385	12,976	65%
Prepaid issue costs - non-current portion	1,584	1,722	-8%
Long-term investments	2,683	2,462	9%
Capital assets, net of accumulated depreciation	<u>286,301</u>	<u>268,947</u>	6%
Total non-current assets	<u>311,953</u>	<u>286,107</u>	9%
TOTAL ASSETS	<u>415,029</u>	<u>400,469</u>	4%
LIABILITIES			
Current liabilities			
Bank overdraft	2,241	2,419	-7%
Accounts payable and accrued liabilities	17,846	19,972	-11%
Due to fiduciary funds	168	80	110%
Deferred revenue	8,949	9,347	-4%
Compensated absences	1,354	1,354	0%
Long-term liabilities - current portion	<u>15,676</u>	<u>9,009</u>	74%
Total current liabilities	<u>46,234</u>	<u>42,181</u>	10%
Non-current liabilities			
Long-term liabilities less current portion	<u>245,030</u>	<u>247,553</u>	-1%
Total non-current liabilities	<u>245,030</u>	<u>247,553</u>	-1%
TOTAL LIABILITIES	<u>291,264</u>	<u>289,734</u>	1%
NET ASSETS			
Invested in capital assets, net of related debt	83,350	75,859	10%
Restricted	26,928	17,382	55%
Unrestricted	<u>13,487</u>	<u>17,494</u>	-23%
TOTAL NET ASSETS	<u>\$ 123,765</u>	<u>\$ 110,735</u>	12%

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

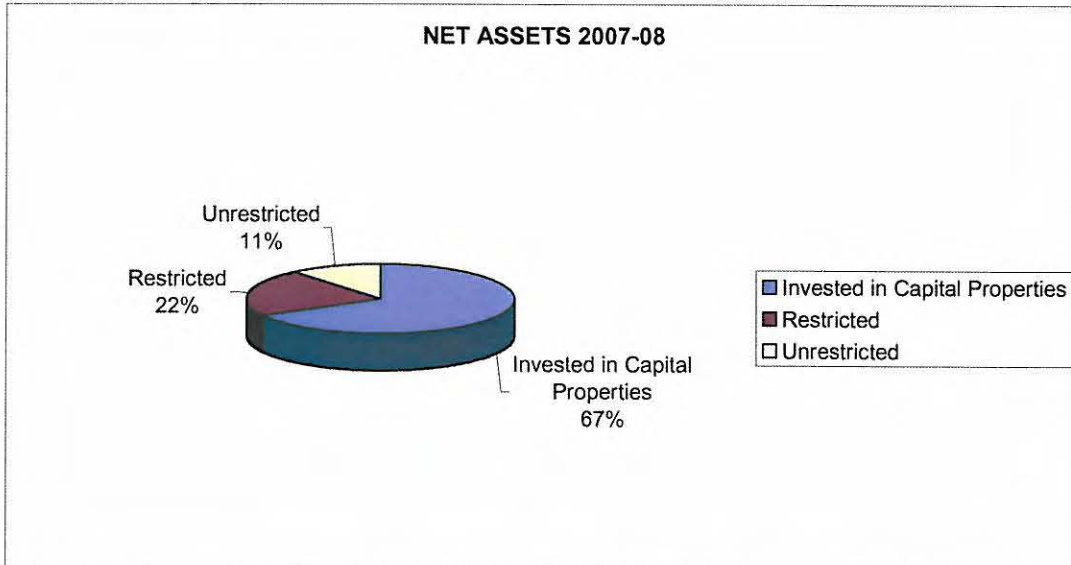
- A major portion of the cash balance is cash deposited in the Los Angeles County Treasury. Further discussion is located in the section labeled "Statement of Cash Flows," along with an additional explanation on change in cash balances.
- There was a 12% decrease in cash and cash equivalents. This decrease was mainly caused by the reduction in cash and cash equivalents in the Capital Outlay and Bond funds, a reduction in one-time funding in the form of block grants from the prior year and the increased deferral of apportionment by the State into the subsequent year.
- Amounts due from fiduciary funds increased as a result of payroll reimbursements that were due from Auxiliary Operations to the District's General fund, which were still in transit at year end.
- The Bookstore has reorganized its operations and accounting procedures in order to maximize cash flow and efficiency. This resulted in a reduction of inventories of 23% from the prior year.
- Restricted cash and cash equivalents increased 65%, largely due to the increased cash balance in the Bond Interest and Redemption fund for debt. The other main cause of the increase was related to the increased cash balance in the Restricted General fund from restricted programs such as parking, lottery and community services.
- Compared with 2006-07, capital assets had a net increase of 6%. The ongoing construction of the following major construction projects represented most of the increase: SMC Performing Arts Center Broad Theater and Music Complex, Campus Quad, Corsair Field, Bundy Campus, Olympic Shuttle Lot, Humanities and Social Sciences North and South buildings, Student Services and Administration Complex and fire alarm upgrades. The capital assets section of this discussion and analysis provides greater detail.
- Long-term liabilities – current portion increased by 74% as a result of the increase in Proposition T and Measure S bond principal payments due in 2008-09. This increase is a result of the refunding and new issuance of General Obligation bonds that occurred in the middle of the 2006-07 fiscal year.
- The bulk of the total increase to Restricted Net Assets is attributed to the increase in the Bond Interest Redemption Fund related to the issuance and refunding of \$67.7 million of General Obligation bonds in the middle of the 2006-07 fiscal year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

- The majority of the decrease in the Unrestricted Net Assets is related to the implementation of GASB 45. GASB 45 is a new accounting standard that was implemented in the current fiscal year which required the District to record as a liability the unfunded portion of the Other Post Employment Benefits (OPEB) that it offers employees. In the current year the amount booked as unfunded liability related to OPEB was (\$4,611,253).
- The District currently has two outstanding Certificate of Participation debt issues that amount to approximately \$27.1 million (including deferred charges). \$318 million of general obligation bonding were 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.



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Statement of Revenues, Expenses and Change in Net Assets

The change in total net assets is presented on the Statement of Net Assets based on the activity presented in the Statement of Revenues, Expenses and Change in Net Assets. The purpose of this statement is to present the operating and non-operating revenues earned (whether received or not) by the District, the operating and non-operating expenses incurred (whether paid or not) by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this Statement presents the District's results of operations. Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the District. Non-operating revenues are those received or pledged for which goods and services are not provided; for example, state appropriations are non-operating because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

A comparison between fiscal years 2006-07 and 2007-08 is provided on the following page.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The Statements of Revenues, Expenses and Change in Net Assets for the years ended June 30, 2008 and June 30, 2007 are summarized below:

	(in thousands) <u>2008</u>	(in thousands) <u>2007*</u>	<u>Change</u>
Operating Revenues			
Net tuition and fees	\$ 32,549	\$ 28,774	13%
Grants and contracts, non-capital	28,992	28,659	1%
Auxiliary sales and charges	<u>9,516</u>	<u>9,824</u>	-3%
Total operating revenues	<u>71,057</u>	<u>67,257</u>	6%
Operating Expenses			
Salaries and benefits	130,922	117,258	12%
Supplies, materials and other operating expenses and services	32,939	30,594	8%
Financial aid	13,718	11,971	15%
Utilities	3,183	3,095	3%
Depreciation	<u>3,939</u>	<u>3,651</u>	8%
Total operating expenses	<u>184,701</u>	<u>166,569</u>	11%
Operating loss	<u>(113,644)</u>	<u>(99,312)</u>	-14%
Non-operating revenues (expenses)			
State apportionments, non-capital	89,536	84,732	6%
Local property taxes	10,554	11,962	-12%
State taxes and other revenues	3,452	4,693	-26%
Investment income (expense), net	1,414	1,088	30%
Contributions, gifts and grants, non-capital	5,382	3,824	41%
Other local revenue, non capital	<u>-</u>	<u>207</u>	-100%
Total non-operating revenues (expenses)	<u>110,338</u>	<u>106,506</u>	4%
Other revenues, expenses, gains or losses			
State apportionments, capital	495	3,309	-85%
Interest expense on capital-related debt	(12,961)	(10,999)	18%
Interest Income	3,652	4,120	-11%
Local property taxes and revenues, capital	<u>25,150</u>	<u>22,606</u>	11%
Total other revenues, expenses, gains or losses	<u>16,336</u>	<u>19,036</u>	-14%
Change in net assets	<u>13,030</u>	<u>26,230</u>	-50%
Net assets, beginning of year as previously reported	110,735	83,316	33%
Adjustment for restatement	<u> </u>	<u>1,189</u>	-100%
Net assets, beginning of year as restated	<u>110,735</u>	<u>84,505</u>	31%
Net assets, end of year	<u>\$ 123,765</u>	<u>\$ 110,735</u>	12%

* Changes were made to the 2006-07 presentation to be inline with 2007-08.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

- During the 2007-08 fiscal year the District reported less Full-Time Equivalent Students (FTES) to the State than in the 2006-07 fiscal year. This decrease in reported FTES was directly related to the loss of reportable FTES that was generated through the Instructional Service Agreement (ISA) with the Compton Community College District for the Summer of 2006. While the District lost the ability to claim the FTES generated through the ISA, there was an increase in actual FTES on the Santa Monica College campus in 2007-08. This increase in FTES resulted in an increase of 13% for Net tuition and fees over the prior year.
- During the 2007-08 fiscal year, the District settled contract negotiations and instituted compensation increases for faculty, classified and management. These increases in salaries and related benefits represented 75% of the total increase in operating expenses. While three-fourths of the total increase in operating expenses is related to salaries and related benefit increases, the overall ratio of salaries and related benefits to total operating expenses remains at 70%. The balance of operating expenses were for supplies and other services, financial aid, capital outlay items below the capitalization threshold, insurance, utilities and depreciation expense.
- Utilities expenditures increased 3% from 2006-07. This increase is a result of increased costs related to usage and increased usage of facilities. The District expects utility costs to continue to increase rapidly in future years as new facilities come on line.
- State apportionments, non-capital are generated based on the Full Time Equivalent Students (FTES) 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 6% 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 12% decrease in local property tax revenues in 2007-08, due primarily to an approximate \$2.2 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.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

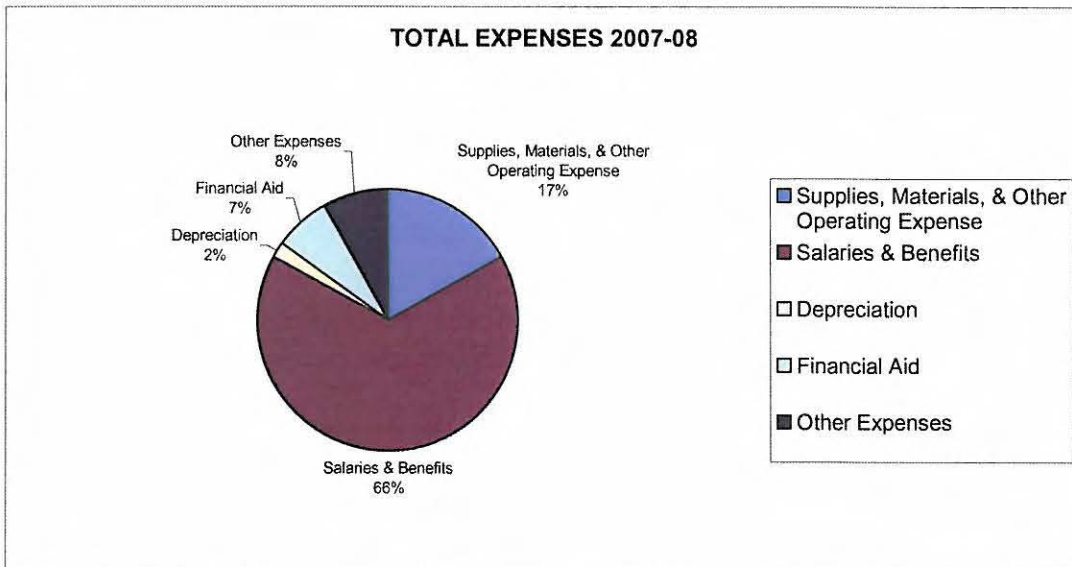
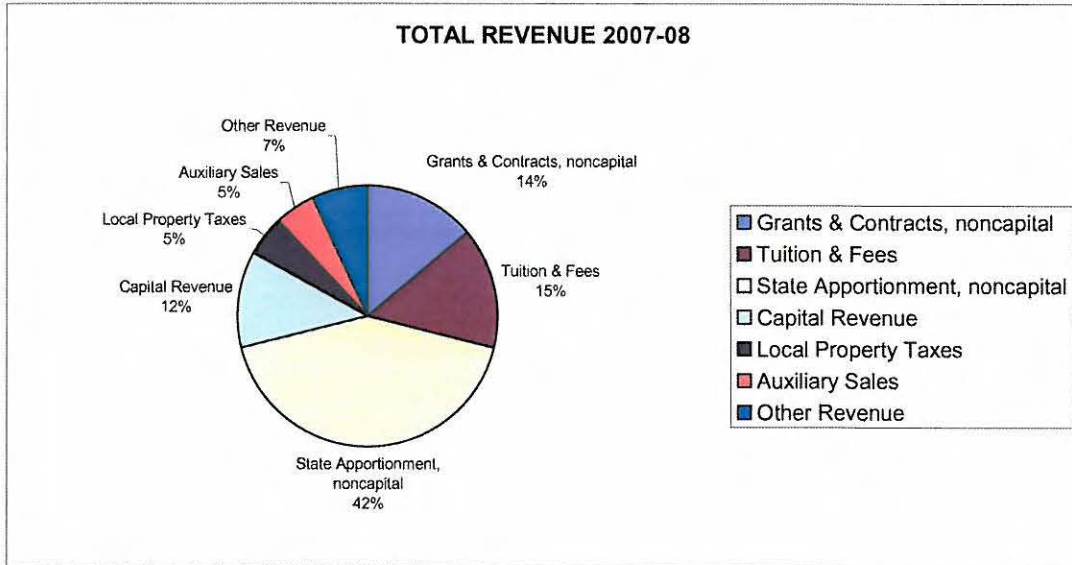
June 30, 2008

- State tax and other revenues decreased 26% during the year as a result of a reduction in one-time funding in the form of block grants from the prior year.
- Contributions, gifts and grants, non-capital increased by 41% as a result of increased funding related to KCRW and the Corporation for Public Broadcasting restricted general fund program.
- 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. In 2006-07, the District received one-time block grant funding related to capital outlay that it did not receive in 2007-08. This resulted in a decrease of 85% in revenue related to State apportionments, capital.
- As a result of a refunding and new issuance of General Obligation bonds that occurred in the middle of the 2006-07 fiscal year, interest expense of capital-related debt increased 18% over prior year.
- The District received the final payment from the Santa Monica Redevelopment Agency in connection with the construction of the Humanities and Social Sciences Building. This resulted in an 11% increase in local property taxes and revenues, capital

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008



SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This Statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due and the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. The second part details cash received for non-operating, non-investing and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses and Change in Net Assets located on page 4 of the financial statements.

	(in thousands) <u>2008</u>	(in thousands) <u>2007</u>	<u>Change</u>
Cash Provided By (Used in)			
Operating activities	\$ (107,091)	\$ (93,017)	15%
Non-capital financing activities	107,001	112,740	-5%
Capital and related financing activities	(4,962)	(8,656)	-43%
Investing activities	<u>1,886</u>	<u>1,132</u>	67%
Net increase/(decrease) in cash and cash equivalents	(3,166)	12,199	-126%
Cash balance, beginning of year	<u>106,136</u>	<u>93,937</u>	13%
Cash balance, end of year	<u>\$ 102,970</u>	<u>\$ 106,136</u>	-3%

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

- 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 15% increase in cash used for operating activities directly related to settled contract negotiations and instituted compensation increases for faculty, classified and management and other increased operating expenses.
- The decrease in cash provided by non-capital activities is directly related to the reduction in one-time block grants from prior year and an increased deferral, by the State, of apportionment funding into the subsequent fiscal year.
- The decrease in capital and related financing activities for fiscal year 2007-08 compared to 2006-07 can be attributed to the net effect of bond proceeds, capital-related state apportionment, expenses related to the construction of capital assets, and an increase in debt payments.
- Cash from investing activities is primarily from cash invested through the Los Angeles County pool and interest earned on cash in banks. Although interest income decreased due to lower daily cash balances held by the District in interest bearing accounts, cash flow increased due to the collections of prior year receivables in the current year.
- While all of the items mentioned above contributed to the decrease in cash balance at the end of year, the largest factor was the reduction in one-time funding in the form of block grants from prior year and the increased deferral of apportionment by the State into the subsequent year.

District's Fiduciary Responsibility

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2008, the District had net governmental capital assets of \$286.3 million, consisting of land, buildings and building improvements, construction in progress, vehicles, data processing equipment and other office and instructional equipment; these assets have an accumulated depreciation of \$39.4 million. Net additions in 2007-08 consisted mainly of construction in progress since there has been a substantial increase in the amount of construction on campus due to the passage of Measure "U" and Measure "S." While there was only one significant project completed in 2007-08, Olympic Shuttle Lot, the following major projects added significantly to the capital assets of the District in the form of construction in process: SMC Performing Arts Center Broad Theater and Music Complex, Campus Quad, Corsair Field, Bundy Campus, Humanities and Social Sciences North and South, Student Services and Administration Complex and fire alarm upgrades. It is important to recognize that all valuations are based on historical cost. The 38 acres of the main campus would have a significantly greater value today than in 1950.

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

	<u>Balance June 30, 2008</u>
Land	\$ 63,208,476
Site and Site Improvements	146,013,279
Equipment	12,577,475
Construction in Progress	<u>103,867,768</u>
Totals at historical cost	<u>325,666,998</u>
Less accumulated depreciation for:	
Site and Site Improvements	(31,370,909)
Equipment	<u>(7,994,968)</u>
Total accumulated depreciation	<u>(39,365,877)</u>
Governmental capital assets, net	<u>\$ 286,301,121</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Debt

At June 30, 2008, the District had approximately \$262.1 million in debt: \$5.6 million from compensated absences, \$4.6 million from GASB 45/OPEB liability, \$27.1 million from obligations under certificates of participation, \$209.5 million from general obligation bonds and \$15.3 million of accreted interest. The general obligation bonds and certificates of participation were issued to fund various projects related to construction, purchase and renovation of instructional facilities, laboratories, centers, administrative facilities and parking structures. Debt payments on the bonds will be funded through property tax receipts collected over the term of the bonds. Debt payments on the certificates of participation will be funded through parking revenues, additional funding sources related to student enrollment and other sources identified within the Capital Funds. The District's bond rating 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:

	Balance June 30, 2008
Compensated absences	\$ 5,552,390
Other post-employment health care benefits	4,611,253
Certificates of participation	27,093,712
General obligation bonds	209,458,418
Accreted interest	15,343,316
	<u>\$ 262,059,089</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Budgeting for the Future

The unrestricted general fund of the District has shown dramatic growth over the last several years. Between 2004-05 and 2007-08, expenditures have grown \$23,200,230, while revenue has increased \$25,720,315. The District has also shown great fiscal responsibility by increasing the fund balance of the unrestricted general fund from \$5,586,996 in 2004-05 to \$18,797,976 in 2007-08. 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 one-time apportionments, the continued borrowing of summer intersession FTES and the FTES generated through the Summer 2006 Instructional Services Agreement with the Compton Community College District. The expenditure breakdown for the unrestricted general fund in the 2007-08 fiscal year includes 87% for salary and benefits, 1 % for supplies, 11% for services, utilities and insurance, and 1% other which is consistent with the prior year's expenditure breakdown.

For 2008-09, the District is forecasting an operation deficit, prior to filling vacancies, of \$5,063,735. This is a direct result of the one-time nature of the Full-Time Equivalent Students (FTES) generated through the Summer 2006 Instructional Services Agreement with the Compton Community College District and decreased state apportionments caused by state budget constraints. While the District believes that, by the end of the 2008-09 fiscal year, full restoration of FTES to 2006-07 levels will occur, it is skeptical about the State's ability to fully fund apportionments. Therefore, the District is actively reviewing and monitoring the District's budget, with the cooperation of all constituency groups on campus, to ensure that proper adjustments are made as new information surfaces.

In light of the changes and challenges at both the local and state level, the District needs to be mindful of keeping its reserves at a level that is financially sound, especially with the possibility of a revenue base drop in future years due to state budget constraints. To do so, discretionary expenditure budgets for 2008-09 were either reduced or maintained at the 2006-07 level with minor augmentations for new programs and activities. This action of maintaining the budget at 2006-07 levels, along with the District's enrollment development and other planning efforts, should allow the District to maintain a fund balance at a level that is financially sound.

BASIC FINANCIAL STATEMENTS

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2008

ASSETS

Current Assets:

Cash and cash equivalents	\$ 81,584,836
Accounts receivable, net	15,913,607
Due from fiduciary funds	2,120,036
Inventories	2,439,136
Prepaid expenses and deposits	880,753
Prepaid issue costs - current portion	<u>137,974</u>
Total Current Assets	<u>103,076,342</u>

Non-Current Assets:

Restricted cash and cash equivalents	21,384,708
Prepaid issue costs - non-current portion	1,583,654
Long-term investments	2,683,572
Capital assets, net of accumulated depreciation	<u>286,301,121</u>
Total Non-Current Assets	<u>311,953,055</u>

TOTAL ASSETS **\$ 415,029,397**

LIABILITIES AND NET ASSETS

Current Liabilities:

Bank overdraft	\$ 2,241,184
Accounts payable	10,103,442
Accrued liabilities	7,743,100
Due to fiduciary funds	168,073
Deferred revenue	8,949,232
Compensated absences - current portion	1,353,784
COPS payable - current portion	1,088,540
GO Bonds payable - current portion	<u>14,586,931</u>
Total Current Liabilities	<u>46,234,286</u>

Non-Current Liabilities:

Compensated absences	4,198,606
Other post-employment health care benefits	4,611,253
COPS payable	26,005,172
GO Bonds payable	<u>210,214,803</u>
Total Non-Current Liabilities	<u>245,029,834</u>

TOTAL LIABILITIES **291,264,120**

NET ASSETS

Invested in capital assets, net of related debt	83,349,752
Restricted for:	
Capital projects	6,651,100
Debt service	20,277,453
Unrestricted	<u>13,486,972</u>

TOTAL NET ASSETS **123,765,277**

TOTAL LIABILITIES AND NET ASSETS **\$ 415,029,397**

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, 2008

OPERATING REVENUES	
Enrollment, tuition and other fees (gross)	\$ 36,587,079
Less: Scholarship discounts and allowances	<u>(4,037,920)</u>
Net enrollment, tuition and other fees	32,549,159
Grants and contracts, non-capital:	
Federal	17,173,896
State	11,194,611
Local	623,935
Auxiliary enterprise sales and charges, net	<u>9,515,859</u>
TOTAL OPERATING REVENUES	<u>71,057,460</u>
OPERATING EXPENSES	
Salaries	100,160,744
Employee benefits	30,761,593
Supplies, materials and other operating expenses and services	32,939,137
Financial aid	13,717,724
Utilities	3,183,078
Depreciation	<u>3,939,164</u>
TOTAL OPERATING EXPENSES	<u>184,701,440</u>
OPERATING LOSS	<u>(113,643,980)</u>
NON-OPERATING REVENUES (EXPENSES)	
State apportionments, non-capital	89,535,363
Local property taxes	10,553,996
State taxes and other revenues	3,451,703
Investment income, net	1,414,901
Contributions, gifts and grants, non-capital	<u>5,382,455</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>110,338,418</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)	<u>(3,305,562)</u>
OTHER REVENUES, EXPENSES, GAINS (LOSSES)	
State apportionments, capital	495,000
Interest expense on capital-related debt	(12,961,300)
Interest income	3,652,136
Local property taxes and revenues, capital	<u>25,149,925</u>
TOTAL OTHER REVENUES, EXPENSES, GAINS (LOSSES)	<u>16,335,761</u>
INCREASE IN NET ASSETS	13,030,199
NET ASSETS - BEGINNING OF YEAR, AS RESTATED	<u>110,735,078</u>
NET ASSETS - END OF YEAR	<u>\$ 123,765,277</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, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 31,520,363
Federal grants and contracts	17,135,199
State grants and contracts	11,535,824
Local grants and contracts	1,449,164
Auxiliary operation sales	9,741,091
Payments to suppliers	(38,615,841)
Payments to/on-behalf of employees	(125,167,845)
Payments to/on-behalf of students	(13,746,668)
Payments to Trust and Agency Fund	<u>(942,811)</u>
Net cash used by operating activities	<u>(107,091,524)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State apportionments and receipts	87,365,967
Property taxes	10,384,241
State taxes and other revenue	3,868,361
Grants and gifts for other than capital purposes	<u>5,382,455</u>
Net cash provided by non-capital financing activities	<u>107,001,024</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State apportionment for capital purposes	495,000
Local revenue for capital purposes	8,483,554
Tax revenue for payment of capital debt	16,775,594
Purchase of capital assets	(21,293,536)
Principal paid on capital debt	(7,521,572)
Interest paid on capital debt	(5,548,585)
Interest on capital investments	<u>3,647,475</u>
Net cash used by capital and related financing activities	<u>(4,962,070)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>1,885,322</u>
Net cash provided by investing activities	<u>1,885,322</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,167,248)
CASH BALANCE - Beginning of Year	<u>106,136,792</u>
CASH BALANCE - End of Year	<u>\$ 102,969,544</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, 2008

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

CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (113,643,980)
Adjustments to reconcile net loss to net cash (used) by operating activities:	
Depreciation expense	3,939,164
Changes in assets and liabilities:	
Receivables, net	655,296
Due from fiduciary funds	(1,030,904)
Inventories	740,485
Prepaid expenses and deposits	471,476
Bank overdraft	(177,812)
Accounts payable	(3,492,532)
Accrued liabilities	778,679
Due to fiduciary funds	88,093
Deferred revenue	(398,241)
Compensated absences	367,499
Other post-employment health care benefits	<u>4,611,253</u>
Net cash used by operating activities	<u>\$ (107,091,524)</u>

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Trust and Agency Fund	Associated Student Body Fund
ASSETS		
Cash on hand and in banks	\$ 16,606,884	\$ 1,695,346
Investments	1,481,154	
Accounts receivable:		
Miscellaneous	98,090	2,140
Due from governmental funds	71,376	96,697
Prepaid expenses	1,495	1,495
TOTAL ASSETS	\$ 18,257,504	\$ 1,795,678
LIABILITIES		
Accounts payable	\$ 254,764	\$ 3,325
Due to governmental funds	2,120,036	
Funds held in trust	15,882,704	1,548,135
TOTAL LIABILITIES	18,257,504	1,551,460
NET ASSETS		
Unrestricted	-	244,218
TOTAL NET ASSETS	-	244,218
TOTAL LIABILITIES AND NET ASSETS	\$ 18,257,504	\$ 1,795,678

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, 2008

	Associated Student Body Fund
ADDITIONS	
Other local revenues	\$ 332,075
TOTAL ADDITIONS	332,075
DEDUCTIONS	
Supplies and materials	111,999
Capital outlay	21,292
Services and other operating expenses	91,604
TOTAL DEDUCTIONS	224,895
Change in net assets	107,180
NET ASSETS - BEGINNING OF YEAR	137,038
NET ASSETS - END OF YEAR	\$ 244,218

See the accompanying notes to the financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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, 2008

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:

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

A. REPORTING ENTITY (continued)

Madison Project 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 financial related activities.

Separate Foundation financial statements can be obtained through the District.

B. FINANCIAL STATEMENT PRESENTATION

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments and including Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities, issued in June and November 1999 and Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the District's financial activities. The entity-wide perspective replaces the fund-group perspective previously required. Fiduciary activities, with the exception of Student Financial Aid Programs, are excluded from the basic financial statements.

The District operates a payroll pass-through agency fund as a holding account for amounts collected from employees for Federal taxes, state taxes and other contributions. The District had cash in the County Treasury amounting to \$(1,233,643) on June 30, 2008, which represents advance payments of payroll deductions. The Warrant Pass-Through Fund is not reported in the basic financial statements.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

C. BASIS OF ACCOUNTING

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

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

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

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

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

C. BASIS OF ACCOUNTING (continued)

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

1. Cash and Cash Equivalents

The District's cash and cash equivalents, are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

2. Accounts Receivable

Accounts receivable consists primarily of amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grant and contracts and State Aid. Accounts receivable are recorded net of estimated uncollectible amounts, as well as for items sold within the bookstore operations.

3. Inventories

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which goods or services are consumed.

5. Prepaid Issue Costs

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

6. Restricted Cash and Cash Equivalents

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

7. Capital Assets

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

C. BASIS OF ACCOUNTING (continued)

8. Accounts Payable

Accounts payable consists of amounts due to vendors, including accrued interest on long-term debt, of \$10,103,442.

9. Accrued Liabilities

Accrued liabilities consist of salary and benefits payable of \$7,743,100.

10. Deferred Revenue

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

11. Compensated Absences

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

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

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

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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 2009 will be recorded in the year computed by the State.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

C. BASIS OF ACCOUNTING (continued)

14. Property Taxes

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

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

15. On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers' Retirement System on behalf of all community college and school districts in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at \$1,065,000 for STRS.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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, 2008

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

C. BASIS OF ACCOUNTING (continued)

18. Estimates

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

NOTE 2 - DEPOSITS AND INVESTMENTS:

A. Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk. All public funds are invested in bonds or government backed (collateralized) securities at 110% on the amount of deposit. The principal (face value) does not fluctuate, only the interest received on the investment. Based on recent legislation, the non-interest bearing portion of depository totals have 100% coverage regardless of the dollar amount. As of June 30, 2008, \$18,190,174 of the District's bank balance of \$22,484,288 was exposed to credit risk by being uninsured and collateralized, but not in the District's name.

For the fiscal year 2007-08, the FDIC insurance level was \$100,000. Effective October 3, 2008, the FDIC insurance level increased to \$250,000. The District's custodial credit risk is evaluated on amounts in excess of the FDIC insurance level.

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, 2008, as provided by the pool sponsor, was \$96,690,467. 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, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

B. Cash in Bank Overdraft

The Bookstore Fund has a Cash in Bank overdraft balance of \$2,241,184 at June 30, 2008. 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, 2008 the pooled accounts had a positive balance of \$11,434,472.

C. Investments

The District did not violate any provisions of the California Government Code during the year ended June 30, 2008.

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, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

C. Investments (continued)

Investments for both the governmental and fiduciary fund types at June 30, 2008 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	12/16/2009	\$ 1,481,154	AAA
Federated Treasury Obligation 398	n/a	1,092,350	(1)
AIG Match Funding Corporation	5/14/2024	1,591,222	(2)
		<u>2,683,572</u>	
Total		<u>\$ 4,164,726</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

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. 35.6% of the District's investments are in Federal Home Loan Bank. These government-sponsored agency securities are not guaranteed by the U.S. Government.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 3 - ACCOUNTS RECEIVABLE:

The accounts receivable balance as of June 30, 2008 consist of the following:

Federal and State	\$12,853,661
Local	833,161
Miscellaneous	<u>2,226,785</u>
Total	<u>\$15,913,607</u>

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, 2008 are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Fund	\$ 2,120,036	\$ 168,073
Trust and Agency Fund	71,376	2,120,036
Associated Student Body Fund	<u>96,697</u>	<u> </u>
Totals	<u>\$2,288,109</u>	<u>\$2,288,109</u>

NOTE 5 – CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2008:

	Balance <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2008</u>
Land	\$ 63,208,476	\$	\$	\$ 63,208,476
Site and site improvements	143,222,283	2,790,996		146,013,279
Equipment	10,387,115	2,190,360		12,577,475
Construction in progress	<u>87,555,588</u>	<u>19,241,720</u>	<u>2,929,540</u>	<u>103,867,768</u>
Total cost	<u>304,373,462</u>	<u>24,223,076</u>	<u>2,929,540</u>	<u>325,666,998</u>
Site and site improvements	28,432,672	2,938,237		31,370,909
Equipment	<u>6,994,041</u>	<u>1,000,927</u>		<u>7,994,968</u>
Total accumulated depreciation	<u>35,426,713</u>	<u>3,939,164</u>	<u>-</u>	<u>39,365,877</u>
Net Capital Assets	<u>\$ 268,946,749</u>	<u>\$ 20,283,912</u>	<u>\$ 2,929,540</u>	<u>\$ 286,301,121</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 6 – 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>
2009	\$ 1,318,834
2010	1,318,834
2011	1,318,834
2012	1,049,444
2013	1,049,444
2014-2018	4,000,000
2019-2023	4,000,000
2024-2028	4,000,000
2029-2033	4,000,000
2034-2038	4,000,000
2039-2043	4,000,000
2044-2048	4,000,000
2049-2053	4,000,000
2054-2056	<u>2,400,000</u>
Total	<u>\$ 40,455,390</u>

Current year expenditures for operating leases is approximately \$986,000. The District will receive no sublease rental revenues nor pay any contingent rentals for these leases.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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, 2008

NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)

Lease Payment Date	Principal	Interest	Total Payments
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
December 1, 2011	-	367,419	367,419
June 1, 2012	865,000	367,419	1,232,419
December 1, 2012	-	348,389	348,389
June 1, 2013	905,000	348,389	1,253,389
2014-18	5,195,000	2,814,810	8,009,810
2019-23	6,610,000	1,405,250	8,015,250
2024	1,525,000	76,253	1,601,253
	<u>\$ 17,495,000</u>	<u>\$ 8,138,865</u>	<u>\$ 25,633,865</u>

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

The Corporation's funds for the advance refunding 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.

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, 2008

NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)

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

<u>Lease Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
July 15, 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
July 15, 2011	-	221,400	221,400
January 15, 2012	400,000	221,400	621,400
July 15, 2012	-	213,400	213,400
January 15, 2013	420,000	213,400	633,400
2014-2018	2,375,000	1,854,850	4,229,850
2019-2023	2,990,000	1,240,437	4,230,437
2024-2027	<u>3,035,000</u>	<u>392,000</u>	<u>3,427,000</u>
	10,345,000	<u>\$ 5,768,937</u>	<u>\$ 16,113,937</u>
Deferred charge on refunding	<u>(746,288) *</u>		
Total	<u>\$ 9,598,712</u>		

*The balance of the COPs refunded was \$912,128 less than the amount paid into the escrow account. This amount is recorded as a deferred charge on the statement of net assets and amortized to interest expense over 264 months; the life of the new debt. Amortization of \$41,460 was recognized during the 2007-08 year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 8 – BONDS PAYABLE:

A. Proposition T

1. On November 3, 1992, at an election held within the boundaries of the District, the voters authorized bonds to be sold in the amount of \$23,000,000. Proceeds from the sale of the bonds were used to finance certain capital improvements. On August 1, 1993, the District issued Series A bonds totaling \$5,000,000. Interest rates range from 5.45% to 5.75% payable semiannually on February 1 and August 1. On November 1, 1995, the District issued Series B bonds totaling \$10,000,000. Interest rates range from 5.375% to 7.0% payable semiannually on January 1, and July 1. On February 1, 2000, the District issued Series C bonds totaling \$8,000,000. Interest rates range from 3.0% to 5.5% payable semiannually on February 1, and August 1.

On January 31, 2007, the District issued 1992 Election, 2007 Refunding Series B bonds totaling \$15,589,854 of capital appreciation bonds. The bonds have maturity dates from August 1, 2008 through August 1, 2014. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long-term debt at June 30, 2008 is \$1,916,352.

The proceeds were placed into an irrevocable escrow account and will be used to fund the future required principal and interest payments of the refunded bonds. The refunded bonds are considered in-substance defeased and are not recorded on the financial statements. The present value of the economic gain to the District amounts to \$1,648,296. The balance of the bonds refunded was \$334,191 less than the amount paid into the escrow account. This amount is recorded as a deferred charge on the statement of net assets and amortized to interest expense over 90 months; the life of the new debt. Amortization of \$44,559 was recognized during the 2007-08 year. The balance of the in-substance defeased debt as of June 30, 2008 is approximately \$5,748,000.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 8 – BONDS PAYABLE: (continued)

A. Proposition T (continued)

Debt service requirements on these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2009	\$ 2,578,084	\$ 316,916	\$ 2,895,000
2010	2,570,625	554,375	3,125,000
2011	2,469,513	780,487	3,250,000
2012	2,372,388	1,007,612	3,380,000
2013	2,278,950	1,236,050	3,515,000
2014-2015	<u>3,320,294</u>	<u>2,379,706</u>	<u>5,700,000</u>
Total	15,589,854	<u>\$ 6,275,146</u>	<u>\$ 21,865,000</u>
Unamortized bond premium*	2,254,340		
Deferred charge on refunding	<u>(267,353)</u>		
Total	<u>\$ 17,576,841</u>		

* Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The refunding bonds included a premium of \$2,817,925. This amount is amortized over 90 months using the straight-line method. Amortization of \$375,723 was recognized during the 2007-08 year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 8 – BONDS PAYABLE: (continued)

A. Proposition T (continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 270,000	\$ 30,800	\$ 300,800
2010	<u>290,000</u>	<u>15,950</u>	<u>305,950</u>
	<u>\$ 560,000</u>	<u>\$ 46,750</u>	<u>\$ 606,750</u>

B. Measure U

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

Debt service requirements on these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	650,000	580,263	1,230,263
2013	650,000	554,263	1,204,263
2014-2018	3,310,000	2,363,363	5,673,363
2019-2023	3,580,000	1,587,438	5,167,438
2024-2028	<u>4,070,000</u>	<u>636,524</u>	<u>4,706,524</u>
	<u>\$ 14,210,000</u>	<u>\$ 7,613,765</u>	<u>\$ 21,823,765</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 8 – BONDS PAYABLE: (continued)

B. Measure U (continued)

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

Capital appreciation bonds were issued with maturity dates from May 1, 2027 through May 1, 2029. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long term debt at June 30, 2008 is \$999,869.

Debt service requirements for these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest Component</u>	<u>Total</u>
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	690,000	739,850		1,429,850
2013	725,000	705,350		1,430,350
2014-2018	4,190,000	2,954,238		7,144,238
2019-2023	5,340,000	1,799,750		7,139,750
2024-2028	4,118,100	395,250	2,621,900	7,135,250
2029	96,871		1,328,129	1,425,000
	<u>\$ 17,054,971</u>	<u>\$ 8,983,888</u>	<u>\$ 3,950,029</u>	<u>\$ 29,988,888</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, 2008 is \$6,841,863.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 8 – BONDS PAYABLE: (continued)

B. Measure U (continued)

A portion of the proceeds was used to refund the outstanding balance of one of the District's COP's. The difference between the reacquisition price and the net carrying amount of the COP is recorded as a deferred charge of \$539,372 on the statement of net assets and amortized to interest expense over 192 months; the life of the old debt. Amortization of \$33,711 was recognized during the 2007-08 year.

Debt service requirements for these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2009	\$ 2,747,077	\$ 1,134,500	\$ 329,316	\$ 4,210,893
2010	2,909,292	1,134,500	476,594	4,520,386
2011	3,062,520	1,134,500	652,371	4,849,391
2012	3,202,739	1,134,500	856,285	5,193,524
2013	3,314,689	1,134,500	1,088,885	5,538,074
2014-2018	16,297,206	5,672,500	8,974,623	30,944,329
2019-2023	15,324,654	5,672,500	16,400,469	37,397,623
2024-2028	14,754,812	5,672,500	25,682,253	46,109,565
2029-2031	<u>25,814,507</u>	<u>2,327,000</u>	<u>3,345,246</u>	<u>31,486,753</u>
	87,427,496	<u>\$ 25,017,000</u>	<u>\$ 57,806,042</u>	<u>\$ 170,250,538</u>
Unamortized bond premium*	1,285,764			
Deferred charge for refunding	<u>(438,239)</u>			
Total	<u>\$ 88,275,021</u>			

* Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series C bonds included a premium of \$1,450,109. This amount is amortized over 300 months using the straight-line method. Amortization of \$58,004 was recognized during the 2007-08 year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 8 – BONDS PAYABLE: (continued)

B. Measure U (continued)

4. On January 31, 2007 the District issued 2007 Series A bonds totaling \$11,999,987 of capital appreciation bonds. The bonds were issued with maturity dates from August 1, 2015 through August 1, 2031. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long term debt at June 30, 2008 is \$803,052.

Debt service requirements on these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2009	\$	\$	\$ -
2010			-
2011			-
2012			-
2013			-
2014-2018	3,545,708	1,689,292	5,235,000
2019-2023	3,803,515	3,121,485	6,925,000
2024-2028	2,963,937	3,946,063	6,910,000
2029-2032	1,686,827	3,838,173	5,525,000
Total	<u>\$ 11,999,987</u>	<u>\$ 12,595,013</u>	<u>\$ 24,595,000</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 8 – BONDS PAYABLE: (continued)

C. Measure S

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

On January 31, 2007 the District issued 2004 Election, 2007 Refunding Series C bonds for \$15,660,000 of current interest bonds and \$24,404,768 of capital appreciation bonds. The interest rate is 5.0% payable semiannually on August 1 and February 1.

Capital appreciation bonds were issued with maturity dates from August 1, 2007 through August 1, 2014. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Accreted interest accrued and included in long term debt at June 30, 2008 is \$4,782,180.

The proceeds were placed into an irrevocable escrow account and will be used to fund the future required principal and interest payments of the refunded bonds. The refunded bonds are considered in-substance defeased and are not recorded on the financial statements. The balance of the bonds refunded was \$573,930 less than the amount paid into the escrow account. This amount is recorded as a deferred charge on the statement of net assets and amortized to interest expense over 114 months; the life of the new debt. Amortization of \$60,414 was recognized during the 2007-08 year. The balance of the in-substance defeased debt as of June 30, 2008 is approximately \$41,832,000.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 8 – BONDS PAYABLE: (continued)

C. Measure S (continued)

Debt service requirements on these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2009	\$ 4,844,942	\$ 783,000	\$ 970,058	\$ 6,598,000
2010	4,055,455	783,000	1,459,545	6,298,000
2011	3,579,290	783,000	1,935,710	6,298,000
2012	3,244,969	783,000	2,420,031	6,448,000
2013	2,889,218	783,000	2,825,782	6,498,000
2014-2017	<u>20,931,749</u>	<u>2,791,250</u>	<u>7,308,251</u>	<u>31,031,250</u>
	39,545,623	<u>\$ 6,706,250</u>	<u>\$ 16,919,377</u>	<u>\$ 63,171,250</u>
Unamortized bond premium*	9,654,284			
Deferred charge on refunding	<u>(483,309)</u>			
Total	<u>\$ 48,716,598</u>			

* Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The refunding bonds included a premium of \$11,464,462. This amount is amortized over 114 months using the straight-line method. Amortization of \$1,206,785 was recognized during the 2007-08 year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 8 – BONDS PAYABLE: (continued)

C. Measure S (continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,385,000	\$ 503,138	\$ 1,888,138
2010	1,450,000	433,887	1,883,887
2011	1,500,000	383,137	1,883,137
2012	1,555,000	330,637	1,885,637
2013	1,635,000	249,000	1,884,000
2014-2015	3,540,000	235,763	3,775,763
	<u>\$ 11,065,000</u>	<u>\$ 2,135,562</u>	<u>\$ 13,200,562</u>

NOTE 9 – LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2008 is shown below:

	<u>Balance</u>			<u>Balance</u>	<u>Amount</u>
	<u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2008</u>	<u>Due in</u>
					<u>One Year</u>
Compensated Absences	\$ 5,184,891	\$ 367,499	\$	\$ 5,552,390	\$ 1,353,784
Other Post-employment Health Care Benefits		4,611,253		4,611,253	
Capital Leases	26,577		26,577	-	
Certificates of Participation	28,117,252		1,023,540	27,093,712	1,088,540
General Obligation Bonds	217,416,818		7,958,400	209,458,418	14,586,931
Accreted Interest	7,170,215	8,411,704	238,603	15,343,316	
Total	<u>\$ 257,915,753</u>	<u>\$ 13,390,456</u>	<u>\$ 9,247,120</u>	<u>\$ 262,059,089</u>	<u>\$ 17,029,255</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 10 - EMPLOYEE RETIREMENT PLANS:

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS) and part-time, seasonal and temporary employees and employees not covered by STRS or PERS are members of the Public Agency Retirement System (PARS).

State Teachers' Retirement System (STRS)

Plan Description

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

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 2007-08 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

Public Employees' Retirement System (PERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The average required employer contribution for fiscal year 2007-08 was 9.306% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Contributions to STRS and PERS

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

Year Ended June 30,	STRS		PERS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2006	\$3,728,679	100%	\$2,646,388	100%
2007	4,218,007	100%	2,846,873	100%
2008	4,356,091	100%	3,248,571	100%

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 11 – POST-EMPLOYMENT HEALTH CARE BENEFITS:

Plan Description and Funding Policy

The District administers a single-employer defined benefit plan for retiree healthcare benefits. The District provides post-employment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. Medical, dental and vision benefits are paid to retirees up until the age of 65. The District contributes 100% of the amount of premiums incurred by retirees and their dependents. For all retirees above the age of 65, medical benefits are paid, not-to-exceed a maximum amount determined by the District, for life. Currently, 308 employees meet those eligibility requirements. Expenditures for post-employment benefits are recognized on a pay-as-you-go basis when premiums are paid. During the year, the District contributed \$1,844,861 to the plan. Benefit provisions are established through negotiations between the District and the bargaining Unions representing employees. The plan does not issue a separate financial report.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the OPEB obligation:

Annual required contribution (ARC)	\$6,456,114
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	6,456,114
Contributions made	<u>(1,844,861)</u>
Change in net OPEB obligation	4,611,253
Net OPEB obligation - Beginning of Year ⁽¹⁾	-
Net OPEB obligation - End of Year	<u>\$4,611,253</u>

⁽¹⁾ GASB Statement No. 45 provides for prospective implementation, therefore the beginning net OPEB obligation is set at zero as of the beginning of the initial year.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

Annual OPEB Cost and Net OPEB Obligation (continued)

The District's annual OPEB cost for the year, the percentage of annual OPEB cost contributed, and the net OPEB obligation for fiscal year ended 2008 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2008	\$6,456,114	28.6%	\$4,611,253

Fiscal year 2008 was the year of implementation of GASB Statement No. 45 and the District elected to implement prospectively, therefore, prior year comparative data is not available. In future years, three-year trend information will be presented.

Funding Status and Funding Progress

As of November 11, 2008, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits as well as the unfunded actuarial accrued liability (UAAL) was \$68,668,113. The covered payroll (annual payroll of active employees covered by the plan) was \$61,259,354, and the ratio of the UAAL to the covered payroll was 112%. Although the plan has no segregated assets, the District has \$1.4 million set aside in the Southern California Community College District JPA to offset the net OPEB obligation.

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, if any, consistent with the long-term perspective of the calculations.

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

NOTE 12 - JOINT POWERS AGREEMENT:

The Santa Monica Community College District participates in four joint powers agreement (JPA) entities; the Alliance of Schools for Cooperative Insurance Programs (ASCIP); the Southern California Community College District Joint Powers Agency (SCCCD-JPA); the Statewide Association of Community Colleges (SWACC); and the California Statewide Tax Authority (the Authority). The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes, as explained below.

ASCIP provides its member with high quality, high value employee benefit programs and related services. Payments transferred to funds maintained under the JPA are expensed when earned. Claim liabilities of the JPA are recomputed periodically by an actuary to produce current estimates that reflect trend and claim lag time.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 12 - JOINT POWERS AGREEMENT: (continued)

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 earned. Based upon an actuarial study, District administrators are of the opinion that the procedures for accumulating and maintaining reserves are sufficient to cover future contingencies under potential workers' compensation claims; however, the reserve for retiree health insurance is not yet sufficient to cover future potential payments. As noted in Note 11, the District's balance in the Retiree Health Fund of the JPA is approximately \$1.4 million.

SWACC provides liability and property insurance for approximately nineteen community colleges. SWACC is governed by a Board comprised of a member of each of the participating districts. The board controls the operations of SWACC, including selection of management and approval of members. Each member shares surpluses and deficits proportionately to its participation in SWACC.

The Authority purchases delinquent ad valorem property taxes from school agencies in Los Angeles County to receive additional unrestricted revenues through financing of property tax delinquencies. The Authority is a pass-through entity and financial information is not available. For the fiscal year 2007-08, the District received \$120,225 from the Authority.

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

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

	ASCIP 6/30/2008 <u>(Unaudited)</u>	SCCCD-JPA 6/30/2007 <u>(Audited)</u>		SWACC 6/30/2008 <u>(Unaudited)</u>
		Workers Compensation Insurance Fund	Retiree Health Insurance Fund	
Total assets	\$218,712,557	\$ 18,654,866	\$ 79,015,109	\$ 38,922,024
Total liabilities	<u>133,986,429</u>	<u>1,595,168</u>	-	<u>21,427,683</u>
Retained earnings	<u>\$ 84,726,128</u>	<u>\$ 17,059,698</u>	<u>\$ 79,015,109</u>	<u>\$ 17,494,341</u>
Total revenues	\$180,665,803	\$ 8,057,780	\$ 8,812,136	\$ 14,628,830
Total expenditures	<u>160,805,929</u>	<u>7,652,344</u>	<u>871,682</u>	<u>15,022,729</u>
Change in retained earnings	<u>\$ 19,859,874</u>	<u>\$ 405,436</u>	<u>\$ 7,940,454</u>	<u>\$ (393,899)</u>

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 13 – FUNCTIONAL EXPENSE:

	<u>Salaries</u>	<u>Benefits</u>	<u>Supplies, Materials, Utilities, Other Expenses and Services</u>	<u>Financial Aid</u>	<u>Depreciation</u>	<u>Total</u>
Instructional Activities	\$ 51,672,828	\$ 13,277,533	\$ 820,588	\$	\$	\$ 65,770,949
Academic Support	9,822,998	3,101,548	1,760,196			14,684,742
Student Services	15,590,031	4,262,587	3,782,306			23,634,924
Operation & Maintenance of Plant	4,494,253	1,945,528	2,695,096			9,134,877
Institutional Support Services	11,476,014	6,246,880	5,846,445			23,569,339
Community Services & Economic Development	1,228,990	326,056	295,825			1,850,871
Ancillary Services & Auxiliary Operations	5,739,381	1,546,856	5,059,932			12,346,169
Physical Property & Related Acquisitions	136,249	54,605	15,861,827			16,052,681
Student Financial Aid				13,717,724		13,717,724
Depreciation Expense					3,939,164	3,939,164
	<u>\$ 100,160,744</u>	<u>\$ 30,761,593</u>	<u>\$ 36,122,215</u>	<u>\$ 13,717,724</u>	<u>\$ 3,939,164</u>	<u>\$ 184,701,440</u>

NOTE 14 – COMMITMENTS AND CONTINGENCIES:

A. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Litigation

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

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 14 – COMMITMENTS AND CONTINGENCIES: (continued)

C. Purchase Commitments

As of June 30, 2008, the District had the following commitments with respect to construction costs for the following projects:

<u>Project</u>	
Theater Arts Renovation	\$ 10,500
Liberal Arts North	6,036
Liberal Arts South	760,359
Music Complex	5,750
North Quad Plaza	4,046,823
Student Services Building	7,992,300
Infrastructure & Safety	6,500
Master Planning	83,420
Athletic Fields Phase I, Corsair Field	3,103,635
Athletic Fields Phase I, John Adams	2,505,193
Performing Arts Center	1,939,565
Satellite Campus Parking Facilities and Roadway Improvements	2,408,113
Pico Promenade Improvements	<u>1,027,934</u>
Total	<u><u>\$23,896,128</u></u>

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

REQUIRED SUPPLEMENTARY INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF POST-EMPLOYMENT HEALTH CARE BENEFITS FUNDING PROGRESS

For the Fiscal Year Ended June 30, 2008

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Accrued Liability (Unit Cost Method) (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funding Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/2008	11/11/2008	\$ -	\$ 68,668,113	\$ 68,668,113	0.0%	\$ 61,259,354	112.1%

Note: Fiscal year 2008 was the year of implementation of GASB Statement No. 45 and the District elected to implement prospectively, therefore, prior year comparative data is not available. In future years, three year trend information will be presented.

Although the plan has no segregated assets, the District has \$1.4 million set aside in the Southern California Community College District JPA to offset the net OPEB obligation.

See the accompanying notes to the required supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES:

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

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

SUPPLEMENTARY INFORMATION

SANTA MONICA COMMUNITY COLLEGE DISTRICT

HISTORY AND ORGANIZATION

June 30, 2008

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>
Rob Rader	Chair	November 2008
Louise Jaffe	Vice Chair	November 2010
Dr. Susan Aminoff	Member	November 2008
Dr. Nancy Greenstein	Member	November 2010
Dr. Margaret Quiñones-Perez	Member	November 2008
Judge David B. Finkel (Ret)	Member	November 2010
Dr. Andrew Walzer	Member	November 2010
Cameron Henton	Student Trustee	June 2009

ADMINISTRATION

Dr. Chui L. Tsang	Superintendent/ President
Randal Lawson	Executive Vice President
Brenda Benson	Acting Vice President, Student Affairs
Teresita Rodriguez	Vice President, Enrollment Development
Jeffery Shimizu	Vice President, Academic Affairs
Marcia Wade	Vice President, Human Resources

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Fiscal Year Ended June 30, 2008

	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	\$ 101,674
Supplemental Education Opportunity Grant (SEOG)	84.007	N/A	765,091
Federal Work Study	84.033	N/A	564,251
Academic Competitive Grant	84.375	N/A	121,500
Pell Grant	84.063	N/A	10,820,049
Total Student Financial Aid Cluster			12,372,565
 Department of Commerce			
Direct:			
Corporation for Public Broadcasting	11.000	N/A	1,488,206
 Department of Education:			
Direct:			
Hispanic - Serving Institution Program (H.S.I.):			
Instructional Grant (Title V)	84.031S	N/A	616,520
Supporting Student Success in Pre-Transfer Mathematics (Title V)	84.031S	N/A	582,520
TRIO Cluster			
Student Support Services	84.042	N/A	280,405
Upward Bound	84.047A	N/A	76,639
Subtotal Direct Programs			1,556,084
 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	428,652
Tech Prep Education	84.243	N/A	63,139
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	260,162
Passed through The Regents of the University of California:			
Teacher Quality Improvement Grant	84.336	N/A	94,176
Subtotal Pass Through Programs			846,129
Total Department of Education			2,402,213

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Fiscal Year Ended June 30, 2008

	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
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	78,697
Passed through Health Resources and Services Administration:			
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	N/A	<u>24,491</u>
Total Department of Health and Human Services			<u>103,188</u>
Department of Labor:			
Direct:			
Community Based Job Training Grant	17.261	N/A	323,770
Passed through the Employment and Training Administration:			
WIA Adult Program	17.258	N/A	<u>32,533</u>
Total Department of Labor			<u>356,303</u>
National Aeronautics and Space Administration			
Passed through United Negro College Fund Special Programs Corporation:			
Curriculum Improvement Partnership II (CIPA II)	43.000	N/A	118,206
Research Apprenticeship Program	43.000	N/A	6,600
National Institute of Standards and Technology			
Direct:			
Summer Undergraduate Research Fellowship (NIST)	11.609	N/A	4,827
Small Business Administration			
Passed through Long Beach Community College District:			
Small Business Development Center (SBDC)	59.037	N/A	<u>321,788</u>
			<u>\$ 17,173,896</u>

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, 2008

	Program Revenues				Total Program Expenditures
	Cash Received	Accounts Receivable	Deferred Income	Total	
Matriculation (Credit)	\$ 1,533,900	\$	\$ 43,879	\$ 1,490,021	\$ 1,490,021
Matriculation (Non Credit)	47,338			47,338	47,338
Extended Opportunity Program and Services (EOPS)	1,408,805	500	8,320	1,400,985	1,400,985
Consolidated Contract Education	(25,660)	51,790		26,130	26,130
Cooperative Agencies Resources for Education (CARE)	102,961			102,961	102,961
Disabled Student Program and Services (DSPS)	1,529,438			1,529,438	1,529,438
Economic Development (Job Development Incentive)	415,452	47,922		463,374	463,374
Block Grant	90,009	1,658		91,667	91,667
Instructional Equipment - Block Grant	415,255		384,200	31,055	31,055
Telecommunications Technology Infrastructure Program	137,081		60,398	76,683	76,683
Transfer and Articulation	9,925		4,921	5,004	5,004
Faculty & Staff Diversity	40,490		20,772	19,718	19,718
Staff Development	59,458		40,851	18,607	18,607
Nursing Grant	212,845		60,007	152,838	152,838
Calworks	371,487		3,504	367,983	367,983
Fostering Student Success Nursing Grant	81,234	137,842		219,076	219,076
Child Development Training	7,640			7,640	7,640
Arts Industry Standards Project	41,539	49,712		91,251	91,251
Beverage Container Recycling Program	210			210	210
Small Business Development Center	136,465			136,465	136,465
Financial Aid Administration	676,833		47,370	629,463	629,463
Career and Technical Education Equipment	107,768			107,768	107,768
Schedule of Maintenance - Ongoing	322,101		271,917	50,184	50,184
Instructional Equipment and Library	603,405		289,077	314,328	314,328
Schedule of Maintenance and Repair	212,747		90,629	122,118	122,118
Basic Skills Funding	1,687,615		1,534,290	153,325	153,325
CAHSHEE Preparation Program	75,075		54,983	20,092	20,092
Industry Driven Regional Collaborative	326,120		20,268	305,852	305,852
Advanced Transportation Responsive Retaining Fund (RTF)	367,500	66,803		434,303	434,303
Logistics Responsive Retaining Fund	292,924	112,492	8	405,408	405,408
CASHEE Preparation II	200,000		107,111	92,889	92,889
Strengthening Career Tech	125,000		50,706	74,294	74,294
Equipment for Nursing Programs	73,795		73,795	-	-
Total State Programs	\$ 11,686,755	\$ 468,719	\$ 3,167,006	\$ 8,988,468	\$ 8,988,468

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURE FOR STATE GENERAL APPORTIONMENT
 ANNUAL (ACTUAL) ATTENDANCE
 For the Fiscal Year Ended June 30, 2008

	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
A. Summer Intersession (Summer 2007 only)			
1. Noncredit ¹	92.44		92.44
2. Credit	15.17		15.17
B. Summer Intersession (Summer 2008 - Prior to July 1, 2008)			
1. Noncredit ¹	N/A		N/A
2. Credit	N/A		N/A
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	13,429.29		13,429.29
(b) Daily Census Contact Hours	4,595.42		4,595.42
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit ¹	637.82		637.82
(b) Credit	54.94		54.94
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	16.00		16.00
(b) Daily Census Contact Hours	2.04		2.04
(c) Noncredit Independent Study/Distance Education Courses	N/A		N/A
D. Total FTES	<u>18,843.12</u>		<u>18,843.12</u>
Supplemental Information (subset of above information)			
E. In-Service Training Courses (FTES)	N/A		
H. Basic Skills courses and Immigrant Education			
(a) Noncredit ¹	38.53		
(b) Credit	1,871.05		
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	81.02		
Centers FTES			
(a) Noncredit	4.34		
(b) Credit	1,106.07		

¹ Including Career Development and College Preparation (CDCP) FTES

N/A - Workload Measure is not applicable

See the accompanying notes to the supplementary information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FUND BALANCES
For the Fiscal Year Ended June 30, 2008

	<u>Auxiliary Funds</u>
June 30, 2008 Annual Financial and Budget Report Fund Balance	\$ <u>1,912,815</u>
Adjustments and Reclassifications:	
Post Closing Entries	<u>99,523</u>
Net Adjustments and Reclassifications	<u>99,523</u>
June 30, 2008 Audited Financial Statements Fund Balance	\$ <u>2,012,338</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, 2008**

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, 2008 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Federal Awards and the Schedule of State Financial Assistance was prepared for the Santa Monica Community College District on the modified accrual basis of accounting.

B. Schedule of Workload Measure for State General Apportionment

The Schedule of Workload Measure for State General Apportionment represents the basis of apportionment of the Santa Monica Community College District's annual source of funding.

C. Reconciliation of Annual Financial and Budget Report with Audited Fund Balances

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

OTHER INDEPENDENT AUDITORS' REPORTS

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

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

We have audited the financial statements of Santa Monica Community College District (the District) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 08-1, 08-2 and 08-3 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

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

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

**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***

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

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

December 15, 2008



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

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

Compliance

We have audited the compliance of Santa Monica Community College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

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

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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


VICENTI, LLOYD & STUTZMAN LLP

December 15, 2008

REPORT ON STATE COMPLIANCE

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

We have audited the basic financial statements of Santa Monica Community College District, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 15, 2008.

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 2008 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 Gann Limit Calculation was properly calculated and supported by adequate documentation.
- Whether the District is reporting the total amount that students should have paid for enrollment fees for the purpose of determining the District's share of annual apportionment.
- Whether the District expended CalWORKs program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKs students.
- Whether the District spent an amount equal to or greater than the amount provided by the State for scheduled maintenance and special repairs. Funds provided by the State must be to supplement, not supplant, District scheduled maintenance funds. The amount expended for plant maintenance and operations during the base year of 1995-96 was \$5,506,903.
- Whether all District courses that qualify for State apportionment are open to enrollment by the general public unless specifically exempted by statute.
- Whether the District has adopted policies or regulations regarding the authority of the District to require students to provide various types of instructional materials and whether the District has advised students of the exemptions from payment of health fees and established a process to ensure that students may claim the exemptions.

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

REPORT ON STATE COMPLIANCE

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

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

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

December 15, 2008

FINDINGS AND RECOMMENDATIONS

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
AS REQUIRED UNDER FEDERAL OMB CIRCULAR A-133
June 30, 2008

Financial Statements

Type of auditor's report issued: Unqualified

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

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

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

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

Identification of major programs tested

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.000, 84.007, 84.033, 84.375 and 84.063	Student Financial Assistance Cluster of Programs
84.031S	Hispanic Serving Institutions Programs – Instructional Grant (Title V)

Dollar threshold used to distinguish between Type A
 and Type B programs: \$ 515,217

Auditee qualified as low-risk auditee? X Yes No

SANTA MONICA COMMUNITY COLLEGE DISTRICT

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

June 30, 2008

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 # 08-1 – ANTIFRAUD PROGRAM

Original Finding 07-1

Finding: In accordance with auditing standards (SAS 99) related to audit planning and fraud risk assessment, we were required to assess the organization's anti-fraud program. Although some localized training occurred in previous years, the training has not been on a consistent and district-wide basis. Continued communication about the District's anti-fraud program is needed to ensure employees fully understand what is expected of them and know how to report unethical practices. Research has shown that employees need to be formally educated annually on some aspect of an organization's anti-fraud program to fully comprehend and to know what to do if fraud is suspected. Although the District has some processes in place, additional controls and policies would strengthen the District's program and bring it into alignment with the recommendations published by the American Institute of Certified Public Accountants, in their document entitled "Management Antifraud Programs and Controls: Guidance to Help Prevent, Deter, and Detect Fraud". The following recommendations are the result of interviews with a sample of management and employees regarding the culture of the organization and the intricacies of the current antifraud program.

Questioned Costs: Not applicable

Recommendation: We believe the District should consider the following:

- 1) Adopt an organizational-wide code of ethics, which is permeated throughout the organization at least annually. It is important to provide a Board approved written document to promote honest and ethical conduct. This should be effectively communicated to employees through annual confirmation, training and management oversight.
- 2) Continue the implementation process for establishing an anonymous mechanism for reporting concerns about fraud. This should include a documented process for the receipt, retention and treatment of complaints that is confidential and anonymous.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

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

June 30, 2008

FINDING # 08-1 – ANTIFRAUD PROGRAM

(continued)

District Response: In addition to the Board of Trustees Code of Ethics (Board Policy 1230), both the faculty and managers have developed ethics statements. The Faculty Statement on Professional Ethics was developed by the Academic Senate Professional Ethics Committee and adopted by the Academic Senate in March of 2002. The Management Association developed and adopted an ethics statement in the same year. Although these three documents share common elements, it is true that there is no single anti-fraud policy governing all District operations. To address this issue, a proposed Board Policy *Reporting Fraud, Waste or Abuse* has been developed and will be recommended to the Board of Trustees for approval early in 2009.

The District is also preparing to simultaneously implement an anonymous mechanism for reporting concerns about fraud. This mechanism is being developed to comply with the recommendations published by the AICPA (American Institute of Certified Public Accountants) regarding antifraud programs. The reporting mechanism will include multiple ways to anonymously report concerns as well as a documented process for receipt, retention and treatment of complaints in accordance with the AICPA's recommendations.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

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

June 30, 2008

FINDING # 08-2 – HUMAN RESOURCE INTERNAL CONTROLS

Finding: We reviewed the internal controls related to the Payroll and HRS system and noted that Human Resource personnel have the ability to enter new certificated employees in the HRS system and ISIS system and set up direct deposit for the new employees. Once the new employee is entered there is no control in place to prevent the system from automatically generating a check. There is currently not a process in place to do an independent check between Board approved new hires and employees appearing on the payroll system. Due to the large number of employees, an unauthorized employee could go undetected for an undetermined time.

Questioned Costs: Not Applicable

Recommendation: Review the internal controls related to adding new employees and updating information in the HRS system. Below are some suggested procedures to consider during the review process:

- 1) Revise procedures for adding new employees in the HRS and ISIS system; ensure that Board approval is reviewed and provided to both the HR and Payroll departments.
- 2) Run exception reports between the two systems for employees entered in the HRS system and not the ISIS system.

District Response: The Human Resources Dean will maintain the change register records (report) provided by LACOE, as well as request a monthly report of all new hires for that month to reconcile against the board minutes and ISIS reports for that month. Payroll will be provided with copies of the new hire LACOE report and HR Board agenda. Originals will be filed in the Office of Human Resources.

The ISIS system and HRS are different systems. ISIS is used for non-pay issues and internal controls, whereas HRS affects actual pay. Unfortunately, the systems are not compatible. As noted above, the monthly ISIS report will be reconciled against the monthly HRS report and the board minutes by the Human Resources Dean.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO BASIC FINANCIAL STATEMENTS
June 30, 2008

FINDING # 08-3 – HUMAN RESOURCE - W-4 SUPPORTING DOCUMENTS

Finding: Payroll W-4 forms should be maintained for all employees. The W-4 form for 3 out of 10 employees reviewed did not match the payroll system. Missing current W-4 forms represents pertinent payroll documentation not on file. There is not a current process for review of data entry and monitoring of changes made to employee withholding information.

Questioned Costs: Not Applicable

Recommendation: Ensure pertinent payroll documentation is obtained and properly filed. Develop standard procedures to review information after data entry is completed. Additionally, all changes should be supported by an authorized form in the employee file.

District Response: Human Resources Technicians and Specialist responsible for entering and updating W-4 information in HRS will maintain the original documents in the employee file, initial the form and include the HRS entry date. Reinforcement in staff meetings to discuss the importance of accurate entry and maintaining the document in the file will take place on a continuous basis. Staff will use the HRS change registers and/or the HRS Employee Information Report to review and monitor the change of withholding information.

SANTA MONICA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2008

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2008.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2008

Finding No.	Finding	Recommendation	Current Status
07-1	<p><u>ANTIFRAUD PROGRAM</u></p> <p>In accordance with the auditing standard (SAS 99) related to audit planning and fraud risk assessment, we were required to assess the organization's anti-fraud program. Although the District has some processes in place, additional controls and policies would strengthen the District's program and bring it into alignment with the recommendations published by the American Institute of Certified Public Accountants, in their document entitled "Management Antifraud Programs and Controls: Guidance to Help Prevent, Deter, and Detect Fraud". The following recommendations are the result of interviews with a sample of management and employees regarding the culture of the organization and the intricacies of the current antifraud program.</p>	<p>We encourage the District to consider the following:</p> <ol style="list-style-type: none"> 1) Adopt an organizational-wide code of ethics, which is permeated throughout the organization at least annually. It is important to provide a Board approved written document to promote honest and ethical conduct. This should be effectively communicated to employees through annual confirmation, training and management oversight. 2) Incorporate a formal, anonymous mechanism for reporting concerns about fraud. This should include a documented process for the receipt, retention and treatment of complaints that is confidential and anonymous. 	Partially implemented. See current year finding 08-1.

SANTA MONICA COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2008

Finding No.	Finding	Recommendation	Current Status
07-2	<p><u>STATE COMPLIANCE – STUDENT FEES: INSTRUCTIONAL MATERIAL FEES</u></p> <p>Pursuant to California Code of Regulations Sections 59400-59408, districts may require students to purchase instructional materials from the district. However, the district must be able to justify requiring the student to purchase the materials from it and ensure that students are not charged more than the District's actual cost of materials. During our testing, we noted that the District does not have support to substantiate the amount of instructional material fees charged. The District may have conducted a cost analysis in the past; however, documentation of this was not available. As a result, students could potentially be over-charged for the materials they are required to purchase.</p>	<p>The District must adopt policies or regulations regarding the authority to require students to purchase various types of instructional materials. In addition, implement procedures to perform a cost analysis to ensure that students are not charged more than the District's actual cost.</p>	Implemented.