

**SANTA MONICA-MALIBU  
UNIFIED SCHOOL DISTRICT**

**AUDIT REPORT**

**JUNE 30, 2011**



**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
OF LOS ANGELES COUNTY**

**SANTA MONICA, CALIFORNIA**

**JUNE 30, 2011**

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The Santa Monica-Malibu Unified School District was established in 1875. The District's boundaries encompass all of the City of Santa Monica and part of Los Angeles County from the Ventura County line on the west: the Malibu area to approximately the top of the Santa Monica Mountains on the north. The boundaries exclude those portions of the north section that are included in the Las Virgenes Unified School District and those portions of Pacific Palisades that are included in the Los Angeles Unified School District. There was no change in the boundaries of the District during the current year. The District is currently operating ten elementary schools, two middle schools, two high schools, one continuation high school, one alternative school, one community day school, one adult education center, and thirteen child care and development centers.

**GOVERNING BOARD**

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<b><u>MEMBER</u></b>	<b><u>OFFICE</u></b>	<b><u>TERM EXPIRES</u></b>
Jose Escarce	President	December 2012
Ben Allen	Vice President	December 2012
Oscar de la Torre	Member	December 2014
Maria Leon-Vazquez	Member	December 2012
Laurie Lieberman	Member	December 2014
Ralph Mechur	Member	December 2014
Nimish Patel	Member	December 2014

**ADMINISTRATION**

Tim Cuneo  
*Superintendent*

Debra Moore-Washington  
*Assistant Superintendent, Human Resources*

Jan Maez  
*Assistant Superintendent, Business & Fiscal Services*  
*Chief Financial Officer*

Dr. Chiung-Sally Chou  
*Chief Academic Officer*

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Santa Monica-Malibu Unified School District  
Santa Monica, California

We have audited the accompanying financial statements of the governmental activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Santa Monica-Malibu Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Santa Monica-Malibu Education Foundation, represented as the Discretely Presented Component Unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Discretely Presented Component Unit, is based on the report of the other auditor.

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; and *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010 – 11*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Santa Monica-Malibu Education Foundation (a discretely presented component unit) were not audited in accordance with *Governmental Audit Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of June 30, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2011 on our consideration of the Santa Monica-Malibu Unified School District's internal control over financial reporting and on 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 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.

SAN DIEGO

RANCHO CUCAMONGA

2727 Camino Del Rio South • Suite 219 • San Diego, CA 92108 | 8686 Haven Avenue • Suite 250 • Rancho Cucamonga, CA 91730  
tel. 619.270.8222 • [www.cwacpa.com](http://www.cwacpa.com) • fax. 619.260.9085

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The required supplementary information, such as management's discussion and analysis on pages 3 through 10, the budgetary comparison information on page 56 and the schedule of funding progress on page 57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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 opinions on the financial statements that collectively comprise the Santa Monica-Malibu Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by the U. S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and the Combining Statements – Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
San Diego, California  
December 11, 2011

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

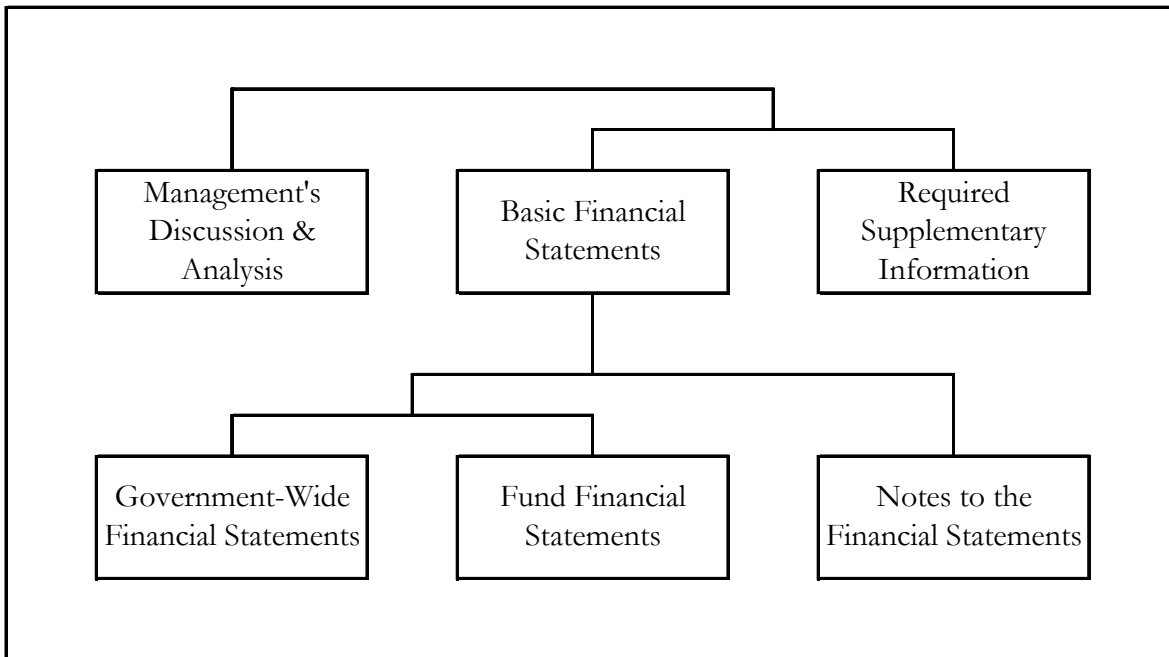
Our discussion and analysis of Santa Monica-Malibu Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. It should be read in conjunction with the District's financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

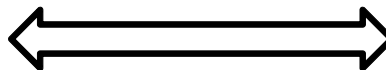
- ▶ Total net assets were \$108,736,709 at June 30, 2011. This was an increase of \$4,205,487 over the prior year.
- ▶ Overall revenues were \$154,643,906, which exceeded expenses of \$150,438,419.

## OVERVIEW OF FINANCIAL STATEMENTS

### Components of the Financials Section



Summary



Detail



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*  
JUNE 30, 2011

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This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
  
- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
  - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
  
  - ▶ **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.
  
  - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

### **Government-Wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Revenue limit funding and federal and state grants finance most of these activities.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*  
JUNE 30, 2011

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FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Assets

The District's combined net assets were \$108,736,709 at June 30, 2011, as reflected in Table A-1 below. Of this amount, \$17,675,697 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations.

Table A-1  
Santa Monica-Malibu Unified School District's Net Assets

	Governmental Activities		Total Percentage Change
	2010	2011	2010-11
Current assets	\$ 165,306,804	\$ 203,848,188	23%
Noncurrent assets	191,603,057	203,878,873	6%
Total assets	356,909,861	407,727,061	14%
Current liabilities	46,089,835	31,386,778	-32%
Noncurrent liabilities	206,288,804	267,603,574	30%
Total liabilities	252,378,639	298,990,352	18%
Invested in capital assets, net of related debt	75,863,487	65,960,477	-13%
Restricted	32,795,770	25,100,535	-23%
Unrestricted	(4,128,035)	17,675,697	528%
<b>Total net assets</b>	<b>\$ 104,531,222</b>	<b>\$ 108,736,709</b>	<b>4%</b>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*  
JUNE 30, 2011

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FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (*continued*)

**Changes in Net Assets**

As shown in Table A-2 below, the District's total revenues were \$154,643,906. The majority of the revenue comes from Revenue Limit and property taxes (65.5%). Federal and state aid for specific programs accounted for another 19.8% of total revenues. Miscellaneous local sources accounted for the remaining 14.7%.

The total cost of all programs and services was \$150,438,419. The District's expenses are predominately related to educating and caring for students (62.6%). Pupil Services (including transportation and food) account for 8.6% of expenses. Administrative activities accounted for just 5.3% of total costs. Plant services, which represent the facilities maintenance and operations costs, account for 7.8% of all costs. The remaining expenses were for ancillary services, community services, and other outgo (15.7%).

**Table A-2**  
**Changes in Santa Monica-Malibu Unified School District's Net Assets**

	<b>Governmental Activities</b>		<b>Total Percentage Change</b>
	<b>2010</b>	<b>2011</b>	<b>2010-11</b>
<b>Revenues:</b>			
<i>Program revenues</i>			
Charges for services	\$ 4,365,439	\$ 4,739,807	9%
Operating grants and contributions	26,681,567	30,651,939	15%
<i>General revenues</i>			
Property taxes	80,144,227	79,561,080	-1%
Federal and state aid not restricted for specific purposes	16,073,651	21,876,070	36%
Other revenues	14,046,631	17,815,010	27%
<b>Total revenues</b>	<b>141,311,515</b>	<b>154,643,906</b>	<b>9%</b>
<b>Expenses:</b>			
Instruction-related	94,322,653	94,185,827	0%
Student support services	12,380,827	12,913,417	4%
Maintenance and operations	13,414,225	11,775,245	-12%
Administration	7,187,492	7,905,368	10%
Other expenses	15,937,581	23,658,562	48%
<b>Total expenses</b>	<b>143,242,778</b>	<b>150,438,419</b>	<b>5%</b>
<b>Change in net assets</b>	<b>\$ (1,931,263)</b>	<b>\$ 4,205,487</b>	<b>318%</b>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*  
JUNE 30, 2011

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FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (*continued*)

Changes in Net Assets (*continued*)

As reported in the Statement of Activities on page 12, the cost of all our governmental activities this year was \$150,438,419 (refer to Table A-3). The amount that our taxpayers ultimately financed for these activities through taxes was only \$79,561,080 because the cost was paid by those who benefited from the programs (\$4,739,807), by other governments and organizations who subsidized certain programs with grants and contributions (\$52,528,009) or through other local sources (\$17,815,010).

**Table A-3**  
**Net Costs of Santa Monica-Malibu Unified School District's**  
**Governmental Activities**

	Total Cost of Services	Net Cost of Services
Instructional services	\$ 94,185,827	\$ 70,137,165
Pupil support services	12,913,417	6,232,029
Maintenance and operations	11,775,245	10,396,274
Administration	7,905,368	7,301,524
Other expenses	23,658,562	20,979,681
<b>Total expenses</b>	<b>\$ 150,438,419</b>	<b>\$ 115,046,673</b>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$183,059,134, which is greater than last year's ending fund balance of \$129,214,816. The District's General Fund had \$679,410 more in operating revenues than expenditures in 2010-2011.

**CURRENT YEAR BUDGET 2010-11**

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a monthly basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As shown in Table A-4, the District invested \$203,878,873 in capital assets, net of accumulated depreciation at June 30, 2011.

**Table A-4  
Santa Monica-Malibu Unified School District's Capital Assets**

	<b>Governmental Activities</b>		<b>Total</b>
	<b>2010</b>	<b>2011</b>	<b>Percentage Change 2010-11</b>
Land	\$ 10,002,583	\$ 10,002,583	0%
Site improvements	1,129,089	1,019,061	-10%
Buildings	136,817,468	132,566,466	-3%
Furniture and equipment	1,837,968	1,749,450	-5%
Construction in progress	41,815,949	58,541,313	40%
<b>Total capital assets</b>	<b>\$ 191,603,057</b>	<b>\$ 203,878,873</b>	<b>6%</b>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*  
JUNE 30, 2011

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CAPITAL ASSET AND DEBT ADMINISTRATION (*continued*)

Long-Term Debt

At year-end, the District had \$276,428,574 in long-term debt, an increase of 28% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

Table A-5  
Santa Monica-Malibu Unified School District's Long-Term Debt

	Governmental Activities		Total Percentage Change
	2010	2011	2010-11
General obligation bonds	\$ 191,020,049	\$ 249,594,488	31%
Premium on issuance	3,088,335	4,237,603	37%
Issuance costs	(1,071,694)	(1,573,161)	47%
Certificates of participation	18,650,155	18,388,167	-1%
Premium on issuance	-	565,100	100%
Issuance costs	-	(179,078)	100%
Compensated absences	923,367	1,036,654	12%
Net OPEB obligation	3,099,131	4,358,801	41%
<b>Total long-term debt</b>	<b>\$ 215,709,343</b>	<b>\$ 276,428,574</b>	<b>28%</b>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

- At the state level, the budget situation continues to reflect challenging economic times. The 2011 State Budget was balanced on optimistic revenue projections and contains "trigger" language that would reduce school funding mid-year, should the state fail to meet those projections. In addition, one-time sources of federal funding from the American Recovery and Reinvestment Act and the Education Jobs Act are ending and to continue program services funded by these sources will require either new federal funding or a reallocation of district funds. State categorical program flexibility continues for the 2010-11 and 2011-12 fiscal years with no anticipated changes. School districts continue to be authorized to use funding from 42 Tier III categorical programs for any purpose. K-3 class size reduction penalties have been relaxed through 2012-13 and school agencies maintain the flexibility to shorten the school year until 2014-15.
- Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2011-12 fiscal year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for money it receives. If you have any questions about this report, or need additional financial information, contact the District's Business Office at (310) 450-8338 or by mail at 1651 16<sup>th</sup> Street, Santa Monica, California 90404.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Primary Government	June 30, 2010
	Governmental Activities	Discretely Presented Component Unit
<b>ASSETS</b>		
Cash and cash equivalents	\$ 185,811,198	\$ 3,492,132
Accounts receivable	14,781,729	-
Inventory	54,851	-
Prepaid expenses	95,934	34,220
Other current assets	3,104,476	-
Total current assets	203,848,188	3,526,352
Capital assets, non-depreciable	68,543,896	-
Capital assets, depreciable, net	135,334,977	-
Total non-current assets	203,878,873	-
<b>Total Assets</b>	<b>407,727,061</b>	<b>3,526,352</b>
<b>LIABILITIES</b>		
Deficit cash	167,759	-
Accrued liabilities	20,898,289	643,269
Deferred revenue	1,495,730	-
Long-term liabilities, current portion	8,825,000	-
Total current liabilities	31,386,778	643,269
Long-term liabilities, non-current portion	267,603,574	-
<b>Total Liabilities</b>	<b>298,990,352</b>	<b>643,269</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	65,960,477	-
Restricted for		
Capital projects	8,226,754	-
Debt service	13,258,095	-
Educational programs	3,615,686	2,807,633
Unrestricted	17,675,697	75,450
<b>Total Net Assets</b>	<b>\$ 108,736,709</b>	<b>\$ 2,883,083</b>

The accompanying notes are an integral part of these financial statements.



**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

Function/Programs	Expenses	Program Revenues		Net (Expenses)	June 30, 2010
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Assets	
				Governmental Activities	Discretely Presented Component Unit
<b>GOVERNMENTAL ACTIVITIES</b>					
Instruction	\$ 78,530,686	\$ 1,930,126	\$ 18,924,970	\$ (57,675,590)	
Instruction-related services					
Instructional supervision and administration	5,158,166	193,284	2,069,714	(2,895,168)	
Instructional library, media, and technology	1,072,130	2,540	6,142	(1,063,448)	
School site administration	9,424,845	178,630	743,256	(8,502,959)	
Pupil services					
Home-to-school transportation	1,601,917	121,326	842,478	(638,113)	
Food services	3,501,839	1,533,810	1,911,638	(56,391)	
All other pupil services	7,809,661	30,104	2,242,032	(5,537,525)	
General administration					
Centralized data processing	735,032	-	27,859	(707,173)	
All other general administration	7,170,336	128,810	447,175	(6,594,351)	
Plant services	11,775,245	350,371	1,028,600	(10,396,274)	
Ancillary services	754,791	72,101	174,377	(508,313)	
Community services	784,697	198,705	480,564	(105,428)	
Interest on long-term debt	17,403,879	-	1,753,134	(15,650,745)	
Depreciation (unallocated)	4,715,195	-	-	(4,715,195)	
<b>Total Governmental Activities</b>	<b>\$ 150,438,419</b>	<b>\$ 4,739,807</b>	<b>\$ 30,651,939</b>	<b>(115,046,673)</b>	
<b>DISCRETELY PRESENTED COMPONENT UNIT</b>					
Santa Monica-Malibu Education Foundation	\$ 846,417	\$ -	\$ 762,571		\$ (83,846)
<b>Total</b>	<b>\$ 846,417</b>	<b>\$ -</b>	<b>\$ 762,571</b>		<b>(83,846)</b>
General revenues					
Taxes and subventions					
Property taxes, levied for general purposes					
				49,458,676	-
Property taxes, levied for debt service					
				17,564,896	-
Property taxes, levied for other specific purposes					
				12,537,508	-
Federal and state aid not restricted for specific purposes					
				21,876,070	-
Interest and investment earnings					
				2,263,733	346,114
Miscellaneous					
				15,551,277	-
<b>Subtotal, General Revenue</b>				<b>119,252,160</b>	<b>346,114</b>
<b>CHANGE IN NET ASSETS</b>				<b>4,205,487</b>	<b>262,268</b>
<b>Net Assets - Beginning</b>				<b>104,531,222</b>	<b>2,620,815</b>
<b>Net Assets - Ending</b>				<b>\$ 108,736,709</b>	<b>\$ 2,883,083</b>

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Bond Interest &amp; Redemption Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 23,252,420	\$ 130,400,831	\$ 16,793,761	\$ 13,606,565	\$ 184,053,577
Accounts receivable	12,466,266	403,510	-	1,906,632	14,776,408
Stores inventory	11,208	-	-	43,643	54,851
Prepaid expenditures	95,934	-	-	-	95,934
Other current assets	3,104,476	-	-	-	3,104,476
<b>Total Assets</b>	<b>\$ 38,930,304</b>	<b>\$ 130,804,341</b>	<b>\$ 16,793,761</b>	<b>\$ 15,556,840</b>	<b>\$ 202,085,246</b>
<b>LIABILITIES</b>					
Deficit cash	\$ -	\$ -	\$ -	\$ 167,759	\$ 167,759
Accrued liabilities	14,199,973	2,236,314	-	926,336	17,362,623
Deferred revenue	1,376,222	-	-	119,508	1,495,730
<b>Total Liabilities</b>	<b>15,576,195</b>	<b>2,236,314</b>	<b>-</b>	<b>1,213,603</b>	<b>19,026,112</b>
<b>FUND BALANCES</b>					
Non-spendable	127,142	-	-	43,643	170,785
Spendable					
Restricted					
Educational programs	3,507,164	-	-	108,522	3,615,686
Capital projects	-	128,568,027	-	12,773,450	141,341,477
Debt service	-	-	16,793,761	-	16,793,761
Committed	-	-	-	1,003,004	1,003,004
Assigned	-	-	-	414,618	414,618
Unassigned	19,719,803	-	-	-	19,719,803
<b>Total Fund Balances</b>	<b>23,354,109</b>	<b>128,568,027</b>	<b>16,793,761</b>	<b>14,343,237</b>	<b>183,059,134</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 38,930,304</b>	<b>\$ 130,804,341</b>	<b>\$ 16,793,761</b>	<b>\$ 15,556,840</b>	<b>\$ 202,085,246</b>

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT  
OF NET ASSETS  
JUNE 30, 2011**

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**Total Fund Balance - Governmental Funds** \$ 183,059,134

Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:

Capital assets:

In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation:

Capital assets	\$ 288,398,988	
Accumulated depreciation	(84,520,115)	203,878,873

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Unamortized costs:

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the governmental-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in net long-term debt on the statement of net assets are:

1,752,239

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was:

(3,535,666)

Long-term liabilities:

In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds payable	\$ (249,594,488)	
Premium on issuance	(4,237,603)	
Compensated absences	(1,036,654)	
Certificates of participation payable	(18,388,167)	
Premium on issuance	(565,100)	(273,822,012)

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Internal service funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are:

(2,595,859)

**Total Net Assets - Governmental Activities** \$ 108,736,709

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The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Revenue limit sources					
State aid	\$ 9,942,600	\$ -	\$ -	\$ -	\$ 9,942,600
Local sources	49,458,676	-	-	-	49,458,676
Transfers	338,812	-	-	-	338,812
Federal sources	8,205,707	-	1,753,134	4,599,941	14,558,782
Other state sources	13,155,815	-	47,273	2,302,913	15,506,001
Other local sources	37,360,494	1,791,319	17,788,123	7,892,217	64,832,153
<b>Total Revenues</b>	<b>118,462,104</b>	<b>1,791,319</b>	<b>19,588,530</b>	<b>14,795,071</b>	<b>154,637,024</b>
<b>EXPENDITURES</b>					
Current					
Instruction	72,130,573	-	-	5,506,706	77,637,279
Instruction-related services					
Instructional supervision and administration	4,565,833	-	-	679,134	5,244,967
Instructional library, media, and technology	1,072,130	-	-	-	1,072,130
School site administration	8,555,675	-	-	801,148	9,356,823
Pupil services					
Home-to-school transportation	1,638,290	-	-	-	1,638,290
Food services	12,245	-	-	3,500,609	3,512,854
All other pupil services	7,591,492	-	-	199,274	7,790,766
General administration					
Centralized data processing	740,545	-	-	-	740,545
All other general administration	6,546,784	-	-	413,270	6,960,054
Plant services	11,563,054	-	-	337,098	11,900,152
Facilities acquisition and maintenance	-	15,922,482	-	614,853	16,537,335
Ancillary services	759,828	-	-	-	759,828
Community services	786,376	-	-	-	786,376
Debt service					
Principal	-	-	9,500,000	11,860,000	21,360,000
Interest and other	65,087	762,354	10,029,256	994,440	11,851,137
<b>Total Expenditures</b>	<b>116,027,912</b>	<b>16,684,836</b>	<b>19,529,256</b>	<b>24,906,532</b>	<b>177,148,536</b>
<b>Excess (Deficiency) of Revenues</b>					
<b>Over Expenditures</b>	<b>2,434,192</b>	<b>(14,893,517)</b>	<b>59,274</b>	<b>(10,111,461)</b>	<b>(22,511,512)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	1,278	-	-	-	1,278
Other sources	-	65,796,244	497,942	11,817,704	78,111,890
Transfers Out	(1,756,060)	-	-	(1,278)	(1,757,338)
<b>Net Financing Sources (Uses)</b>	<b>(1,754,782)</b>	<b>65,796,244</b>	<b>497,942</b>	<b>11,816,426</b>	<b>76,355,830</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>679,410</b>	<b>50,902,727</b>	<b>557,216</b>	<b>1,704,965</b>	<b>53,844,318</b>
<b>Fund Balance - Beginning, as originally stated</b>	<b>20,935,764</b>	<b>77,665,300</b>	<b>16,236,545</b>	<b>14,377,207</b>	<b>129,214,816</b>
<b>Restatement (Note 15)</b>	<b>1,738,935</b>	<b>-</b>	<b>-</b>	<b>(1,738,935)</b>	<b>-</b>
<b>Fund Balance - Beginning, as restated</b>	<b>22,674,699</b>	<b>77,665,300</b>	<b>16,236,545</b>	<b>12,638,272</b>	<b>129,214,816</b>
<b>Fund Balance - Ending</b>	<b>\$ 23,354,109</b>	<b>\$ 128,568,027</b>	<b>\$ 16,793,761</b>	<b>\$ 14,343,237</b>	<b>\$ 183,059,134</b>

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Net Change in Fund Balances - Governmental Funds** \$ 53,844,318

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

	Expenditures for capital outlay:	16,991,011	
	Depreciation expense:	(4,715,195)	12,275,816

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Debt service:

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

21,360,000

Debt proceeds:

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(78,111,890)

Debt issue costs:

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:

	Issue costs incurred during the period:	736,241	
	Issue costs amortized for the period:	(55,696)	680,545

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The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF  
ACTIVITIES, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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Interest on long-term debt:

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the outstanding debt increased by \$2,958,358, and second, \$3,442,451 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

(6,400,809)

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:

(113,287)

Amortization of debt issue premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:

167,522

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The change also includes the previously recognized OPEB expense from prior years. The net change in internal service funds and OPEB expense was:

503,272

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<b>Change in net assets of Governmental Activities</b>	\$	<b>4,205,487</b>
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The accompanying notes are an integral part of these financial statements.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2011

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	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
	<u>Self-Insurance</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,757,621
Accounts receivable	5,321
<b>Total Assets</b>	<b>\$ 1,762,942</b>
<b>LIABILITIES</b>	
Non-current liabilities	\$ 4,358,801
<b>Total Liabilities</b>	<b>4,358,801</b>
<b>NET ASSETS</b>	
Unrestricted	\$ (2,595,859)
<b>Total Net Assets</b>	<b>(2,595,859)</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,762,942</b>

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2011**

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	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
	<u>Self-Insurance</u>
<b>OPERATING EXPENSE</b>	
Salaries and benefits	\$ 4,358,801
<b>OPERATING LOSS</b>	<u>(4,358,801)</u>
<b>NON-OPERATING REVENUES</b>	
Interest income	6,882
Transfers in	1,756,060
Total non-operating revenues	<u>1,762,942</u>
<b>CHANGE IN NET DEFICIT</b>	<u>(2,595,859)</u>
<b>Net Deficit - Beginning</b>	-
<b>Net Deficit - Ending</b>	<u>\$ (2,595,859)</u>

The accompanying notes are an integral part of these financial statements.



**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2011**

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	<b>Governmental Activities</b>
	<b>Internal Service Funds</b>
	<b>Self-Insurance</b>
<b>Cash flows from non-capital financing activities</b>	
Interfund transfers in	\$ 1,756,060
<b>Cash flows from investing activities</b>	
Interest received	1,561
<b>NET INCREASE IN CASH</b>	<b>1,757,621</b>
<b>CASH</b>	
Beginning of year	-
End of year	\$ 1,757,621
<b>Reconciliation of operating loss to cash used in operating activities</b>	
Operating loss	\$ (4,358,801)
Increase in OPEB obligation	4,358,801
<b>Net cash used by operating activities</b>	<b>\$ -</b>

The accompanying notes are an integral part of these financial statements.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

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	<b>ASB Agency Funds</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 506,264
Accounts receivable	45
Stores inventory	40,434
Prepaid expenses	49,292
<b>Total Assets</b>	<b>\$ 596,035</b>
<b>LIABILITIES</b>	
Accrued liabilities	\$ 57,324
Due to other agencies/student groups	538,711
<b>Total Liabilities</b>	<b>\$ 596,035</b>

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

The Santa Monica-Malibu Unified School District was established in 1875, under the laws of the State of California. The District operates under a locally-elected seven-member Board form of government and provides educational services to grades K – 12 as mandated by the State and/or Federal agencies. The District operates ten elementary schools, two middle schools, two high schools, one continuation high school, one alternative school, one community day school, one adult education center, and thirteen child care and development centers.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For Santa Monica-Malibu Unified School District, this includes general operations, food service, and student related activities of the District.

**B. Component Unit**

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and thus are included in the financial statements of the District. The District has the following discretely presented component unit:

The Santa Monica-Malibu Education Foundation (Foundation) is a legally separate, tax-exempt component unit of the District. The Foundation was established in 1982 in response to devastating federal and state education budget cuts. The Foundation was founded by a dedicated group of parents, community leaders, and local business owners to enhance and supplement the curriculum of the District. The Foundation is run by a fourteen-member Board of Directors. Although the District does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the District by the donors. Because these restricted resources held by the Foundation can be used only by, or for the benefit of, the District, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Other Related Entities

**Joint Powers Authority (JPA).** The District is associated with three JPAs. These organizations do not meet the criteria for inclusion as a component unit of the District. Additional information is presented in Note 14 to the financial statements. These organizations are:

- Alliance of Schools for Cooperative Insurance Programs (ASCIP)
- Schools Excess Liability Fund (SELF)
- Schools Linked for Insurance Management (SLIM)

D. Basis of Presentation

**Government-Wide Statements.** The statement of net assets and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

**Fund Financial Statements.** The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

*Governmental funds* are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

*Proprietary funds* are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the LEA, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Basis of Presentation (*continued*)

*Fiduciary funds* are used to account for assets held by the LEA in a trustee or agency capacity for others that cannot be used to support the LEA's own programs.

Major Governmental Funds

**General Fund.** The general fund is the main operating fund of the LEA. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of an LEA's activities are reported in the general fund unless there is a compelling reason to account for an activity in another fund. An LEA may have only one general fund.

**Building Fund.** This fund exists primarily to account separately for proceeds from the sale of bonds (Education Code Section 15146) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund (Fund 21) are proceeds from the sale or lease-with-option-to-purchase of real property (Education Code Section 17462) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (Education Code Section 41003).

**Bond Interest and Redemption Fund.** This fund is used for the repayment of bonds issued for an LEA (Education Code sections 15125–15262). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund (Fund 21) of the LEA. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund (Fund 51) of the LEA. The county auditor maintains control over the LEA's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

Non-Major Governmental Funds

**Special Revenue Funds** are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

**Adult Education Fund.** This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (Education Code sections 52616[b] and 52501.5[a]).

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Basis of Presentation (*continued*)

**Child Development Fund.** This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by an LEA for, or from the operation of, child development services covered under the Child Care and Development Services Act (Education Code Section 8200 et seq.) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (Education Code Section 8328).

**Cafeteria Special Revenue Fund.** This fund is used to account separately for federal, state, and local resources to operate the food service program (Education Code sections 38090–38093). The Cafeteria Special Revenue Fund (Fund 13) shall be used only for those expenditures authorized by the governing board as necessary for the operation of the LEA's food service program (Education Code sections 38091 and 38100).

**Deferred Maintenance Fund.** This fund is used to account separately for state apportionments and the LEA's contributions for deferred maintenance purposes (Education Code sections 17582–17587). In addition, whenever the state funds provided pursuant to Education Code sections 17584 and 17585 (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the district (Education Code sections 17582 and 17583).

**Capital Project Funds.** Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

**Capital Facilities Fund.** This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (Education Code sections 17620–17626). The authority for these levies may be county/city ordinances (Government Code sections 65970–65981) or private agreements between the LEA and the developer. Interest earned in the Capital Facilities Fund (Fund 25) is restricted to that fund (Government Code Section 66006).

**Special Reserve Fund for Capital Outlay Projects.** This fund exists primarily to provide for the accumulation of general fund moneys for capital outlay purposes (*Education Code* Section 42840).

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Basis of Presentation (*continued*)

**Debt Service Funds.** Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

**Debt Service Fund.** This fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term debt.

Proprietary Funds

**Internal Service Funds.** Internal service funds are created principally to render services to other organizational units of the LEA on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

**Self-Insurance Fund.** Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of an LEA. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code* Section 17566).

Fiduciary Funds

**Trust and Agency Funds.** Trust and Agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the LEA's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

**Student Body Fund.** The Student Body Fund is an agency fund and, therefore, consists only of accounts such as Cash and balancing liability accounts, such as Due to Student Groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code* Sections 48930–48938).

E. Basis of Accounting – Measurement Focus

**Government-Wide, Proprietary, and Fiduciary Financial Statements**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Basis of Accounting – Measurement Focus (*continued*)

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

All governmental activities of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

**Governmental Funds**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within one year after year-end. All other revenue items are considered to be measurable and available only when the District receives cash. Revenue limits, property taxes, and grant awards are recorded the same as what is described for Government-Wide Statements. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, early retirement and postemployment healthcare benefits and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**Revenues – Exchange and Non-Exchange Transactions**

Revenue limits and other state apportionments are government mandated non-exchange transactions and are recognized when all eligibility requirements have been met. When the annual calculation of the revenue limit (Form K-12 Annual) is made, and the District's actual tax receipts as reported by the county auditor is subtracted, the result determines the annual state aid to which the LEA is entitled. If the difference between the calculated annual state aid and the state aid received on the second principal apportionment is positive a receivable is recorded, and if it is negative a payable is recorded. The District recognizes property tax revenues actually received as reported on CDE's Principal Apportionment Tax Software, used by county offices of education and county auditors to report school district and county taxes. The District makes no accrual for property taxes receivable as of June 30.



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Basis of Accounting – Measurement Focus (*continued*)

The District receives grant awards that are "reimbursement type" or "expenditure driven." The eligibility requirements of these awards have not been met until the LEA has made the required expenditures of the grant within the time period specified by the grantor. Revenue is recognized in the period in which the qualifying expenditures are made. Cash received but unspent at the end of the fiscal period is booked as a liability, and revenue is reduced to the amount that has been expended.

The District also receives funds for which they have fulfilled specific eligibility requirements or have provided a particular service. Once the LEAs have provided these services, they have earned the revenue provided. Any unspent money may be carried to the next year to be expended for the same restricted purposes. Revenue is recognized in the period that the service is provided, and any carryover becomes a part of the LEA's ending fund balance.

**Deferred Revenue**

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities, and Net Assets

**Deposits and Investments**

The cash balances of substantially all funds are pooled and invested by the county treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2011, based on market process. The individual funds' portions of the pool's fair value are presented as "Cash in County." Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

**Cash and Cash Equivalents**

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Cash in County is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

**Inventories and Prepaid Items**

Inventories are valued at average cost. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets utilized by the enterprise fund is also capitalized. Depreciation of capital assets is computed and recorded by the straight-line method over the following estimated useful life:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	25 – 50 years
Furniture and Equipment	5 – 15 years
Vehicles	8 years

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

F. Assets, Liabilities, and Net Assets (*continued*)

**Compensated Absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported.

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

**Deferred Issuance Costs, Premiums, and Discounts**

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

F. Assets, Liabilities, and Net Assets (*continued*)

*Restricted* - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide, proprietary fund, and fiduciary trust fund statements.

*Committed* - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

*Assigned* - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

*Unassigned* - In the general fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the general fund, that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

F. Assets, Liabilities, and Net Assets (*continued*)

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has related debt outstanding as of June 30, 2011. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The district-wide financial statements report \$25,100,535 of restricted net assets.

G. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

H. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

I. Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have been included as revenue and expenditures as required under generally accepted accounting principles.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, *continued*  
 JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

J. Changes in Accounting Principle

For the fiscal year ended June 30, 2011, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Summary of Deposits and Investments

	Governmental Activities	Fiduciary Funds	Total
Deposits in financial institutions	\$ 2,002,850	\$ 506,264	\$ 2,509,114
Cash in County	183,808,348	-	183,808,348
<b>Total</b>	<b>\$ 185,811,198</b>	<b>\$ 506,264</b>	<b>\$ 186,317,462</b>

B. Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; collateralized mortgage obligations; and the Los Angeles County Investment Pool.

**Investment in County Treasury** – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the investment policy:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U. S. Treasury Obligations	5 years	None	None
U. S. Agency Securities	5 years	None	None
Banker’s Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**Weighted Average Maturity**

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Investment Type:	Fair Value	Maturity
County Pool	\$ 183,881,871	600 days

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the county pool are not required to be rated.

F. Custodial Credit Risk – Deposits

This 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 policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, the District's bank balance of \$2,943,174 was insured, but \$1,668,842 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2011, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Self-Insurance	Total Governmental Activities	ASB Agency Funds
Federal Government						
Categorical Aid	\$ 2,113,133	\$ -	\$ 782,658	\$ -	\$ 2,895,791	\$ -
State Government						
Apportionment	3,145,771	-	-	-	3,145,771	-
Categorical Aid	3,018,607	-	306,599	-	3,325,206	-
Lottery	769,871	-	-	-	769,871	-
Other Local Sources	3,418,884	403,510	817,375	5,321	4,645,090	45
<b>Total</b>	<b>\$ 12,466,266</b>	<b>\$ 403,510</b>	<b>\$ 1,906,632</b>	<b>\$ 5,321</b>	<b>\$ 14,781,729</b>	<b>\$ 45</b>



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 01, 2010	Additions	Deductions	Balance June 30, 2011
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 10,002,583	\$ -	\$ -	\$ 10,002,583
Construction in progress	41,815,949	16,725,364	-	58,541,313
<hr/>				
Total Capital Assets not Being				
Depreciated	51,818,532	16,725,364	-	68,543,896
<hr/>				
Capital assets being depreciated				
Land improvements	11,665,890	-	-	11,665,890
Buildings & improvements	196,625,179	-	-	196,625,179
Furniture & equipment	11,298,376	265,647	-	11,564,023
<hr/>				
Total Capital Assets Being				
Depreciated	219,589,445	265,647	-	219,855,092
<hr/>				
Less Accumulated Depreciation				
Land improvements	10,536,801	110,028	-	10,646,829
Buildings & improvements	59,807,711	4,251,002	-	64,058,713
Furniture & equipment	9,460,408	354,165	-	9,814,573
<hr/>				
Total Accumulated Depreciation	79,804,920	4,715,195	-	84,520,115
<hr/>				
<b>Governmental Activities</b>				
<b>Capital Assets, net</b>	<b>\$ 191,603,057</b>	<b>\$ 12,275,816</b>	<b>\$ -</b>	<b>\$ 203,878,873</b>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

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NOTE 5 – INTERFUND TRANSACTIONS

A. Operating Transfers

Interfund Transfers Out	Interfund Transfers In		Total
	General Fund	Self-Insurance	
General Fund	\$ -	\$ 1,756,060	\$ 1,756,060
Non-Major Governmental Funds	1,278	-	1,278
<b>Total Interfund Transfers</b>	<b>\$ 1,278</b>	<b>\$ 1,756,060</b>	<b>\$ 1,757,338</b>

The Special Reserve Fund for Other than Postemployment Benefits was restated and transferred from the

General Fund to the Self Insurance Fund to account for other postemployment benefits. \$ 1,756,060

The non-major Debt Service Fund was closed due to inactivity and transferred to the General Fund. 1,278

**Total** \$ 1,757,338

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

**NOTE 6 – ACCRUED LIABILITIES**

Accrued liabilities at June 30, 2011, consisted of the following:

	<b>General Fund</b>	<b>Building Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Activities</b>	<b>ASB Agency Funds</b>
Payroll	\$ 11,202,128	\$ 31,891	\$ 595,314	\$ 11,829,333	\$ -
Construction	-	2,204,423	-	2,204,423	-
Vendors payable	2,684,243	-	331,022	3,015,265	57,324
Due to Grantor Government	313,602	-	-	313,602	-
<b>Total</b>	<b>\$ 14,199,973</b>	<b>\$ 2,236,314</b>	<b>\$ 926,336</b>	<b>17,362,623</b>	<b>\$ 57,324</b>
Unmatured interest on long-term debt				3,535,666	
				<b>\$ 20,898,289</b>	

**NOTE 7 – CURRENT LOANS**

On July 1, 2010, the District issued a \$15,000,000 Tax Revenue Anticipation Note (TRAN). The TRAN has an interest rate of 2.0% and matured June 30, 2011. The TRANs are issued to supplement cash flow. The District is not required to make any additional payments on the note.

**NOTE 8 – DEFERRED REVENUE**

The District periodically will receive grant money prior to making expenditures for that grant. The source of that grant money is listed below by fund. The deferred revenue totals at June 30, 2011, consist of the following:

	<b>General Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Activities</b>
Federal sources	\$ 144,172	\$ 28,564	\$ 172,736
Local deferrals	1,232,050	90,944	1,322,994
<b>Total</b>	<b>\$ 1,376,222</b>	<b>\$ 119,508</b>	<b>\$ 1,495,730</b>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

NOTE 9 – LONG-TERM DEBT

A. Long-Term Debt Summary

	Balance July 01, 2010	Accretion/ Additions	Deductions	Balance June 30, 2011	Balance Due In One Year
<b>Governmental Activities</b>					
General Obligation (GO) Bonds	\$ 191,020,049	\$ 68,074,439	\$ 9,500,000	\$ 249,594,488	\$ 7,780,000
Premium on issuance	3,088,335	1,294,186	144,918	4,237,603	144,918
Issuance costs	(1,071,694)	(550,000)	(48,533)	(1,573,161)	(48,533)
Certificates of Participation (COPs)	18,650,155	11,598,012	11,860,000	18,388,167	1,045,000
Premium on issuance	-	587,704	22,604	565,100	22,604
Issuance costs	-	(186,241)	(7,163)	(179,078)	(7,163)
Compensated absences	923,367	113,287	-	1,036,654	-
Net OPEB obligations	3,099,131	1,259,670	-	4,358,801	-
<b>Total</b>	<b>\$ 215,709,343</b>	<b>\$ 82,191,057</b>	<b>\$ 21,471,826</b>	<b>\$ 276,428,574</b>	<b>\$ 8,936,826</b>

B. Bonded Debt

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding June 30, 2010	Issuance/ Accretion	Redeemed	Bonds Outstanding June 30, 2011
June 18, 1998	August 1, 2018	3.75% - 5.25%	\$ 68,145,000	\$ 37,770,000	\$ -	\$ 3,525,000	\$ 34,245,000
May 26, 1999	August 1, 2023	3.20% - 5.38%	38,000,034	44,195,049	3,074,439	2,400,000	44,869,488
June 1, 2001	August 1, 2025	4.00% - 5.15%	3,995,000	270,000	-	130,000	140,000
February 23, 2006	August 1, 2025	3.50% - 4.15%	3,285,000	3,165,000	-	35,000	3,130,000
October 2, 2007	August 1, 2032	4.00% - 5.50%	60,000,000	45,620,000	-	410,000	45,210,000
July 23, 2009	August 1, 2019	1.50% - 5.00%	11,875,000	11,875,000	-	3,000,000	8,875,000
July 23, 2009	August 1, 2034	5.65% - 7.56%	48,125,000	48,125,000	-	-	48,125,000
July 14, 2010	July 1, 2023	3.00% - 5.00%	10,690,000	-	10,690,000	-	10,690,000
July 14, 2010	July 1, 2035	5.80% - 6.63%	54,310,000	-	54,310,000	-	54,310,000
<b>Total</b>				<b>\$ 191,020,049</b>	<b>\$ 68,074,439</b>	<b>\$ 9,500,000</b>	<b>\$ 249,594,488</b>

Series 1998 Refunding Bonds

On June 18, 1998, the District issued \$68,145,000 of General Obligation Refunding Bonds Series 1998, with interest rates ranging from 3.75% to 5.25%. The bonds were issued to refund and defease all of the 1991A Bonds and 1993 Bonds maturing after August 1, 1998. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing February 1, 1999, principal on the bonds is payable annually each August 1, commencing August 1, 1999 through the final maturity date of August 1, 2018. The principal balance outstanding on June 30, 2011 amounted to \$34,245,000.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 9 – LONG-TERM DEBT (continued)**

**B. Bonded Debt (continued)**

**Election 1998**

In an election held November 3, 1998, the voters authorized the District to issue and sale \$42,000,000 of principal amount of general obligation bonds. These bonds were issued for the purpose of financing the rehabilitation, construction, and renovation of school facilities to improve learning conditions, removing asbestos, making earthquake safety improvements and providing handicapped access, as well as paying the costs of issuance incurred in connection with the issuance of the bonds. There were two issuances under this election:

- Series 1999, which was issued on May 26, 1999 for \$38,000,034 with interest rates ranging from 3.20% to 4.50%. The original issuance consisted of \$15,825,000 in current interest serial bonds and \$22,175,034 in capital appreciation serial bonds. Interest on the current interest bonds accrues from its dated date and is payable semi-annually each February 1 and August 1, commencing February 1, 2000, principal on the bonds is payable annually each August 1, commencing August 1, 2000 through the final maturity date of August 1, 2011. The capital appreciation bonds accrue interest from its dated date, compounded semi-annually on February 1 and August 1 of each year, principal on the bonds is payable annually each August 1, commencing August 1, 2012 through the final maturity date of August 1, 2023. The principal balance outstanding on June 30, 2011 amounted to \$44,869,488.
- Series 2001, which was issued on June 1, 2001 for \$3,995,000 with interest rates ranging from 4.00% to 5.125%. The original issuance consisted of \$1,895,000 in current interest serial bonds and \$2,100,000 in current interest term bonds. Interest on the bonds accrues from their dated date and is payable semi-annually each February 1 and August 1, commencing February 1, 2002, principal on the bonds is payable annually each August 1, commencing August 1, 2002 through the final maturity date of August 1, 2025. The principal balance outstanding on June 30, 2011 amounted to \$140,000.

**2006 General Obligation Refunding Bonds**

On February 23, 2006, the District issued \$3,285,000 of 2006 General Obligation Refunding Bonds, with interest rates ranging from 3.50% to 4.00%. The bonds were issued to refund all or a portion of the District's outstanding General Obligation Bonds, Election of 1998, Series 2001 and pay costs of issuance of the bonds. The original issuance consisted of \$605,000 in current interest serial bonds and \$2,680,000 in current interest term bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing August 1, 2006, principal on the bonds is payable annually each August 1, commencing August 1, 2006 through the final maturity date of August 1, 2025. The principal balance outstanding on June 30, 2011 amounted to \$3,130,000.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 9 – LONG-TERM DEBT (continued)**

**B. Bonded Debt (continued)**

**Election 2006**

In an election held November 7, 2006, the voters authorized the District to issue and sale \$268,000,000 of principal amount of general obligation bonds. These bonds were issued for the purpose of financing the construction, renovation, modernization, and equipping of school facilities and to pay costs of issuance associated with the bonds. There were four issuances under this election:

- Series A, which was issued on October 2, 2007 for \$60,000,000 with interest rates ranging from 4.00% to 5.00%. The original issuance consisted of \$45,835,000 in current interest serial bonds and \$14,165,000 in current interest term bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing February 1, 2008, principal on the bonds is payable annually each August 1, commencing August 1, 2008 through the final maturity date of August 1, 2032. The principal balance outstanding on June 30, 2011 amounted to \$45,210,000.
- Series B, which was issued on July 23, 2009 for \$11,875,000 with interest rates ranging from 1.50% to 5.00%. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing February 1, 2010, principal on the bonds is payable annually each August 1, commencing August 1, 2010 through the final maturity date of August 1, 2019. The principal balance outstanding on June 30, 2011 amounted to \$8,875,000.
- Series B-1 (Build America Bonds – Direct Payment to District – Federally Taxable), which was issued on July 23, 2009 for \$48,125,000 with interest rates ranging from 5.645% to 7.556%. The bonds are designated “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009. Pursuant to the Recovery Act, the District expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the bonds on or about each interest payment date. The original issuance consisted of \$6,140,000 in current interest serial bonds and \$41,985,000 in current interest term bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing February 1, 2010, principal on the bonds is payable annually each August 1, commencing August 1, 2020 through the final maturity date of August 1, 2034. The principal balance outstanding on June 30, 2011 amounted to \$48,125,000.
- Series C, which was issued on July 14, 2010 for \$10,690,000 with interest rates ranging from 3.00% to 5.00%. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semi-annually each January 1 and July 1, commencing January 1, 2011, principal on the bonds is payable annually each July 1, commencing July 1, 2011 through the final maturity date of July 1, 2023. The principal balance outstanding on June 30, 2011 amounted to \$10,690,000.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

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NOTE 9 – LONG-TERM DEBT (continued)

**B. Bonded Debt (continued)**

- Series C-1 (Build America Bonds – Direct Payment to District – Federally Taxable), which was issued on July 14, 2010 for \$54,310,000 with interest rates ranging from 5.796% to 6.634%. The bonds are designated “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009. Pursuant to the Recovery Act, the District expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the bonds on or about each interest payment date. The original issuance consisted entirely of current interest term bonds. Interest on the bonds is payable semi-annually each January 1 and July 1, commencing January 1, 2011, principal on the bonds is payable annually each July 1, commencing July 1, 2025 through the final maturity date of July 1, 2035. The principal balance outstanding on June 30, 2011 amounted to \$54,310,000.

**C. Debt Service Requirements to Maturity – Bonds**

The bonds mature through 2036 as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 7,780,000	\$ 11,706,015	\$ 19,486,015
2013	6,827,188	12,702,257	19,529,445
2014	7,289,386	12,529,587	19,818,973
2015	7,774,593	12,355,478	20,130,071
2016	8,296,050	12,143,446	20,439,496
2017 - 2021	41,106,161	61,788,368	102,894,529
2022 - 2026	39,041,656	47,212,181	86,253,837
2027 - 2031	53,480,000	18,019,377	71,499,377
2032 - 2036	58,000,000	4,350,933	62,350,933
Accretion	19,999,454	(19,999,454)	-
<b>Total</b>	<b>\$ 249,594,488</b>	<b>\$ 172,808,188</b>	<b>\$ 422,402,676</b>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

**NOTE 9 – LONG-TERM DEBT (continued)**

**D. Certificates of Participation (COPs)**

Issue Date	Maturity Date	Interest Rate	Original Issue	Certificates			Certificates
				Outstanding June 30, 2010	Issuance/ Accretion	Redeemed	Outstanding June 30, 2011
November 15, 2001	May 1, 2025	2.40% - 6.51%	\$ 4,755,000	\$ 3,540,000	\$ -	\$ 3,540,000	\$ -
November 15, 2001	May 1, 2025	3.50% - 5.40%	15,206,501	15,110,155	368,012	8,215,000	7,263,167
December 1, 2010	May 1, 2014	1.09% - 3.04%	3,215,000	-	3,215,000	105,000	3,110,000
December 1, 2010	May 1, 2024	2.00% - 5.00%	8,015,000	-	8,015,000	-	8,015,000
<b>Total</b>				<b>\$ 18,650,155</b>	<b>\$ 11,598,012</b>	<b>\$ 11,860,000</b>	<b>\$ 18,388,167</b>

**2001 Series B (Federally Taxable)**

On November 15, 2001, the District and the Los Angeles County Schools Regionalized Business Services Corporation entered a sublease in which the Corporation leased to the District certain real property and building and improvements situated thereon. The 2001 Series B (Federally Taxable) Certificates of Participation were executed and delivered to finance payments relating to acquisition of certain interests in real property, fund a reserve fund and pay costs of execution and delivery of the certificates. Series B Certificates consisted of \$1,365,000 of current interest serial certificates and \$3,390,000 of current interest term certificates for a total issuance of \$4,755,000. The certificates have interest rates ranging from 2.40% to 6.40%. Interest on the certificates is payable semi-annually each May 1 and November 1, commencing May 1, 2002, principal on the certificates is payable annually each May 1, commencing May 1, 2002 through the final maturity date of May 1, 2025. The certificates were refunded with proceeds from the 2010 Refunding Certificates.

**2001 Series C**

On November 15, 2001, the District and the Los Angeles County Schools Regionalized Business Services Corporation entered a sublease in which the Corporation leased to the District certain real property and building and improvements situated thereon. The 2001 Series C Certificates of Participation were executed and delivered to finance payments relating to acquisition of certain interests in real property, fund a reserve fund and pay costs of execution and delivery of the certificates. Series C Certificates consisted of \$10,740,000 of current interest serial certificates and \$4,466,501 of capital appreciation serial certificates for a total issuance of \$15,206,501. The certificates have interest rates ranging from 3.50% to 5.40%. Interest on the current interest certificates is payable semi-annually each May 1 and November 1, commencing May 1, 2002, principal on the certificates is payable annually each May 1, commencing May 1, 2002 through the final maturity date of May 1, 2018. Interest on the capital appreciation certificates accretes from the dated date, compounded semi-annually on each May 1 and November 1, commencing May 1, 2002, principal and interest payments are payable semi-annually each May 1 and November 1, commencing November 1, 2018 through the final maturity date of May 1, 2025. A portion of the outstanding certificates were refunded with proceeds from the 2010 Refunding Certificates, the outstanding principal balance at June 30, 2011, amounted to \$7,263,167.



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

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NOTE 9 – LONG-TERM DEBT (continued)

D. Certificates of Participation (COPs) (continued)

**2010 Refunding, Series A (Federally Taxable)**

On December 1, 2010, the District and the California School Boards Association Finance Corporation entered a sublease in which the Corporation leased to the District certain real property and building and improvements situated thereon. The 2010 Refunding Certificates of Participation, Series A were executed and delivered to refund a portion of the District's outstanding Certificates of Participation, 2001 Series B (Federally Taxable) and pay the costs related to the execution and delivery of the Certificates. Series A Certificates consisted of \$3,215,000 in current interest serial certificates. The certificates have interest rates ranging from 1.093% to 3.042%. Interest on the certificates is payable semi-annually each May 1 and November 1, commencing May 1, 2011, principal on the certificates is payable annually each May 1, commencing May 1, 2011 through the final maturity date of May 1, 2014. The principal balance outstanding at June 30, 2011 amounted to \$3,110,000.

**2010 Refunding, Series B (Tax-Exempt)**

On December 1, 2010, the District and the California School Boards Association Finance Corporation entered a sublease in which the Corporation leased to the District certain real property and building and improvements situated thereon. The 2010 Refunding Certificates of Participation, Series B were executed and delivered to refund a portion of the District's outstanding Certificates of Participation, 2001 Series C, finance the construction, renovation, and modernization of school sites and facilities, and pay the costs related to the execution and delivery of the Certificates. Series B Certificates consisted of \$8,015,000 in current interest serial certificates. The certificates have interest rates ranging from 2.00% to 5.00%. Interest on the certificates is payable semi-annually each May 1 and November 1, commencing May 1, 2011, principal on the certificates is payable annually each May 1, commencing May 1, 2014 through the final maturity date of May 1, 2024. The principal balance outstanding at June 30, 2011 amounted to \$8,015,000.

E. Debt Service Requirements to Maturity – COPs

The certificates mature through 2026 as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 1,045,000	\$ 418,048	\$ 1,463,048
2013	1,065,000	399,395	1,464,395
2014	1,090,000	374,101	1,464,101
2015	1,120,000	341,881	1,461,881
2016	1,570,000	297,081	1,867,081
2017 - 2021	6,180,339	3,600,617	9,780,956
2022 - 2026	3,521,162	5,365,432	8,886,594
Accretion	2,796,666	(2,796,666)	-
<b>Total</b>	<b>\$ 18,388,167</b>	<b>\$ 7,999,889</b>	<b>\$ 26,388,056</b>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 9 – LONG-TERM DEBT (*continued*)

F. Compensated Absences

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$1,036,654.

G. Other Postemployment Benefits (OPEB)

The District follows GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The District's annual required contribution for the year ended June 30, 2011, was \$2,305,698 with net interest and other adjustments of (\$46,646) for a net annual OPEB cost of \$2,259,052 and contributions made by the District during the year were \$999,382, which resulted in an increase to net OPEB obligation of \$1,259,670. The ending OPEB balance at June 30, 2011 was \$4,358,801. See Note 11 for additional information regarding the net OPEB Obligation and the postemployment benefit plan.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

**NOTE 10 – FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Activities
Non-spendable					
Non-restricted					
Reserve for revolving cash	\$ 20,000	\$ -	\$ -	\$ -	\$ 20,000
Reserve for stores inventory	11,208	-	-	43,643	54,851
Reserve for prepaid expenditures(expenses)	95,934	-	-	-	95,934
Spendable					
Restricted					
Educational programs					
Federal	712,937	-	-	-	712,937
State	448,823	-	-	45,874	494,697
Local	2,345,404	-	-	62,648	2,408,052
Other	-	-	-	414,618	414,618
Capital projects	-	128,568,027	-	12,773,450	141,341,477
Debt service	-	-	16,793,761	-	16,793,761
Committed					
Other commitments	-	-	-	1,003,004	1,003,004
Assigned					
Rollover Budgets	506,000	-	-	-	506,000
Deficit Spending	4,171,088	-	-	-	4,171,088
Staffing Increases	1,076,182	-	-	-	1,076,182
Mid-Year Cuts	3,000,000	-	-	-	3,000,000
Unassigned					
Reserve for economic uncertainties	3,413,726	-	-	-	3,413,726
Unassigned	7,552,807	-	-	-	7,552,807
<b>Total</b>	<b>\$ 23,354,109</b>	<b>\$ 128,568,027</b>	<b>\$ 16,793,761</b>	<b>\$ 14,343,237</b>	<b>\$ 183,059,134</b>

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties of no less than three (3) percent of General Fund expenditures and other financing uses.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011

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NOTE 11 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS  
(OPEB)

A. Plan Description

Santa Monica-Malibu Unified School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental, and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 (certificated)/ age 50 (classified) with at least 10 years of service. The District provides medical benefits at the same level they are receiving at the time of retirement for a period of up to 5 years or to age 65, whichever occurs first. In addition, all retirees over the age of 65 receive a lifetime monthly supplement of \$97 per month. Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	326
Active plan members	1,184
<u>Total</u>	<u>1,510</u>

Number of participating employers 1

B. Funding Policy

The contribution requirements of Plan members and the District are established and may be amended by the District and District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011, the District contributed \$999,382 to the Plan, all of which was used for current premiums.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

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NOTE 11 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS  
 (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs 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 to the plan, and changes in the District’s net OPEB obligation to the Plan:

Annual required contribution	\$	2,305,698
Interest on net OPEB obligation		154,957
Adjustment to annual required contribution		(201,603)
Annual OPEB cost (expense)		2,259,052
Contributions made		(999,382)
Increase in net OPEB obligation		1,259,670
Net OPEB obligation, beginning of the year		3,099,131
Net OPEB obligation, end of the year	\$	4,358,801

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years is as follows:

Fiscal Year	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2008-09	\$ 2,608,733	34%	\$ 1,710,762
2009-10	\$ 2,279,949	39%	\$ 3,099,131
2010-11	\$ 2,259,052	44%	\$ 4,358,801

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011

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NOTE 11 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS  
(OPEB) (continued)

**D. Funded Status and Funding Progress**

As of June 30, 2011, the most recent actuarial valuation date, the plan was not funded. This results in an unfunded actuarial accrued liability (UAAL) of \$19,679,640. The covered payroll (annual payroll of active employees covered by the plan) was \$32,275,084, and the ratio of UAAL to the covered payroll was 61 percent.

Actuarial valuations of an ongoing 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 healthcare 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, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**E. Actuarial Methods and Assumptions**

Projections and 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, consistent with the long-term perspective of the calculations.

In the July 1, 2009, actuarial valuation, the “projected unit credit” actuarial cost method was used. The actuarial assumptions included an inflation rate of 5 percent per year. For medical costs a 5 percent trend rate was used, with a 4 percent trend rate assumed for dental costs. A 30 year level-dollar, open amortization method was used.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

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**NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS).

**A. California State Teachers' Retirement System (CalSTRS)**

**Plan Description**

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2010-11	\$ 4,553,338	100%
2009-10	\$ 4,752,967	100%
2008-09	\$ 4,896,143	100%

**On-Behalf Payments**

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$2,349,219 to CalSTRS (4.267% of salaries subject to CalSTRS in 2010-11).

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

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NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS (continued)

**B. California Public Employees' Retirement System (CalPERS)**

**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 Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

**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 required employer contribution rate for fiscal year 2011 was 10.707% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2010-11	\$ 2,395,864	100%
2009-10	\$ 2,185,011	100%
2008-09	\$ 2,046,627	100%

**C. Social Security**

As established by federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the Social Security as its alternative plan.



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 13 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2011.

C. Construction Commitments

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects of approximately \$11.6 million to be paid from bond funds.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 14 – PARTICIPATION IN JOINT POWERS AUTHORITIES**

The District is a member of three joint powers authorities (JPAs). The first is the Alliance of Schools for Cooperative Insurance Programs (ASCIP) to provide property and liability insurance coverage, the next is the Schools Excess Liability Fund (SELF) to provide excess property and liability insurance coverage, and the final is the Schools Linked for Insurance Management (SLIM) to provide workers' compensation insurance coverage. The relationship is such that the JPAs are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these financial statements. Audited financial statements are available from the respective entities.

During the year ended June 30, 2011, the District made payments of \$1,164,823 and \$1,653,417, to ASCIP, and SLIM, respectively.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

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NOTE 15 – PRIOR PERIOD RESTATEMENTS

The District implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, during the fiscal year 2010-11, the effect of which was to reclassify and restate the following funds as General Fund activities:

	<u>General Fund</u>	<u>Special Reserve Fund for Postemployment Benefits</u>
2010 Change in Fund Balance	\$ (6,948,850)	\$ 24,465
Decrease in:		
Local revenue	-	(24,465)
Increase in:		
Local revenue	24,465	-
<b>Restated Change in Fund Balance</b>	<b>\$ (6,924,385)</b>	<b>\$ -</b>

	<u>General Fund</u>	<u>Special Reserve Fund for Postemployment Benefits</u>
2010 Fund Balance	\$ 20,935,764	\$ 1,738,935
Decrease In:		
Cash and cash equivalents	-	(1,733,084)
Accounts Receivable	-	(5,851)
Increase In:		
Cash and cash equivalents	1,733,084	-
Accounts receivable	5,851	-
<b>Restated Fund Balance</b>	<b>\$ 22,674,699</b>	<b>\$ -</b>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 16 – SUBSEQUENT EVENTS

Tax Revenue Anticipation Notes (TRANs)

The District issued \$4,945,000 of TRANs dated July 28, 2011. The notes mature on June 29, 2012, and yield a 2.00% interest rate. The notes were sold to supplement cash flow.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Positive / (Negative) Final to Actual
<b>REVENUES</b>				
Revenue limit sources				
State aid	\$ 11,970,960	\$ 10,260,499	\$ 9,942,600	\$ (317,899)
Local sources	100,461,596	49,038,434	49,458,676	420,242
Transfers	694,708	357,311	338,812	(18,499)
Federal sources	10,086,384	8,789,265	8,205,707	(583,558)
Other state sources	18,562,092	10,395,027	13,155,815	2,760,788
Other local sources	61,491,268	35,705,693	37,360,494	1,654,801
<b>Total Revenues</b>	<b>203,267,008</b>	<b>114,546,229</b>	<b>118,462,104</b>	<b>3,915,875</b>
<b>EXPENDITURES</b>				
Certificated salaries	103,710,786	54,234,095	53,360,158	873,937
Classified salaries	39,593,610	21,317,954	21,518,525	(200,571)
Employee benefits	45,055,576	23,785,218	25,610,668	(1,825,450)
Books and supplies	4,756,026	4,426,068	3,154,942	1,271,126
Services and other operating expenditures	20,394,056	13,492,920	12,356,484	1,136,436
Capital outlay	429,000	918,218	440,405	477,813
Other outgo				
Transfers of indirect costs	(518,218)	(456,184)	(413,270)	(42,914)
<b>Total Expenditures</b>	<b>213,420,836</b>	<b>117,718,289</b>	<b>116,027,912</b>	<b>1,690,377</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>(10,153,828)</b>	<b>(3,172,060)</b>	<b>2,434,192</b>	<b>5,606,252</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	1,278	1,278	-
Transfers out	-	(2,206,060)	(1,756,060)	450,000
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>(2,204,782)</b>	<b>(1,754,782)</b>	<b>450,000</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(10,153,828)</b>	<b>(5,376,842)</b>	<b>679,410</b>	<b>6,056,252</b>
<b>Fund Balance - Beginning, as restated</b>	<b>22,674,699</b>	<b>22,674,699</b>	<b>22,674,699</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 12,520,871</b>	<b>\$ 17,297,857</b>	<b>\$ 23,354,109</b>	<b>\$ 6,056,252</b>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT (OPEB) FUNDING PROGRESS AND  
EMPLOYER CONTRIBUTION  
FOR THE YEAR ENDED JUNE 30, 2011**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Valuation of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
July 1, 2007	\$ -	\$ 21,221,071	\$ 21,221,071	0%	not available	N/A
July 1, 2009	\$ -	\$ 19,679,640	\$ 19,679,640	0%	\$ 32,275,084	61%

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**SUPPLEMENTARY  
INFORMATION**

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**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
Passed through California Department of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I, Part A Cluster:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14416	\$ 1,244,957
ARRA Title I, Part A, Basic Grants Low Income and Neglected	84.389	15005	206,119
Subtotal			1,451,076
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330	14831	7,095
Title II, Part A Cluster:			
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	506,035
Title II, Part A, Administrator Training	84.367	14344	3,000
Subtotal			509,035
Title II, Part D Cluster:			
Title II, Part D, Enhancing Education Through Technology (EETT), Formula Grants	84.318	14334	6,495
Title II, Part D, Enhancing Education Through Technology (EETT), Competitive Grants	84.318	14368	114,743
ARRA Title II, Part D, Enhancing Education Through Technology (EETT) Formula Grants	84.386	15019	9,414
ARRA Title II, Part D, Enhancing Education Through Technology, Competitive Grants (EETT)	84.386	15126	182,965
Subtotal			313,617
Title III, Immigrant Education Program	84.365	15146	133,303
ARRA: State Fiscal Stabilization Fund (SFSF)	84.394	25008	1,367,226
Education Jobs Fund (SB 847)	84.410	25152	1,899,768
Adult Education Cluster:			
Adult Basic Education & ESL	84.002A	14508	36,260
Adult Secondary Education	84.002	13978	9,900
English Literacy & Civics Education Local Grant	84.002A	14109	29,674
Subtotal			75,834
Special Education Cluster:			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	2,178,994
ARRA IDEA Part B, Sec 611, Basic Local Assistance	84.391	15003	12,091
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	78,158
ARRA IDEA Part B, Sec 619, Preschool Grants	84.392	15000	8,300
IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	84.027A	13682	148,436
ARRA IDEA Part B, Sec 611, Preschool Local Entitlement	84.391	15002	11,723
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	1,000
Subtotal			2,438,702
IDEA Early Intervention Grants, Part C	84.181	23761	30,020
Department of Rehabilitation: Workability II, Transitions Partnership Cluster:			
Department of Rehabilitation: Workability II, Transitions Partnership	84.158	10006	129,991
Department of Rehabilitation: ARRA Workability II, Transitions Partnership	84.390A	10130	14,184
Subtotal			144,175
<b>Total U. S. Department of Education</b>			<b>8,369,851</b>

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF AGRICULTURE:			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch	10.555	13396	1,012,279
Especially Needy Breakfast	10.553	13526	206,065
Commodities	10.555	13389	125,597
Subtotal			1,343,941
Fresh Fruit and Vegetable Program	10.582	14968	57,180
CCFP Claims - Centers and Family Day Care	10.558	13393	241,592
<b>Total U. S. Department of Agriculture</b>			1,642,713
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Passed through CDE:			
Child Development Cluster:			
Federal General Child Care & Development (CCTR) and CA State Preschool Program (CSPP)	93.575	15136	1,154,810
Child Development: Quality Improvement Activities	93.575	13979	1,459
Child Development: ARRA Quality Improvement Activities	93.713	15010	22,815
Subtotal			1,179,084
Passed through California Department of Health Services:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	228,430
Medi-Cal Administrative Activities	93.778	10060	466,993
Subtotal			695,423
Passed through Los Angeles County Office of Education:			
Head Start [1]	93.600	10016	1,702,310
<b>Total U. S. Department of Health &amp; Human Services</b>			3,576,817
<b>Total Federal Expenditures</b>			\$ 13,589,381

[1] - In-Kind Contribution

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)  
FOR THE YEAR ENDED JUNE 30, 2011**

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	<b>Second Period Report</b>	<b>Annual Report</b>
<b>ELEMENTARY</b>		
Kindergarten	718	721
First through third	2,335	2,341
Fourth through sixth	2,367	2,372
Seventh through eighth	1,657	1,655
Home and hospital	1	2
Special day class	200	203
Total Elementary	7,278	7,294
<b>SECONDARY</b>		
Regular classes	3,419	3,416
Continuation education	101	102
Opportunity schools	13	13
Home and hospital	3	4
Special day class	163	166
Total Secondary	3,699	3,701
Average Daily Attendance Total	10,977	10,995

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2011**

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<b>Grade Level</b>	<b>1982 - 83</b>	<b>1982 - 83</b>	<b>1986 - 87</b>	<b>1986 - 87</b>	<b>2010-11</b>	<b>Number of Days</b>	<b>Status</b>
	<b>Actual Minutes</b>	<b>Actual Minutes Reduced</b>	<b>Minutes Requirement</b>	<b>Minutes Requirement Reduced</b>	<b>Actual Minutes</b>		
Kindergarten	36,000	35,000	36,000	35,000	44,620	176	Complied
Grade 1	53,100	51,625	50,400	49,000	53,375	176	Complied
Grade 2	53,100	51,625	50,400	49,000	53,375	176	Complied
Grade 3	53,100	51,625	50,400	49,000	53,375	176	Complied
Grade 4	54,480	52,967	54,000	52,500	53,375	176	Complied
Grade 5	54,480	52,967	54,000	52,500	53,375	176	Complied
Grade 6	54,480	52,967	54,000	52,500	59,070	176	Complied
Grade 7	54,480	52,967	54,000	52,500	59,070	176	Complied
Grade 8	54,480	52,967	54,000	52,500	59,070	176	Complied
Grade 9	64,800	63,000	64,800	63,000	63,447	176	Complied
Grade 10	64,800	63,000	64,800	63,000	63,447	176	Complied
Grade 11	64,800	63,000	64,800	63,000	63,447	176	Complied
Grade 12	64,800	63,000	64,800	63,000	63,447	176	Complied

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>2012 (Budget)</b>		<b>2011</b>		<b>2010</b>		<b>2009</b>
<b>GENERAL FUND:</b>							
Revenues	\$ 110,664,847	\$	118,444,979	\$	105,993,081	\$	118,794,000
Transfers in	-		1,278		1,919,794		-
<b>Total</b>	<b>110,664,847</b>		<b>118,446,257</b>		<b>107,912,875</b>		<b>118,794,000</b>
Expenditures	114,941,048		116,027,912		114,390,603		117,919,560
Other uses and transfers out	-		-		471,122		75,000
<b>Total</b>	<b>114,941,048</b>		<b>116,027,912</b>		<b>114,861,725</b>		<b>117,994,560</b>
<b>INCREASE/(DECREASE)</b>							
IN FUNDBALANCE	\$ (4,276,201)	\$	2,418,345	\$	(6,948,850)	\$	799,440
<b>ENDING FUNDBALANCE<sup>1</sup></b>							
	\$ 19,077,908	\$	23,354,109	\$	20,935,764	\$	27,884,614
<b>AVAILABLE RESERVES<sup>2</sup></b>							
	\$ 6,787,587	\$	10,966,533	\$	15,432,244	\$	17,628,526
<b>AVAILABLE RESERVES AS A</b>							
PERCENTAGE OF OUTGO	5.9%		9.5%		13.4%		14.9%
<b>LONG-TERM DEBT</b>							
	\$ 267,491,748	\$	276,428,574	\$	216,781,037	\$	164,927,832
<b>AVERAGEDAILY</b>							
ATTENDANCE AT P-2	10,747		10,977		11,106		11,019

The General Fund balance has decreased by \$4,530,505 over the past two years. The fiscal year 2011-2012 budget projects a further decrease of \$4,276,201 (18.3 percent). For a district this size, the State recommends available reserves of at least three percent of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2011-2012 fiscal year. Total long term obligations have increased by \$111,500,742 over the past two years.

Average daily attendance has decreased by 42 ADA over the past two years. Additional decline of 230 ADA is anticipated during the 2011-2012 fiscal year.

<sup>1</sup> The beginning fund balance as of July 1, 2010 was restated by \$1,738,935, as described in Note 15 to the financial statements.

<sup>2</sup> Available reserves consist of all unassigned fund balance within the General Fund, including the Reserve for Economic Uncertainties.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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	<u>Self-Insurance Fund</u>
<b>FUND BALANCE</b>	
Balance June 30, 2011, Unaudited Actuals	\$ 1,762,942
Increase in:	
Other postemployment benefits	(4,358,801)
<u>Audited financial statement</u>	<u>\$ (2,595,859)</u>

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
JUNE 30, 2011**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Fund for Postemployment Benefits	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Non-Major Governmental Funds
<b>ASSETS</b>									
Cash and cash equivalents	\$ 268,589	\$ -	\$ 323,602	\$ 724,824	\$ -	\$ 7,656,816	\$ 4,632,734	\$ -	\$ 13,606,565
Accounts receivable	34,541	901,055	302,044	2,195	-	213,781	453,016	-	1,906,632
Stores inventory	-	-	43,643	-	-	-	-	-	43,643
<b>Total Assets</b>	<b>\$ 303,130</b>	<b>\$ 901,055</b>	<b>\$ 669,289</b>	<b>\$ 727,019</b>	<b>\$ -</b>	<b>\$ 7,870,597</b>	<b>\$ 5,085,750</b>	<b>\$ -</b>	<b>\$ 15,556,840</b>
<b>LIABILITIES</b>									
Deficit cash	\$ -	\$ 167,759	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 167,759
Accrued liabilities	17,858	495,113	226,920	3,548	-	-	182,897	-	926,336
Deferred revenue	-	119,508	-	-	-	-	-	-	119,508
<b>Total Liabilities</b>	<b>17,858</b>	<b>782,380</b>	<b>226,920</b>	<b>3,548</b>	<b>-</b>	<b>-</b>	<b>182,897</b>	<b>-</b>	<b>1,213,603</b>
<b>FUND BALANCES</b>									
Non-spendable	-	-	43,643	-	-	-	-	-	43,643
Spendable									
Restricted									
Educational programs	5,739	102,783	-	-	-	-	-	-	108,522
Capital projects	-	-	-	-	-	7,870,597	4,902,853	-	12,773,450
Committed	279,533	-	-	723,471	-	-	-	-	1,003,004
Assigned	-	15,892	398,726	-	-	-	-	-	414,618
<b>Total Fund Balances</b>	<b>285,272</b>	<b>118,675</b>	<b>442,369</b>	<b>723,471</b>	<b>-</b>	<b>7,870,597</b>	<b>4,902,853</b>	<b>-</b>	<b>14,343,237</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 303,130</b>	<b>\$ 901,055</b>	<b>\$ 669,289</b>	<b>\$ 727,019</b>	<b>\$ -</b>	<b>\$ 7,870,597</b>	<b>\$ 5,085,750</b>	<b>\$ -</b>	<b>\$ 15,556,840</b>

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2011**

	Adult Education	Child		Deferred	Special Reserve		Special Reserve		Non-Major
	Fund	Development	Cafeteria Fund	Maintenance	Fund for	Capital Facilities	Fund for Capital	Debt Service Fund	Governmental
	Fund	Fund	Fund	Fund	Postemployment	Fund	Outlay Projects		Funds
					Benefits				
<b>REVENUES</b>									
Federal sources	\$ 75,834	\$ 3,122,986	\$ 1,401,121	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,599,941
Other state sources	265,853	1,934,925	102,135	-	-	-	-	-	2,302,913
Other local sources	60,939	2,785,884	1,630,289	9,275	-	931,390	2,474,424	16	7,892,217
<b>Total Revenues</b>	<b>402,626</b>	<b>7,843,795</b>	<b>3,133,545</b>	<b>9,275</b>	<b>-</b>	<b>931,390</b>	<b>2,474,424</b>	<b>16</b>	<b>14,795,071</b>
<b>EXPENDITURES</b>									
Current									
Instruction	140,615	5,366,091	-	-	-	-	-	-	5,506,706
Instruction-related services									
Instructional supervision and administration	-	679,134	-	-	-	-	-	-	679,134
School site administration	179,199	621,949	-	-	-	-	-	-	801,148
Pupil services									
Food services	-	476,075	3,024,534	-	-	-	-	-	3,500,609
All other pupil services	18,903	180,371	-	-	-	-	-	-	199,274
General administration									
All other general administration	-	304,832	108,438	-	-	-	-	-	413,270
Plant services	45,850	205,501	-	16,767	-	7,847	61,133	-	337,098
Facilities acquisition and maintenance	-	-	-	-	-	-	614,853	-	614,853
Debt service									
Principal	-	-	-	-	-	-	11,860,000	-	11,860,000
Interest and other	-	-	-	-	-	-	994,440	-	994,440
<b>Total Expenditures</b>	<b>384,567</b>	<b>7,833,953</b>	<b>3,132,972</b>	<b>16,767</b>	<b>-</b>	<b>7,847</b>	<b>13,530,426</b>	<b>-</b>	<b>24,906,532</b>
<b>Excess (Deficiency) of Revenues</b>									
<b>Over Expenditures</b>	<b>18,059</b>	<b>9,842</b>	<b>573</b>	<b>(7,492)</b>	<b>-</b>	<b>923,543</b>	<b>(11,056,002)</b>	<b>16</b>	<b>(10,111,461)</b>
<b>Other Financing Sources (Uses)</b>									
Other sources	-	-	-	-	-	-	11,817,704	-	11,817,704
Transfers out	-	-	-	-	-	-	-	(1,278)	(1,278)
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,817,704</b>	<b>(1,278)</b>	<b>11,816,426</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>18,059</b>	<b>9,842</b>	<b>573</b>	<b>(7,492)</b>	<b>-</b>	<b>923,543</b>	<b>761,702</b>	<b>(1,262)</b>	<b>1,704,965</b>
<b>Fund Balance - Beginning, as originally stated</b>	<b>267,213</b>	<b>108,833</b>	<b>441,796</b>	<b>730,963</b>	<b>1,738,935</b>	<b>6,947,054</b>	<b>4,141,151</b>	<b>1,262</b>	<b>14,377,207</b>
<b>Restatement (Note 15)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,738,935)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,738,935)</b>
<b>Fund Balance - Beginning, as restated</b>	<b>267,213</b>	<b>108,833</b>	<b>441,796</b>	<b>730,963</b>	<b>-</b>	<b>6,947,054</b>	<b>4,141,151</b>	<b>1,262</b>	<b>12,638,272</b>
<b>Fund Balance - Ending</b>	<b>\$ 285,272</b>	<b>\$ 118,675</b>	<b>\$ 442,369</b>	<b>\$ 723,471</b>	<b>\$ -</b>	<b>\$ 7,870,597</b>	<b>\$ 4,902,853</b>	<b>\$ -</b>	<b>\$ 14,343,237</b>

See accompanying note to supplementary information.



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2011

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NOTE 1 – PURPOSE OF SCHEDULES

**A. Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**B. Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

**C. Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201.

**D. Schedule of Financial Trends and Analysis**

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

**E. Schedule of Annual Financial and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

**F. Combining Statements – Non-Major Governmental Funds**

These statements provide information on the District's non-major funds.

**G. Local Education Agency Organization Structure**

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration. (Located in the front of the audit report)

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**OTHER INDEPENDENT  
AUDITORS' REPORTS**

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

Board of Trustees  
Santa Monica-Malibu Unified School District  
Santa Monica, California

We have audited the financial statements of Santa Monica-Malibu Unified School District as of and for the year ended June 30, 2011, and have issued our report thereon dated December 11, 2011. 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**

Management of Santa Monica-Malibu Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Santa Monica-Malibu Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as finding #2011-1 through #2011-3 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Santa Monica-Malibu Unified School 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-Malibu Unified School District's responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit Santa Monica-Malibu Unified School District's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the California State Controller's Office, the California Department of Finance, 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.

A handwritten signature in cursive script that reads "Christy White".

San Diego, California  
December 11, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees  
Santa Monica-Malibu Unified School District  
Santa Monica, California

**Compliance**

We have audited Santa Monica-Malibu Unified School District's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. Santa Monica-Malibu Unified School 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 Santa Monica-Malibu Unified School District's management. Our responsibility is to express an opinion on Santa Monica-Malibu Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Santa Monica-Malibu Unified School 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 Santa Monica-Malibu Unified School District's compliance with those requirements.

In our opinion, Santa Monica-Malibu Unified School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## Internal Control over Compliance

Management of Santa Monica-Malibu Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Santa Monica-Malibu Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the California State Controller's Office, the California Department of Finance, 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.

*Christine White* Accountancy Corporation

San Diego, California

December 11, 2011



**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

Board of Trustees  
 Santa Monica-Malibu Unified School District  
 Santa Monica, California

We have audited Santa Monica-Malibu Unified School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations for the year ended June 30, 2011. Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Santa Monica-Malibu Unified School District's management. Our responsibility is to express an opinion on Santa Monica-Malibu Unified School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Santa Monica-Malibu Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Santa Monica-Malibu Unified School District's compliance with the state laws and regulations referred to above.

In connection with the audit referred to above, we selected and tested transactions and records to determine Santa Monica-Malibu Unified School District's compliance with the state laws and regulations applicable to the following items:

<b>PROGRAM NAME</b>	<b>PROCEDURES IN AUDIT GUIDE</b>	<b>PROCEDURES PERFORMED</b>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No, see below
Continuation Education	10	Yes
Instructional Time for:		
School Districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials, general requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes

**SAN DIEGO**

**RANCHO CUCAMONGA**

2727 Camino Del Rio South • Suite 219 • San Diego, CA 92108 | 8686 Haven Avenue • Suite 250 • Rancho Cucamonga, CA 91730  
 tel. 619.270.8222 • [www.cwacpa.com](http://www.cwacpa.com) • fax. 619.260.9085

<b>PROGRAM NAME</b>	<b>PROCEDURES IN AUDIT GUIDE</b>	<b>PROCEDURES PERFORMED</b>
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Class Size Reduction (including in charter schools):		
General requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or charter schools with only one school serving K - 3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	5	Not Applicable
Contemporaneous Records of Attendance; for charter schools	1	Not Applicable
Mode of Instruction; for charter schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	3	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	3	Not Applicable

We did not perform testing for Independent Study because ADA was below the required threshold for testing.

In our opinion, Santa Monica-Malibu Unified School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2011.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the California State Controller's Office, the California Department of Finance, 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.

*Chintal White*  
Accountancy Corporation

San Diego, California  
December 11, 2011



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**SCHEDULE OF FINDINGS  
AND QUESTIONED COSTS**

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**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
<u>84.010, 84.389 (ARRA)</u>	<u>Title I, Part A Cluster (including ARRA)</u>
<u>84.367</u>	<u>Title II, Part A Cluster</u>
<u>84.318, 84.386 (ARRA)</u>	<u>Title II, Part D Cluster (including ARRA)</u>
<u>84.394 (ARRA)</u>	<u>ARRA: State Fiscal Stabilization Fund (SFSF)</u>
<u>84.410</u>	<u>Education Jobs Fund (SB 847)</u>
<u>84.027, 84.027A, 84.173, 84.173A, 84.391 (ARRA), 84.392 (ARRA)</u>	<u>Special Education Cluster (including ARRA)</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>
<u>93.575, 93.713 (ARRA)</u>	<u>Child Development Cluster (including ARRA)</u>
<u>93.778</u>	<u>Medicaid Cluster</u>
<u>93.600</u>	<u>Head Start</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 407,681</u>
Auditee qualified as low-risk auditee?	<u>No</u>

**STATE AWARDS**

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unqualified</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011

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FIVE DIGIT CODE

20000  
30000  
60000

AB 3627 FINDING TYPE

Inventory of Equipment  
Internal Control  
Miscellaneous

FINDING #2011-01 CREDIT CARDS (30000)

**Criteria:** Proper internal control processes over the credit card cash disbursement cycle include requiring receipts to support all purchases made using the credit cards.

**Condition:** During our testing of credit card transactions, it was noted that two of ten items tested did not contain the supporting receipts for purchases of gasoline.

**Cause:** Insufficient control over credit card purchase transactions.

**Effect:** The potential for payments to be made for non-District expenses.

**Questioned Costs:** None

**Recommendation:** We recommend that the District enforce the existing policy which requires employees to turn in receipts for all purchases. There should also be consistent review of fuel purchases to ensure that no expenditures are being for personal purchases.

**District Response:** The District concurs and a strict enforcement policy is in place. Individuals not complying will be appropriately disciplined.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
FINANCIAL STATEMENT FINDINGS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2011**

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**FINDING #2011-02 CAFETERIA BANK RECONCILIATION (30000)**

**Criteria:** Procedures over the cash collection cycle should include timely and accurate reconciliation of the District's cafeteria bank account.

**Condition:** During our testing of bank reconciliations, it was noted that the cafeteria bank account was not properly reconciled to the District's general ledger balances.

**Cause:** Improper reconciliation of the cafeteria bank account.

**Effect:** The potential for the District cash balances to be inaccurately reported.

**Questioned Costs:** None

**Recommendation:** The District should work with the clerk responsible for reconciling the bank account to ensure that timely and accurate reconciliations are performed on a monthly basis.

**District Response:** Reconciliations are now being done accurately and on time.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
FINANCIAL STATEMENT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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**FINDING #2011-03 ASSOCIATED STUDENT BODY (ASB) FUNDS – SANTA MONICA HIGH SCHOOL  
(30000)**

**Criteria:** Maintaining sound internal control procedures over cash receipts, cash disbursements, bank reconciliations and minutes of council meetings reduces the opportunity for irregularities to go undetected. The Fiscal Crisis & Management Assistance Team (FCMAT) Associated Student Body Accounting Manual & Desk Reference outlines proper internal control procedures for associated student body accounts to follow.

**Condition:** During our testing of student body activity at Santa Monica High School, we noted that the bookkeeper was not consistently provided with supporting documentation for cash collected through fundraising activities. Of the eight cash collections tested, seven did not contain proper supporting documentation, including, ticket logs, cash count sheets and/or inventory reconciliations.

**Cause:** Insufficient controls over student body activities.

**Effect:** The potential for cash collection irregularities to go undetected.

**Questioned Costs:** None

**Recommendation:** The District should ensure that all employees involved in student body cash collections understand the proper internal control procedures in place and provide all supporting documentation to the ASB bookkeeper at the time of deposit.

**District Response:** Staff will conduct an in service training for secondary ASB clerks.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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*There were no federal award findings or questioned costs in 2010-11.*

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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*There were no state award findings or questioned costs in 2010-11.*

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

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*Prior Year Audit Finding #2010-1: Credit Cards (30000)*

Our audit included an evaluation of internal controls over District credit cards. We found that two out of 11 credit card transactions did not have receipts for purchases of gasoline from Clean Energy. The District's credit card policy states that receipts must be turned in to Fiscal Services timely for all purchases, therefore there are cardholders not adhering to the District policy. The District must pay credit card bills timely to avoid late fees and not receiving documentation timely can lead to payment of inappropriate expenses.

**Recommendation:** We recommend a policy be put in place to ensure receipts are turned in to support credit card purchases.

**Current Status:** Not implemented, see current year finding and recommendation #2011-1.



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2011

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*Prior Year Audit Finding #2010-2: Student Body Funds (30000)*

In testing the student body activity at the site level, we noted the following deficiencies:

**John Adams Middle**

Cash collected for fundraising events is not reconciled to supporting documentation. The bookkeeper issues pre-numbered receipts for the total cash turned in from events, such as dances, but the cash is not reconciled to sub-receipts (ie. receipts issued to individual students, ticket logs, etc.). We found 1 out of 3 receipts tested, in the amount of \$591 for a dance event, did not have adequate documentation to support cash turned in.

There appears to be a lack of controls over cash disbursements for the ASB. We found 1 out of 5 disbursements in the amount of \$1,101 was for a reimbursement which was not preapproved. We also found 1 out of 5 cash disbursements, in the amount of \$2,324 to repair District owned musical instrument, was not appropriate for ASB. District equipment should not be repaired with student funds.

**Recommendation:** Lack of adequate controls can result in loss, fraud, or abuse of student body funds. Therefore we recommend that supporting documentation is kept for all cash received and all expenditures have adequate documentation and are reviewed for reasonableness.

**Malibu High School**

There appears to be a lack of controls over cash receipting. 1 out of 5 cash receipts in the amount of \$41 did not have an inventory count sheet to reconcile cash collected to the inventory sold.

**Recommendation:** Lack of adequate controls can result in loss, fraud, or abuse of student body funds. Therefore we recommend that supporting documentation is kept for all cash received.

**Current Status:** Not implemented. See current year Finding and recommendation #2011-3.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2011

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*Prior Year Audit Finding #2010-3: Internal Control Over Allowable Costs (50000)*

**Program:** Child Nutrition Cluster- CFDA#10.553, 10.555; Title I Cluster- CFDA# 84.010, 84.389; Title II- CFDA# 84.318; IDEA Cluster- CFDA#84.027, 84.173, 84.181, 84.391, 84.392

**Condition:** The Directors of Federal Programs are not periodically reviewing payroll reports for persons being charged to their program.

**Context:** Our testing of major federal programs includes interviewing the Program Directors to obtain an understanding of internal controls. Through inquiry we found that the Program Directors do not review payroll reports to ensure employees being charged to the programs are appropriate.

**Criteria:** Directors of federal programs should review payroll reports regularly to ensure that persons being charged to federal resources are appropriate for these programs.

**Questioned Cost:** None. This is an internal control finding and no questioned costs were identified as a result of this inquiry.

**Effect:** There is a potential for employee's salaries to be incorrectly charged to federal programs.

**Cause:** There is currently no policy in place to ensure payroll reports are being reviewed for appropriateness for federal program.

**Recommendation:** We recommend that the Directors of federal programs review payroll reports by first and last name for persons being charged to federal programs.

**Current Status:** Implemented

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2011

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*Prior Year Audit Finding #2010-4: Individuals with Disabilities Act (IDEA) Documentation of Time and Effort (50000)*

**Program:** IDEA Cluster (CFDA#s: 84.027, 84.173, 84.181, 84.391, 84.392)

**Condition:** The District does not have an adequate procedure in place to obtain documentation of employee time and effort by use of Personnel Activity Reports or semi-annual time certifications for employees whose time was charged to the Federal programs listed above.

**Context:** The District did not provide the auditors with the semi-annual time certifications for employees in the federal programs listed above in a timely manner. The time certifications were requested during the 2009-10 fiscal year, however were not prepared and furnished until November 2010.

**Criteria:** LEA's are required to document their salary and wage charges to all federal programs in accordance with the standards specified by OMB Circular A-87, Attachment B, Section 11(h).

**Questioned Cost:** The total salaries and benefits charged to the IDEA program were \$4,567,784. However, the District provided time certifications subsequent our audit field work, thus eliminating the questioned costs. These documents were not readily available upon request.

**Cause:** Clerical oversight

**Effect:** The District was not be in full compliance with the federal regulations as they pertain to the operation of the federal program listed above.

**Recommendation:** We recommend the District implement a procedure to complete and maintain time documentation semi-annually for the current fiscal year. Per guidance outlined at OMB Circular A-87, Attachment B, Section 11(h), the semi-annual time certifications may be prepared by the employee or the supervisory official having first-hand knowledge of the work performed by the employee.

**Current Status:** Implemented.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2011

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*Prior Year Audit Finding #2010-5: Continuation High Attendance Procedures (10000)*

**Criteria:** Education Code Section 46300 states that for attendance reporting “there shall be included the attendance of pupils while engaged in educational activities required of those pupils and under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law. Attendance is required to be taken daily by certificated personnel.”

**Condition:** Teachers at the continuation high school were not consistently taking attendance everyday throughout the school year.

**Context:** Our audit of attendance includes verifying that all teachers are taking attendance daily. After reviewing the attendance system we noted that teachers were not consistently taking attendance every day. Although the school uses positive attendance, which will only assign attendance credit to those students marked present by the teacher, the mainframe attendance system at the District would default all the students to present if the attendance was not submitted by the teacher. This setting resulted in possible overstatement of Average Daily Attendance (ADA) since every student was given attendance credit when the teachers did not take attendance.

After the initial audit visit and finding reported to management, the District was able to identify the teachers and days that attendance was not taken and then proceeded to remove all attendance credit claimed for those instances to avoid any overstatement of ADA. The District also updated the attendance system, so that it would no longer default to present if attendance is not taken and thus avoid future overstatement. The removal of attendance credit due to the audit finding resulted in a reduction of 4 (four) ADA for Continuation Education.

**Cause:** Lack of proper supervision.

**ADA Impact:** None. The District removed all questionable apportionment from the attendance system and revised the P2 attendance report. The auditor verified the correction and it appears that revised ADA is materially correct.

**Effect:** Possible overstatement of ADA

**Recommendation:** We recommend that teachers take attendance everyday to ensure compliance with state requirements. The attendance clerk should run a report at the end of each day which shows teachers that have not submitted their attendance and then have the Principal review the report to avoid future instances of noncompliance.

**Current Status:** Implemented

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2011

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*Prior Year Audit Finding #2010-5: Continuation High Attendance Procedures (10000)*

**Criteria:** In order to demonstrate compliance with Education Code Section 46300 which requires certificated staff supervision of pupils engaged in educational activities, contemporaneous records should be retained to support the attendance reported to the State. When a web based attendance system is used, attendance rosters should be printed out in order for certificated personnel to certify the attendance being reported is accurate. These rosters should be signed timely by the teacher to verify the accuracy of the records.

**Condition:** The Olympic Continuation high school site was not aware of the requirement to maintain contemporaneous records and therefore certificated personnel did not sign weekly attendance rosters to certify the records were accurate.

**Context:** During our initial attendance testing at Olympic Continuation we found through review and inquiry with site staff that contemporaneous attendance records including signed attendance rosters are not maintained. Through additional procedures, the District was able to identify which teachers were taking attendance. Once it was determined which teachers were taking attendance, the teachers signed an affidavit certifying the attendance reported is accurate.

**Cause:** The school site was not aware of the proper attendance accounting procedures.

**Questioned Costs:** None.

**Effect:** Contemporaneous attendance records were not obtained.

**Recommendation:** We recommend that the District require all school sites to retain contemporaneous attendance records, which includes certificated personnel taking attendance everyday and authorizing the accuracy of the attendance records by signing attendance rosters. Documentation for any changes to the attendance system that are not reflected on signed attendance rosters should be retained, such as absent notes or substitute rosters.

**Current Status:** Implemented.