

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2013

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

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

SANTA MONICA, CALIFORNIA

JUNE 30, 2013

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 adult education center, and fifteen child care and development centers.

GOVERNING BOARD

Member	Office	Term Expires
Laurie Lieberman	President	December 2014
Maria Leon-Vazquez	Vice President	December 2016
Ben Allen	Member	December 2016
Oscar de la Torre	Member	December 2014
Jose Escarce	Member	December 2016
Ralph Mechur	Member	December 2014
Nimish Patel	Member	December 2014

DISTRICT ADMINISTRATORS

Sandra Lyon
Superintendent

Debra Moore-Washington
Assistant Superintendent, Human Resources

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

Dr. Terry Deloria
Assistant Superintendent, Educational Services

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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SAN DIEGO

LOS ANGELES

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*Licensed by the California
State Board of Accountancy*

Governing Board

Santa Monica-Malibu Unified School District
Santa Monica, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Santa Monica-Malibu Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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, which represent the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Santa Monica-Malibu Education Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, each major fund, and the aggregate remaining fund information of Santa Monica-Malibu Unified School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 4 through 10, the budgetary comparison information on page 52, and the schedule of funding progress on page 53 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of 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* in considering Santa Monica-Malibu Unified School District's internal control over financial reporting and compliance.

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

San Diego, California
October 31, 2013

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

INTRODUCTION

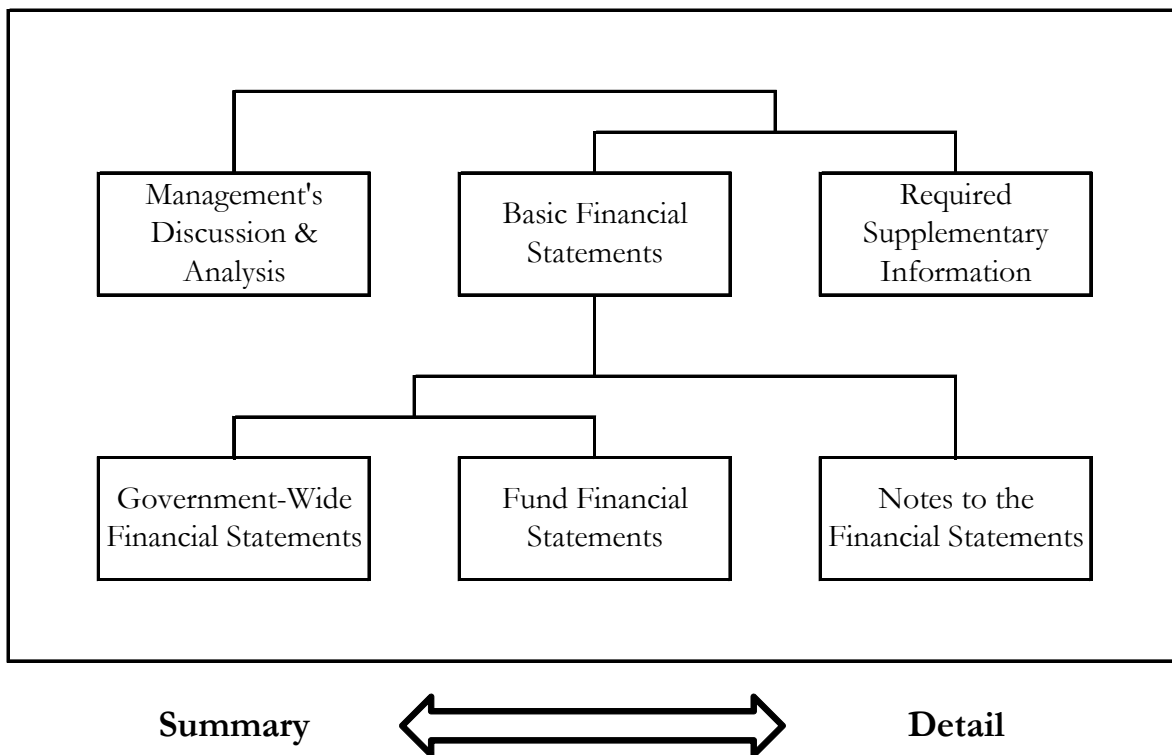
Our discussion and analysis of Santa Monica-Malibu Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2013. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total net position for the primary government was \$129,860,172 at June 30, 2013. This was an increase of \$17,077,423 from the prior year.
- Overall revenues were \$169,365,940 which exceeded expenses of \$152,288,517.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

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 position 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 position and how it has changed. Net position is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position 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
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was \$129,860,172 at June 30, 2013, as reflected in Table A-1 below. Of this amount, \$7,562,156 was unrestricted deficit. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

Table A-1			
Governmental Activities			
	2013	2012	Net Change
ASSETS			
Current and other assets	\$ 216,813,988	\$ 172,368,089	\$ 44,445,899
Capital assets	298,440,068	242,725,138	55,714,930
Total Assets	515,254,056	415,093,227	100,160,829
LIABILITIES			
Current liabilities	41,278,855	36,951,636	4,327,219
Long-term liabilities	344,115,029	265,358,842	78,756,187
Total Liabilities	385,393,884	302,310,478	83,083,406
NET POSITION			
Net investment in capital assets	89,726,329	65,306,026	24,420,303
Restricted	47,695,999	35,754,468	11,941,531
Unrestricted	(7,562,156)	11,722,255	(19,284,411)
Total Net Position	\$ 129,860,172	\$ 112,782,749	\$ 17,077,423

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Table A-2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly, so you can see our total revenues, expenses, and special items for the year.

Table A-2			
Governmental Activities			
	2013	2012	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 6,360,895	\$ 6,185,756	\$ 175,139
Operating grants and contributions	30,546,687	33,453,644	(2,906,957)
General revenues			
Property taxes	103,245,265	81,893,721	21,351,544
Unrestricted federal and state aid	13,430,119	17,364,658	(3,934,539)
Other	15,782,974	19,626,893	(3,843,919)
Total Revenues	169,365,940	158,524,672	10,841,268
EXPENSES			
Instruction	81,499,781	84,534,867	(3,035,086)
Instruction-related services	16,044,106	17,120,359	(1,076,253)
Pupil services	14,426,213	14,606,412	(180,199)
General administration	8,251,664	7,514,018	737,646
Plant services	14,627,067	13,846,524	780,543
Ancillary and community services	2,153,310	2,031,433	121,877
Debt service	15,103,673	14,707,882	395,791
Other Outgo	182,703	117,137	65,566
Total Expenses	152,288,517	154,478,632	(2,190,115)
Change in net position	17,077,423	4,046,040	13,031,383
Net Position - Beginning	112,782,749	108,736,709	4,046,040
Net Position - Ending	\$ 129,860,172	\$ 112,782,749	\$ 17,077,423

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

The total cost of all our governmental activities this year was \$152,288,517 and the net cost of activities was \$115,380,935 (refer to Table A-3). The amount that our taxpayers ultimately financed for these activities through taxes was only \$103,245,265 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions (\$50,337,701).

**Table A-3
Cost of Services**

	Total costs of services	Net costs of services
Instruction	\$ 81,499,781	\$ 60,204,245
Instruction-related services	16,044,106	14,325,837
Pupil services	14,426,213	7,873,383
General administration	8,251,664	7,605,926
Plant services	14,627,067	11,738,254
Ancillary and community services	2,153,310	1,955,741
Debt service	15,103,673	15,103,673
Transfers to other agencies	182,703	(3,426,124)
Total Expenses	\$ 152,288,517	\$ 115,380,935

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR 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 \$186,008,707, which is more than last year's ending fund balance of \$143,176,166. The District's General Fund had \$7,922,679 more in operating revenues than expenditures for the year ended June 30, 2013.

CURRENT YEAR BUDGET 2012-13

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.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2012-13 the District had invested \$298,440,068 in capital assets, net of accumulated depreciation.

Table A-4			
Governmental Activities			
	2013	2012	Net Change
CAPITAL ASSETS			
Land	\$ 10,128,802	\$ 10,002,583	\$ 126,219
Construction in progress	153,790,180	98,612,378	55,177,802
Land improvements	14,590,080	13,000,148	1,589,932
Buildings & improvements	201,349,541	198,155,252	3,194,289
Furniture & equipment	12,683,990	12,191,253	492,737
Accumulated depreciation	(94,102,525)	(89,236,476)	(4,866,049)
Total Capital Assets	\$ 298,440,068	\$ 242,725,138	\$ 55,714,930

Long-Term Liabilities

At year-end, the District had \$356,546,328 in long-term liabilities, an increase of 30.5% 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			
Governmental Activities			
	2013	2012	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 330,739,522	\$ 248,172,901	\$ 82,566,621
Total certificates of participation	17,608,338	18,250,551	(642,213)
Capital leases	117,155	-	117,155
Compensated absences	887,502	1,044,765	(157,263)
Net OPEB obligation	7,193,811	5,782,813	1,410,998
Total Long-term Liabilities	\$ 356,546,328	\$ 273,251,030	\$ 83,295,298

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

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.

Assembly Bill 97 (Chapter 47, Statutes of 2013), as amended by Senate Bills 91 and 97, enacted landmark legislation reform in California school district finance by creating the new Local Control Funding Formula (LCFF). The District is analyzing the impact of the LCFF on funding for our program offerings and services. The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The State anticipates all school districts to reach the statewide targeted base funding levels by 2020-21.

Factors related to LCFF that the District is in the process of evaluating include estimates of new funding in the next budget year and beyond; creation of the Local Control and Accountability Plan (LCAP) for fiscal year 2014-15 that aims to link student accountability measurements to funding allocations; ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, meeting new compliance and audit requirements.

The State's economy "mirrors the slow growth of the nation", this is according to the UCLA Newsroom reporting on the September 2013 Anderson Economic Forecast. "While the economy is returning to normal, it is still operating well below what would have been expected prior to the recession." The ability of the State to fund the new LCFF is largely dependent on the strength of the State's economy and remains uncertain.

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 2013-14 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government	June 30, 2012
	Governmental	Discretely Presented
	Activities	Component Unit
ASSETS		
Cash and cash equivalents	\$ 200,919,162	\$ 3,507,890
Accounts receivable	10,717,459	-
Inventory	50,929	-
Prepaid expenses	69,216	10,566
Other current assets	2,387,885	-
Deferred charges	2,669,337	-
Capital assets, not depreciated	163,918,982	-
Capital assets, net of accumulated depreciation	134,521,086	4,450
Total Assets	515,254,056	3,522,906
LIABILITIES		
Accrued liabilities	27,702,303	166,420
Unearned revenue	1,145,253	-
Long-term liabilities, current portion	12,431,299	-
Long-term liabilities, non-current portion	344,115,029	-
Total Liabilities	385,393,884	166,420
NET POSITION		
Net investment in capital assets	89,726,329	-
Restricted:		
Capital projects	17,909,826	-
Debt service	25,920,215	-
Educational programs	3,659,116	-
All others	206,842	-
Unrestricted	(7,562,156)	3,356,486
Total Net Position	\$ 129,860,172	\$ 3,356,486

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, 2013

Function/Programs	Expenses	Program Revenues		Net (Expenses)	June 30, 2012
		Charges for	Operating	Revenues and	
		Services	Grants and	Changes in	
			Contributions	Net Position	
				Governmental	Discretely
				Activities	Presented
					Component
					Unit
GOVERNMENTAL ACTIVITIES					
Instruction	\$ 81,499,781	\$ 983,903	\$ 20,311,633	\$ (60,204,245)	
Instruction-related services					
Instructional supervision and administration	4,878,665	59,505	1,146,300	(3,672,860)	
Instructional library, media, and technology	1,287,071	451	1,461	(1,285,159)	
School site administration	9,878,370	103,381	407,171	(9,367,818)	
Pupil services					
Home-to-school transportation	1,906,715	137,263	851,227	(918,225)	
Food services	3,578,326	1,568,647	1,701,593	(308,086)	
All other pupil services	8,941,172	1,350	2,292,750	(6,647,072)	
General administration					
Centralized data processing	870,249	-	-	(870,249)	
All other general administration	7,381,415	142,823	502,915	(6,735,677)	
Plant services	14,627,067	2,466,335	422,478	(11,738,254)	
Ancillary services	816,863	10,715	34,740	(771,408)	
Community services	1,336,447	35,856	116,258	(1,184,333)	
Interest on long-term debt	15,103,673	-	-	(15,103,673)	
Other Outgo	182,703	850,666	2,758,161	3,426,124	
Total Governmental Activities	\$ 152,288,517	\$ 6,360,895	\$ 30,546,687	(115,380,935)	
DISCRETELY PRESENTED COMPONENT UNIT					
Santa Monica-Malibu Education Foundation	\$ 610,395	\$ -	\$ 415,594		\$ (194,801)
Total	\$ 610,395	\$ -	\$ 415,594		(194,801)
General revenues					
Taxes and subventions					
Property taxes, levied for general purposes				65,074,726	-
Property taxes, levied for debt service				23,086,418	-
Property taxes, levied for other specific purposes				15,084,121	-
Federal and state aid not restricted for specific purposes				13,430,119	-
Interest and investment earnings				357,903	64,987
Miscellaneous				15,425,071	-
Subtotal, General Revenue				132,458,358	64,987
CHANGE IN NET POSITION				17,077,423	(129,814)
Net Position - Beginning				112,782,749	3,486,300
Net Position - Ending				\$ 129,860,172	\$ 3,356,486

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 30,259,336	\$ 123,446,666	\$ 25,920,215	\$ 18,796,773	\$ 198,422,990
Accounts receivable	9,778,562	245,847	-	690,943	10,715,352
Stores inventory	13,646	-	-	37,283	50,929
Prepaid expenditures	66,816	-	-	2,400	69,216
Other current assets	2,387,885	-	-	-	2,387,885
Total Assets	\$ 42,506,245	\$ 123,692,513	\$ 25,920,215	\$ 19,527,399	\$ 211,646,372
LIABILITIES					
Accrued liabilities	\$ 13,037,401	\$ 10,729,366	\$ -	\$ 725,645	\$ 24,492,412
Unearned revenue	1,086,300	-	-	58,953	1,145,253
Total Liabilities	14,123,701	10,729,366	-	784,598	25,637,665
FUND BALANCES					
Nonspendable	100,462	-	-	39,683	140,145
Restricted	3,626,004	112,963,147	25,920,215	18,149,780	160,659,146
Committed	-	-	-	553,338	553,338
Assigned	10,757,461	-	-	-	10,757,461
Unassigned	13,898,617	-	-	-	13,898,617
Total Fund Balances	28,382,544	112,963,147	25,920,215	18,742,801	186,008,707
Total Liabilities and Fund Balances	\$ 42,506,245	\$ 123,692,513	\$ 25,920,215	\$ 19,527,399	\$ 211,646,372

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 POSITION
JUNE 30, 2013

Total Fund Balance - Governmental Funds \$ 186,008,707

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

Capital assets:

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

Capital assets	\$ 392,542,593	
Accumulated depreciation	(94,102,525)	298,440,068

Unamortized costs:

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-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 position are:

2,669,337

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:

(3,209,891)

Long-term liabilities:

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

Total general obligation bonds	\$ 330,739,522	
Total certificates of participation	17,608,338	
Capital leases	117,155	
Compensated absences	887,502	(349,352,517)

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 position. Net position for internal service funds is:

(4,695,532)

Total Net Position - Governmental Activities \$ 129,860,172

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 BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Revenue limit sources	\$ 67,465,046	\$ -	\$ -	\$ -	\$ 67,465,046
Federal sources	4,649,349	-	1,832,155	3,738,780	10,220,284
Other state sources	13,147,436	-	53,735	2,887,371	16,088,542
Other local sources	42,230,978	582,006	23,184,018	9,587,105	75,584,107
Total Revenues	127,492,809	582,006	25,069,908	16,213,256	169,357,979
EXPENDITURES					
Current					
Instruction	72,809,374	-	-	5,769,153	78,578,527
Instruction-related services					
Instructional supervision and administration	4,345,716	-	-	485,322	4,831,038
Instructional library, media, and technology	1,248,666	-	-	-	1,248,666
School site administration	8,721,093	-	-	858,584	9,579,677
Pupil services					
Home-to-school transportation	1,852,938	-	-	-	1,852,938
Food services	13,605	-	-	3,482,241	3,495,846
All other pupil services	8,561,595	-	-	120,092	8,681,687
General administration					
Centralized data processing	850,472	-	-	-	850,472
All other general administration	6,461,957	-	-	490,339	6,952,296
Plant services	12,377,946	-	-	990,084	13,368,030
Facilities acquisition and maintenance	-	59,488,526	-	1,138,802	60,627,328
Ancillary services	793,921	-	-	-	793,921
Community services	1,312,367	-	-	81	1,312,448
Transfers to other agencies	710	-	-	-	710
Debt service					
Principal	-	-	6,827,188	1,065,000	7,892,188
Interest and other	219,770	130,000	14,064,444	399,395	14,813,609
Total Expenditures	119,570,130	59,618,526	20,891,632	14,799,093	214,879,381
Excess (Deficiency) of Revenues Over Expenditures	7,922,679	(59,036,520)	4,178,276	1,414,163	(45,521,402)
Other Financing Sources (Uses)					
Transfers in	-	-	-	200,000	200,000
Other sources	117,155	82,995,327	54,372,918	-	137,485,400
Transfers out	(200,000)	-	-	-	(200,000)
Other uses	-	-	(49,131,457)	-	(49,131,457)
Net Financing Sources (Uses)	(82,845)	82,995,327	5,241,461	200,000	88,353,943
NET CHANGE IN FUND BALANCE	7,839,834	23,958,807	9,419,737	1,614,163	42,832,541
Fund Balance - Beginning	20,542,710	89,004,340	16,500,478	17,128,638	143,176,166
Fund Balance - Ending	\$ 28,382,544	\$ 112,963,147	\$ 25,920,215	\$ 18,742,801	\$ 186,008,707

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 BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Net Change in Fund Balances - Governmental Funds \$ 42,832,541

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:	\$ 61,120,065	
Depreciation expense:	(4,866,049)	56,254,016

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: 50,660,000

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: (137,485,400)

Debt issuance costs and deferred charges on refunding:

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

Debt issuance costs and deferred charges on refunding incurred during the period:	\$ 8,381,434	
Debt issuance costs and deferred charges on refunding amortized for the period:	(70,033)	8,311,401

Unmatured 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. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 106,294

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, 2013**

Accreted interest on long-term debt:

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. (2,763,917)

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: 157,263

Cost write-off for canceled capital projects:

If a planned capital project is canceled and will not be completed, costs previously capitalized as Work-in-progress must be written off to expense. Costs written off for canceled projects were: (539,086)

Amortization of debt issuance 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 over the life of the debt. Amortization of premium or discount for the period is: 237,810

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 net increase or decrease in internal service funds was: (693,499)

Change in Net Position of Governmental Activities

\$ 17,077,423

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities Internal Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,496,172
Accounts receivable	2,107
Total Assets	2,498,279
LIABILITIES	
Non-current liabilities	7,193,811
Total Liabilities	7,193,811
NET POSITION	
Unrestricted	(4,695,532)
Total Net Position	\$ (4,695,532)

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 NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Governmental Activities Internal Service Fund
OPERATING REVENUE	
Charges for services	\$ 1,761,737
Total operating revenues	<u>1,761,737</u>
OPERATING EXPENSE	
Professional services	2,463,197
Total operating expenses	<u>2,463,197</u>
Operating income/(loss)	<u>(701,460)</u>
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	7,961
Total non-operating revenues/(expenses)	<u>7,961</u>
CHANGE IN NET POSITION	<u>(693,499)</u>
Net Position - Beginning	<u>(4,002,033)</u>
Net Position - Ending	<u>\$ (4,695,532)</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, 2013**

	Governmental Activities
	Internal Service Fund
Cash flows from operating activities	
Cash received from assessments made to other funds	\$ 1,761,526
Cash payments for payroll, insurance, and operating costs	(1,052,199)
Net cash provided by operating activities	709,327
Cash flows from investing activities	
Interest received	7,961
Net cash provided by investing activities	7,961
NET INCREASE IN CASH AND CASH EQUIVALENTS	717,288
CASH AND CASH EQUIVALENTS	
Beginning of year	1,778,884
End of year	\$ 2,496,172
Reconciliation of operating income to cash provided by operating activities	
Operating loss	\$ (701,460)
Changes in assets and liabilities:	
Increase in accounts receivable	(211)
Increase in non-current liabilities	1,410,998
Net cash provided by operating activities	\$ 709,327

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Agency Funds</u>
	<u>Student Body</u>
	<u>Fund</u>
ASSETS	
Cash and cash equivalents	\$ 476,013
Stores inventory	19,669
Prepaid expenses	3,745
Total Assets	<u>\$ 499,427</u>
LIABILITIES	
Accrued liabilities	\$ 98,791
Due to student groups	400,636
Total Liabilities	<u>\$ 499,427</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 adult education center, and fifteen child care and development centers.

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. 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 the District, this includes general operations, food service, and student-related activities.

B. Component Units

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. 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, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

Government-Wide Statements. The statement of net position and the statement of activities display information about the primary government (the District). 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 or business segment 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 proprietary and 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 District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. 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 the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District 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 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 the District (*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 of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District'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: 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, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Special Revenue Funds (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 the District 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 shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District'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 District'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 District and the developer. Interest earned in the Capital Facilities Fund 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, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Proprietary Funds

Internal Service Funds: Internal service funds are created principally to render services to other organizational units of the District 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 the District. 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 District'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*).

D. 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.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets 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 net position should be reported as restricted when constraints placed on its 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 position restricted for other activities results from special revenue funds and the restrictions on their use.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. 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.

Governmental Funds

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue

Unearned 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 unearned revenue is removed from the balance sheet and revenue is recognized.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Unearned Revenue (continued)

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Assets, Liabilities, Fund Balance and Net Position

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Inventories

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, Fund Balance and Net Position (continued)

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. 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 capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

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 recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, Fund Balance and Net Position (continued)

Accrued Liabilities and Long-Term Obligations

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

Deferred Issuance Costs, Premiums, and Discounts

In the government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net position. 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.

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.

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.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013

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

E. Assets, Liabilities, Fund Balance and Net Position (*continued*)

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.

F. 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 and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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.

H. 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 not been included as revenue and expenditures as required under generally accepted accounting principles.

I. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

J. New Accounting Pronouncements

GASB Statement No. 61 – In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity and modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement is effective for periods beginning after June 15, 2012. The District has implemented GASB Statement No. 61 for the year ended June 30, 2013.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013

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

J. New Accounting Pronouncements (*continued*)

GASB Statement No. 62 – In December 2010, GASB issued Statement No. 62, *Codifications of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedures that were issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Statement is effective for periods beginning after December 15, 2011. The District has implemented GASB Statement No. 62 for the year ended June 30, 2013.

GASB Statement No. 63 - In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definition of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for periods beginning after December 15, 2011. The District has implemented GASB Statement No. 63 for the year ended June 30, 2013.

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement is effective for periods beginning after December 15, 2012. The District has not yet determined the impact on the financial statements.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014. The District has not yet determined the impact on the financial statements.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental	Internal Service	Total Governmental	Fiduciary
	Funds	Funds	Activities	Funds
Cash in county	\$ 196,704,428	\$ 2,496,172	\$ 199,200,600	\$ -
Cash on hand and in banks	1,698,562	-	1,698,562	476,013
Cash in revolving fund	20,000	-	20,000	-
Total cash and cash equivalents	\$ 198,422,990	\$ 2,496,172	\$ 200,919,162	\$ 476,013

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 County Investment Pool.

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Los Angeles County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is 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, 2013

NOTE 2 – CASH 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 the investment types permitted by California Government Code.

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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 Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$197,644,761 and an amortized book value of \$199,200,600. The average weighted maturity for this pool is 632 days.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 2 – CASH 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 investments in the County Treasury are not required to be rated. As of June 30, 2013, the pooled investments in the County Treasury were not 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. 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, 2013, the District's bank balance was not exposed to custodial credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013 consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities
Federal Government					
Categorical aid	\$ 1,573,572	\$ -	\$ 279,680	\$ -	\$ 1,853,252
State Government					
Categorical aid	3,162,261	-	143,750	-	3,306,011
Lottery	888,789	-	-	-	888,789
Local Government					
Other local sources	4,153,940	245,847	267,513	2,107	4,669,407
Total	\$ 9,778,562	\$ 245,847	\$ 690,943	\$ 2,107	\$ 10,717,459

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance July 01, 2012	Additions	Deletions	Balance June 30, 2013
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 10,002,583	\$ 126,219	\$ -	\$ 10,128,802
Construction in progress	98,612,378	60,627,328	5,449,526	153,790,180
Total Capital Assets not Being Depreciated	108,614,961	60,753,547	5,449,526	163,918,982
Capital assets being depreciated				
Land improvements	13,000,148	1,589,932	-	14,590,080
Buildings & improvements	198,155,252	3,194,289	-	201,349,541
Furniture & equipment	12,191,253	492,737	-	12,683,990
Total Capital Assets Being Depreciated	223,346,653	5,276,958	-	228,623,611
Less Accumulated Depreciation				
Land improvements	10,754,455	190,012	-	10,944,467
Buildings & improvements	68,254,581	4,245,658	-	72,500,239
Furniture & equipment	10,227,440	430,379	-	10,657,819
Total Accumulated Depreciation	89,236,476	4,866,049	-	94,102,525
Governmental Activities				
Capital Assets, net	\$ 242,725,138	\$ 61,164,456	\$ 5,449,526	\$ 298,440,068

NOTE 5 – INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2013 consisted of the following:

	Interfund Transfers Out	Interfund Transfers In	
		Non-Major Governmental Funds	Total
General Fund		\$ 200,000	\$ 200,000
Total Interfund Transfers		\$ 200,000	\$ 200,000

The General Fund transferred to the Non-Major Child Development Fund for cash shortfalls.

\$ 200,000

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2013 consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	District-Wide	Total Governmental Activities	Total Fiduciary
Payroll	\$ 11,110,148	\$ 34,294	\$ 564,228	\$ -	\$ 11,646,974	\$ -
Construction	-	10,695,072	55,458	-	10,750,530	-
Vendors payable	1,927,253	-	105,959	-	2,094,908	98,791
Unmatured interest	-	-	-	3,209,891	3,209,891	-
Total	\$ 13,037,401	\$ 10,729,366	\$ 725,645	\$ 3,209,891	\$ 27,702,303	\$ 98,791

NOTE 7 – UNEARNED REVENUE

Unearned revenue at June 30, 2013, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
State categorical sources	\$ 43,871	\$ -	\$ 43,871
Local sources	1,042,429	58,953	1,101,382
Total	\$ 1,086,300	\$ 58,953	\$ 1,145,253

NOTE 8 – TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2012, the District issued \$9,873,000 of Tax and Revenue Anticipation Notes bearing interest at 2.00 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 28, 2013. By April 2013, the District had paid off the notes.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 9 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2013 consisted of the following:

	Balance July 01, 2012	Additions	Deductions	Balance June 30, 2013	Balance Due In One Year
Governmental Activities					
General obligation bonds	\$ 244,127,900	\$ 130,716,249	\$ 49,595,000	\$ 325,249,149	\$ 11,044,386
Unamortized premium	4,045,001	8,947,918	192,602	12,800,317	592,849
Deferred amount on refunding	-	(7,309,944)	-	(7,309,944)	(365,497)
Total general obligation bonds	248,172,901	132,354,223	49,787,602	330,739,522	11,271,738
Certificates of participation	17,730,659	467,995	1,065,000	17,133,654	1,090,000
Unamortized premium	519,892	-	45,208	474,684	45,208
Total certificates of participation	18,250,551	467,995	1,110,208	17,608,338	1,135,208
Capital leases	-	117,155	-	117,155	24,353
Compensated absences	1,044,765	-	157,263	887,502	-
Net OPEB obligation	5,782,813	1,410,998	-	7,193,811	-
Total	\$ 273,251,030	\$ 134,350,371	\$ 51,055,073	\$ 356,546,328	\$ 12,431,299

A. Bonded Debt

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2012	Additions	Deductions	Bonds Outstanding June 30, 2013
1998 Refunding Bonds	June 18, 1998	August 1, 2028	3.75% - 5.25%	\$ 68,145,000	\$ 30,550,000	\$ -	\$ 3,895,000	\$ 26,655,000
Election 1998, Series 1999	May 26, 1999	August 1, 2023	3.20% - 5.38%	38,000,034	44,487,900	2,295,922	3,025,000	43,758,822
2006 Refunding Bonds	February 23, 2006	August 1, 2025	3.50% - 4.15%	3,285,000	3,095,000	-	180,000	2,915,000
Election 2006, Series A	October 2, 2007	August 1, 2032	4.00% - 5.50%	60,000,000	44,945,000	-	41,620,000	3,325,000
Election 2006, Series B	July 23, 2009	August 1, 2019	1.50% - 5.00%	11,875,000	8,240,000	-	530,000	7,710,000
Election 2006, Series B-1	July 23, 2009	August 1, 2034	5.65% - 7.56%	48,125,000	48,125,000	-	-	48,125,000
Election 2006, Series C	July 14, 2010	July 1, 2023	3.00% - 5.00%	10,690,000	10,375,000	-	345,000	10,030,000
Election 2006, Series C-1	July 14, 2010	July 1, 2035	5.80% - 6.63%	54,310,000	54,310,000	-	-	54,310,000
2013 Refunding Bonds	January 8, 2013	August 1, 2032	2.00% - 5.00%	45,425,000	-	45,425,000	-	45,425,000
Election 2006, Series D	March 19, 2013	July 1, 2037	0.17% - 5.00%	82,995,327	-	82,995,327	-	82,995,327
					\$ 244,127,900	\$ 130,716,249	\$ 49,595,000	\$ 325,249,149

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, 2013 amounted to \$26,655,000.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 9 – LONG-TERM DEBT (continued)

A. 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 is one issuance outstanding 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, 2013 amounted to \$43,758,822.

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, 2013 amounted to \$2,915,000.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 9 – LONG-TERM DEBT (continued)

A. 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 six 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, 2013 amounted to \$3,325,000.
- 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, 2013 amounted to \$7,710,000.
- 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, 2013 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, 2013 amounted to \$10,030,000.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 9 – LONG-TERM DEBT (continued)

A. 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, 2013 amounted to \$54,310,000.
- Series D, which was issued on March 19, 2013 for \$82,995,327 with interest rates ranging from 0.17% to 5.00%. The original issuance consisted of \$42,780,000 in current interest serial bonds, \$24,200,000 in current interest term bonds and \$16,015,327 in capital appreciation serial bonds. Interest on the current interest bonds is payable semi-annually each January 1 and July 1, commencing July 1, 2013, principal on the bonds is payable annually each July 1, commencing July 1, 2013 through the final maturity date of July 1, 2037. The principal balance outstanding on June 30, 2013 amounted to \$82,995,327.

2013 General Obligation Refunding Bonds

On January 8, 2013, the District issued \$45,425,000 of 2013 General Obligation Refunding Bonds, with interest rates ranging from 2.00% to 5.00%. The bonds were issued to refund all or a portion of the District’s outstanding General Obligation Bonds, Election of 2006, Series A and pay costs of issuance of the bonds. 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 August 1, 2013, principal on the bonds is payable annually each August 1, commencing August 1, 2013 through the final maturity date of August 1, 2013. The principal balance outstanding on June 30, 2013 amounted to \$45,425,000. The net proceeds of \$49,131,456 (after issuance costs of \$526,513 and premium of \$4,232,970) were used to refund a portion of the District’s Election 2006, Series A general obligation bonds and to pay certain costs of issuance associated with the Refunding Bonds. The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District’s liabilities. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred charges on refunding of \$7,309,944 remain to be amortized. This advanced refunding was undertaken to reduce total debt service payments and results in an economic gain. As of June 30, 2013, the principal balance outstanding on the defeased debt amounted to \$41,295,000 and the principal balance on the refunding bonds amounted to \$45,425,000.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 9 – LONG-TERM DEBT (continued)

B. Debt Service Requirements to Maturity – Bonds

The bonds mature through 2038 as follows:

Year Ended June 30,	Principal	Interest	Total
2014	\$ 11,044,386	\$ 14,054,824	\$ 25,099,210
2015	10,244,593	14,541,734	24,786,327
2016	9,331,050	14,294,652	23,625,702
2017	9,127,107	14,048,503	23,175,610
2018	9,465,096	14,286,062	23,751,158
2019 - 2023	42,657,926	72,812,660	115,470,586
2024 - 2028	51,637,688	40,744,938	92,382,626
2029 - 2033	79,061,480	22,450,872	101,512,352
2034 - 2038	79,543,847	33,520,377	113,064,224
Accretion	23,135,976	(23,135,976)	-
Total	\$ 325,249,149	\$ 217,618,646	\$ 542,867,795

C. Certificates of Participation (COPs)

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Certificates Outstanding July 01, 2012	Additions	Deductions	Certificates Outstanding June 30, 2013
2001 Series C	November 15, 2001	May 1, 2025	3.50% - 5.40%	\$ 15,206,501	\$ 7,650,659	\$ 467,995	\$ -	\$ 8,118,654
2010 Series A	December 1, 2010	May 1, 2014	1.09% - 3.04%	3,215,000	2,065,000	-	1,065,000	1,000,000
2010 Series B	December 1, 2010	May 1, 2024	2.00% - 5.00%	8,015,000	8,015,000	-	-	8,015,000
					\$ 17,730,659	\$ 467,995	\$ 1,065,000	\$ 17,133,654

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, 2013, amounted to \$8,118,654.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 9 – LONG-TERM DEBT (continued)

C. 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, 2013 amounted to \$1,000,000.

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, 2013 amounted to \$8,015,000.

D. Debt Service Requirements to Maturity – COPs

The certificates mature through 2025 as follows:

Year Ended June 30,	Principal	Interest	Total
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	1,635,000	234,281	1,869,281
2018	1,695,000	168,881	1,863,881
2019 - 2023	4,842,832	5,836,024	10,678,856
2024 - 2025	1,528,669	2,726,862	4,255,531
Accretion	3,652,153	(3,652,153)	-
Total	\$ 17,133,654	\$ 6,326,958	\$ 23,460,612

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 9 – LONG-TERM DEBT (continued)

E. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2013 amounted to \$887,502. This amount is included as part of long-term liabilities in the government-wide financial statements.

F. 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, 2013, was \$2,556,977 with net interest and other adjustments of (\$87,040) for a net annual OPEB cost of \$2,469,937. The District made contributions during the year of \$1,058,939, which resulted in an increase to net OPEB obligation of \$1,410,998. The ending OPEB balance at June 30, 2013 was \$7,193,811. See Note 11 for additional information regarding the net OPEB Obligation and the postemployment benefit plan.

NOTE 10 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2013:

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	\$ 20,000	\$ -	\$ -	\$ -	\$ 20,000
Stores inventory	13,646	-	-	37,283	50,929
Prepaid expenditures	66,816	-	-	2,400	69,216
Total non-spendable	100,462	-	-	39,683	140,145
Restricted					
Educational programs	3,626,004	-	-	33,112	3,659,116
Capital projects	-	112,963,147	-	17,909,826	130,872,973
Debt service	-	-	25,920,215	-	25,920,215
All others	-	-	-	206,842	206,842
Total restricted	3,626,004	112,963,147	25,920,215	18,149,780	160,659,146
Committed					
Other commitments	-	-	-	553,338	553,338
Total committed	-	-	-	553,338	553,338
Assigned					
Basic Aid - Fair Share	5,618,736	-	-	-	5,618,736
13-14 Deficit Spending	1,111,404	-	-	-	1,111,404
Excess Revenue Limit	2,183,302	-	-	-	2,183,302
Site/Department Carryover	500,000	-	-	-	500,000
Additional Staffing	600,000	-	-	-	600,000
Excess Basic Aid	744,019	-	-	-	744,019
Total assigned	10,757,461	-	-	-	10,757,461
Unassigned					
Reserve for economic uncertainties	3,525,445	-	-	-	3,525,445
Remaining unassigned	10,373,172	-	-	-	10,373,172
Total unassigned	13,898,617	-	-	-	13,898,617
Total	\$ 28,382,544	\$ 112,963,147	\$ 25,920,215	\$ 18,742,801	\$ 186,008,707

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 10 – FUND BALANCES (continued)

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, consisting of unassigned amounts, equal to no less than three (3) percent of General Fund expenditures and other financing uses.

NOTE 11 –POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

The 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 \$115 per month. Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	358
Active plan members	1,126
Total	<u>1,484</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 2013, the District contributed \$1,058,939 to the Plan, all of which was used for current premiums.

As of June 30, 2013, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (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 the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (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	\$	2,556,977
Interest on net OPEB obligation		289,140
Adjustment to annual required contribution		(376,180)
Annual OPEB cost (expense)		<u>2,469,937</u>
Contributions made		<u>(1,058,939)</u>
Increase (decrease) in net OPEB obligation		1,410,998
Net OPEB obligation, beginning of the year		5,782,813
Net OPEB obligation, end of the year	\$	<u>7,193,811</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2013 and the preceding two years were as follows:

Year Ended June 30,		Annual OPEB Cost	Percentage Contributed		Net OPEB Obligation
2013	\$	2,469,937	43%	\$	7,193,811
2012	\$	2,491,371	43%	\$	5,782,813
2011	\$	2,259,052	44%	\$	4,358,801

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial evaluation consists of the following:

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2011	\$ -	\$ 22,091,051	\$ 22,091,051	0%	\$ 71,650,000	31%

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

In the July 1, 2011, 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, 2013

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer 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).

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 2013 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>
2012-13	\$ 4,495,038	100%
2011-12	\$ 4,641,990	100%
2010-11	\$ 4,553,338	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 \$1,938,156 to CalSTRS (5.176% of 2010-11 creditable compensation subject to CalSTRS).

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS (continued)

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 2013 was 11.417% 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:

	Contribution	Percent of Required Contribution
2012-13	\$ 2,691,403	100%
2011-12	\$ 2,530,073	100%
2010-11	\$ 2,395,864	100%

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

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, 2013.

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, 2013.

C. Construction Commitments

As of June 30, 2013, the District had commitments with respect to unfinished capital projects of \$64,855,116.

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.

REQUIRED SUPPLEMENTARY INFORMATION

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual*	Variances -
	Original	Final	(Budgetary Basis)	Final to Actual
REVENUES				
Revenue limit sources	\$ 59,196,698	\$ 60,719,696	\$ 67,465,046	\$ 6,745,350
Federal sources	4,663,983	4,922,038	4,649,349	(272,689)
Other state sources	9,667,383	10,835,368	11,209,280	373,912
Other local sources	36,537,721	40,916,715	42,230,978	1,314,263
Total Revenues	110,065,785	117,393,817	125,554,653	8,160,836
EXPENDITURES				
Certificated salaries	53,224,889	53,535,077	52,905,530	629,547
Classified salaries	21,441,659	23,199,864	22,867,073	332,791
Employee benefits	26,053,490	25,745,533	25,956,747	(211,214)
Books and supplies	2,394,485	4,035,950	2,891,224	1,144,726
Services and other operating expenditures	12,742,958	14,379,854	13,147,975	1,231,879
Capital outlay	128,730	268,029	231,843	36,186
Other outgo				
Excluding transfers of indirect costs	7,000	31,590	710	30,880
Transfers of indirect costs	(604,255)	(475,077)	(486,283)	11,206
Total Expenditures	115,388,956	120,720,820	117,514,819	3,206,001
Excess (Deficiency) of Revenues				
Over Expenditures	(5,323,171)	(3,327,003)	8,039,834	11,366,837
Other Financing Sources (Uses)				
Transfers out	-	-	(200,000)	(200,000)
Net Financing Sources (Uses)	-	-	(200,000)	(200,000)
NET CHANGE IN FUND BALANCE	(5,323,171)	(3,327,003)	7,839,834	11,166,837
Fund Balance - Beginning	20,542,710	20,542,710	20,542,710	-
Fund Balance - Ending	\$ 15,219,539	\$ 17,215,707	\$ 28,382,544	\$ 11,166,837

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reason:

- STRS on behalf payments of \$1,938,156, as discussed in the Notes to the Financial Statements #12, are not included in the actual revenues and expenditures reported in this schedule.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2013

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2011	\$ -	\$ 22,091,051	\$ 22,091,051	0%	\$ 71,650,000	31%
July 1, 2009	\$ -	\$ 19,679,640	\$ 19,679,640	0%	\$ 32,275,084	61%
July 1, 2007	\$ -	\$ 21,221,071	\$ 21,221,071	0%	Not Available	N/A

See accompanying note to required supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2013, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Employee benefits	\$ 25,745,533	\$ 25,956,747	\$ 211,214

SUPPLEMENTARY INFORMATION

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 962,860
Title I, Part G, Advanced Placement Test Fee Reimbursement Program	84.330	14831	2,898
Adult Education Cluster			
Adult Education: Adult Basic Education & ESL	84.002A	14508	22,491
Adult Education: Adult Secondary Education	84.002A	13978	24,559
Adult Education: English Literacy and Civics Education	84.002A	14109	19,930
Subtotal Adult Education Cluster			66,980
Title II, Part A, Teacher Quality	84.367A	14341	329,650
Educational Technology State Grants Cluster			
Title II, Part D, Enhancing Education Through Technology, Formula Grants	84.318	14334	4,198
Title II, Part D, Enhancing Education Through Technology (EETT), Competitive Grants	84.318	14368	15,730
Subtotal Education Technology State Grants Cluster			19,928
Title III Cluster			
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	117,709
Title III, Immigrant Education Program	84.365	15146	23,360
Subtotal Title III Cluster			141,069
Department of Rehab: Workability II, Transition Partnership	84.158	10006	92,092
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	2,209,805
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	131,442
Part B, Preschool Grants	84.173	13430	73,492
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	122,920
Subtotal Special Education Cluster			2,537,659
Total U. S. Department of Education			4,153,136
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Needy	10.553	13526	196,759
National School Lunch Program	10.555	13391	1,031,315
School Breakfast Basic	10.553	13390	713
Commodities	10.555	*	133,834
Subtotal Child Nutrition Cluster			1,362,621
Child and Adult Care Food Program	10.558	13393	245,555
Total U. S. Department of Agriculture			1,608,176
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Health Services:</i>			
Medicaid Cluster			
Medi-Cal Billing Option	93.778	10013	204,675
Medi-Cal Administrative Activities	93.778	10060	90,562
Subtotal Medicaid Cluster			295,237
<i>Passed through Los Angeles County Office of Education:</i>			
Head Start Cluster [1]			
Head Start, Basic	93.600	10016	1,896,861
Head Start, Training & Technical Assistance	93.600	10016	11,448
Head Start, Program Improvement	93.600	10016	61,422
<i>Passed through UCLA:</i>			
Early Head Start	93.600	10016	93,895
Subtotal Head Start Cluster			2,063,626
Total U. S. Department of Health & Human Services			2,358,863
Total Federal Expenditures			\$ 8,120,175

[1] - In-Kind Contribution - \$771,396

* - Pass-Through Entity Identifying Number not available or not applicable

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2013**

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	818	820
First through third	2,294	2,299
Fourth through sixth	2,382	2,384
Seventh through eighth	1,619	1,622
Opportunity school	1	1
Home and hospital	3	3
Special education	139	139
Total Elementary	7,256	7,268
SECONDARY		
Regular classes	3,456	3,425
Continuation education	65	66
Opportunity school	14	14
Home and hospital	2	2
Special education	85	84
Total Secondary	3,622	3,591
Average Daily Attendance Total	10,878	10,859

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2013

Grade Level	1982-83		1986-87		2012-13	Number of Days	Status
	Actual Minutes	Actual Minutes Reduced	Minutes Requirement	Minutes Requirement Reduced	Actual Minutes		
Kindergarten	36,000	35,000	36,000	35,000	41,700	180	Complied
Grade 1	53,100	51,625	50,400	49,000	53,290	180	Complied
Grade 2	53,100	51,625	50,400	49,000	53,290	180	Complied
Grade 3	53,100	51,625	50,400	49,000	53,445	180	Complied
Grade 4	54,480	52,967	54,000	52,500	54,675	180	Complied
Grade 5	54,480	52,967	54,000	52,500	54,675	180	Complied
Grade 6	54,480	52,967	54,000	52,500	55,170	180	Complied
Grade 7	54,480	52,967	54,000	52,500	55,170	180	Complied
Grade 8	54,480	52,967	54,000	52,500	55,170	180	Complied
Grade 9	64,800	63,000	64,800	63,000	64,995	180	Complied
Grade 10	64,800	63,000	64,800	63,000	64,995	180	Complied
Grade 11	64,800	63,000	64,800	63,000	64,995	180	Complied
Grade 12	64,800	63,000	64,800	63,000	64,995	180	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, 2013

	2014 (Budget)	2013	2012	2011
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 115,828,256	\$ 125,554,653	\$ 116,203,904	\$ 116,209,211
Expenditures And Other Financing Uses	117,180,040	117,714,819	119,015,303	113,790,867
Net change in Fund Balance	<u>\$ (1,351,784)</u>	<u>\$ 7,839,834</u>	<u>\$ (2,811,399)</u>	<u>\$ 2,418,344</u>
Ending Fund Balance	<u>\$ 27,030,760</u>	<u>\$ 28,382,544</u>	<u>\$ 20,542,710</u>	<u>\$ 23,354,109</u>
Available Reserves*	<u>\$ 16,827,630</u>	<u>\$ 13,898,617</u>	<u>\$ 7,018,164</u>	<u>\$ 10,966,533</u>
Available Reserves As A Percentage Of Outgo	<u>14.36%</u>	<u>11.81%</u>	<u>5.90%</u>	<u>9.64%</u>
Long-term Debt	<u>\$ 344,115,029</u>	<u>\$ 356,546,328</u>	<u>\$ 273,251,030</u>	<u>\$ 278,180,813</u>
Average Daily Attendance At P-2	<u>10,869</u>	<u>10,878</u>	<u>10,924</u>	<u>10,977</u>

The General Fund balance has increased by \$5,028,435 over the past two years. The fiscal year 2013-14 budget projects a decrease of \$1,351,784. 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 2013-14 fiscal year. Total long term obligations have increased by \$78,365,515 over the past two years.

Average daily attendance has decreased by 99 ADA over the past two years. A decrease of 9 ADA is anticipated during the 2013-14 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund.

**The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include on behalf payments of \$1,938,156.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2013.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2013

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 320,272	\$ 149,401	\$ 295,850	\$ 273,729	\$ 9,513,965	\$ 8,243,556	\$ 18,796,773
Accounts receivable	33,708	395,159	53,596	717	197,070	10,693	690,943
Stores inventory	-	-	37,283	-	-	-	37,283
Prepaid expenditures	-	2,400	-	-	-	-	2,400
Total Assets	\$ 353,980	\$ 546,960	\$ 386,729	\$ 274,446	\$ 9,711,035	\$ 8,254,249	\$ 19,527,399
LIABILITIES							
Accrued liabilities	\$ 19,382	\$ 462,751	\$ 142,604	\$ 45,450	\$ 55,458	\$ -	\$ 725,645
Unearned revenue	-	58,953	-	-	-	-	58,953
Total Liabilities	19,382	521,704	142,604	45,450	55,458	-	784,598
FUND BALANCES							
Non-spendable	-	2,400	37,283	-	-	-	39,683
Restricted	10,256	22,856	206,842	-	9,655,577	8,254,249	18,149,780
Committed	324,342	-	-	228,996	-	-	553,338
Total Fund Balances	334,598	25,256	244,125	228,996	9,655,577	8,254,249	18,742,801
Total Liabilities and Fund Balance	\$ 353,980	\$ 546,960	\$ 386,729	\$ 274,446	\$ 9,711,035	\$ 8,254,249	\$ 19,527,399

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
REVENUES							
Federal sources	\$ 66,980	\$ 2,309,179	\$ 1,362,621	\$ -	\$ -	\$ -	\$ 3,738,780
Other state sources	267,988	2,523,513	95,870	-	-	-	2,887,371
Other local sources	81,232	2,969,765	1,648,094	2,474	1,182,097	3,703,443	9,587,105
Total Revenues	416,200	7,802,457	3,106,585	2,474	1,182,097	3,703,443	16,213,256
EXPENDITURES							
Current							
Instruction	151,614	5,617,539	-	-	-	-	5,769,153
Instruction-related services							
Instructional supervision and administration	-	485,322	-	-	-	-	485,322
School site administration	177,573	681,011	-	-	-	-	858,584
Pupil services							
Food services	-	451,809	3,030,432	-	-	-	3,482,241
All other pupil services	19,428	100,664	-	-	-	-	120,092
General administration							
All other general administration	-	357,938	128,345	-	4,056	-	490,339
Plant services	48,795	324,135	-	256,321	-	360,833	990,084
Facilities acquisition and maintenance	-	-	-	-	1,051,995	86,807	1,138,802
Community services	-	81	-	-	-	-	81
Debt service							
Principal	-	-	-	-	-	1,065,000	1,065,000
Interest and other	-	-	-	-	-	399,395	399,395
Total Expenditures	397,410	8,018,499	3,158,777	256,321	1,056,051	1,912,035	14,799,093
Excess (Deficiency) of Revenues							
Over Expenditures	18,790	(216,042)	(52,192)	(253,847)	126,046	1,791,408	1,414,163
Other Financing Sources (Uses)							
Transfers in	-	200,000	-	-	-	-	200,000
Net Financing Sources (Uses)	-	200,000	-	-	-	-	200,000
NET CHANGE IN FUND BALANCE	18,790	(16,042)	(52,192)	(253,847)	126,046	1,791,408	1,614,163
Fund Balance - Beginning	315,808	41,298	296,317	482,843	9,529,531	6,462,841	17,128,638
Fund Balance - Ending	\$ 334,598	\$ 25,256	\$ 244,125	\$ 228,996	\$ 9,655,577	\$ 8,254,249	\$ 18,742,801

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2013

NOTE 1 – PURPOSE OF SCHEDULES

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.

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2013 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2013.

	CFDA Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 10,220,284
Medi-Cal Billing Option	93.778	(267,954)
Build America Bonds	*	<u>(1,832,155)</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$ 8,120,175</u>

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.

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*. Through 2014-15, the instructional day and minute requirements have been reduced pursuant to *Education Code Section 46201.2*.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2013

NOTE 1 – PURPOSE OF SCHEDULES (continued)

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.

Reconciliation 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.

Combining Statements – Non-Major Funds

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

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)

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Independent Auditors' Report

Governing Board
Santa Monica-Malibu Unified School District
Santa Monica, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Santa Monica-Malibu Unified School District's basic financial statements, and have issued our report thereon dated October 31, 2013. Our report includes a reference to other auditors who audited the financial statements of the Santa Monica-Malibu Education Foundation, as described in our report on Santa Monica-Malibu Unified School District's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are report on separately by those auditors. The financial statements of the Santa Monica-Malibu Education Foundation were not audited in accordance with Government Auditing Standards and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with this entity.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Santa Monica-Malibu Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Santa Monica-Malibu Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Monica-Malibu Unified School District's internal control.

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

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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 a 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. 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Diego, California
October 31, 2013

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

Independent Auditors' Report

Governing Board
Santa Monica-Malibu Unified School District
Santa Monica, California

Report on Compliance for Each Major Federal Program

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 Santa Monica-Malibu Unified School District's major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Santa Monica-Malibu Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Santa Monica-Malibu Unified School District's compliance.

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Opinion on Each Major Federal Program

In our opinion, Santa Monica-Malibu Unified School District complied, in all material respects, with the types of compliance 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, 2013.

Report on 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 types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Santa Monica-Malibu Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Santa Monica-Malibu Unified School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



San Diego, California
October 31, 2013

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

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Governing Board
Santa Monica-Malibu Unified School District
Santa Monica, California

Report on State Compliance

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 Education Agencies 2012-13*, issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of Santa Monica-Malibu Unified School District's state programs for the fiscal year ended June 30, 2013, as identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Santa Monica-Malibu Unified School District's state programs based on our audit of the types of compliance requirements referred to above. 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 the *Standards and Procedures for Audits of California K – 12 Local Education Agencies 2012-13*, 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 that could have a direct and material effect on the state programs noted below 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 on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Santa Monica-Malibu Unified School District's compliance with those requirements.

Opinion on State Compliance

In our opinion, Santa Monica-Malibu Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2013.

Procedures Performed

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:

PROGRAM NAME	PROCEDURES IN AUDIT GUIDE	PROCEDURES PERFORMED
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No, see below
Continuation Education	10	No, see below
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
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
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

PROGRAM NAME	PROCEDURES IN AUDIT GUIDE	PROCEDURES PERFORMED
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	5	Not Applicable
Before school	6	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	4	Not Applicable

We did not perform testing for Independent Study or Continuation Education because total ADA claimed is below the threshold required for testing.

Christy White Associates

San Diego, California
October 31, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Non-compliance material to financial statements noted?	No

FEDERAL AWARDS

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>	
84.010	Title I, Part A, Basic Grants Low-Income and Neglected	
10.553, 10.555	Child Nutrition Cluster	
Dollar threshold used to distinguish between Type A and Type B programs:	\$	300,000
Auditee qualified as low-risk auditee?		Yes

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued on compliance for state programs:	Unmodified

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

There were no financial statement findings for the year ended June 30, 2013.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no federal award findings or questioned costs for the year ended June 30, 2013.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

FIVE DIGIT CODE

10000
40000
41000
60000
61000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
CalSTRS
Miscellaneous
Classroom Teacher Salaries
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no state award findings or questioned costs for the year ended June 30, 2013.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING #2012-01 ASSOCIATED STUDENT BODY (ASB) FUNDS (30000)

Criteria: Proper internal controls are necessary to ensure the safeguard over the Associated Student Body (ASB) assets. 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: Through our testing of the school site ASB accounts, we noted the following internal control deficiencies:

John Adams Middle School

- Auditor noted through review of receipt logs that adequate supporting documentation was unavailable for review. Per discussion with site personnel, the support is maintained at the individual club level, but is not turned in to the ASB bookkeeper. The ASB Advisor was able to provide adequate documentation for receipts pertaining to ASB activities, but had no access to documentation of receipts for other clubs. 4 out of 5 cash receipts tested could not be substantiated by ASB clerk because documentation is maintained by each respective club.
- While testing disbursements, it was noted that checks are signed and issued by the District office, but copies of the check are not supplied to the ASB Advisor to include with disbursement documentation (6 out of 6 disbursements tested.) ASB should be provided with a copy of the check in order to maintain proper supporting documentation.
- Also while testing disbursements, it was noted that 1 out of 6 disbursements sampled did not contain copies of itemized receipts when reimbursements are made for appropriate expenditures.

Malibu High School

- While testing cash receipts, it was noted that 1 out of 10 receipts sampled did not contain supporting revenue potentials.

Cause: Insufficient controls over student body activities.

Effect: The potential for irregularities in accounting to go undetected.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2013

FINDING #2012-01 ASSOCIATED STUDENT BODY (ASB) FUNDS (30000) (continued)

Perspective: Testing was performed at a sample of the District's ASBs.

Recommendation: The District should ensure that all employees involved in student body activities understand the proper internal control procedures in place and provide all supporting documentation to the ASB bookkeeper. In addition, revenue potentials should be prepared for all fundraisers performed.

District Response: The District continually strives to improve the reporting and compliance to regulate our Associated Student Bodies. With regards to the John Adams Middle School finding we will work to make the documentation necessary available to those who need it. We will begin sending check copies to the site immediately. For Malibu High School, we are working with the site administrator to begin using a new system for accounting for ASB transactions. We will begin a pilot program with a product called Blue Bear after the first of the year. With this new system we will incorporate cash receipting and revenue potentials into our new processes and procedures.

Current Status: Implemented.