

SANTA MONICA-MALIBU
UNIFIED SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2012



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

SANTA MONICA, CALIFORNIA

JUNE 30, 2012

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

GOVERNING BOARD

| Member | Office | Term Expires |
|--------------------|----------------|---------------------|
| Ben Allen | President | December 2012 |
| Laurie Lieberman | Vice President | December 2014 |
| Oscar de la Torre | Member | December 2014 |
| Jose Escarce | Member | December 2012 |
| Maria Leon-Vazquez | Member | December 2012 |
| 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

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

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State Board of Accountancy

Governing Board

Santa Monica-Malibu Unified School District

Santa Monica, California

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Santa Monica-Malibu Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Santa Monica-Malibu Education Foundation, represented as the Discretely Presented Component Unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Discretely Presented Component Unit, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Santa Monica-Malibu Education Foundation (a discretely presented component unit) were not audited in accordance with *Government Audit Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Santa Monica-Malibu Unified School District, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2012 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* and should be considered in assessing the results of our audit.

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 3 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.

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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Christy White Associates

San Diego, California
December 3, 2012

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

INTRODUCTION

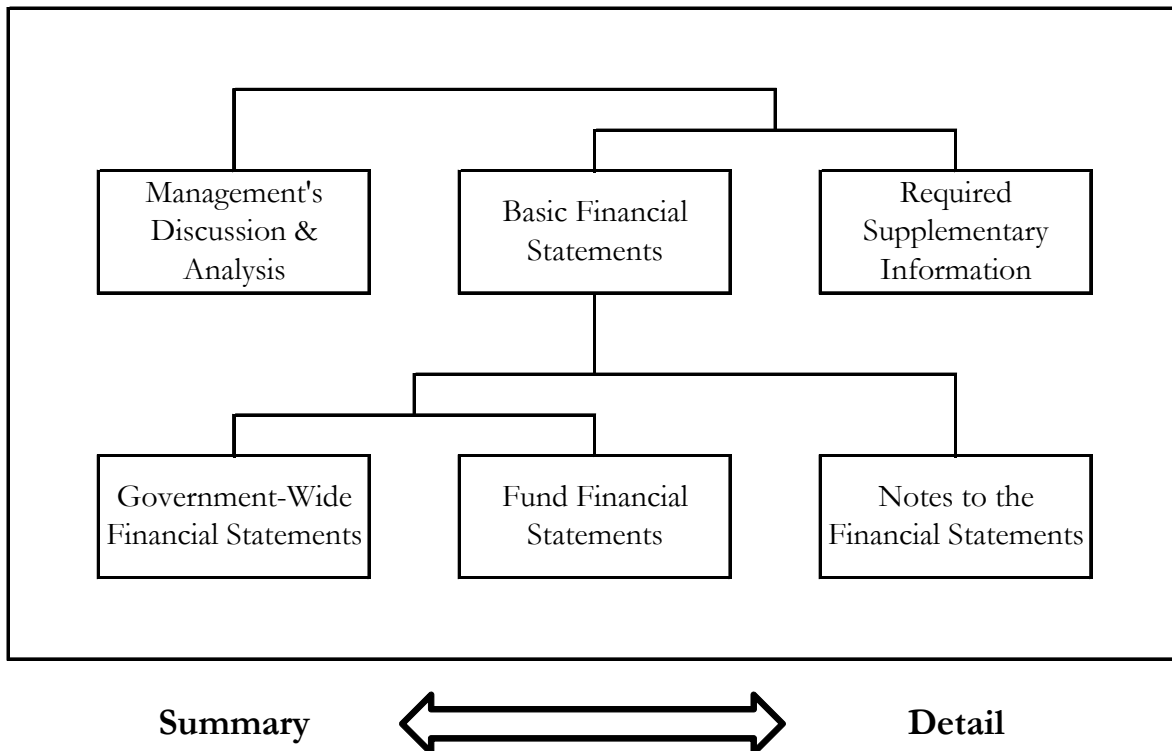
Our discussion and analysis of Santa Monica-Malibu Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total net assets were \$112,782,749 at June 30, 2012. This was an increase of \$4,046,040 from the prior year.
- Overall revenues were \$158,524,672 which exceeded expenses of \$154,478,632.

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, 2012**

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

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

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

Government-Wide Statements

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

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

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

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Assets

The District's combined net assets were \$112,782,749 at June 30, 2012, as reflected in Table A-1 below. Of this amount, \$11,722,255 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use those net assets for day-to-day operations.

Table A-1

| | Governmental Activities | | |
|--|--------------------------------|----------------------|---------------------|
| | 2012 | 2011 | Net Change |
| ASSETS | | | |
| Current and other assets | \$172,368,089 | \$203,848,188 | \$ (31,480,099) |
| Capital assets | 242,725,138 | 203,878,873 | 38,846,265 |
| Total Assets | 415,093,227 | 407,727,061 | 7,366,166 |
| LIABILITIES | | | |
| Current liabilities | 36,951,636 | 31,386,778 | (5,564,858) |
| Long-term liabilities | 265,358,842 | 267,603,574 | 2,244,732 |
| Total Liabilities | 302,310,478 | 298,990,352 | (3,320,126) |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 65,306,026 | 65,960,477 | (654,451) |
| Restricted | 35,754,468 | 25,100,535 | 10,653,933 |
| Unrestricted | 11,722,255 | 17,675,697 | (5,953,442) |
| Total Net Assets | \$112,782,749 | \$108,736,709 | \$ 4,046,040 |

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Assets

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 | | |
|------------------------------------|--------------------------------|----------------------|---------------------|
| | 2012 | 2011 | Net Change |
| REVENUES | | | |
| Program revenues | | | |
| Charges for services | \$ 6,185,756 | \$ 4,739,807 | \$ 1,445,949 |
| Operating grants and contributions | 33,453,644 | 30,651,939 | 2,801,705 |
| General revenues | | | |
| Property taxes | 81,893,721 | 79,561,080 | 2,332,641 |
| Unrestricted federal and state aid | 17,364,658 | 21,876,070 | (4,511,412) |
| Other | 19,626,893 | 17,815,010 | 1,811,883 |
| Total Revenues | 158,524,672 | 154,643,906 | 3,880,766 |
| EXPENSES | | | |
| Instruction | 84,534,867 | 78,530,686 | 6,004,181 |
| Instruction-related services | 17,120,359 | 15,655,141 | 1,465,218 |
| Pupil services | 14,606,412 | 12,913,417 | 1,692,995 |
| General administration | 7,514,018 | 7,905,368 | (391,350) |
| Plant services | 13,846,524 | 11,775,245 | 2,071,279 |
| Ancillary and community services | 2,031,433 | 1,539,488 | 491,945 |
| Debt service | 14,707,882 | 17,403,879 | (2,695,997) |
| Other Outgo | 117,137 | - | 117,137 |
| Depreciation | - | 4,715,195 | (4,715,195) |
| Total Expenses | 154,478,632 | 150,438,419 | 4,040,213 |
| Change in net assets | 4,046,040 | 4,205,487 | (159,447) |
| Net Assets - Beginning | 108,736,709 | 104,531,222 | 4,205,487 |
| Net Assets - Ending | \$112,782,749 | \$108,736,709 | \$ 4,046,040 |

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Assets (continued)

The cost of all our governmental activities this year was \$154,478,632 (refer to Table A-3). The amount that our taxpayers ultimately financed for these activities through taxes was only \$81,893,721 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions (\$50,818,302).

| | Table A-3 | |
|----------------------------------|-------------------------------|-----------------------------|
| | Total cost of services | Net cost of services |
| Instruction | \$ 84,534,867 | \$ 69,290,840 |
| Instruction-related services | 17,120,359 | 14,880,883 |
| Pupil services | 14,606,412 | 8,324,235 |
| General administration | 7,514,018 | 7,022,524 |
| Plant services | 13,846,524 | 3,788,896 |
| Ancillary and community services | 2,031,433 | 1,787,141 |
| Debt service | 14,707,882 | 14,707,882 |
| Transfers to other agencies | 117,137 | (4,963,169) |
| Total Expenses | \$ 154,478,632 | \$ 114,839,232 |

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

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 \$143,176,166, which is less than last year's ending fund balance of \$183,059,134. The District's General Fund had \$4,372,272 less in operating revenues than expenditures for the year ended June 30, 2012.

CURRENT YEAR BUDGET 2011-12

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011-12 the District had invested \$242,725,138 in capital assets, net of accumulated depreciation.

Table A-4

| | Governmental Activities | | |
|-----------------------------|--------------------------------|----------------------|----------------------|
| | 2012 | 2011 | Net Change |
| CAPITAL ASSETS | | | |
| Land | \$ 10,002,583 | \$ 10,002,583 | \$ - |
| Construction in progress | 98,612,378 | 58,541,313 | 40,071,065 |
| Land improvements | 13,000,148 | 11,665,890 | 1,334,258 |
| Buildings & improvements | 198,155,252 | 196,625,179 | 1,530,073 |
| Furniture & equipment | 12,191,253 | 11,564,023 | 627,230 |
| Accumulated depreciation | (89,236,476) | (84,520,115) | (4,716,361) |
| Total Capital Assets | \$242,725,138 | \$203,878,873 | \$ 38,846,265 |

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Liabilities

At year-end, the District had \$273,251,030 in long-term liabilities, a decrease of 1.8% 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 | | |
|-------------------------------------|--------------------------------|----------------------|-----------------------|
| | 2012 | 2011 | Net Change |
| LONG-TERM LIABILITIES | | | |
| Total general obligation bonds | \$248,172,901 | \$253,832,091 | \$ (5,659,190) |
| Total certificates of participation | 18,250,551 | 18,953,267 | (702,716) |
| Compensated absences | 1,044,765 | 1,036,654 | 8,111 |
| Net OPEB obligation | 5,782,813 | 4,358,801 | 1,424,012 |
| Total Long-term Liabilities | \$273,251,030 | \$278,180,813 | \$ (4,929,783) |

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

- At the state level, the budget situation continues to reflect challenging economic times. A major key to higher funding for education is the recovery of the economy. There were two tax initiatives on the November 2012 ballot – the Governor's Proposition 30 and a rival tax initiative, Proposition 38. Since the Governor's proposal was approved by voters in November 2012, K-12 spending will remain flat at roughly the 2011-12 level. State categorical program flexibility continues for the 2011-12 and 2012-13 fiscal years with no anticipated changes. School districts are currently authorized to use funding from Tier III categorical programs for any purpose. K-3 class size reduction penalties have been relaxed through 2013-14 and school agencies maintain the flexibility to shorten the school year until 2014-15.
- Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2012-13 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 ASSETS
JUNE 30, 2012

| | Primary Government | June 30, 2011 |
|---|---------------------------|-----------------------------|
| | Governmental | Discretely Presented |
| | Activities | Component Unit |
| ASSETS | | |
| Cash and cash equivalents | \$ 156,116,371 | \$ 131,881 |
| Investments | - | 3,518,456 |
| Accounts receivable | 11,503,183 | - |
| Inventory | 54,858 | - |
| Prepaid expenses | 91,127 | 10,679 |
| Other current assets | 2,934,670 | - |
| Deferred charges | 1,667,880 | - |
| Capital assets, not depreciated | 108,614,961 | - |
| Capital assets, net of accumulated depreciation | 134,110,177 | 4,759 |
| Total Assets | 415,093,227 | 3,665,775 |
| LIABILITIES | | |
| Deficit cash | 80,594 | - |
| Accrued liabilities | 27,863,398 | 179,475 |
| Deferred revenue | 1,115,456 | - |
| Long-term liabilities, current portion | 7,892,188 | - |
| Long-term liabilities, non-current portion | 265,358,842 | - |
| Total Liabilities | 302,310,478 | 179,475 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 65,306,026 | - |
| Restricted for | | |
| Capital projects | 15,992,372 | - |
| Debt service | 16,500,478 | - |
| Educational programs | 3,261,618 | - |
| Unrestricted | 11,722,255 | 3,486,300 |
| Total Net Assets | \$ 112,782,749 | \$ 3,486,300 |

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, 2012

| Function/Programs | Expenses | Program Revenues | | Net (Expenses) | June 30, 2011 Discretely Presented Component Unit |
|--|-----------------------|-------------------------|--|--|---|
| | | Charges for Services | Operating Grants and Contributions | Revenues and Changes in Net Assets | |
| | | | | Governmental Activities | |
| GOVERNMENTAL ACTIVITIES | | | | | |
| Instruction | \$ 84,534,867 | \$ 892,947 | \$ 14,351,080 | \$ (69,290,840) | |
| Instruction-related services | | | | | |
| Instructional supervision and administration | 5,671,764 | 74,835 | 1,543,856 | (4,053,073) | |
| Instructional library, media, and technology | 1,231,253 | 692 | 2,465 | (1,228,096) | |
| School site administration | 10,217,342 | 79,101 | 538,527 | (9,599,714) | |
| Pupil services | | | | | |
| Home-to-school transportation | 1,854,454 | 126,894 | 844,133 | (883,427) | |
| Food services | 3,708,036 | 1,562,688 | 1,744,778 | (400,570) | |
| All other pupil services | 9,043,922 | 2,127 | 2,001,557 | (7,040,238) | |
| General administration | | | | | |
| Centralized data processing | 696,380 | - | - | (696,380) | |
| All other general administration | 6,817,638 | 123,763 | 367,731 | (6,326,144) | |
| Plant services | 13,846,524 | 2,156,388 | 7,901,240 | (3,788,896) | |
| Ancillary services | 809,345 | 11,588 | 41,873 | (755,884) | |
| Community services | 1,222,088 | 41,805 | 149,026 | (1,031,257) | |
| Interest on long-term debt | 14,707,882 | - | - | (14,707,882) | |
| Other Outgo | 117,137 | 1,112,928 | 3,967,378 | 4,963,169 | |
| Total Governmental Activities | \$ 154,478,632 | \$ 6,185,756 | \$ 33,453,644 | (114,839,232) | |
| DISCRETELY PRESENTED COMPONENT UNIT | | | | | |
| Santa Monica-Malibu Education Foundation | \$ 1,590,564 | \$ - | \$ 1,495,946 | | \$ (94,618) |
| Total | \$ 1,590,564 | \$ - | \$ 1,495,946 | | (94,618) |
| General revenues | | | | | |
| Taxes and subventions | | | | | |
| Property taxes, levied for general purposes | | | | 51,704,201 | - |
| Property taxes, levied for debt service | | | | 16,807,492 | - |
| Property taxes, levied for other specific purposes | | | | 13,382,028 | - |
| Federal and state aid not restricted for specific purposes | | | | 17,364,658 | - |
| Interest and investment earnings | | | | 313,136 | 697,835 |
| Miscellaneous | | | | 19,313,757 | - |
| Subtotal, General Revenue | | | | 118,885,272 | 697,835 |
| CHANGE IN NET ASSETS | | | | | |
| | | | | 4,046,040 | 603,217 |
| Net Assets - Beginning | | | | | |
| | | | | 108,736,709 | 2,883,083 |
| Net Assets - Ending | | | | | |
| | | | | \$ 112,782,749 | \$ 3,486,300 |

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

| | General Fund | Building Fund | Bond Interest & Redemption Fund | Non-Major Governmental Funds | Total Governmental Funds |
|--|----------------------|----------------------|------------------------------------|------------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 23,751,973 | \$ 96,865,323 | \$ 16,500,478 | \$ 17,219,713 | \$ 154,337,487 |
| Accounts receivable | 9,954,438 | 204,538 | - | 1,342,311 | 11,501,287 |
| Stores inventory | 13,227 | - | - | 41,631 | 54,858 |
| Prepaid expenditures | 91,127 | - | - | - | 91,127 |
| Other current assets | 2,934,670 | - | - | - | 2,934,670 |
| Total Assets | \$ 36,745,435 | \$ 97,069,861 | \$ 16,500,478 | \$ 18,603,655 | \$ 168,919,429 |
| LIABILITIES | | | | | |
| Deficit cash | \$ - | \$ - | \$ - | \$ 80,594 | \$ 80,594 |
| Accrued liabilities | 15,160,167 | 8,065,521 | - | 1,321,525 | 24,547,213 |
| Deferred revenue | 1,042,558 | - | - | 72,898 | 1,115,456 |
| Total Liabilities | 16,202,725 | 8,065,521 | - | 1,475,017 | 25,743,263 |
| FUND BALANCES | | | | | |
| Nonspendable | 124,354 | - | - | 41,631 | 165,985 |
| Restricted | 2,976,048 | 89,004,340 | 16,500,478 | 16,277,942 | 124,758,808 |
| Committed | - | - | - | 793,172 | 793,172 |
| Assigned | 10,424,144 | - | - | 15,893 | 10,440,037 |
| Unassigned | 7,018,164 | - | - | - | 7,018,164 |
| Total Fund Balances | 20,542,710 | 89,004,340 | 16,500,478 | 17,128,638 | 143,176,166 |
| Total Liabilities and Fund Balances | \$ 36,745,435 | \$ 97,069,861 | \$ 16,500,478 | \$ 18,603,655 | \$ 168,919,429 |

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET ASSETS
JUNE 30, 2012

Total Fund Balance - Governmental Funds \$ 143,176,166

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

Capital assets:

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

| | | |
|--------------------------|----------------|-------------|
| Capital assets | \$ 331,961,614 | |
| Accumulated depreciation | (89,236,476) | 242,725,138 |

Unamortized costs:

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

1,667,880

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:

(3,316,185)

Long-term liabilities:

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

| | | |
|-------------------------------------|----------------|---------------|
| Total general obligation bonds | \$ 248,172,901 | |
| Total certificates of participation | 18,250,551 | |
| Compensated absences | 1,044,765 | (267,468,217) |

Internal service funds:

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

(4,002,033)

Total Net Assets - Governmental Activities \$ 112,782,749

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, 2012

| | General Fund | Building Fund | Bond Interest & Redemption Fund | Non-Major Governmental Funds | Total Governmental Funds |
|--|----------------------|----------------------|---------------------------------|------------------------------|--------------------------|
| REVENUES | | | | | |
| Revenue limit sources | | | | | |
| State aid | \$ 5,778,588 | \$ - | \$ - | \$ - | \$ 5,778,588 |
| Local sources | 51,704,201 | - | - | - | 51,704,201 |
| Transfers | 303,443 | - | - | - | 303,443 |
| Federal sources | 5,577,471 | - | 2,449,656 | 4,540,906 | 12,568,033 |
| Other state sources | 12,605,050 | - | 44,293 | 3,317,804 | 15,967,147 |
| Other local sources | 41,075,171 | 1,128,149 | 16,954,630 | 13,032,680 | 72,190,630 |
| Total Revenues | 117,043,924 | 1,128,149 | 19,448,579 | 20,891,390 | 158,512,042 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Instruction | 75,019,165 | - | - | 6,268,521 | 81,287,686 |
| Instruction-related services | | | | | |
| Instructional supervision and administration | 4,740,313 | - | - | 783,565 | 5,523,878 |
| Instructional library, media, and technology | 1,191,498 | - | - | - | 1,191,498 |
| School site administration | 8,979,737 | - | - | 914,783 | 9,894,520 |
| Pupil services | | | | | |
| Home-to-school transportation | 1,793,427 | - | - | - | 1,793,427 |
| Food services | - | - | - | 3,601,517 | 3,601,517 |
| All other pupil services | 8,652,308 | - | - | 102,163 | 8,754,471 |
| General administration | | | | | |
| Centralized data processing | 687,197 | - | - | - | 687,197 |
| All other general administration | 6,170,638 | - | - | 445,321 | 6,615,959 |
| Plant services | 12,068,541 | 21,769 | - | 645,647 | 12,735,957 |
| Facilities acquisition and maintenance | 15,607 | 40,670,067 | - | 2,320,551 | 43,006,225 |
| Ancillary services | 782,978 | - | - | - | 782,978 |
| Community services | 1,197,650 | - | - | - | 1,197,650 |
| Transfers to other agencies | 6,949 | - | - | - | 6,949 |
| Debt service | | | | | |
| Principal | - | - | 7,780,000 | 1,045,000 | 8,825,000 |
| Interest and other | 110,188 | - | 11,961,862 | 418,048 | 12,490,098 |
| Total Expenditures | 121,416,196 | 40,691,836 | 19,741,862 | 16,545,116 | 198,395,010 |
| Excess (Deficiency) of Revenues | | | | | |
| Over Expenditures | (4,372,272) | (39,563,687) | (293,283) | 4,346,274 | (39,882,968) |
| Other Financing Sources (Uses) | | | | | |
| Transfers In | 1,560,873 | - | - | - | 1,560,873 |
| Transfers Out | - | - | - | (1,560,873) | (1,560,873) |
| Net Financing Sources (Uses) | 1,560,873 | - | - | (1,560,873) | - |
| NET CHANGE IN FUND BALANCE | (2,811,399) | (39,563,687) | (293,283) | 2,785,401 | (39,882,968) |
| Fund Balance - Beginning | 23,354,109 | 128,568,027 | 16,793,761 | 14,343,237 | 183,059,134 |
| Fund Balance - Ending | \$ 20,542,710 | \$ 89,004,340 | \$ 16,500,478 | \$ 17,128,638 | \$ 143,176,166 |

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, 2012**

Net Change in Fund Balances - Governmental Funds \$ (39,882,968)

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: | \$ | 43,562,626 | |
| Depreciation expense: | | (4,716,361) | 38,846,265 |

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:

8,825,000

Debt issue costs:

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

| | | | |
|---|----|----------|----------|
| Issue costs incurred during the period: | \$ | - | |
| Issue costs amortized for the period: | | (84,359) | (84,359) |

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:

219,481

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, 2012**

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.

(2,700,904)

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:

(8,111)

Amortization of debt issue premium or discount:

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

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 decrease in internal service funds was:

(1,406,174)

Change in Net Assets of Governmental Activities

\$ 4,046,040

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012

| | <u>Governmental Activities</u> |
|---------------------------|------------------------------------|
| | <u>Internal Service Fund</u> |
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | \$ 1,778,884 |
| Accounts receivable | 1,896 |
| Total Assets | <u>1,780,780</u> |
| LIABILITIES | |
| Non-current liabilities | <u>5,782,813</u> |
| NET ASSETS | |
| Unrestricted | (4,002,033) |
| Total Net Assets | <u>\$ (4,002,033)</u> |

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 ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

| | Governmental Activities |
|--------------------------------|------------------------------------|
| | Internal Service Fund |
| OPERATING REVENUE | |
| Charges to other funds | \$ 1,054,729 |
| OPERATING EXPENSE | |
| Professional services | 2,473,533 |
| Operating loss | (1,418,804) |
| NON-OPERATING REVENUES | |
| Interest income | 12,630 |
| CHANGE IN NET ASSETS | (1,406,174) |
| Net Deficit - Beginning | (2,595,859) |
| Net Deficit - Ending | \$ (4,002,033) |

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, 2012

| | Governmental Activities |
|---|------------------------------------|
| | Internal Service Fund |
| Cash flows from operating activities | |
| Cash received from assessments made to other funds | \$ 1,054,729 |
| Cash payments for insurance and operating costs | (1,049,521) |
| Net cash provided by operating activities | 5,208 |
| Cash flows from investing activities | |
| Interest received | 16,055 |
| Net cash provided by investing activities | 16,055 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 21,263 |
| CASH AND CASH EQUIVALENTS | |
| Beginning of year | 1,757,621 |
| End of year | \$ 1,778,884 |
| Reconciliation of operating loss to cash provided by operating activities | |
| Operating loss | \$ (1,418,804) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Changes in assets and liabilities: | |
| Increase in non-current liabilities | 1,424,012 |
| Net cash provided by operating activities | \$ 5,208 |

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

| | Agency Funds |
|---------------------------|-------------------|
| | Student Body |
| | Fund |
| ASSETS | |
| Cash and cash equivalents | \$ 552,367 |
| Stores inventory | 29,785 |
| Prepaid expenses | 66,820 |
| Total Assets | \$ 648,972 |
| LIABILITIES | |
| Accrued liabilities | \$ 97,064 |
| Due to student groups | 551,908 |
| Total Liabilities | \$ 648,972 |

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Santa Monica-Malibu Unified School District was established in 1875, under the laws of the State of California. The District operates under a locally-elected seven-member Board form of government and provides educational services to grades K – 12 as mandated by the State and/or Federal agencies. The District operates ten elementary schools, two middle schools, two high schools, one continuation high school, one alternative school, one community day school, one adult education center, and 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. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and thus are included in the financial statements of the District. The District has the following discretely presented component unit:

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

Government-Wide Statements. The statement of net assets 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, 2012

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, 2012

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, 2012

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*).

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

All governmental-type activities of the District follow the FASB and AICPA pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Governmental Funds

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

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.

Deferred Revenue

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

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

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 Assets

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, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, Fund Balance and Net Assets (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 assets, 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 assets.

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, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, Fund Balance and Net Assets (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.

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

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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balance

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

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

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, 2012

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

E. Assets, Liabilities, Fund Balance and Net Assets (*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.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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, 2012

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.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

| | Governmental | Internal Service | Total | |
|--|-----------------------|---------------------|-----------------------|-------------------|
| | Funds | Funds | Governmental | Fiduciary |
| | | | Activities | Funds |
| Cash in county | \$ 152,379,755 | \$ 1,778,884 | \$ 154,158,639 | \$ - |
| Cash on hand and in banks | 1,937,732 | - | 1,937,732 | 552,367 |
| Cash in revolving fund | 20,000 | - | 20,000 | - |
| Total cash and cash equivalents | \$ 154,337,487 | \$ 1,778,884 | \$ 156,116,371 | \$ 552,367 |

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, 2012

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 \$154,631,164 and an amortized book value of \$154,158,639. The average weighted maturity for this pool is 617 days.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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, 2012, 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, 2012, the District's bank balance was not exposed to custodial credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 consisted of the following:

| | General Fund | Building Fund | Non-Major Governmental Funds | Internal Service Funds | Total Governmental Activities |
|---------------------|---------------------|-------------------|------------------------------------|---------------------------|-------------------------------------|
| Federal Government | | | | | |
| Categorical aid | \$ 1,876,957 | \$ - | \$ 661,441 | \$ - | \$ 2,538,398 |
| State Government | | | | | |
| Apportionment | 1,623,955 | - | - | - | 1,623,955 |
| Categorical aid | 3,221,011 | - | 222,627 | - | 3,443,638 |
| Lottery | 844,775 | - | - | - | 844,775 |
| Local Government | | | | | |
| Other Local Sources | 2,387,740 | 204,538 | 458,243 | 1,896 | 3,052,417 |
| Total | \$ 9,954,438 | \$ 204,538 | \$ 1,342,311 | \$ 1,896 | \$ 11,503,183 |

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

| | Balance July 01, 2011 | Additions | Deletions | Balance June 30, 2012 |
|--|--------------------------|----------------------|---------------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 10,002,583 | \$ - | \$ - | \$ 10,002,583 |
| Construction in progress | 58,541,313 | 42,893,753 | 2,822,688 | 98,612,378 |
| Total Capital Assets not Being Depreciated | 68,543,896 | 42,893,753 | 2,822,688 | 108,614,961 |
| Capital assets being depreciated | | | | |
| Land improvements | 11,665,890 | 1,334,258 | - | 13,000,148 |
| Buildings & improvements | 196,625,179 | 1,530,073 | - | 198,155,252 |
| Furniture & equipment | 11,564,023 | 627,230 | - | 12,191,253 |
| Total Capital Assets Being Depreciated | 219,855,092 | 3,491,561 | - | 223,346,653 |
| Less Accumulated Depreciation | | | | |
| Land improvements | 10,646,829 | 107,626 | - | 10,754,455 |
| Buildings & improvements | 64,058,713 | 4,195,868 | - | 68,254,581 |
| Furniture & equipment | 9,814,573 | 412,867 | - | 10,227,440 |
| Total Accumulated Depreciation | 84,520,115 | 4,716,361 | - | 89,236,476 |
| Governmental Activities | | | | |
| Capital Assets, net | \$ 203,878,873 | \$ 41,668,953 | \$ 2,822,688 | \$ 242,725,138 |

NOTE 5 – INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2012 consisted of the following:

| | Interfund Transfers In |
|------------------------------|---------------------------|
| | |
| Interfund Transfers Out | General Fund |
| Non-Major Governmental Funds | \$ 1,560,873 |

The Non-Major Special Reserve Fund for Capital Outlay Projects transferred to the General Fund for RDA monies received.

\$ 1,560,873

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2012 consisted of the following:

| | General Fund | Building Fund | Non-Major Governmental Funds | Government- Wide | Total Governmental Activities | Total Fiduciary |
|--------------------|----------------------|---------------------|------------------------------------|---------------------|-------------------------------------|------------------|
| Payroll | \$ 11,757,146 | \$ 38,339 | \$ 700,586 | \$ - | \$ 12,496,071 | \$ - |
| Construction | - | 8,027,182 | 108,762 | - | 8,135,944 | - |
| Vendors payable | 3,403,021 | - | 512,177 | - | 3,915,198 | 97,064 |
| Unmatured interest | - | - | - | 3,316,185 | 3,316,185 | - |
| Total | \$ 15,160,167 | \$ 8,065,521 | \$ 1,321,525 | \$ 3,316,185 | \$ 27,863,398 | \$ 97,064 |

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2012, consisted of the following:

| | General Fund | Non-Major Governmental Funds | Total Governmental Activities |
|---------------------------|---------------------|------------------------------------|-------------------------------------|
| State categorical sources | \$ 47,418 | \$ - | \$ 47,418 |
| Local deferrals | 995,140 | 72,898 | 1,068,038 |
| Total | \$ 1,042,558 | \$ 72,898 | \$ 1,115,456 |

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 8 – TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 13, 2011, the District issued \$4,945,000 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 29, 2012. By April 2012, the District had paid off the notes.

NOTE 9 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2012 consisted of the following:

| | Balance July 01, 2011 | Additions | Deductions | Balance June 30, 2012 | Balance Due In One Year |
|-------------------------------------|--------------------------|---------------------|---------------------|--------------------------|----------------------------|
| Governmental Activities | | | | | |
| General obligation bonds | \$ 249,594,488 | \$ 2,313,412 | \$ 7,780,000 | \$ 244,127,900 | \$ 6,827,188 |
| Unamortized premium | 4,237,603 | - | 192,602 | 4,045,001 | - |
| Total general obligation bonds | 253,832,091 | 2,313,412 | 7,972,602 | 248,172,901 | 6,827,188 |
| Certificates of participation | 18,388,167 | 387,492 | 1,045,000 | 17,730,659 | 1,065,000 |
| Unamortized premium | 565,100 | - | 45,208 | 519,892 | - |
| Total certificates of participation | 18,953,267 | 387,492 | 1,090,208 | 18,250,551 | 1,065,000 |
| Compensated absences | 1,036,654 | 8,111 | - | 1,044,765 | - |
| Net OPEB obligation | 4,358,801 | 1,424,012 | - | 5,782,813 | - |
| Total | \$ 278,180,813 | \$ 4,133,027 | \$ 9,062,810 | \$ 273,251,030 | \$ 7,892,188 |

A. Bonded Debt

| Series | Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 01, 2011 | Additions | Deductions | Bonds Outstanding June 30, 2012 |
|----------------------------|-------------------|------------------|------------------|-------------------|---------------------------------------|---------------------|---------------------|---------------------------------------|
| 1998 Refunding Bonds | June 18, 1998 | August 1, 2028 | 3.75% - 5.25% | \$68,145,000 | \$ 34,245,000 | \$ - | \$ 3,695,000 | \$ 30,550,000 |
| Election 1998, Series 1999 | May 26, 1999 | August 1, 2023 | 3.20% - 5.38% | 38,000,034 | 44,869,488 | 2,313,412 | 2,695,000 | 44,487,900 |
| Election 1998, Series 2001 | June 1, 2001 | August 1, 2025 | 4.00% - 5.15% | 3,995,000 | 140,000 | - | 140,000 | - |
| 2006 Refunding Bonds | February 23, 2006 | August 1, 2025 | 3.50% - 4.15% | 3,285,000 | 3,130,000 | - | 35,000 | 3,095,000 |
| Election 2006, Series A | October 2, 2007 | August 1, 2032 | 4.00% - 5.50% | 60,000,000 | 45,210,000 | - | 265,000 | 44,945,000 |
| Election 2006, Series B | July 23, 2009 | August 1, 2019 | 1.50% - 5.00% | 11,875,000 | 8,875,000 | - | 635,000 | 8,240,000 |
| 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 | 10,690,000 | - | 315,000 | 10,375,000 |
| Election 2006, Series C-1 | July 14, 2010 | July 1, 2035 | 5.80% - 6.63% | 54,310,000 | 54,310,000 | - | - | 54,310,000 |
| | | | | | \$ 249,594,488 | \$ 2,313,412 | \$ 7,780,000 | \$ 244,127,900 |

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, 2012 amounted to \$30,550,000.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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 were two issuances under this election:

- Series 1999, which was issued on May 26, 1999 for \$38,000,034 with interest rates ranging from 3.20% to 4.50%. The original issuance consisted of \$15,825,000 in current interest serial bonds and \$22,175,034 in capital appreciation serial bonds. Interest on the current interest bonds accrues from its dated date and is payable semi-annually each February 1 and August 1, commencing February 1, 2000, principal on the bonds is payable annually each August 1, commencing August 1, 2000 through the final maturity date of August 1, 2011. The capital appreciation bonds accrue interest from its dated date, compounded semi-annually on February 1 and August 1 of each year, principal on the bonds is payable annually each August 1, commencing August 1, 2012 through the final maturity date of August 1, 2023. The principal balance outstanding on June 30, 2012 amounted to \$44,487,900.
- Series 2001, which was issued on June 1, 2001 for \$3,995,000 with interest rates ranging from 4.00% to 5.125%. The original issuance consisted of \$1,895,000 in current interest serial bonds and \$2,100,000 in current interest term bonds. Interest on the bonds accrues from their dated date and is payable semi-annually each February 1 and August 1, commencing February 1, 2002, principal on the bonds is payable annually each August 1, commencing August 1, 2002 through the final maturity date of August 1, 2025. As of June 30, 2012, the bonds were paid off.

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, 2012 amounted to \$3,095,000.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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 four issuances under this election:

- Series A, which was issued on October 2, 2007 for \$60,000,000 with interest rates ranging from 4.00% to 5.00%. The original issuance consisted of \$45,835,000 in current interest serial bonds and \$14,165,000 in current interest term bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing February 1, 2008, principal on the bonds is payable annually each August 1, commencing August 1, 2008 through the final maturity date of August 1, 2032. The principal balance outstanding on June 30, 2012 amounted to \$44,945,000.
- 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, 2012 amounted to \$8,240,000.
- 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, 2012 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, 2012 amounted to \$10,375,000.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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, 2012 amounted to \$54,310,000.

B. Debt Service Requirements to Maturity – Bonds

The bonds mature through 2036 as follows:

| Year Ended June 30, | Principal | Interest | Total |
|----------------------------|------------------|-----------------|----------------|
| 2013 | \$ 6,827,188 | \$ 12,702,257 | \$ 19,529,445 |
| 2014 | 7,289,386 | 12,529,587 | 19,818,973 |
| 2015 | 7,774,593 | 12,355,478 | 20,130,071 |
| 2016 | 8,296,050 | 12,143,446 | 20,439,496 |
| 2017 | 8,892,107 | 11,912,347 | 20,804,454 |
| 2018 - 2022 | 39,646,062 | 62,414,479 | 102,060,541 |
| 2023 - 2027 | 40,309,648 | 39,512,015 | 79,821,663 |
| 2028 - 2032 | 58,610,000 | 14,973,544 | 73,583,544 |
| 2033 - 2036 | 44,170,000 | 2,558,475 | 46,728,475 |
| Accretion | 22,312,866 | (22,312,866) | - |
| Total | \$ 244,127,900 | \$ 158,788,762 | \$ 402,916,662 |

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 9 – LONG-TERM DEBT (continued)

C. Certificates of Participation (COPs)

| Series | Issue Date | Maturity Date | Interest Rate | Original Issue | Certificates Outstanding | | | Certificates Outstanding |
|---------------|-------------------|---------------|---------------|----------------|--------------------------|-------------------|---------------------|--------------------------|
| | | | | | July 01, 2011 | Additions | Deductions | June 30, 2012 |
| 2001 Series C | November 15, 2001 | May 1, 2025 | 3.50% - 5.40% | \$ 15,206,501 | \$ 7,263,167 | \$ 387,492 | \$ - | \$ 7,650,659 |
| 2010 Series A | December 1, 2010 | May 1, 2014 | 1.09% - 3.04% | 3,215,000 | 3,110,000 | - | 1,045,000 | 2,065,000 |
| 2010 Series B | December 1, 2010 | May 1, 2024 | 2.00% - 5.00% | 8,015,000 | 8,015,000 | - | - | 8,015,000 |
| | | | | | <u>\$ 18,388,167</u> | <u>\$ 387,492</u> | <u>\$ 1,045,000</u> | <u>\$ 17,730,659</u> |

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, 2012, amounted to \$7,650,659.

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, 2012 amounted to \$2,065,000.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 9 – LONG-TERM DEBT (continued)

C. Certificates of Participation (COPs) (continued)

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, 2012 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 |
|---------------------|---------------|--------------|---------------|
| 2013 | \$ 1,065,000 | \$ 399,395 | \$ 1,464,395 |
| 2014 | 1,090,000 | 374,101 | 1,464,101 |
| 2015 | 1,120,000 | 341,881 | 1,461,881 |
| 2016 | 1,570,000 | 297,081 | 1,867,081 |
| 2017 | 1,635,000 | 234,281 | 1,869,281 |
| 2018 - 2022 | 5,552,201 | 4,673,005 | 10,225,206 |
| 2023 - 2025 | 2,514,301 | 4,058,762 | 6,573,063 |
| Accretion | 3,184,157 | (3,184,157) | - |
| Total | \$ 17,730,659 | \$ 7,194,349 | \$ 24,925,008 |

E. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2012 amounted to \$1,044,765. 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, 2012, was \$2,556,977 with net interest and other adjustments of (\$65,606) for a net annual OPEB cost of \$2,491,371. The District made contributions during the year of \$1,067,359, which resulted in an increase to net OPEB obligation of \$1,424,012. The ending OPEB balance at June 30, 2012 was \$5,782,813. See Note 11 for additional information regarding the net OPEB Obligation and the postemployment benefit plan.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 10 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2012:

| | 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 | 13,227 | - | - | 41,631 | 54,858 |
| Prepaid expenditures | 91,127 | - | - | - | 91,127 |
| Total non-spendable | 124,354 | - | - | 41,631 | 165,985 |
| Restricted | | | | | |
| Educational programs | 2,976,048 | - | - | 30,884 | 3,006,932 |
| Capital projects | - | 89,004,340 | - | 15,992,372 | 104,996,712 |
| Debt service | - | - | 16,500,478 | - | 16,500,478 |
| All others | - | - | - | 254,686 | 254,686 |
| Total restricted | 2,976,048 | 89,004,340 | 16,500,478 | 16,277,942 | 124,758,808 |
| Committed | | | | | |
| Other commitments | - | - | - | 793,172 | 793,172 |
| Total committed | - | - | - | 793,172 | 793,172 |
| Assigned | | | | | |
| 2012-13 Deficit Spending | 5,254,870 | - | - | - | 5,254,870 |
| 2012-13 Mid-year Cut | 4,828,509 | - | - | - | 4,828,509 |
| Rollover Requisitions | 266,765 | - | - | - | 266,765 |
| Site Carryover | 74,000 | - | - | - | 74,000 |
| Other assignments | - | - | - | 15,893 | 15,893 |
| Total assigned | 10,424,144 | - | - | 15,893 | 10,440,037 |
| Unassigned | | | | | |
| Reserve for economic uncertainties | 3,570,459 | - | - | - | 3,570,459 |
| Remaining unassigned | 3,447,705 | - | - | - | 3,447,705 |
| Total unassigned | 7,018,164 | - | - | - | 7,018,164 |
| Total | \$ 20,542,710 | \$ 89,004,340 | \$ 16,500,478 | \$ 17,128,638 | \$ 143,176,166 |

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.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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 \$97 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 2012, the District contributed \$1,067,359 to the Plan, all of which was used for current premiums.

As of June 30, 2012, 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, 2012

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 | | 217,940 |
| Adjustment to annual required contribution | | (283,546) |
| Annual OPEB cost (expense) | | 2,491,371 |
| Contributions made | | (1,067,359) |
| Increase (decrease) in net OPEB obligation | | 1,424,012 |
| Net OPEB obligation, beginning of the year | | 4,358,801 |
| Net OPEB obligation, end of the year | \$ | 5,782,813 |

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, 2012 and the preceding two years were as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage Contributed | Net OPEB Obligation |
|----------------------------|---------------------------------|-----------------------------------|--------------------------------|
| 2012 | \$ 2,491,371 | 43% | \$ 5,782,813 |
| 2011 | \$ 2,259,052 | 44% | \$ 4,358,801 |
| 2010 | \$ 2,279,949 | 39% | \$ 3,099,131 |

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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 2012 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> |
|---------|---------------------|---|
| 2011-12 | \$ 4,641,990 | 100% |
| 2010-11 | \$ 4,553,338 | 100% |
| 2009-10 | \$ 4,752,967 | 100% |

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$2,400,893 to CalSTRS (4.267% of salaries subject to CalSTRS in 2011-12).

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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 2012 was 10.923% 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 |
|---------|--------------|-------------------------------------|
| 2011-12 | \$ 2,530,073 | 100% |
| 2010-11 | \$ 2,395,864 | 100% |
| 2009-10 | \$ 2,185,011 | 100% |

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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, 2012.

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, 2012.

C. Construction Commitments

As of June 30, 2012, the District had commitments with respect to unfinished capital projects of \$92,673,028.

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.

NOTE 15 – SUBSEQUENT EVENT

Tax Revenue Anticipation Notes (TRANs)

The District issued \$9,873,000 of TRANs dated July 1, 2012. The notes mature on June 28, 2013, and yield a 2.00% interest rate. The notes were sold to supplement cash flow.

REQUIRED SUPPLEMENTARY INFORMATION

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

| | Budgeted Amounts | | Actual | Variances - |
|---|-------------------------|----------------------|--------------------------|------------------------|
| | Original | Final | (Budgetary Basis) | Final to Actual |
| REVENUES | | | | |
| Revenue limit sources | | | | |
| State aid | \$ 10,365,952 | \$ 8,870,366 | \$ 5,778,588 | \$ (3,091,778) |
| Local sources | 49,038,434 | 49,026,750 | 51,704,201 | 2,677,451 |
| Transfers | 295,545 | 298,284 | 303,443 | 5,159 |
| Federal sources | 4,697,237 | 5,569,515 | 5,577,471 | 7,956 |
| Other State sources | 9,795,538 | 9,878,103 | 10,204,157 | 326,054 |
| Other local sources | 36,472,141 | 38,432,891 | 41,075,171 | 2,642,280 |
| Total Revenues | 110,664,847 | 112,075,909 | 114,643,031 | 2,567,122 |
| EXPENDITURES | | | | |
| Certificated salaries | 53,907,702 | 54,613,951 | 54,731,933 | (117,982) |
| Classified salaries | 21,481,276 | 22,770,809 | 22,479,450 | 291,359 |
| Employee benefits | 25,152,383 | 25,701,064 | 25,115,709 | 585,355 |
| Books and supplies | 2,353,903 | 3,995,591 | 3,289,464 | 706,127 |
| Services and other operating expenditures | 12,327,117 | 12,560,593 | 13,272,727 | (712,134) |
| Capital outlay | 167,019 | 692,717 | 564,393 | 128,324 |
| Other outgo | | | | |
| Excluding transfers of indirect costs | - | - | 6,949 | (6,949) |
| Transfers of indirect costs | (448,352) | (473,227) | (445,322) | (27,905) |
| Total Expenditures | 114,941,048 | 119,861,498 | 119,015,303 | 846,195 |
| Excess (Deficiency) of Revenues | | | | |
| Over Expenditures | (4,276,201) | (7,785,589) | (4,372,272) | 3,413,317 |
| Other Financing Sources (Uses) | | | | |
| Transfers In | - | 1,560,873 | 1,560,873 | - |
| Net Financing Sources (Uses) | - | 1,560,873 | 1,560,873 | - |
| NET CHANGE IN FUND BALANCE | (4,276,201) | (6,224,716) | (2,811,399) | 3,413,317 |
| Fund Balance - Beginning | 23,354,109 | 23,354,109 | 23,354,109 | - |
| Fund Balance - Ending | \$ 19,077,908 | \$ 17,129,393 | \$ 20,542,710 | \$ 3,413,317 |

* 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:

- On behalf payments of \$2,400,893 are not included in the actual revenues and expenditures reported in this schedule.

See accompanying note to required supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012

| 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, 2012**

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, 2012, 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 | | | |
| Certificated salaries | \$ 54,613,951 | \$ 54,731,933 | \$ 117,982 |
| Services and other operating expenditures | \$ 12,560,593 | \$ 13,272,727 | \$ 712,134 |
| Other outgo | | | |
| Excluding transfers of indirect costs | \$ - | \$ 6,949 | \$ 6,949 |
| Transfers of indirect costs | \$ (473,227) | \$ (445,322) | \$ 27,905 |

SUPPLEMENTARY INFORMATION

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

| 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 Cluster | | | |
| Title I, Part A, Basic Grants Low-Income and Neglected | 84.010 | 14329 | \$ 1,139,277 |
| ARRA - Title I - Part A | 84.389 | 15005 | 37,513 |
| Subtotal Title I, Part A Cluster | | | <u>1,176,790</u> |
| Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement Program | 84.330 | 14831 | 8,538 |
| Adult Education Cluster | | | |
| Adult Education: Adult Secondary Education | 84.002A | 13978 | 22,908 |
| Adult Education: English Literacy and Civics Education | 84.002A | 14109 | 31,781 |
| Adult Education: Adult Basic Education & ESL | 84.002A | 14508 | 38,040 |
| Subtotal Adult Education Cluster | | | <u>92,729</u> |
| Title II, Part A, Teacher Quality | 84.367A | 14341 | 479,518 |
| Educational Technology State Grants Cluster | | | |
| Title II, Part D, Enhancing Education Through Technology, Formula Grants | 84.318 | 14334 | 1,656 |
| Title II, Part D, Enhancing Education Through Technology (EETT), Competitive Grants | 84.318 | 14368 | 91,153 |
| ARRA - Title II, Part D, Enhancing Education Through Technology (EETT), Formula Grants | 84.386 | 15019 | 14,124 |
| ARRA - Title II, Part D, Enhancing Education Through Technology (EETT), Competitive Grants | 84.386 | 15126 | 67,035 |
| Subtotal Education Technology State Grants Cluster | | | <u>173,968</u> |
| Title III Cluster | | | |
| Title III, Immigration Education Program | 84.365 | 15146 | 49,434 |
| Title III, Limited English Proficient (LEP) Student Program | 84.365 | 14346 | 142,678 |
| Subtotal Title III Cluster | | | <u>192,112</u> |
| Department of Rehab: Workability II, Transition Partnership | 84.158 | 10006 | 131,359 |
| Special Education Cluster | | | |
| IDEA Basic Local Assistance Entitlement, Part B, Sec 611 | 84.027 | 13379 | 2,237,110 |
| IDEA Mental Health Allocation Plan, Part B, Sec 611 | 84.027 | 14468 | 294,530 |
| IDEA Preschool Grants, Part B, Sec 619 | 84.173 | 13430 | 70,472 |
| IDEA Preschool Local Entitlement, Part B, Sec 611 | 84.027A | 13682 | 98,236 |
| IDEA Preschool Staff Development, Part B | 84.173A | 13431 | 172 |
| Subtotal Special Education Cluster | | | <u>2,700,520</u> |
| ARRA - State Fiscal Stabilization Fund | 84.394 | 24997 | 177,449 |
| Education Jobs Fund | 84.410 | 25152 | 330,851 |
| Total U. S. Department of Education | | | <u><u>5,463,834</u></u> |
| U. S. DEPARTMENT OF AGRICULTURE: | | | |
| <i>Passed through California Department of Education:</i> | | | |
| Child Nutrition Cluster | | | |
| National School Lunch Program | 10.555 | 13391 | 1,010,800 |
| Especially Needy Breakfast | 10.553 | 13526 | 203,923 |
| Commodities | 10.555 | 13389 | 286,146 |
| Subtotal Child Nutrition Cluster | | | <u>1,500,869</u> |
| CCFP Claims - Centers and Family Day Care | 10.558 | 13393 | 143,510 |
| Total U. S. Department of Agriculture | | | <u><u>1,644,379</u></u> |
| U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: | | | |
| <i>Passed through California Department of Education:</i> | | | |
| Federal General Child Care & Development (CTTR) and CA State Preschool Program (CSPP) | 93.575 | 15136 | 239,523 |
| <i>Passed through California Department of Health Services:</i> | | | |
| Medicaid Cluster | | | |
| Medi-Cal Billing Option | 93.778 | 10013 | 400,557 |
| Medi-Cal Administrative Activities (MAA) | 93.778 | 10060 | 149,838 |
| Subtotal Medicaid Cluster | | | <u>550,395</u> |
| <i>Passed through Los Angeles County Office of Education:</i> | | | |
| Head Start Cluster [1] | | | |
| Head Start Basic | 93.600 | 10016 | 2,385,380 |
| Head Start, Training & Technical Assistance | 93.600 | 10016 | 15,635 |
| Head Start, Program Improvement | 93.600 | 10016 | 66,183 |
| <i>Passed through UCLA</i> | | | |
| Early Head Start | 93.600 | 10016 | 97,077 |
| Subtotal Head Start Cluster | | | <u>2,564,275</u> |
| Total U. S. Department of Health & Human Services | | | <u>3,354,193</u> |
| Total Federal Expenditures | | | <u><u>\$ 10,462,406</u></u> |

[1] In Kind Contribution

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2012**

| | Second Period Report | Annual Report |
|--------------------------------|-------------------------------------|--------------------------|
| ELEMENTARY | | |
| Kindergarten | 797 | 799 |
| First through third | 2,323 | 2,324 |
| Fourth through sixth | 2,333 | 2,336 |
| Seventh through eighth | 1,693 | 1,691 |
| Opportunity school | 1 | 1 |
| Home and hospital | 1 | 3 |
| Special education | 118 | 123 |
| Total Elementary | <u>7,266</u> | <u>7,277</u> |
| SECONDARY | | |
| Regular classes | 3,433 | 3,405 |
| Continuation education | 82 | 80 |
| Opportunity school | 15 | 15 |
| Home and hospital | 8 | 9 |
| Special education | 120 | 120 |
| Total Secondary | <u>3,658</u> | <u>3,629</u> |
| Average Daily Attendance Total | <u>10,924</u> | <u>10,906</u> |

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012

| Grade Level | 1982-83 | | 1986-87 | | 2011-12 | Number of Days | Status |
|--------------|-------------------|------------------------------|------------------------|-----------------------------------|-------------------|-------------------|----------|
| | Actual Minutes | Actual Minutes Reduced | Minutes Requirement | Minutes Requirement Reduced | Actual Minutes | | |
| Kindergarten | 36,000 | 33,600 | 36,000 | 33,600 | 45,150 | 180 | Complied |
| Grade 1 | 53,100 | 49,560 | 50,400 | 47,040 | 53,355 | 180 | Complied |
| Grade 2 | 53,100 | 49,560 | 50,400 | 47,040 | 53,355 | 180 | Complied |
| Grade 3 | 53,100 | 49,560 | 50,400 | 47,040 | 53,310 | 180 | Complied |
| Grade 4 | 54,480 | 50,848 | 54,000 | 50,400 | 55,020 | 180 | Complied |
| Grade 5 | 54,480 | 50,848 | 54,000 | 50,400 | 55,020 | 180 | Complied |
| Grade 6 | 54,480 | 50,848 | 54,000 | 50,400 | 60,453 | 180 | Complied |
| Grade 7 | 54,480 | 50,848 | 54,000 | 50,400 | 60,453 | 180 | Complied |
| Grade 8 | 54,480 | 50,848 | 54,000 | 50,400 | 60,453 | 180 | Complied |
| Grade 9 | 64,800 | 60,480 | 64,800 | 60,480 | 64,995 | 180 | Complied |
| Grade 10 | 64,800 | 60,480 | 64,800 | 60,480 | 64,995 | 180 | Complied |
| Grade 11 | 64,800 | 60,480 | 64,800 | 60,480 | 64,995 | 180 | Complied |
| Grade 12 | 64,800 | 60,480 | 64,800 | 60,480 | 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, 2012

| | 2013 (Budget) | 2012 | 2011 | 2010 |
|---------------------------------------|----------------|----------------|----------------|----------------|
| General Fund - Budgetary Basis** | | | | |
| Revenues And Other Financing Sources | \$ 110,065,785 | \$ 116,203,904 | \$ 116,209,211 | \$ 108,057,299 |
| Expenditures And Other Financing Uses | 115,388,956 | 119,015,303 | 113,790,867 | 114,861,724 |
| Net change in Fund Balance | \$ (5,323,171) | \$ (2,811,399) | \$ 2,418,344 | \$ (6,804,425) |
| Ending Fund Balance | \$ 15,219,539 | \$ 20,542,710 | \$ 23,354,109 | \$ 20,935,765 |
| Available Reserves* | \$ 4,668,846 | \$ 7,018,164 | \$ 10,966,533 | \$ 15,432,244 |
| Available Reserves As A | | | | |
| Percentage Of Outgo | 4.05% | 5.90% | 9.64% | 13.44% |
| Long-term Debt | \$ 265,358,842 | \$ 273,251,030 | \$ 278,180,813 | \$ 216,781,037 |
| Average Daily | | | | |
| Attendance At P-2 | 10,948 | 10,924 | 10,977 | 11,106 |

The General Fund balance has decreased by \$393,055 over the past two years. The fiscal year 2012-13 budget projects a further decrease of \$5,323,171. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2012-13 fiscal year. Total long term obligations have increased by \$56,469,993 over the past two years.

Average daily attendance has decreased by 182 ADA over the past two years. An increase of 24 ADA is anticipated during the 2012-13 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 \$2,400,893.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2012.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2012

| | 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 | \$ 307,696 | \$ - | \$ 357,704 | \$ 505,384 | \$ 9,343,184 | \$ 6,705,745 | \$ 17,219,713 |
| Accounts receivable | 31,128 | 870,263 | 74,528 | 1,110 | 295,109 | 70,173 | 1,342,311 |
| Stores inventory | - | - | 41,631 | - | - | - | 41,631 |
| Total Assets | \$ 338,824 | \$ 870,263 | \$ 473,863 | \$ 506,494 | \$ 9,638,293 | \$ 6,775,918 | \$ 18,603,655 |
| LIABILITIES | | | | | | | |
| Deficit cash | \$ - | \$ 80,594 | \$ - | \$ - | \$ - | \$ - | \$ 80,594 |
| Accrued liabilities | 23,016 | 675,473 | 177,546 | 23,651 | 108,762 | 313,077 | 1,321,525 |
| Deferred revenue | - | 72,898 | - | - | - | - | 72,898 |
| Total Liabilities | 23,016 | 828,965 | 177,546 | 23,651 | 108,762 | 313,077 | 1,475,017 |
| FUND BALANCES | | | | | | | |
| Non-spendable | - | - | 41,631 | - | - | - | 41,631 |
| Restricted | 5,479 | 25,405 | 254,686 | - | 9,529,531 | 6,462,841 | 16,277,942 |
| Committed | 310,329 | - | - | 482,843 | - | - | 793,172 |
| Assigned | - | 15,893 | - | - | - | - | 15,893 |
| Total Fund Balances | 315,808 | 41,298 | 296,317 | 482,843 | 9,529,531 | 6,462,841 | 17,128,638 |
| Total Liabilities and Fund Balance | \$ 338,824 | \$ 870,263 | \$ 473,863 | \$ 506,494 | \$ 9,638,293 | \$ 6,775,918 | \$ 18,603,655 |

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, 2012

| | Adult Education | Child | | Deferred | Capital Facilities | Special Reserve | Non-Major |
|--|-------------------|------------------|-------------------|-------------------|---------------------|---------------------|----------------------|
| | Fund | Development | Cafeteria Fund | Maintenance | Fund | Fund for Capital | Governmental |
| | Fund | Fund | Fund | Fund | Fund | Outlay Projects | Funds |
| REVENUES | | | | | | | |
| Revenue limit sources | | | | | | | |
| Federal sources | \$ 92,729 | \$ 3,089,944 | \$ 1,358,233 | \$ - | \$ - | \$ - | \$ 4,540,906 |
| Other State sources | 259,523 | 2,957,535 | 100,746 | - | - | - | 3,317,804 |
| Other local sources | 60,155 | 2,699,230 | 1,657,443 | 6,274 | 1,755,798 | 6,853,780 | 13,032,680 |
| Total Revenues | 412,407 | 8,746,709 | 3,116,422 | 6,274 | 1,755,798 | 6,853,780 | 20,891,390 |
| EXPENDITURES | | | | | | | |
| Current | | | | | | | |
| Instruction | 150,723 | 6,117,798 | - | - | - | - | 6,268,521 |
| Instruction-related services | | | | | | | |
| Instructional supervision and administration | - | 783,565 | - | - | - | - | 783,565 |
| School site administration | 182,711 | 732,072 | - | - | - | - | 914,783 |
| Pupil services | | | | | | | |
| Food services | - | 481,896 | 3,119,621 | - | - | - | 3,601,517 |
| All other pupil services | 19,509 | 82,654 | - | - | - | - | 102,163 |
| General administration | | | | | | | |
| All other general administration | - | 302,468 | 142,853 | - | - | - | 445,321 |
| Plant services | 28,928 | 323,633 | - | 246,902 | - | 46,184 | 645,647 |
| Facilities acquisition and maintenance | - | - | - | - | 96,864 | 2,223,687 | 2,320,551 |
| Debt service | | | | | | | |
| Principal | - | - | - | - | - | 1,045,000 | 1,045,000 |
| Interest and other | - | - | - | - | - | 418,048 | 418,048 |
| Total Expenditures | 381,871 | 8,824,086 | 3,262,474 | 246,902 | 96,864 | 3,732,919 | 16,545,116 |
| Excess (Deficiency) of Revenues | | | | | | | |
| Over Expenditures | 30,536 | (77,377) | (146,052) | (240,628) | 1,658,934 | 3,120,861 | 4,346,274 |
| Other Financing Sources (Uses) | | | | | | | |
| Transfers Out | - | - | - | - | - | (1,560,873) | (1,560,873) |
| Net Financing Sources (Uses) | - | - | - | - | - | (1,560,873) | (1,560,873) |
| NET CHANGE IN FUND BALANCE | 30,536 | (77,377) | (146,052) | (240,628) | 1,658,934 | 1,559,988 | 2,785,401 |
| Fund Balance - Beginning | 285,272 | 118,675 | 442,369 | 723,471 | 7,870,597 | 4,902,853 | 14,343,237 |
| Fund Balance - Ending | \$ 315,808 | \$ 41,298 | \$ 296,317 | \$ 482,843 | \$ 9,529,531 | \$ 6,462,841 | \$ 17,128,638 |

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2012

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, 2012 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2012.

| | CFDA Number | Amount |
|---|----------------|---------------------|
| Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance | | \$ 12,568,033 |
| ARRA - State Fiscal Stabilization Fund | 84.394 | 177,449 |
| Medi-Cal Billing Option | 93.778 | 166,580 |
| Build America Bonds | N/A | (2,449,656) |
| Total Expenditures reported in the Schedule of Expenditures of Federal Awards | | <u>\$10,462,406</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*. For 2011-12, the instructional day and minute requirements have been pursuant to *Education Code Sections 46201.2 and 46201.3*.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2012

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**

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

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222
fax: 619.260.9085
www.cwacpa.com

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State Board of Accountancy

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Santa Monica-Malibu Unified School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as item #2012-01 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

This report is intended solely for the information and use of the governing board, management, others within the entity, the California Department of Education, the California State Controller's Office, the California Department of Finance, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



San Diego, California
December 3, 2012

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

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

Governing Board

Santa Monica-Malibu Unified School District

Santa Monica, California

Compliance

We have audited Santa Monica-Malibu Unified School District's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Santa Monica-Malibu Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Santa Monica-Malibu Unified School District's management. Our responsibility is to express an opinion on Santa Monica-Malibu Unified School District's compliance based on our audit.

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

In our opinion, Santa Monica-Malibu Unified School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
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tel: 619.270.8222
fax: 619.260.9085
www.cwacpa.com

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Internal Control over Compliance

Management of Santa Monica-Malibu Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Santa Monica-Malibu Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the governing board, management, others within the entity, the California Department of Education, the California State Controller's Office, the California Department of Finance, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



San Diego, California
December 3, 2012

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited Santa Monica-Malibu Unified School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K – 12 Local Education Agencies 2011-12*, issued by the California Education Audit Appeals Panel as regulations for the year ended June 30, 2012. Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Santa Monica-Malibu Unified School District's management. Our responsibility is to express an opinion on Santa Monica-Malibu Unified School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *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 2011-12*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Santa Monica-Malibu Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Santa Monica-Malibu Unified School District's compliance with the state laws and regulations referred to above.

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

| 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 | Yes |
| Instructional Time for: | | |
| School Districts | 6 | Yes |
| County offices of education | 3 | Not Applicable |
| Instructional Materials, general requirements | 8 | Yes |
| Ratios of Administrative Employees to Teachers | 1 | Yes |

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

SAN DIEGO

2727 Camino Del Rio South
 Suite 219
 San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
 Suite 250
 Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
 Suite 201
 Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

*Licensed by the California
 State Board of Accountancy*

| PROGRAM NAME | PROCEDURES IN AUDIT GUIDE | PROCEDURES PERFORMED |
|---|--------------------------------------|---------------------------------|
| Classroom Teacher Salaries | 1 | Yes |
| Early Retirement Incentive | 4 | Not Applicable |
| Gann Limit Calculation | 1 | Yes |
| School Accountability Report Card | 3 | Yes |
| Public Hearing Requirement - Receipt of Funds | 1 | Yes |
| Juvenile Court Schools | 8 | Not Applicable |
| Exclusion of Pupils - Pertussis Immunization | 2 | Yes |
| Class Size Reduction (including in charter schools): | | |
| General requirements | 7 | Yes |
| Option One | 3 | Yes |
| Option Two | 4 | Not Applicable |
| Districts or charter schools with only one school serving K - 3 | 4 | Not Applicable |
| After School Education and Safety Program: | | |
| General requirements | 4 | Not Applicable |
| After school | 5 | Not Applicable |
| Before school | 6 | Not Applicable |
| Contemporaneous Records of Attendance; for charter schools | 3 | 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 because the ADA was less than the threshold required for testing.

In our opinion, Santa Monica-Malibu Unified School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2012.

This report is intended solely for the information and use of the governing board, management, others within the entity, the California Department of Education, the California State Controller's Office, the California Department of Finance, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
December 3, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENTS

| | |
|--|-------------|
| Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | Yes |
| 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: | Unqualified |
| 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> |
|----------------------------------|---|
| 84.027, 84.027A, 84.173, 84.173A | Special Education Cluster |
| 84.410 | Education Jobs Fund |
| 93.600 | Head Start Cluster |

| | |
|--|------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$ 313,872 |
| Auditee qualified as low-risk auditee? | Yes |

STATE AWARDS

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

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

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
FINANCIAL STATEMENT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2012

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.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

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, 2012.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-01 CREDIT CARDS (30000)

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

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

Cause: Insufficient control over credit card purchase transactions.

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

Questioned Costs: None

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

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

Current Status: Implemented.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012

FINDING #2011-02 CAFETERIA BANK RECONCILIATION (30000)

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

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

Cause: Improper reconciliation of the cafeteria bank account.

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

Questioned Costs: None

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

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

Current Status: Implemented.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

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

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

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

Cause: Insufficient controls over student body activities.

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

Questioned Costs: None

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

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

Current Status: Implemented.