



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## AUDIT REPORT

JUNE 30, 2016

San Diego

Los Angeles

San Francisco  
Bay Area

christywhite  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION *associates*

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 FOR THE YEAR ENDED JUNE 30, 2016**

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# FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Santa Monica-Malibu Unified School District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Santa Monica-Malibu Education Foundation, which represent the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Santa Monica-Malibu Education Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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State Board of Accountancy*

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

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

### *Opinions*

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Monica-Malibu Unified School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

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

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santa Monica-Malibu Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016 on our consideration of Santa Monica-Malibu Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Monica-Malibu Unified School District's internal control over financial reporting and compliance.

*Christy White Associates*

San Diego, California  
November 17, 2016

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

## INTRODUCTION

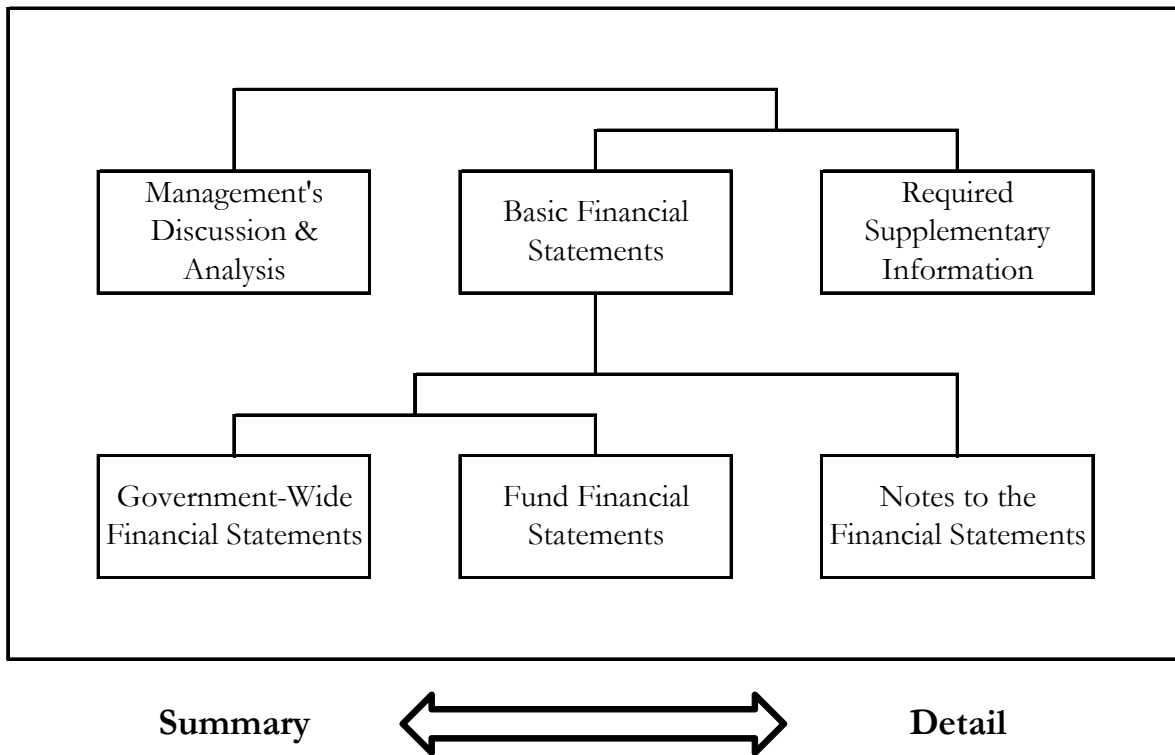
Our discussion and analysis of Santa Monica-Malibu Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the District's financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

- ▶ Total net position for the primary government was \$33,313,665 at June 30, 2016. This was an increase of \$1,449,787 from the prior year's net position.
- ▶ Overall revenues were \$202,822,400 which was exceeded by expenses of \$201,372,613.

## 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, 2016**

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

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

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

### **Government-Wide Statements**

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

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

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula 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, 2016**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE**

**Net Position**

The District's net position was \$33,313,665 at June 30, 2016, as reflected in Table A-1 below. Of this amount, (\$132,074,741) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

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

	<b>Governmental Activities</b>		
	<b>2016</b>	<b>2015</b>	<b>Net Change</b>
<b>ASSETS</b>			
Current and other assets	\$214,836,212	\$183,283,973	\$ 31,552,239
Capital assets	379,684,118	361,066,538	18,617,580
<b>Total Assets</b>	<b>594,520,330</b>	<b>544,350,511</b>	<b>50,169,819</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>26,860,458</b>	<b>14,962,847</b>	<b>11,897,611</b>
<b>LIABILITIES</b>			
Current liabilities	60,634,676	58,229,086	2,405,590
Long-term liabilities	514,889,938	441,429,572	73,460,366
<b>Total Liabilities</b>	<b>575,524,614</b>	<b>499,658,658</b>	<b>75,865,956</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>12,542,509</b>	<b>27,790,822</b>	<b>(15,248,313)</b>
<b>NET POSITION</b>			
Net investment in capital assets	114,210,812	88,428,074	25,782,738
Restricted	51,177,594	60,174,109	(8,996,515)
Unrestricted	(132,074,741)	(116,738,305)	(15,336,436)
<b>Total Net Position</b>	<b>\$ 33,313,665</b>	<b>\$ 31,863,878</b>	<b>\$ 1,449,787</b>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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

**Changes in Net Position**

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

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

	<b>Governmental Activities</b>		
	<b>2016</b>	<b>2015</b>	<b>Net Change</b>
<b>REVENUES</b>			
Program revenues			
Charges for services	\$ 5,626,894	\$ 6,552,073	\$ (925,179)
Operating grants and contributions	31,830,016	24,507,300	7,322,716
General revenues			
Property taxes	124,750,867	120,355,869	4,394,998
Unrestricted federal and state aid	18,695,715	23,058,179	(4,362,464)
Other	21,918,908	23,480,891	(1,561,983)
<b>Total Revenues</b>	<b>202,822,400</b>	<b>197,954,312</b>	<b>4,868,088</b>
<b>EXPENSES</b>			
Instruction	101,565,271	95,084,435	6,480,836
Instruction-related services	18,774,304	17,382,596	1,391,708
Pupil services	17,778,523	15,937,535	1,840,988
General administration	10,007,863	11,248,513	(1,240,650)
Plant services	25,527,903	23,633,417	1,894,486
Ancillary and community services	2,821,698	2,627,367	194,331
Debt service	20,247,812	17,390,759	2,857,053
Other Outgo	4,649,239	188,130	4,461,109
Enterprise activities	-	313,776	(313,776)
<b>Total Expenses</b>	<b>201,372,613</b>	<b>183,806,528</b>	<b>17,566,085</b>
<b>Change in net position</b>	<b>1,449,787</b>	<b>14,147,784</b>	<b>(12,697,997)</b>
<b>Net Position - Beginning*</b>	<b>31,863,878</b>	<b>17,716,094</b>	<b>14,147,784</b>
<b>Net Position - Ending</b>	<b>\$ 33,313,665</b>	<b>\$ 31,863,878</b>	<b>\$ 1,449,787</b>

\* Beginning Net Position was restated for the 2015 year only

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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

**Changes in Net Position (continued)**

The total cost of all our governmental activities this year was \$201,372,613 (refer to Table A-2). The amount that our taxpayers ultimately financed for these activities through taxes was \$124,750,867 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions of \$50,525,731.

**Table A-3  
Santa Monica-Malibu Unified School District's Cost of Services**

	<b>Net Cost of Services</b>	
	<b>2016</b>	<b>2015</b>
Instruction	\$ 85,126,658	\$ 82,404,236
Instruction-related services	16,160,049	15,578,807
Pupil services	12,492,653	10,695,571
General administration	9,320,180	10,729,941
Plant services	20,349,731	16,991,459
Ancillary and community services	2,586,167	2,414,901
Debt service	20,247,812	17,390,759
Transfers to other agencies	(2,367,547)	(3,772,295)
Enterprise activities	-	313,776
<b>Total Expenses</b>	<b>\$ 163,915,703</b>	<b>\$ 152,747,155</b>

**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 \$181,106,136, which is more than last year's ending fund balance of \$156,355,270. The District's General Fund had \$2,917,443 more in operating revenues than expenditures for the year ended June 30, 2016. This increase was mainly attributed to unspent allocation across the budget including over \$1 million in special education budgets and additional State funding from local control funding formula sources. The District's Building Fund had \$29,437,618 less in operating revenues than expenditures due to a significant increase in expenditures towards facilities acquisition during the year ended June 30, 2016. Also for the year ended June 30, 2016, the District's Bond Interest & Redemption Fund had \$12,319,827 less in operating revenues than expenditures.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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**CURRENT YEAR BUDGET 2015-16**

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. For the General Fund, the final budget differs from the original budget mainly with regard to revenues from state apportionments. Updated information for local control funding formula sources from revised local property tax data and minimum state aid resulted in an increase in revenues on the final budget for the General Fund.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2015-16 the District had invested \$379,684,118 in capital assets, net of accumulated depreciation. Completion of certain construction projects resulted in a transfer of construction in progress of roughly \$422,154 to capitalized assets. Additionally, other construction projects commenced or continued adding slightly over \$26.8 million to construction in progress. A total of \$9,352,960 in depreciation expense was recorded in 2015-16 and allocated by function within the government-wide statement of activities.

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

	<b>Governmental Activities</b>		
	<b>2016</b>	<b>2015</b>	<b>Net Change</b>
<b>CAPITAL ASSETS</b>			
Land	\$ 10,128,802	\$ 10,128,802	\$ -
Construction in progress	180,738,380	154,323,540	26,414,840
Land improvements	17,365,990	17,365,990	-
Buildings & improvements	264,479,486	264,057,332	422,154
Furniture & equipment	26,126,481	24,992,935	1,133,546
Accumulated depreciation	(119,155,021)	(109,802,061)	(9,352,960)
<b>Total Capital Assets</b>	<b>\$379,684,118</b>	<b>\$361,066,538</b>	<b>\$ 18,617,580</b>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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**CAPITAL ASSET AND DEBT ADMINISTRATION (continued)**

**Long-Term Liabilities**

At year-end, the District had \$514,889,938 in long-term liabilities, an increase of 17 percent from last year – as shown in Table A-5. During 2015-16 the District issued Election 2012, Series B general obligation bonds as well as the 2015 Refunding general obligation bonds. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

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

	<b>Governmental Activities</b>		
	<b>2016</b>	<b>2015</b>	<b>Net Change</b>
<b>LONG-TERM LIABILITIES</b>			
Total general obligation bonds	\$385,128,624	\$348,135,246	\$ 36,993,378
Total certificates of participation	15,050,869	16,189,869	(1,139,000)
Capital leases	129,915	179,021	(49,106)
Compensated absences	1,392,439	903,413	489,026
Net OPEB obligation	13,210,698	10,341,922	2,868,776
Net pension liability	123,013,914	99,549,390	23,464,524
Less: current portion of long-term debt	(23,036,521)	(33,869,289)	10,832,768
<b>Total Long-term Liabilities</b>	<b>\$514,889,938</b>	<b>\$441,429,572</b>	<b>\$ 73,460,366</b>

**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.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The District continues to analyze the impact of the LCFF on funding for our program offerings and services. The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The State anticipates all school districts to reach the statewide targeted base funding levels by 2020-21 but the annual amount funded to meet the target is uncertain.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (continued)**

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

Since the District's property taxes are increasing at a rate faster than the LCFF entitlement, monitoring is critical. The District fluctuates between Minimum State Aid and regular status making projecting the LCFF more difficult. The District expects to be a Minimum State Aid district in 2016-17 and receive revenue in excess of the LCFF entitlement.

The State's economy is expected to grow faster than the national economy with unemployment dropping. Personal income is expected to grow 3.6%; according to the UCLA Anderson Economic Forecast, April 2016. The ability of the State to fund the LCFF and other programs is largely dependent on the strength of the State's economy and while positive remains uncertain.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2016. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

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.

Subsequent to the budget adoption, the voters of Santa Monica passed a sales tax measure that allows the City Council to provide funding and support to the District. Similar to an earlier measure, Prop Y, this new measure, Prop GSH, will provide approximately \$8M per year. The District will be revising the budget to include this revenue in future years. It is expected that these funds will be used to support maintenance, operations, technology, and preschool.

All of these factors were considered in preparing the District's budget for the 2016-17 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 16<sup>th</sup> Street, Santa Monica, California 90404.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2016

	Primary Government	June 30, 2015
	Governmental	Discretely Presented
	Activities	Component Unit
<b>ASSETS</b>		
Cash and investments	\$ 203,974,400	\$ 10,446,474
Accounts receivable	7,775,205	176,708
Inventory	34,570	-
Prepaid expenses	117,523	15,613
Other current assets	2,934,514	-
Capital assets, not depreciated	190,867,182	-
Capital assets, net of accumulated depreciation	188,816,936	34,099
<b>Total Assets</b>	<b>594,520,330</b>	<b>10,672,894</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows related to pensions	16,126,025	-
Deferred amount on refunding	10,734,433	-
<b>Total Deferred Outflows of Resources</b>	<b>26,860,458</b>	<b>-</b>
<b>LIABILITIES</b>		
Accrued liabilities	36,573,342	2,382,850
Unearned revenue	1,024,813	-
Long-term liabilities, current portion	23,036,521	-
Long-term liabilities, non-current portion	514,889,938	-
<b>Total Liabilities</b>	<b>575,524,614</b>	<b>2,382,850</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to pensions	12,542,509	-
<b>Total Deferred Inflows of Resources</b>	<b>12,542,509</b>	<b>-</b>
<b>NET POSITION</b>		
Net investment in capital assets	114,210,812	-
Restricted:		
Capital projects	12,680,888	-
Debt service	32,641,598	-
Educational programs	5,678,991	6,506,905
All others	176,117	-
Permanent endowment	-	770,914
Unrestricted	(132,074,741)	1,012,225
<b>Total Net Position</b>	<b>\$ 33,313,665</b>	<b>\$ 8,290,044</b>

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



**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Function/Programs	Expenses	Program Revenues		Net (Expenses)	June 30, 2015
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Position	
				Governmental Activities	Discretely Presented Component Unit
<b>GOVERNMENTAL ACTIVITIES</b>					
Instruction	\$ 101,565,271	\$ 861,406	\$ 15,577,207	\$ (85,126,658)	
Instruction-related services					
Instructional supervision and administration	6,542,577	89,482	1,162,357	(5,290,738)	
Instructional library, media, and technology	1,492,111	931	83,261	(1,407,919)	
School site administration	10,739,616	159,567	1,118,657	(9,461,392)	
Pupil services					
Home-to-school transportation	2,030,644	-	-	(2,030,644)	
Food services	3,480,246	1,306,003	1,660,789	(513,454)	
All other pupil services	12,267,633	775	2,318,303	(9,948,555)	
General administration					
Centralized data processing	1,027,984	132	393	(1,027,459)	
All other general administration	8,979,879	130,507	556,651	(8,292,721)	
Plant services	25,527,903	1,259,357	3,918,815	(20,349,731)	
Ancillary services	785,666	7,435	31,498	(746,733)	
Community services	2,036,032	49,366	147,232	(1,839,434)	
Interest on long-term debt	20,247,812	-	-	(20,247,812)	
Other Outgo	4,649,239	1,761,933	5,254,853	2,367,547	
<b>Total Governmental Activities</b>	<b>\$ 201,372,613</b>	<b>\$ 5,626,894</b>	<b>\$ 31,830,016</b>	<b>(163,915,703)</b>	
<b>DISCRETELY PRESENTED COMPONENT UNIT</b>					
Santa Monica-Malibu Education Foundation	\$ 3,458,508	\$ 50,000	\$ 2,617,135		\$ (791,373)
<b>Total</b>	<b>\$ 3,458,508</b>	<b>\$ 50,000</b>	<b>\$ 2,617,135</b>		<b>(791,373)</b>
<b>General revenues</b>					
<b>Taxes and subventions</b>					
Property taxes, levied for general purposes				73,665,774	-
Property taxes, levied for debt service				33,724,759	-
Property taxes, levied for other specific purposes				17,360,334	-
Federal and state aid not restricted for specific purposes				18,695,715	-
Interest and investment earnings				323,938	267,355
Interagency revenues				429,035	670,043
Miscellaneous				21,165,935	-
<b>Subtotal, General Revenue</b>				<b>165,365,490</b>	<b>937,398</b>
<b>CHANGE IN NET POSITION</b>					
<b>Net Position - Beginning</b>				<b>31,863,878</b>	<b>8,144,019</b>
<b>Net Position - Ending</b>				<b>\$ 33,313,665</b>	<b>\$ 8,290,044</b>

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

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**JUNE 30, 2016**

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 56,039,399	\$ 96,441,776	\$ 36,509,677	\$ 14,983,548	\$ 203,974,400
Accounts receivable	5,978,535	321,768	-	1,474,902	7,775,205
Stores inventory	14,711	-	-	19,859	34,570
Prepaid expenditures	117,523	-	-	-	117,523
Other current assets	2,934,514	-	-	-	2,934,514
<b>Total Assets</b>	<b>\$ 65,084,682</b>	<b>\$ 96,763,544</b>	<b>\$ 36,509,677</b>	<b>\$ 16,478,309</b>	<b>\$ 214,836,212</b>
<b>LIABILITIES</b>					
Accrued liabilities	\$ 26,412,670	\$ 4,022,332	\$ -	\$ 2,270,261	\$ 32,705,263
Unearned revenue	864,591	-	-	160,222	1,024,813
<b>Total Liabilities</b>	<b>27,277,261</b>	<b>4,022,332</b>	<b>-</b>	<b>2,430,483</b>	<b>33,730,076</b>
<b>FUND BALANCES</b>					
Nonspendable	152,234	-	-	19,859	172,093
Restricted	5,197,572	92,741,212	36,509,677	13,338,423	147,786,884
Committed	-	-	-	496,300	496,300
Assigned	28,109,279	-	-	193,244	28,302,523
Unassigned	4,348,336	-	-	-	4,348,336
<b>Total Fund Balances</b>	<b>37,807,421</b>	<b>92,741,212</b>	<b>36,509,677</b>	<b>14,047,826</b>	<b>181,106,136</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 65,084,682</b>	<b>\$ 96,763,544</b>	<b>\$ 36,509,677</b>	<b>\$ 16,478,309</b>	<b>\$ 214,836,212</b>

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

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT  
OF NET POSITION  
JUNE 30, 2016**

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**Total Fund Balance - Governmental Funds** \$ 181,106,136

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

Capital assets:

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

Capital assets	\$ 498,839,139	
Accumulated depreciation	<u>(119,155,021)</u>	379,684,118

Deferred amount on refunding:

In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements:

10,734,433

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 unmaturing interest owing at the end of the period was:

(3,868,079)

Long-term liabilities:

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

Long-term liabilities relating to governmental activities consist of:

Total general obligation bonds	\$ 385,128,624	
Total certificates of participation	15,050,869	
Capital leases	129,915	
Compensated absences	1,392,439	
Net OPEB obligation	13,210,698	
Net pension liability	<u>123,013,914</u>	(537,926,459)

Deferred outflows and inflows of resources relating to pensions:

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources related to pensions	\$ 16,126,025	
Deferred inflows of resources related to pensions	<u>(12,542,509)</u>	3,583,516

**Total Net Position - Governmental Activities** \$ 33,313,665

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
LCFF sources	\$ 84,050,735	\$ -	\$ -	\$ 250,000	\$ 84,300,735
Federal sources	4,743,062	-	2,280,043	3,024,231	10,047,336
Other state sources	13,923,989	-	65,161	3,550,840	17,539,990
Other local sources	44,559,683	853,401	33,974,504	11,996,014	91,383,602
<b>Total Revenues</b>	<b>147,277,469</b>	<b>853,401</b>	<b>36,319,708</b>	<b>18,821,085</b>	<b>203,271,663</b>
<b>EXPENDITURES</b>					
Current					
Instruction	87,814,401	-	-	6,230,998	94,045,399
Instruction-related services					
Instructional supervision and administration	5,626,373	-	-	547,571	6,173,944
Instructional library, media, and technology	1,409,792	-	-	-	1,409,792
School site administration	9,162,226	-	-	964,520	10,126,746
Pupil services					
Home-to-school transportation	1,915,293	-	-	-	1,915,293
Food services	84,112	-	-	3,266,507	3,350,619
All other pupil services	11,482,927	-	-	131,876	11,614,803
General administration					
Centralized data processing	1,045,128	-	-	-	1,045,128
All other general administration	8,189,390	-	-	543,281	8,732,671
Plant services	14,880,423	11,035,136	-	3,792,113	29,707,672
Facilities acquisition and maintenance	-	18,723,883	-	1,805,000	20,528,883
Ancillary services	734,140	-	-	-	734,140
Community services	1,962,433	-	-	-	1,962,433
Debt service					
Principal	49,106	-	31,601,050	1,570,000	33,220,156
Interest and other	4,282	532,000	17,038,485	297,081	17,871,848
<b>Total Expenditures</b>	<b>144,360,026</b>	<b>30,291,019</b>	<b>48,639,535</b>	<b>19,148,947</b>	<b>242,439,527</b>
<b>Excess (Deficiency) of Revenues</b>					
<b>Over Expenditures</b>	<b>2,917,443</b>	<b>(29,437,618)</b>	<b>(12,319,827)</b>	<b>(327,862)</b>	<b>(39,167,864)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	-	584,491	584,491
Other sources	-	60,300,000	56,264,710	-	116,564,710
Transfers out	(584,491)	-	-	-	(584,491)
Other uses	-	-	(52,645,980)	-	(52,645,980)
<b>Net Financing Sources (Uses)</b>	<b>(584,491)</b>	<b>60,300,000</b>	<b>3,618,730</b>	<b>584,491</b>	<b>63,918,730</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>2,332,952</b>	<b>30,862,382</b>	<b>(8,701,097)</b>	<b>256,629</b>	<b>24,750,866</b>
<b>Fund Balance - Beginning</b>	<b>35,474,469</b>	<b>61,878,830</b>	<b>45,210,774</b>	<b>13,791,197</b>	<b>156,355,270</b>
<b>Fund Balance - Ending</b>	<b>\$ 37,807,421</b>	<b>\$ 92,741,212</b>	<b>\$ 36,509,677</b>	<b>\$ 14,047,826</b>	<b>\$ 181,106,136</b>

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

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

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**Net Change in Fund Balances - Governmental Funds** \$ 24,750,866

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:	\$ 27,970,540	
Depreciation expense:	<u>(9,352,960)</u>	18,617,580

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:

83,434,106

Debt proceeds:

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

(116,564,710)

Deferred amounts on refunding:

In governmental funds, deferred amounts on refunding are recognized in the period they are incurred. In the government-wide statements, the deferred amounts on refunding are amortized over the life of the debt. The net effect of the deferred amounts on refunding during the period was:

4,155,483

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:

(1,534,349)

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, 2016**

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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. (3,462,565)

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: (489,026)

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (13,210,698)

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (474,083)

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: 787,897

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: 5,439,286

**Change in Net Position of Governmental Activities**

**\$ 1,449,787**

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2016

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	Governmental Activities
	Internal Service Fund
	<hr/>
<b>ASSETS</b>	
Current assets	
Cash and investments	\$ -
<b>Total Assets</b>	<hr/> - <hr/>
 <b>LIABILITIES</b>	
Non-current liabilities	-
<b>Total Liabilities</b>	<hr/> - <hr/>
 <b>NET POSITION</b>	
Unrestricted	-
<b>Total Net Position</b>	<hr/> \$ - <hr/>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2016

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	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>OPERATING REVENUE</b>	
Charges for services	\$ -
<b>Total operating revenues</b>	<b>-</b>
<b>OPERATING EXPENSE</b>	
Professional services	(9,978,925)
<b>Total operating expenses</b>	<b>(9,978,925)</b>
<b>Operating income/(loss)</b>	<b>9,978,925</b>
<b>NON-OPERATING REVENUES/(EXPENSES)</b>	
Transfers out	(4,539,639)
<b>Total non-operating revenues/(expenses)</b>	<b>(4,539,639)</b>
<b>CHANGE IN NET POSITION</b>	<b>5,439,286</b>
Net Position - Beginning	(5,439,286)
<b>Net Position - Ending</b>	<b>\$ -</b>

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, 2016**

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	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
<b>Cash flows from operating activities</b>	
Cash received (paid) from assessments made to (from) other funds	\$ 8,115
Cash payments for payroll, insurance, and operating costs	(362,997)
Net cash provided by (used for) operating activities	<u>(354,882)</u>
<b>Cash flows from non-capital financing activities</b>	
Interfund transfers in (out)	(4,539,639)
Net cash provided by (used for) non-capital financing activities	<u>(4,539,639)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(4,894,521)</u>
 <b>CASH AND CASH EQUIVALENTS</b>	
Beginning of year	4,894,521
End of year	<u>\$ -</u>
 <b>Reconciliation of operating income (loss) to cash provided by (used for) operating activities</b>	
Operating income (loss)	\$ 9,978,925
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	8,115
Increase (decrease) in OPEB liability	(10,341,922)
<b>Net cash provided by (used for) operating activities</b>	<u>\$ (354,882)</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 FIDUCIARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2016

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	Trust Funds	Agency Funds	
	Retiree Benefit Fund	Warrant/Pass- through Fund	Student Body Fund
<b>ASSETS</b>			
Cash and investments	\$ 5,106,964	\$ 163,906	\$ 229,126
Accounts receivable	13,210	-	-
<b>Total Assets</b>	<b>5,120,174</b>	<b>\$ 163,906</b>	<b>\$ 229,126</b>
<b>LIABILITIES</b>			
Accrued liabilities	-	\$ 163,906	\$ 10,078
Due to student groups	-	-	219,048
<b>Total Liabilities</b>	<b>-</b>	<b>\$ 163,906</b>	<b>\$ 229,126</b>
<b>NET POSITION</b>			
Unrestricted	5,120,174		
<b>Total Net Position</b>	<b>\$ 5,120,174</b>		

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2016

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	<u>Trust Funds</u>
	<u>Retiree Benefit</u>
	<u>Fund</u>
<b>ADDITIONS</b>	
Contributions	\$ 1,209,850
Investment earnings	32,442
Interfund transfers in and other sources	4,539,639
<b>Total Additions</b>	<u>5,781,931</u>
<b>DEDUCTIONS</b>	
Other trust activities	661,757
<b>Total Deductions</b>	<u>661,757</u>
<b>CHANGE IN NET POSITION</b>	5,120,174
<b>Net Position - Beginning</b>	-
<b>Net Position - Ending</b>	<u>\$ 5,120,174</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

**A. Financial Reporting Entity**

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

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

**B. Component Units**

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has the following discretely presented component unit:

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2016

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

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

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

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

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

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

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2016

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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]*).

**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*).

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2016

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

**Special Revenue Funds (continued)**

**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*).

**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*).

**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.

**Retiree Benefit Fund:** This fund exists to account separately for amounts held in trust from salary reduction agreements, other irrevocable contributions for employees' retirement benefit payments, or both.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Fiduciary Funds

**Trust and Agency Funds (continued)**

**Warrant/Pass-Through Fund:** The Warrant/Pass-Through Fund is an agency fund that exists primarily to account separately for amounts collected from employees for federal taxes, state taxes, transfers to credit unions, and other contributions. It is also used to account for those receipts for transfer to agencies which the LEA is acting simply as a “cash conduit.”

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

D. Basis of Accounting – Measurement Focus

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

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

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

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

**Governmental Funds**

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



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.

**Unearned Revenue**

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

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

**Expenses/Expenditures**

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position

**Cash and Cash Equivalents**

The District’s cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

**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.

**Capital Assets**

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following estimated useful lives:

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

**Interfund Balances**

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (continued)

**Compensated Absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is 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.

**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.

**Premiums and Discounts**

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

**Deferred Outflows/Deferred Inflows of Resources**

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans (the Plans) of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2016

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

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (*continued*)

**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.

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

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

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2016

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

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.

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.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2016

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Property Tax

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

J. New Accounting Pronouncements

**GASB Statement No. 72** – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This standard addresses accounting and financial reporting issues related to fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The District has implemented GASB Statement No. 72 for the year ended June 30, 2016.

**GASB Statement No. 73** – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This standard establishes requirements for defined benefit pensions that are not within the scope of GASB Statement 68 and amends certain provisions of GASB Statements 67 and 68. A portion of this Statement is effective for periods beginning after June 15, 2015. The District has implemented GASB Statement No. 73 for the year ended June 30, 2016.

**GASB Statement No. 75** – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has not yet determined the impact on the financial statements.

**GASB Statement No. 80** – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This standard's primary objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for periods beginning after June 15, 2016. The District has not yet determined the impact on the financial statements.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Fiduciary Funds
Investment in county treasury	\$ 203,386,494	\$ 3,770,870
Cash on hand and in banks	567,906	229,126
Cash in revolving fund	20,000	-
CalPERS CERBT	-	1,500,000
<b>Total cash and investments</b>	<b>\$ 203,974,400</b>	<b>\$ 5,499,996</b>

B. Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; collateralized mortgage obligations; and the 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, 2016

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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.

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$207,399,379 and an amortized book value of \$207,154,364 for all governmental funds. The average weighted maturity for this pool is 608 days. The District also maintains an investment with CalPERS – California Employers’ Retiree Benefit Trust (CERBT) Strategy 1 with a fair value of \$1,544,950 and a book value of \$1,500,000.

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, 2016, the pooled investments in the County Treasury and CalPERS CERBT were not rated.



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 2 – CASH AND INVESTMENTS (continued)

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, 2016, the District's bank balance was not exposed to custodial credit risk.

G. Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Los Angeles County Treasury Investment Pool and CalPERS CERBT are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements at June 30, 2016 were as follows:

	<b>Fair Market Value of Investments</b>
	<u><b>Uncategorized</b></u>
Investment in county treasury	\$ 207,399,379
CalPERS CERBT	1,544,950
<b>Total fair market value of investments</b>	<u><u>\$ 208,944,329</u></u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2016 consisted of the following:

	<b>General Fund</b>	<b>Building Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Activities</b>	<b>Total Fiduciary</b>
Federal Government					
Categorical aid	\$ 1,387,715	\$ -	\$ 290,177	\$ 1,677,892	\$ -
State Government					
Apportionment	1,924,011	-	-	1,924,011	-
Categorical aid	820,066	-	61,409	881,475	-
Lottery	1,239,767	-	-	1,239,767	-
Local Government					
Other local sources	606,976	321,768	1,123,316	2,052,060	13,210
<b>Total accounts receivable</b>	<b>\$ 5,978,535</b>	<b>\$ 321,768</b>	<b>\$ 1,474,902</b>	<b>\$ 7,775,205</b>	<b>\$ 13,210</b>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	<b>Balance July 01, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2016</b>
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 10,128,802	\$ -	\$ -	\$ 10,128,802
Construction in progress	154,323,540	26,836,994	422,154	180,738,380
<b>Total Capital Assets not Being Depreciated</b>	<b>164,452,342</b>	<b>26,836,994</b>	<b>422,154</b>	<b>190,867,182</b>
Capital assets being depreciated				
Land improvements	17,365,990	-	-	17,365,990
Buildings & improvements	264,057,332	422,154	-	264,479,486
Furniture & equipment	24,992,935	1,133,546	-	26,126,481
<b>Total Capital Assets Being Depreciated</b>	<b>306,416,257</b>	<b>1,555,700</b>	<b>-</b>	<b>307,971,957</b>
Less Accumulated Depreciation				
Land improvements	11,766,089	411,708	-	12,177,797
Buildings & improvements	84,886,615	7,526,136	-	92,412,751
Furniture & equipment	13,149,357	1,415,116	-	14,564,473
<b>Total Accumulated Depreciation</b>	<b>109,802,061</b>	<b>9,352,960</b>	<b>-</b>	<b>119,155,021</b>
<b>Governmental Activities</b>				
<b>Capital Assets, net</b>	<b>\$ 361,066,538</b>	<b>\$ 19,039,734</b>	<b>\$ 422,154</b>	<b>\$ 379,684,118</b>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2016

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NOTE 4 – CAPITAL ASSETS (*continued*)

Total depreciation expense of \$9,352,960 is allocated by function as follows:

Instruction	\$	4,807,350
Instruction-related services		
Instructional supervision and administration		259,801
Instructional library, media, and technology		56,201
School site administration		465,087
Pupil services		
Home-to-school transportation		85,646
Food services		165,140
All other pupil services		409,703
General administration		
Centralized data processing		32,817
All other general administration		314,912
Plant services		2,662,002
Facilities acquisition and maintenance		
Ancillary services		37,115
Community services		57,186
<b>Total depreciation expense</b>	<b>\$</b>	<b>9,352,960</b>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

NOTE 5 – INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2016 consisted of the following:

<u>Interfund Transfers Out</u>	<u>Interfund Transfers In</u>		
	Non-Major		Total
	Governmental Funds	Retiree Benefit Trust Fund	
General Fund	\$ 584,491	\$ -	\$ 584,491
Internal Service Fund	-	4,539,639	4,539,639
<b>Total interfund transfers</b>	<b>\$ 584,491</b>	<b>\$ 4,539,639</b>	<b>\$ 5,124,130</b>

From the General Fund to the Cafeteria Fund for operational costs	\$ 350,000
From the General Fund to the Child Development Fund to cover deficit spending	234,491
From the Self-Insurance Fund to the Retiree Benefit Trust Fund to account for OPEB liability	4,539,639
<b>Total interfund transfers</b>	<b>\$ 5,124,130</b>

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2016 consisted of the following:

	General Fund	Building Fund	Non-Major Governmental		Total Governmental		Total Fiduciary
			Funds	District-Wide	Activities		
Payroll	\$ 13,880,004	\$ 46,042	\$ 625,317	\$ -	\$ 14,551,363	\$ -	
Construction	-	3,976,290	1,558,734	-	5,535,024	-	
Vendors payable	12,530,486	-	85,589	-	12,616,075	173,984	
Unmatured interest	-	-	-	3,868,079	3,868,079	-	
Other liabilities	2,180	-	621	-	2,801	-	
<b>Total accounts payable</b>	<b>\$ 26,412,670</b>	<b>\$ 4,022,332</b>	<b>\$ 2,270,261</b>	<b>\$ 3,868,079</b>	<b>\$ 36,573,342</b>	<b>\$ 173,984</b>	

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

NOTE 7 – UNEARNED REVENUE

Unearned revenue at June 30, 2016, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
State categorical sources	\$ 26,761	\$ 64,214	\$ 90,975
Local sources	837,830	96,008	933,838
<b>Total unearned revenue</b>	<b>\$ 864,591</b>	<b>\$ 160,222</b>	<b>\$ 1,024,813</b>

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2016 consisted of the following:

	Balance July 01, 2015	Additions	Deductions	Balance June 30, 2016	Balance Due In One Year
<b>Governmental Activities</b>					
General obligation bonds	\$ 310,824,194	\$ 107,915,000	\$ 79,726,050	\$ 339,013,144	\$ 21,307,107
Unamortized premium	11,858,309	8,649,710	742,589	19,765,430	-
Accreted interest	25,452,743	2,986,257	2,088,950	26,350,050	-
Total general obligation bonds	348,135,246	119,550,967	82,557,589	385,128,624	21,307,107
Certificates of participation	11,271,502	-	1,570,000	9,701,502	1,635,000
Unamortized premium	384,268	-	45,308	338,960	45,308
Accreted interest	4,534,099	476,308	-	5,010,407	-
Total certificates of participation	16,189,869	476,308	1,615,308	15,050,869	1,680,308
Capital leases	179,021	-	49,106	129,915	49,106
Compensated absences	903,413	489,026	-	1,392,439	-
Net OPEB obligation	10,341,922	2,868,776	-	13,210,698	-
Net pension liability	99,549,390	23,464,524	-	123,013,914	-
<b>Total</b>	<b>\$ 475,298,861</b>	<b>\$ 146,849,601</b>	<b>\$ 84,222,003</b>	<b>\$ 537,926,459</b>	<b>\$ 23,036,521</b>

Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.

Payments on certificates of participation are made in the Special Reserve Fund for Capital Outlay Projects.

Payments for capital lease obligations are made in the General Fund.

Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

**NOTE 8 – LONG-TERM DEBT (continued)**

**A. Bonded Debt**

Payments for bonds associated with general obligation bonds are made in the Bond Interest and Redemption Fund. A summary of bonded debt is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2015	Additions	Deductions	Outstanding June 30, 2016
1998 Refunding Bonds	6/18/1998	8/1/2028	3.75% - 5.25%	\$ 68,145,000	\$ 18,220,000	\$ -	\$ 4,575,000	\$ 13,645,000
Election 1998, Series 1999	5/26/1999	8/1/2023	3.20% - 5.38%	38,000,034	41,536,226	2,119,146	3,645,000	40,010,372
2006 Refunding Bonds	2/23/2006	8/1/2025	3.50% - 4.15%	3,285,000	2,535,000	-	200,000	2,335,000
Election 2006, Series A	10/2/2007	8/1/2032	4.00% - 5.50%	60,000,000	2,335,000	-	685,000	1,650,000
Election 2006, Series B	7/23/2009	8/1/2019	1.50% - 5.00%	11,875,000	6,295,000	-	905,000	5,390,000
Election 2006, Series B-1	7/23/2009	8/1/2034	5.65% - 7.56%	48,125,000	48,125,000	-	48,125,000	-
Election 2006, Series C	7/14/2010	7/1/2023	3.00% - 5.00%	10,690,000	9,310,000	-	375,000	8,935,000
Election 2006, Series C-1	7/14/2010	7/1/2035	5.80% - 6.63%	54,310,000	54,310,000	-	-	54,310,000
2013 Refunding Bonds	1/8/2013	8/1/2032	2.00% - 5.00%	45,425,000	44,990,000	-	230,000	44,760,000
Election 2006, Series D	3/19/2013	7/1/2037	0.17% - 5.00%	82,995,327	78,620,711	867,111	805,000	78,682,822
Election 2012, Series A	7/29/2014	7/1/2037	1.00% - 3.70%	30,000,000	30,000,000	-	22,270,000	7,730,000
Election 2012, Series B	7/1/2015	7/1/2040	1.00% - 3.70%	60,000,000	-	60,000,000	-	60,000,000
2015 Refunding Bonds	11/10/2015	8/1/2034	3.25% - 5.00%	47,915,000	-	47,915,000	-	47,915,000
General obligation bonds*					336,276,937	110,901,257	81,815,000	365,363,194
Unamortized premium					11,858,309	8,649,710	742,589	19,765,430
<b>Total general obligation bonds</b>					<b>\$ 348,135,246</b>	<b>\$ 119,550,967</b>	<b>\$ 82,557,589</b>	<b>\$ 385,128,624</b>

\*Includes accreted interest from capital appreciation bonds of \$26,350,050.

**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, 2016 amounted to \$13,645,000.

**Election 1998**

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2016

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NOTE 8 – LONG-TERM DEBT (*continued*)

A. **Bonded Debt** (*continued*)

**Election 1998** (*continued*)

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, 2016 amounted to \$40,010,372.

**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, 2016 amounted to \$2,335,000.

**Election 2006**

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

Series A, which was issued on October 2, 2007 for \$60,000,000 with interest rates ranging from 4.00% to 5.00%. The original issuance consisted of \$45,835,000 in current interest serial bonds and \$14,165,000 in current interest term bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing February 1, 2008, principal on the bonds is payable annually each August 1, commencing August 1, 2008 through the final maturity date of August 1, 2032. The principal balance outstanding on June 30, 2016 amounted to \$1,650,000.

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, 2016 amounted to \$5,390,000.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**A. Bonded Debt (continued)**

**Election 2006 (continued)**

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. As of June 30, 2016, the full principal balance was early refunded with the 2015 Refunding bonds.

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, 2016 amounted to \$8,935,000.

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. As of June 30, 2016, the full principal balance of \$54,310,000 remained outstanding.

Series D, which was issued on March 19, 2013 for \$82,995,327 with interest rates ranging from 0.17% to 5.00%. The original issuance consisted of \$42,780,000 in current interest serial bonds, \$24,200,000 in current interest term bonds and \$16,015,327 in capital appreciation serial bonds. Interest on the current interest bonds is payable semi-annually each January 1 and July 1, commencing July 1, 2013, principal on the bonds is payable annually each July 1, commencing July 1, 2013 through the final maturity date of July 1, 2037. The principal balance outstanding on June 30, 2016 amounted to \$78,682,822.



**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**A. Bonded Debt (continued)**

**2013 General Obligation Refunding Bonds**

On January 8, 2013, the District issued \$45,425,000 of 2013 General Obligation Refunding Bonds, with interest rates ranging from 2.00% to 5.00%. The bonds were issued to refund all or a portion of the District's outstanding General Obligation Bonds, Election of 2006, Series A and pay costs of issuance of the bonds. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing August 1, 2032, principal on the bonds is payable annually each August 1, commencing August 1, 2013 through the final maturity date of August 1, 2037. The principal balance outstanding on June 30, 2016 amounted to \$44,760,000.

The net proceeds of \$49,131,456 (after issuance costs of \$526,513 and premium of \$4,232,970) were used to refund a portion of the District's Election 2006, Series A general obligation bonds and to pay certain costs of issuance associated with the Refunding Bonds. The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities.

This advanced refunding was undertaken to reduce total debt service payments and results in an economic gain. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred outflows of resources on the statement of net position and are amortized to interest expense over the life of the liability. See Note 14 on deferred outflows of resources.

**Election 2012**

On November 6, 2012, the voter's in the District approved Measure ES, a bond proposition whereby the District is authorized to borrow \$385 million.

Series A, on July 29, 2014, the District issued \$30,000,000 of Election 2012, Series A General Obligation Bonds, with interest rates ranging from 2.00% 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, 2015. Principal on the bonds is payable on July 1 consisting of seven separate payments through the final maturity date of July 1, 2037. As of June 30, 2016, the full principal balance of \$7,730,000 remained outstanding.

Series B, on July 1, 2015, the District issued \$60,000,000 of Election 2012, Series B General Obligation Bonds, with interest rates ranging from 1.00% to 3.70%. 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, 2016. Principal on the bonds is payable on July 1 through the final maturity date of July 1, 2040. As of June 30, 2016, the full principal balance of \$60,000,000 remained outstanding.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 8 – LONG-TERM DEBT (continued)

A. **Bonded Debt (continued)**

**2015 General Obligation Refunding Bonds**

On November 10, 2015, the District issued \$47,915,000 of 2015 General Obligation Refunding Bonds, with interest rates ranging from 3.25% to 5.00%. The bonds were issued to advance refund the District’s outstanding General Obligation Bonds, Election of 2006, Series B-1 and pay costs of issuance of the bonds. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing February 1, 2016, 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, 2016 amounted to \$47,915,000.

The net proceeds of \$52,645,980 (after issuance costs of \$452,145 and premium of \$5,183,125) were used to advance refund the District’s Election 2006, Series B-1 general obligation bonds and to pay certain costs of issuance associated with the Refunding Bonds. The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District’s liabilities.

Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized as an expense over the life of the bond. As of June 30, 2016, the principal balance on the defeased debt was \$48,125,000.

**Debt Service Requirements to Maturity – Bonds**

The bonds mature through 2041 as follows:

Year Ended June 30,	General Obligation Bonds		
	Principal	Interest	Total
2017	\$ 21,307,107	\$ 14,444,612	\$ 35,751,719
2018	21,005,096	14,985,322	35,990,418
2019	10,321,117	14,441,990	24,763,107
2020	7,084,265	15,501,950	22,586,215
2021	7,703,576	15,326,480	23,030,056
2022 - 2026	46,366,656	59,813,088	106,179,744
2027 - 2031	73,975,000	30,311,196	104,286,196
2032 - 2036	92,104,410	44,849,129	136,953,539
2037 - 2041	59,145,917	5,232,483	64,378,400
Accretion	26,350,050	(26,350,050)	-
Total	\$ 365,363,194	\$ 188,556,200	\$ 553,919,394

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

**NOTE 8 – LONG-TERM DEBT (continued)**

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

A summary of the District’s certificate of participation are as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Certificates			Certificates
					Outstanding July 01, 2015	Additions	Deductions	Outstanding June 30, 2016
2001 Series C	11/15/2001	5/1/2025	3.5 - 5.4%	\$ 15,206,501	\$ 9,000,601	\$ 476,308	\$ -	\$ 9,476,909
2010 Series B	12/1/2010	2/1/2024	2.0 - 5.0%	8,015,000	6,805,000	-	1,570,000	5,235,000
		Certificates of participation			15,805,601	476,308	1,570,000	14,711,909
		Unamortized premium			384,268	-	45,308	338,960
		<b>Total certificates of participation</b>			<b>\$ 16,189,869</b>	<b>\$ 476,308</b>	<b>\$ 1,615,308</b>	<b>\$ 15,050,869</b>

*\*Includes accreted interest from capital appreciation certificates of \$5,010,407.*

**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, 2016 amounted to \$9,476,909.

**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, 2016 amounted to \$5,235,000.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 8 – LONG-TERM DEBT (continued)

B. Certificates of Participation (COPs) (continued)

Debt Service Requirements to Maturity – COPs

The certificates mature through 2025 as follows:

Year Ended June 30,	Certificates of Participation		
	Principal	Interest	Total
2017	\$ 1,635,000	\$ 234,281	\$ 1,869,281
2018	1,695,000	168,881	1,863,881
2019	919,183	949,948	1,869,131
2020	892,929	974,802	1,867,731
2021	1,038,227	1,272,704	2,310,931
2022 - 2025	3,521,163	5,365,433	8,886,596
Accretion	5,010,407	(5,010,407)	-
Total	\$ 14,711,909	\$ 3,955,642	\$ 18,667,551

C. Capital Leases

The District entered into two capital leases with options to purchase for bus fleets. Payments for capital lease obligations are made in the General Fund. Future minimum lease payments are as follows:

Year Ended June 30,	Lease Payment
2017	\$ 53,388
2018	53,388
2019	28,798
Total minimum lease payments	135,574
Less amount representing interest	(5,659)
Present value of minimum lease payments	\$ 129,915

D. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2016 amounted to \$1,392,439. This amount is included as part of long-term liabilities in the government-wide financial statements.

E. Other Postemployment Benefits (OPEB)

The District follows GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The ending OPEB balance at June 30, 2016 was \$13,210,698. See Note 10 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, 2016**

**NOTE 8 – LONG-TERM DEBT (continued)**

**F. Net Pension Liability**

The District’s beginning net pension liability was \$99,549,390 and increased by \$23,464,524 during the year ended June 30, 2016. The ending net pension liability at June 30, 2016 was \$123,013,914. See Note 11 for additional information regarding the net pension liability.

**NOTE 9 – FUND BALANCES**

Fund balances were composed of the following elements at June 30, 2016:

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Non-spendable</b>					
Revolving cash	\$ 20,000	\$ -	\$ -	\$ -	\$ 20,000
Stores inventory	14,711	-	-	19,859	34,570
Prepaid expenditures	117,523	-	-	-	117,523
Total non-spendable	152,234	-	-	19,859	172,093
<b>Restricted</b>					
Educational programs	5,197,572	-	-	481,418	5,678,990
Capital projects	-	92,741,212	-	12,680,888	105,422,100
Debt service	-	-	36,509,677	-	36,509,677
All others	-	-	-	176,117	176,117
Total restricted	5,197,572	92,741,212	36,509,677	13,338,423	147,786,884
<b>Committed</b>					
Other commitments	-	-	-	496,300	496,300
Total committed	-	-	-	496,300	496,300
<b>Assigned</b>					
Reserve for 16-17 to 18-19 def.	24,000,911	-	-	-	24,000,911
Carryover to 16-17	1,120,239	-	-	-	1,120,239
Reserve up to two months exp.	2,988,129	-	-	-	2,988,129
Other assignments	-	-	-	193,244	193,244
Total assigned	28,109,279	-	-	193,244	28,302,523
<b>Unassigned</b>					
Reserve for economic uncertainties	4,348,336	-	-	-	4,348,336
Total unassigned	4,348,336	-	-	-	4,348,336
<b>Total</b>	<b>\$ 37,807,421</b>	<b>\$ 92,741,212</b>	<b>\$ 36,509,677</b>	<b>\$ 14,047,826</b>	<b>\$ 181,106,136</b>

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District’s Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, 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, 2016

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NOTE 10 – 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 \$125 per month. Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	383
Active plan members	1,363
Total*	1,746

Number of participating employers	1
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\*As of July 1, 2015 actuarial study

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 the fiscal year 2016, the District contributed \$1,200,737 to the Plan, all of which was used for current premiums.

As of June 30, 2016, 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.

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.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Obligation (continued)

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	\$ 4,254,125
Interest on net OPEB obligation	413,462
Adjustment to annual required contribution	(598,074)
Annual OPEB cost (expense)	<u>4,069,513</u>
Contributions made	<u>(1,200,737)</u>
Increase (decrease) in net OPEB obligation	2,868,776
Net OPEB obligation, beginning of the year	<u>10,341,922</u>
Net OPEB obligation, end of the year	<u>\$ 13,210,698</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2016 and the preceding two years were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2016	\$ 4,069,513	30%	\$ 13,210,698
2015	\$ 2,587,991	40%	\$ 10,341,922
2014	\$ 2,616,392	43%	\$ 8,786,641

D. Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2015	\$ -	\$ 36,397,922	\$ 36,397,922	0%	\$ 96,835,810	38%

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, *continued*  
 JUNE 30, 2016

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NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (*continued*)

D. Funded Status and Funding Progress (*continued*)

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. A summary of the most recent actuarial study is as follows:

Valuation Date	7/1/2015
Actuarial Cost Method	Projected Unit Cost
Amortization Method	Level Dollar, Open Period
Remaining Amortization Period	30
Actuarial Assumptions:	
Investment rate of return	4.0%
Discount rate	4.0%
Health care trend rate	
Medical	8.0%
Dental	4.0%
Inflation rate	4.0%



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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**NOTE 11 – PENSION PLANS**

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	<b>Net pension liability</b>	<b>Deferred outflows related to pensions</b>	<b>Deferred inflows related to pensions</b>	<b>Pension expense</b>
STRS Pension	\$ 88,739,307	\$ 10,664,149	\$ 8,716,550	\$ 7,513,712
PERS Pension	34,274,607	5,461,876	3,825,959	3,063,028
<b>Total</b>	<b>\$ 123,013,914</b>	<b>\$ 16,126,025</b>	<b>\$ 12,542,509</b>	<b>\$ 10,576,740</b>

**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.

**Benefits provided**

The CalSTRS defined benefit plan has two benefit formulas:

CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS

CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS

***CalSTRS 2% at 60***

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

**Benefits provided (continued)**

*CalSTRS 2% at 62*

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

**Contributions**

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 9.20% and 8.56% of their salary for fiscal year 2016, respectively, 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 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$6,814,032 for the year ended June 30, 2016.

**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 \$4,083,797 to CalSTRS (7.126% of 2013-14 creditable compensation subject to CalSTRS).

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$ 88,739,307
State's proportionate share of the net pension liability associated with the District	46,933,185
Total	<u>\$ 135,672,492</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District’s proportion was 0.132 percent, which was an increase of 0.006 percent from its proportion measured as of June 30, 2014.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

For the year ended June 30, 2016, the District recognized pension expense of \$7,513,712. In addition, the District recognized pension expense and revenue of \$3,634,534 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 7,233,695
Differences between expected and actual experience	-	1,482,855
Changes in proportion and differences between District contributions and proportionate share of contributions	3,850,117	-
District contributions subsequent to the measurement date	6,814,032	-
Total	<u>\$ 10,664,149</u>	<u>\$ 8,716,550</u>

The \$6,814,032 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 641,686	\$ 2,055,566
2018	641,686	2,055,566
2019	641,686	2,055,566
2020	641,686	2,055,566
2021	641,686	247,143
2022	641,686	247,143
Total	<u>\$ 3,850,117</u>	<u>\$ 8,716,550</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

**Actuarial assumptions**

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	3.00%
Investment Yield*	7.60%
Wage Inflation	3.75%

\* Net of investment expenses, but gross of administrative expenses.

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2006 – June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary’s (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash/Liquidity	1%	0.00%
	<u>100%</u>	

\* 10-year geometric average

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

**Discount rate**

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate**

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	\$ 133,989,446	\$ 88,739,307	\$ 51,132,790

**Pension plan fiduciary net position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

**NOTE 11 – PENSION PLANS (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.

**Benefits provided**

The benefits for the defined benefit plan are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

**Contributions**

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees’ Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member’s contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

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 2016 was 11.847% of annual payroll. Contributions to the plan from the District were \$3,288,625 for the year ended June 30, 2016.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the District reported a liability of \$34,274,607 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District’s proportion was 0.233 percent, which was an increase of 0.002 percent from its proportion measured as of June 30, 2014.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

For the year ended June 30, 2016, the District recognized pension expense of \$3,063,028. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 1,173,592
Differences between expected and actual experience	1,958,844	-
Changes in assumptions	-	2,105,927
Changes in proportion and differences between District contributions and proportionate share of contributions	214,407	546,440
District contributions subsequent to the measurement date	3,288,625	-
Total	<u>\$ 5,461,876</u>	<u>\$ 3,825,959</u>

The \$3,288,625 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 749,397	\$ 1,201,726
2018	749,397	1,201,726
2019	674,457	1,129,108
2020	-	293,399
Total	<u>\$ 2,173,251</u>	<u>\$ 3,825,959</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

**Actuarial assumptions**

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Yield*	7.65%
Wage Inflation	Varies by Entry Age and Service

\* Net of investment expenses, but gross of administrative expenses.

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS’ membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

**Actuarial assumptions (continued)**

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Years 11+**</u>
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
	100%		

\* An expected inflation of 2.5% used for this period

\*\* An expected inflation of 3.0% used for this period

**Discount rate**

The discount rate used to measure the total pension liability was 7.65 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

**Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate**

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
District's proportionate share of the net pension liability	\$ 55,784,778	\$ 34,274,607	\$ 16,387,462

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

**Pension plan fiduciary net position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 12 – 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, 2016.

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, 2016.

C. Construction Commitments

As of June 30, 2016, the District had commitments with respect to unfinished capital projects as follows:

	<b>Remaining Construction Commitment</b>
Capital Projects	
Measure BB	\$ 15,947,793
Measure ES	4,696,358
Total	<u>\$ 20,644,151</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

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**NOTE 13 – 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 14 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

**Refunded Debt**

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District's long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2016, the deferred amount on refunding was \$10,734,433.

**NOTE 15 – SUBSEQUENT EVENT**

On September 13, 2016, the District issued \$28,190,000 of Federally Tax-Exempt 2016 General Obligation Refunding Bonds, Series A, \$666,000 of Federally Taxable 2016 General Obligation Refunding Bonds, Series B, and \$52,140,000 of Federally Tax-Exempt 2016 General Obligation Refunding Bonds, Series C. The bonds were issued to refund, on a current and advance basis, portions of the District's outstanding bonded indebtedness.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
<b>REVENUES</b>				
LCFF sources	\$ 84,073,805	\$ 83,901,961	\$ 84,050,735	\$ 148,774
Federal sources	4,198,061	5,398,312	4,743,062	(655,250)
Other state sources	8,949,107	13,201,753	13,923,989	722,236
Other local sources	40,836,623	43,827,629	44,559,683	732,054
<b>Total Revenues</b>	<b>138,057,596</b>	<b>146,329,655</b>	<b>147,277,469</b>	<b>947,814</b>
<b>EXPENDITURES</b>				
Certificated salaries	60,667,645	62,705,571	62,368,301	337,270
Classified salaries	26,547,926	27,713,819	27,451,601	262,218
Employee benefits	30,851,043	35,105,793	34,635,971	469,822
Books and supplies	3,743,577	6,680,411	4,247,191	2,433,220
Services and other operating expenditures	14,004,061	17,213,797	15,574,303	1,639,494
Capital outlay	1,092,737	1,132,726	572,552	560,174
Other outgo				
Excluding transfers of indirect costs	53,400	53,400	53,388	12
Transfers of indirect costs	(514,820)	(524,352)	(543,281)	18,929
<b>Total Expenditures</b>	<b>136,445,569</b>	<b>150,081,165</b>	<b>144,360,026</b>	<b>5,721,139</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>1,612,027</b>	<b>(3,751,510)</b>	<b>2,917,443</b>	<b>6,668,953</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(315,494)	(364,491)	(584,491)	(220,000)
<b>Net Financing Sources (Uses)</b>	<b>(315,494)</b>	<b>(364,491)</b>	<b>(584,491)</b>	<b>(220,000)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>1,296,533</b>	<b>(4,116,001)</b>	<b>2,332,952</b>	<b>6,448,953</b>
<b>Fund Balance - Beginning</b>	<b>35,474,469</b>	<b>35,474,469</b>	<b>35,474,469</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 36,771,002</b>	<b>\$ 31,358,468</b>	<b>\$ 37,807,421</b>	<b>\$ 6,448,953</b>

See accompanying note to required supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2016**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Valuation of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
July 1, 2015	\$ -	\$ 36,397,922	\$ 36,397,922	0%	\$ 96,835,810	38%
July 1, 2013	\$ -	\$ 25,587,443	\$ 25,587,443	0%	\$ 91,118,069	28%
July 1, 2011	\$ -	\$ 22,091,051	\$ 22,091,051	0%	\$ 71,650,000	31%

See accompanying note to required supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -  
CALSTRS  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.132%	0.126%
District's proportionate share of the net pension liability	\$ 88,739,307	\$ 73,375,330
States's proportionate share of the net pension liability associated with the District	46,933,185	44,307,192
Total	<u>\$ 135,672,492</u>	<u>\$ 117,682,522</u>
District's covered-employee payroll	\$ 63,504,512	\$ 60,268,419
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	139.7%	121.7%
Plan fiduciary net position as a percentage of the total pension liability.	76.5%	76.5%

See accompanying note to required supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -  
CALPERS  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.233%	0.231%
District's proportionate share of the net pension liability	\$ 34,274,607	\$ 26,174,060
District's covered-employee payroll	\$ 27,759,133	\$ 25,758,704
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	123.5%	101.6%
Plan fiduciary net position as a percentage of the total pension liability.	83.4%	83.4%

See accompanying note to required supplementary information.



**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 6,814,032	\$ 5,351,837
Contributions in relation to the contractually required contribution*	(6,814,032)	(5,351,837)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 63,504,512	\$ 60,268,419
Contributions as a percentage of covered-employee payroll	10.73%	8.88%

\*Amounts do not include on behalf contributions

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 3,288,625	\$ 3,032,060
Contributions in relation to the contractually required contribution	(3,288,625)	(3,032,060)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 27,759,133	\$ 25,758,704
Contributions as a percentage of covered-employee payroll	11.85%	11.77%

See accompanying note to required supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016**

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**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.

**Schedule of the District's Proportionate Share of the Net Pension Liability**

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered-employee payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

**Schedule of District Contributions**

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered-employee payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered-employee payroll.

**NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2016, the District incurred no excess of expenditures over appropriations of in the General Fund as presented in the Budgetary Comparison Schedule by major object code:

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**SUPPLEMENTARY  
INFORMATION**

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**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

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			
Title I, Part A, Basic School Support	84.010	14416	\$ 1,191,805
Title I, Part A, Program Improvement LEA Corrective Action Resources	84.010	14957	20,404
Subtotal Title I, Part A			<u>1,212,209</u>
Adult Education			
Adult Education: Basic Education & ESL	84.002A	14508	19,060
Adult Education: Adult Secondary Education	84.002A	13978	12,087
Adult Education: English Literacy and Civics Education	84.002A	14109	15,779
Subtotal Adult Education			<u>46,926</u>
Title II, Part A, Teacher Quality	84.367	14341	468,206
Title III			
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	93,755
Title III, Immigrant Education Program	84.365	15146	14,896
Subtotal Title III			<u>108,651</u>
Special Education Cluster [1]			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	2,094,213
Part B, Preschool Grants	84.173	13430	60,520
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	110,920
Subtotal Special Education Cluster			<u>2,265,653</u>
IDEA Early Intervention Grants	84.181	23761	54,282
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14893	51,831
<b>Total U. S. Department of Education</b>			<u>4,207,758</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program Basic	10.553	13390	1,109
School Breakfast Program Needy	10.553	13526	186,468
National School Lunch Program	10.555	13391	949,744
USDA Commodities	10.555	*	88,212
Subtotal Child Nutrition Cluster			<u>1,225,533</u>
Child and Adult Food Programs	10.578	13393	264,523
<b>Total U. S. Department of Agriculture</b>			<u>1,490,056</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Education:</i>			
Centers for Disease Control and Prevention - Affordable Care Act (ACA)	93.520	*	400
Head Start [2]	93.600	10016	1,487,249
<i>Passed through California Department of Health Services:</i>			
Medicaid [1]			
Medi-Cal Billing Option	93.778	10013	644,469
Medi-Cal Administrative Activities	93.778	10060	262,129
Subtotal Medicaid			<u>906,598</u>
<b>Total U. S. Department of Health &amp; Human Services</b>			<u>2,394,247</u>
<b>Total Federal Expenditures</b>			<u>\$ 8,092,061</u>

[1] - Major Program

[2] - In-Kind Contribution - \$574,117

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

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<b>Second Period Report</b>	<b>Annual Report</b>
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	3,101.98	3,108.54
Extended Year Special Education	3.53	3.53
Special Education - Nonpublic Schools	0.55	0.71
Extended Year Special Education - Nonpublic Schools	0.08	0.08
Total TK/K through Third	<u>3,106.14</u>	<u>3,112.86</u>
Fourth through Sixth		
Regular ADA	2,426.34	2,425.28
Extended Year Special Education	10.78	10.78
Special Education - Nonpublic Schools	2.81	2.81
Extended Year Special Education - Nonpublic Schools	0.27	0.27
Total Fourth through Sixth	<u>2,440.20</u>	<u>2,439.14</u>
Seventh through Eighth		
Regular ADA	1,665.88	1,663.77
Extended Year Special Education	6.00	6.00
Special Education - Nonpublic Schools	0.45	0.61
Extended Year Special Education - Nonpublic Schools	0.10	0.10
Total Seventh through Eighth	<u>1,672.43</u>	<u>1,670.48</u>
Ninth through Twelfth		
Regular ADA	3,450.35	3,416.72
Extended Year Special Education	6.71	6.71
Special Education - Nonpublic Schools	24.80	24.36
Extended Year Special Education - Nonpublic Schools	4.15	4.15
Total Ninth through Twelfth	<u>3,486.01</u>	<u>3,451.94</u>
TOTAL SCHOOL DISTRICT	<u>10,704.78</u>	<u>10,674.42</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 SCHEDULE OF INSTRUCTIONAL TIME  
 FOR THE YEAR ENDED JUNE 30, 2016**

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Grade Level	Minutes Requirement	2015-16		Status
		Actual Minutes	Number of Days	
Kindergarten	36,000	38,615	180	Complied
Grade 1	50,400	53,440	180	Complied
Grade 2	50,400	53,440	180	Complied
Grade 3	50,400	53,440	180	Complied
Grade 4	54,000	54,780	180	Complied
Grade 5	54,000	54,780	180	Complied
Grade 6	54,000	55,170	180	Complied
Grade 7	54,000	55,170	180	Complied
Grade 8	54,000	55,170	180	Complied
Grade 9	64,800	64,813	179	Not in Compliance*
Grade 10	64,800	64,813	179	Not in Compliance*
Grade 11	64,800	64,813	179	Not in Compliance*
Grade 12	64,800	64,813	179	Not in Compliance*

*\*See Finding #2016-1 regarding non-compliance.*

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

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	2017 (Budget)	2016	2015	2014
General Fund - Budgetary Basis				
Revenues And Other Financing Sources	\$ 139,832,095	\$ 147,277,469	\$ 141,004,005	\$ 122,314,401
Expenditures And Other Financing Uses	150,479,376	144,944,517	132,806,951	123,419,530
Net change in Fund Balance	\$ (10,647,281)	\$ 2,332,952	\$ 8,197,054	\$ (1,105,129)
Ending Fund Balance	\$ 27,160,140	\$ 37,807,421	\$ 35,474,469	\$ 27,277,415
Available Reserves*	\$ 4,514,382	\$ 4,348,336	\$ 21,492,632	\$ 15,485,865
Available Reserves As A Percentage Of Outgo	3.00%	3.00%	16.18%	12.55%
Long-term Debt	\$ 514,889,938	\$ 537,926,459	\$ 475,298,861	\$ 354,288,286
Average Daily Attendance At P-2	10,462	10,705	10,785	10,846

The General Fund balance has increased by \$10,530,006 over the past two years. The fiscal year 2016-17 budget projects a decrease of \$10,647,281. For a District this size, the State recommends available reserves of at least three percent of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2016-17 fiscal year. Total long term obligations have increased by \$183,638,173 over the past two years.

Average daily attendance has decreased by 141 ADA over the past two years. A decrease of 243 ADA is anticipated during the 2016-17 fiscal year.

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



**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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*There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2016.*

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 JUNE 30, 2016**

	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
<b>ASSETS</b>							
Cash and investments	\$ 686,599	\$ 664,935	\$ 263,750	\$ 321,410	\$ 931,341	\$ 12,115,513	\$ 14,983,548
Accounts receivable	19,619	320,529	51,200	332	1,055,934	27,288	1,474,902
Stores inventory	-	-	19,859	-	-	-	19,859
<b>Total Assets</b>	<b>\$ 706,218</b>	<b>\$ 985,464</b>	<b>\$ 334,809</b>	<b>\$ 321,742</b>	<b>\$ 1,987,275</b>	<b>\$ 12,142,801</b>	<b>\$ 16,478,309</b>
<b>LIABILITIES</b>							
Accrued liabilities	\$ 46,318	\$ 526,376	\$ 138,833	\$ 109,546	\$ 750,596	\$ 698,592	\$ 2,270,261
Unearned revenue	-	160,222	-	-	-	-	160,222
<b>Total Liabilities</b>	<b>46,318</b>	<b>686,598</b>	<b>138,833</b>	<b>109,546</b>	<b>750,596</b>	<b>698,592</b>	<b>2,430,483</b>
<b>FUND BALANCES</b>							
Non-spendable	-	-	19,859	-	-	-	19,859
Restricted	375,796	105,622	176,117	-	1,236,679	11,444,209	13,338,423
Committed	284,104	-	-	212,196	-	-	496,300
Assigned	-	193,244	-	-	-	-	193,244
<b>Total Fund Balances</b>	<b>659,900</b>	<b>298,866</b>	<b>195,976</b>	<b>212,196</b>	<b>1,236,679</b>	<b>11,444,209</b>	<b>14,047,826</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 706,218</b>	<b>\$ 985,464</b>	<b>\$ 334,809</b>	<b>\$ 321,742</b>	<b>\$ 1,987,275</b>	<b>\$ 12,142,801</b>	<b>\$ 16,478,309</b>

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, 2016**

	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
<b>REVENUES</b>							
LCHF sources	\$ -	\$ -	\$ -	\$ 250,000	\$ -	\$ -	\$ 250,000
Federal sources	46,926	1,751,772	1,225,533	-	-	-	3,024,231
Other state sources	760,629	2,704,912	85,299	-	-	-	3,550,840
Other local sources	34,530	3,709,922	1,375,412	988	936,375	5,938,787	11,996,014
<b>Total Revenues</b>	<b>842,085</b>	<b>8,166,606</b>	<b>2,686,244</b>	<b>250,988</b>	<b>936,375</b>	<b>5,938,787</b>	<b>18,821,085</b>
<b>EXPENDITURES</b>							
Current							
Instruction	143,389	6,087,609	-	-	-	-	6,230,998
Instruction-related services							
Instructional supervision and administration	111,921	435,650	-	-	-	-	547,571
School site administration	194,438	770,082	-	-	-	-	964,520
Pupil services							
Food services	-	384,878	2,881,629	-	-	-	3,266,507
All other pupil services	20,869	111,007	-	-	-	-	131,876
General administration							
All other general administration	25,266	383,174	134,841	-	-	-	543,281
Plant services	55,868	193,998	-	179,638	3,134,057	228,552	3,792,113
Facilities acquisition and maintenance	-	-	-	-	-	1,805,000	1,805,000
Debt service							
Principal	-	-	-	-	-	1,570,000	1,570,000
Interest and other	-	-	-	-	-	297,081	297,081
<b>Total Expenditures</b>	<b>551,751</b>	<b>8,366,398</b>	<b>3,016,470</b>	<b>179,638</b>	<b>3,134,057</b>	<b>3,900,633</b>	<b>19,148,947</b>
<b>Excess (Deficiency) of Revenues</b>							
<b>Over Expenditures</b>	<b>290,334</b>	<b>(199,792)</b>	<b>(330,226)</b>	<b>71,350</b>	<b>(2,197,682)</b>	<b>2,038,154</b>	<b>(327,862)</b>
<b>Other Financing Sources (Uses)</b>							
Transfers in	-	234,491	350,000	-	-	-	584,491
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>234,491</b>	<b>350,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>584,491</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>290,334</b>	<b>34,699</b>	<b>19,774</b>	<b>71,350</b>	<b>(2,197,682)</b>	<b>2,038,154</b>	<b>256,629</b>
<b>Fund Balance - Beginning</b>	<b>369,566</b>	<b>264,167</b>	<b>176,202</b>	<b>140,846</b>	<b>3,434,361</b>	<b>9,406,055</b>	<b>13,791,197</b>
<b>Fund Balance - Ending</b>	<b>\$ 659,900</b>	<b>\$ 298,866</b>	<b>\$ 195,976</b>	<b>\$ 212,196</b>	<b>\$ 1,236,679</b>	<b>\$ 11,444,209</b>	<b>\$ 14,047,826</b>

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE  
 JUNE 30, 2016**

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

**GOVERNING BOARD**

<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
Laurie Lieberman	President	December 2018
Ralph Mechur	Vice President	December 2016
Craig Foster	Member	December 2018
Oscar de la Torre	Member	December 2018
Maria Leon-Vazquez	Member	December 2018
Jose Escarce	Member	December 2016
Richard Tahvidaran-Jesswein	Member	December 2018

**DISTRICT ADMINISTRATORS**

Sandra Lyon  
*Superintendent*

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

Dr. Mark Kelly  
*Assistant Superintendent, Human Resources*

Dr. Terry Deloria  
*Assistant Superintendent, Educational Services*

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
 NOTES TO SUPPLEMENTARY INFORMATION  
 JUNE 30, 2016

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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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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, 2016 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2016.

The District has not elected to use the 10 percent de minimis indirect cost rate.

	CFDA	
	Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 10,047,336
Build America Bonds	*	(2,280,043)
Medi-Cal Billing Options	93.778	324,768
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$ 8,092,061</u>

\* - CFDA Number not available or not applicable

**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**

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 46208*. During the year ended June 30, 2016, the District participated in the Longer Day incentive funding program. As of June 30, 2016, the District had not yet met its target funding.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION, continued  
JUNE 30, 2016

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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.

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**OTHER INDEPENDENT  
AUDITORS' REPORTS**

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

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Santa Monica-Malibu Unified School District's basic financial statements, and have issued our report thereon dated November 17, 2016. Our report includes a reference to other auditors who audited the financial statements of the Santa Monica-Malibu Education Foundation, as described in our report on Santa Monica-Malibu Unified School District's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are report on separately by those auditors. The financial statements of the Santa Monica-Malibu Education Foundation were not audited in accordance with Government Auditing Standards and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with this entity.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Christy White Associates*

San Diego, California  
November 17, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM  
GUIDANCE**

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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

**Report on Compliance for Each Major Federal Program**

We have audited Santa Monica-Malibu Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Santa Monica-Malibu Unified School District's major federal programs for the year ended June 30, 2016. Santa Monica-Malibu Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Santa Monica-Malibu Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Santa Monica-Malibu Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Santa Monica-Malibu Unified School District's compliance.

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### *Opinion on Each Major Federal Program*

In our opinion, Santa Monica-Malibu Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of Santa Monica-Malibu Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Santa Monica-Malibu Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Santa Monica-Malibu Unified School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*Christy White Associates*

San Diego, California  
November 17, 2016

## REPORT ON STATE COMPLIANCE

### Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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

### **Report on State Compliance**

We have audited Santa Monica-Malibu Unified School District's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of Santa Monica-Malibu Unified School District's state programs for the fiscal year ended June 30, 2016, as identified below.

### *Management's Responsibility*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of Santa Monica-Malibu Unified School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Santa Monica-Malibu Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Santa Monica-Malibu Unified School District's compliance with those requirements.

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### *Opinion on State Compliance*

In our opinion, Santa Monica-Malibu Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2016.

### *Other Matters*

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as finding 2016-1. Our opinion on state compliance is not modified with respect to these matters.

Santa Monica-Malibu Unified School District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Santa Monica-Malibu Unified School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### *Procedures Performed*

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

<u>PROGRAM NAME</u>	<u>PROCEDURES PERFORMED</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below

*Procedures Performed (continued)*

<b>PROGRAM NAME</b>	<b>PROCEDURES PERFORMED</b>
After School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Yes
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform testing for Independent Study or Continuation Education because total ADA claimed is below the materiality threshold required for testing. Additionally, we did not perform testing over California Clean Energy Act as there were no funds expended in 2015-16.

*Christy White Associates*

San Diego, California  
November 17, 2016

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**SCHEDULE OF FINDINGS  
AND QUESTIONED COSTS**

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**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.027A, 84.173</u>	<u>Special Education Cluster</u>
<u>93.778</u>	<u>Medicaid</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016

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FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

*There were no financial statement findings for the fiscal year 2015-16.*

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016

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FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

*There were no federal award findings or questioned costs for the fiscal year 2015-16.*

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FIVE DIGIT CODE**

10000  
40000  
42000  
60000  
62000  
70000  
71000  
72000

**AB 3627 FINDING TYPE**

Attendance  
State Compliance  
Charter School Facilities Programs  
Miscellaneous  
Local Control Accountability Plans  
Instructional Materials  
Teacher Misassignments  
School Accountability Report Card

**FINDING #2016-1 – INSTRUCTIONAL TIME (40000)**

**State Program:** Instructional Time Program.

**Criteria:** Pursuant to *California Education Code (Ed Code) Sections 46200 through 46208*, a school district that has either met or does not meet Local Control Funding Formula (LCFF) targets must meet or exceed the required number of days, which is 180 instructional days, beginning in 2015-16. In accordance with *Ed Code Sections 46141 and 46142*, the minimum schoolday in a regular high school is 240 minutes and can be below 240 if averaged over two consecutive schooldays, but no less than 180 minutes.

**Condition:** At the District’s request, additional audit procedures over instructional time and optional courses offered by the District at Santa Monica High School were reviewed. Santa Monica High School’s fall semester final schedule included an optional class period (Period 7) on December 18, 2015. This optional class period did not serve valid instructional offerings to be eligible to be included in annual instructional time. As a result of omitting the optional class period, this day of instruction fell below the required 180-minute absolute minimum requirement; therefore, this day cannot be included in total schooldays to meet the annual instructional day requirement of 180 days. This was the only school site within the District that was deemed to be out of compliance.

**Cause:** Management Oversight.

**Questioned Costs:** \$116,920 as calculated below:

		Santa Monica High School
		Grade Span
		9–12
1	Affected grade level(s)	9-12
2	Affected grade level ADA	2,656.57
3	Derived Value of ADA by Grade Span	\$7,859.25
<b>Instructional Day Penalty Calculation (for School Districts Only)</b>		
4	Number of required days	180
5	Number of days short	1
6	Instructional Day Penalty by Grade Span	\$116,920
7	Total Instructional Day Penalty	<b>\$116,920</b>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FINDING #2016-1 – INSTRUCTIONAL TIME (40000) (continued)**

**Effect:** The District is not in compliance with State requirements and may be subject to penalties.

**Recommendation:** We recommend that District management review school sites' instructional calendar and bell schedules prior to the beginning of the school year and ensure compliance with State requirements.

**District Response:** The auditor's findings included a shortfall of one instructional day for the state-required minimum at Santa Monica High School. Although students at Santa Monica High School were scheduled to meet on 180 calendar days, the auditors found that the scheduling of a 7th-period final during the winter finals week could not be included in that day's minimum-day calculation, because this period did not meet the state's definition of a "valid instructional offering," and the minutes were, therefore, non-allowable. Because that period was one of only two 120-minute blocks scheduled on that day, the remaining allowable instructional minutes fell well short of the 240-minute requirement and the total day was disallowed.

By education code, students must meet for a minimum of 240 minutes per day. The code allows for a day with less than 240 minutes (but at least 180 minutes), if that day is scheduled consecutively with a day whose minutes, when averaged with the shorter day, equal 240 (for example, a day of 180 minutes, scheduled consecutively with a day of 360 minutes). During winter finals week, four days were scheduled with two 120-minute testing blocks, separated by a 10-minute break that can be included in the instructional minute total. The final for Period 7, which is optional and does not meet during the regular school day, was scheduled on the same day as the final for Period A.

Staff at the school were unaware that in order to be included within the calculations for instructional minutes, an optional period must provide coursework that fulfills the criteria for "valid instructional offerings." Such offerings must include "substantial courses" that are "realistically available to all pupils in the group of grade levels concerned." Thus, a course for only one grade in a school would not constitute a valid offering, nor would a course open only to disadvantaged or gifted students or available only to those who have taken certain prerequisites. In addition, "instructional time must be available in practical, as well as academic, terms. Courses scheduled such that pupils may take them only by giving up their lunch period or by attending school outside the schedule of district-provided bus service are not truly an offering." Subsequent to the finding, staff concluded that Period 7 did not, in fact, meet several of these criteria, including providing a variety of substantial (i.e. academic) offerings. However, Period A, which is also optional, does.

A subsequent review of the processes that allowed this shortfall of instructional days to occur revealed two areas that have subsequently been addressed. First, while District staff reviewed the school's calendar and instructional minutes per education code, the details of the finals' week schedule had not been included or requested, with an assumption that only allowable periods would be scheduled. Secondly, site staff, were unfamiliar with the definition of valid instructional offering and had no reason to think that this period would be disallowed. To ensure that such an error does not occur again, all secondary schools are now asked to submit a copy of the schools' bell schedules in addition to the Yearly Instructional Minutes Summary form. Also, all site administrators responsible for bell schedules were updated on the requirements for calculating instructional minutes using only valid instructional offerings.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016

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**FINDING #2015-1: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA (LCFF) PUPIL COUNT (40000)**

**Criteria:** Students classified as Free or Reduced Priced Meal (FRPM) eligible and who are not directly certified on the CALPADS 1.18 *FRPM/English Learner/Foster Youth – Student List* report must have supporting documentation that indicates the student was eligible for this designation. Based on guidance from the California Department of Education (CDE), “although students may be considered eligible for FRPM programs in the first 30 days of a school year based on the prior year’s eligibility, students may not be coded as FRPM-eligible (for CALPADS) based on this 30-day eligibility window.” The unduplicated local control funding formula pupil count affects the percentage used as data in calculating Local Control Funding Formula (LCFF) apportionment. Auditors are required to verify compliance with *California Education Code Section 42238.02(b)(3)(B)* in Section W of the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies*.

**Condition:** One (1) of twenty-one (21) students from Santa Monica High School tested from the CALPADS 1.18 *FRPM/English Learner/Foster Youth – Student List* report was classified as FRPM yet documentation provided did not support this designation. Upon extrapolation of this error to entire the FRPM eligible population at Santa Monica High School, an additional 30 students were calculated as potentially being subject to the same error for a total of 31 likely ineligible students.

**Effect:** The District is not in compliance with State requirements. 31 of 6,714 (3,357 for 2014-15 and 3,357 for 2013-14) students reported in the District’s Unduplicated Pupil Count calculating as being ineligible for their FRPM designation.

**Cause:** The District transferred data directly from the food service system to the student information system to rely upon for CALPADS reporting purposes and did not consider the differences caused by the 30-day window of eligibility that applies to food services yet is not considered for eligibility for CALPADS reporting of FRPM designations; therefore the student status was not updated within the student information system after receiving a current NSLP application.

**Questioned Cost:** \$7,194 as calculated on the following page.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2016

**FINDING #2015-1: UNDUPLICATED LCFF PUPIL COUNT (40000) (continued)**

**Questioned Cost (continued):**

LCFF Target Base Grant Amount and Pupil Counts		
1) Total Base Grant Amount	\$	85,186,679
	Section 1: UPP	Section 2: UPP
2) Total Enrollment Count from Unduplicated Pupil Percentage Exhibit	22,598	22,649
3) Unduplicated Pupil Count from Unduplicated Pupil Percentage Exhibit	6,714	6,579

Unduplicated Pupil Percentage Adjustment		
4) Unduplicated Pupil Count	6,714	6,579
5) Number of Unduplicated Pupil Count Adjustment (plus or minus)	(31)	(31)
6) Adjusted Unduplicated Pupil Count	6,683	6,548
7) Unduplicated Pupil Percentage calculated at P-2	29.71%	29.05%
8) Adjusted Unduplicated Pupil Percentage	29.57%	28.91%
9) Funded UPP (Greater of Section 1 or 2)	29.57%	

Target Supplemental Audit Adjustment		
10) Target supplemental grant funding calculated at P-2	5,061,792	-
11) Adjusted target supplemental grant funding	5,037,940	-
12) Target supplemental audit adjustment	23,852	-

Target Concentration Audit Adjustment		
13) Target Concentration grant funding calculated at P-2	-	-
14) Adjusted target concentration grant funding	-	-
15) Target concentration audit adjustment	-	-

Value of Adjustment in Current Year		
16) Total target supplemental and concentration audit adjustment	23,852	-
17) Statewide gap funding rate	30.16%	30.16%
18) Estimated value of unduplicated pupil count audit adjustment for 2014-15	\$ 7,194	\$ -

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2016

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**FINDING #2015-1: UNDUPLICATED LCFF PUPIL COUNT (40000) (continued)**

**Recommendation:** We recommend that the student information system and food service system be reconciled and compared to current year documentation to support FRPM designations. Further, we recommend that the District refer to CDE guidance on reporting for students whom are designated FRPM based on the 30-day eligibility window.

**District Response:** The District has reviewed its data collection and input procedures and has determined that there was a problem rolling information from one year to the next. This IT issue has been resolved. Dr. Terry Deloria, Assistant Superintendent Education Services, has scheduled a mandatory meeting on December 15, 2015 for the Director of Information Services, the Database Administrator, the Director of Food Services and the Education Data Specialist. They will first review the CDE guidance document related to this finding. Then they will develop a plan and publish a procedure for reconciling the student information system (currently Illuminate) with the food service system that houses and tracks Free and Reduced Meal eligibility with a focus on resolving issues arising during/following the 30-day eligibility window. Finally, they will train staff as appropriate.

**Current Status:** Implemented.