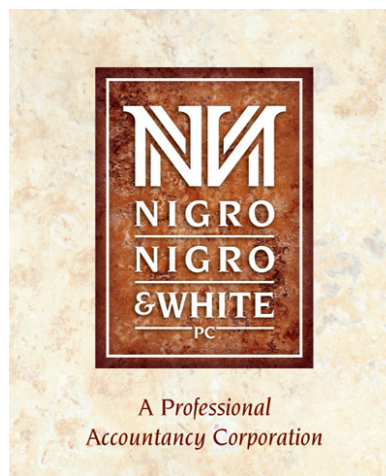


**SANTA MONICA-MALIBU
UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2009**



**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
 AUDIT REPORT
 For the Fiscal Year Ended June 30, 2009
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**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
AUDIT REPORT
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Santa Monica-Malibu Unified School District
Santa Monica-Malibu, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Santa Monica-Malibu Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2009 on our consideration of the Santa Monica-Malibu Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 14 and the required supplementary information on pages 51 through 52 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Santa Monica-Malibu Unified School District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



San Diego, California
December 2, 2009

Management's Discussion and Analysis

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

This discussion and analysis of Santa Monica-Malibu Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2009. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's General Fund financial status maintained as compare to the prior year, due primarily to the receipt of federal stimulus funds. In the absence of this funding, deficit spending would have occurred by approximately \$2.2 million. The District was able to end the year with \$0.8 million more revenues than expenditures. Available reserves met state requirements but declined over the prior year.
- Government-wide, revenues exceeded expenditures by \$8.9 million to an ending balance of \$108.5 million.
- The total cost of basic programs was \$145.6 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was \$106.3 million.
- The District increased its capital assets by \$19.7 million or 13%.
- Long-term debt decreased \$9.3 million or 6%.
- Average daily attendance (ADA) decreased by 65 over the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

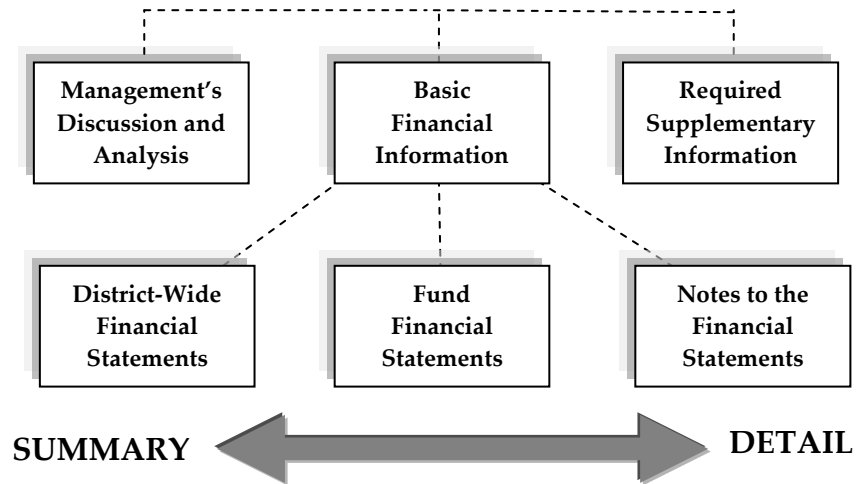
This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
 - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Santa Monica-Malibu Unified School District's Annual Financial Report



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District'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 district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like Federal grants).

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements 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. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were significantly larger on June 30, 2009, than they were the year before – increasing approximately \$8.9 million from the previous year to the ending balance of \$106.5 million. (See Table A-1).

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

	(in millions)		Total Percentage Change 2008-09
	Governmental Activities		
	2008*	2009	
Current and other assets	\$ 131.9	\$ 112.6	-15%
Capital assets	157.2	176.9	13%
Total assets	<u>289.1</u>	<u>289.5</u>	0%
Other liabilities	17.2	31.0	80%
Long-term liabilities	174.3	152.0	-13%
Total liabilities	<u>191.5</u>	<u>183.0</u>	-4%
Total net assets	<u>\$ 97.6</u>	<u>\$ 106.5</u>	9%

* The June 30, 2008 ending balance was restated to report accreted interest on the certificates of participation. (see Note 13)

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net assets and governmental activities. The District's total revenues were \$154.4 million (See Table A-2).

The total cost of all programs and services was \$145.5 million. The District's expenses are predominantly related to educating and caring for students, 76%. The purely administrative activities of the District accounted for just 5% of total costs. The total costs increased by 7%.

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

	(in millions)		Total
	Governmental Activities		Percentage
	2008	2009	Change
Revenues:			
<i>Program revenues</i>			
Charges for services	\$ 5.3	\$ 4.5	-15%
Operating grants and contributions	30.5	33.8	11%
Capital grants and contributions	-	0.9	100%
<i>General revenues</i>			
Property taxes	67.7	75.0	11%
Other revenues	51.5	40.2	-22%
Total revenues	<u>155.0</u>	<u>154.4</u>	0%
Expenses:			
Instruction-related	95.1	97.1	2%
Student support services	11.6	12.8	10%
Maintenance & operations	15.3	14.2	-7%
Administration	7.7	8.0	4%
Other expenses	11.9	13.4	13%
Total expenses	<u>141.6</u>	<u>145.5</u>	3%
Increase in net assets	13.4	8.9	-34%
Adjustment for restatement (see note 13)	<u>(1.8)</u>	<u>-</u>	100%
Increase/(decrease) in net assets, as restated	<u>\$ 11.6</u>	<u>\$ 8.9</u>	-23%

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-3 presents the cost of five major District activities: instruction and instruction related; student support services; general administration; maintenance, operations and facility acquisition; and miscellaneous other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

- The cost of all *governmental* activities this year was \$145.5 million.
- Some of the cost was paid by the users of the District's programs \$4.5 million.
- The federal and state governments subsidized programs with grants and contributions of \$33.8 million.
- Most of the District's costs \$106.3 million, however, were paid for by District taxpayers and the taxpayers of California. This portion of governmental activities was paid for with property taxes, unrestricted state aid based on the statewide education aid formula, and with investment earnings.

Table A-3
Net Costs of Santa Monica-Malibu Unified School District's
Governmental Activities (in millions)

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instructional services	\$ 97.1	\$ 70.0
Pupil support services	12.8	3.4
Maintenance & operations	14.2	13.0
Administration	8.0	7.2
Other expenses	13.4	12.7
Total expenses	<u>\$ 145.5</u>	<u>\$ 106.3</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$94.5 million, which is below last year's restated ending fund balance of \$115.5 million. The District's General Fund had more revenues than expenditures in 2008-09 by \$0.8 million.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. While the District's final budget for the General Fund anticipated expenditures would exceed revenues by \$9.4 million, the actual results for the year show that revenues exceeded expenditures and other outgo by \$0.8 million. Actual revenues were \$3.1 million more than anticipated, and expenditures were \$7.2 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2009 that will be carried over into the 2009-10 budget; including federal stimulus funds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As shown in Table A-4, by the end of 2008-09 the District had invested over \$251.9 million in capital assets. (More detailed information about the District's capital assets is presented in Note 5 to the financial statements.)

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

	(in millions)		Total Percentage
	Governmental Activities		Change
	2008	2009	2008-09
Land	\$ 6.6	\$ 6.6	0%
Buildings and improvements	204.8	205.3	0%
Furniture and equipment	10.8	11.1	3%
Construction in progress	5.5	28.9	425%
Total	\$ 227.7	\$ 251.9	11%

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$164.9 million in general obligation bonds, certificates of participation, capital leases and compensated absences – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements.)

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

	(in millions)		Total
	Governmental Activities		Percentage Change
	2008	2009	2008-09
General obligation bonds	\$ 154.6	\$ 143.3	-7%
Certificates of participation	19.1	18.9	-1%
Compensated absences	0.6	1.0	67%
Other postemployment benefits	-	1.7	100%
Total	<u>\$ 174.3</u>	<u>\$ 164.9</u>	-5%

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FUTURE

Unlike most years, California began the 2009-10 fiscal year with a budget already in place. On February 20, 2009, Governor Schwarzenegger signed a spending plan aimed at addressing the State's worsening budget crisis. However, after the signing of the budget, the fiscal outlook began to worsen. The Governor and Legislature began working to close the budget gap.

On July 28, Governor Schwarzenegger signed a package of bills aimed at closing the state's \$23.241 billion budget shortfall. The package of bills includes a total of \$24.159 billion in "solutions" - \$16.125 billion in spending cuts; \$3.492 billion in revenues and revenue accelerations; \$2.182 billion in borrowing, including \$1.935 billion from local government property tax revenues; \$1.005 billion in fund shifts; and \$1.355 billion in other "solutions", including one-time savings from deferring the payment of state employees' final paycheck for the 2009-10 fiscal year until July 1, 2010.

K-12 Education Budget Agreement:

- Reduces 2008-09 funding for categorical programs by \$1.6 billion compared to the funding level provided by the February budget agreement.
- Reduces 2009-10 revenue limit payments by \$4.0 billion compared to the 2009-10 Budget enacted in February and adjusts the revenue limit deficit factor to 18.4 percent for school districts and 18.6 percent for county offices of education.
- Defers \$1.7 billion of school districts' revenue limit payments from 2009-10 to 2010-11.
- Counts \$402 million in 2009-10 funding for the Quality Education Investment Act (QEIA) toward the Proposition 98 minimum funding guarantee to produce an equal amount of General Fund savings. Historically, QEIA dollars provided funds to school districts with the lowest academic achievement and did not count toward the Proposition 98 guarantee. The budget agreement extends the QEIA program by one year, to 2014-15.
- Provides \$496 million in 2009-10 Proposition 98 funding for home-to-school transportation – a reduction of approximately 20 percent from the \$618.7 million provided for the program in 2008-09.
- Reduces 2009-10 funding by \$80 million for Basic Aid school districts' categorical programs to provide a proportionate reduction to non-Basic Aid districts' revenue limit reductions.
- Allows school districts to reduce the school year by up to five instructional days through 2012-13 without losing incentive grants.
- Suspends the requirement that school districts purchase newly adopted instructional materials through 2012-13.
- Allows school districts to sell surplus property and use the proceeds for General Fund purposes through 2011.
- Suspends the High School Exit Exam graduation requirement for students with disabilities beginning in 2009-10. The suspension would last until the State Board of Education authorizes an alternative exam for disabled students.

The Governor's line item vetoes include a \$3.9 million cut to student transportation at State Special Schools, which the Governor states is duplicative because federal special education funds are available for this purpose.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Federal Funding (ARRA)

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA aims to boost the economy through a \$787 billion package of spending and tax measures. Nationally, more than \$100 billion is dedicated to education. California's schools, colleges, and universities can expect to receive approximately \$11.0 billion over three years that can be used to mitigate the impact of state budget reductions and address specified policy goals.

The largest share of the ARRA's education dollars comes from an allocation called the State Fiscal Stabilization Fund, which aims to help states balance their budgets and mitigate the impact of cuts. Other ARRA funds targeting education include support for special education, schools that serve disproportionate numbers of students from disadvantaged backgrounds, school technology, statewide data systems, and teacher improvement programs.

The new State Fiscal Stabilization Fund (SFSF), aimed at helping to stabilize state budgets and mitigate the impact of budget cuts, is the largest pot of ARRA funding focused on education.

The California Department of Education (CDE) recently reported that California's schools received preliminary payments totaling \$2.5 billion from the state's initial Education Stabilization Fund (ESF) allocation. These payments were based on the reductions made to each school district's 2008-09 general-purpose and categorical funds as part of the February budget agreement. K-12 school districts received \$1.6 billion to backfill reductions made to their 2008-09 general-purpose funds and \$887.5 million to backfill reductions made to their 2008-09 categorical funding.

While California cannot use ESF dollars to replace state spending required by the Proposition 98 guarantee, ESF dollars *can* be used to mitigate the impact of the significant state spending reductions enacted as part of current efforts to balance the budget. Local schools can use ESF dollars to help pay for any activity authorized under the Elementary and Secondary Education Act, the Individuals With Disabilities Education Act (IDEA), the Adult Education and Family Literacy Act, and/or the Carl D. Perkins Career and Technical Education Act.

The ARRA significantly increases funding for the primary federal program aimed at improving the education of disadvantaged students, including students from low-income families and English language learners. The federal Title I program aims to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education. California is slated to receive \$1.5 billion in additional Title I dollars under the ARRA, a significant boost in federal support.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Federal Funding (ARRA) (continued)

The ARRA also significantly increases federal support for the IDEA, also referred to as special education, with the goal of helping to ensure that students with disabilities receive an appropriate education. The CDE estimates that California's schools will receive \$1.3 billion in additional special education support from the ARRA - \$1.2 billion for K-12 education and \$41 million for pre-school programs. California received half of its ARRA IDEA dollars in April and will receive the second half by the end of September upon approval of a report the state must submit to the Department of Education (DOE).

The ARRA provides a significant level of funding to support California's schools, which will help mitigate the impact of state spending cuts. While the ARRA limits the extent to which ARRA's education dollars can be used to help close the state's budget shortfall, the Legislature may choose to use some ARRA dollars for this purpose. To receive additional ARRA dollars, however, California must submit reports to the DOE that include information regarding how the state and local schools use their ARRA allocations. These reports are designed to promote transparency and accountability at the local, state, and federal levels and will be reviewed by the DOE to determine whether California receives additional ARRA dollars.

Other Factors

Enrollment

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the Santa Monica-Malibu Unified School District budget for the 2009-10 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Financial Section

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2009

	Total Governmental Activities
ASSETS	
Current Assets:	
Cash	\$ 99,199,893
Accounts receivable	12,708,692
Inventories	66,562
Prepaid expenses	679,405
Total current assets	<u>112,654,552</u>
Capital assets:	
Land	6,588,760
Building and improvements	205,298,220
Furniture and equipment	11,075,445
Construction in progress	28,963,873
Less accumulated depreciation	(75,056,034)
Total capital assets, net of depreciation	<u>176,870,264</u>
Total assets	<u>289,524,816</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	16,952,638
Deferred revenue	1,181,861
Portion of long-term liabilities due within one year	12,837,233
Total current liabilities	<u>30,971,732</u>
Long-term liabilities	<u>152,090,599</u>
Total liabilities	<u>183,062,331</u>
NET ASSETS	
Invested in capital assets, net of related debt	67,467,136
Restricted for:	
Capital projects	9,860,687
Debt service	1,249
Educational programs	7,312,173
Unrestricted	<u>21,821,240</u>
Total net assets	<u>\$ 106,462,485</u>

The notes to financial statements are an integral part of this statement.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Instructional Services:					
Instruction	\$ 80,024,531	\$ 1,475,838	\$ 20,890,920	\$ 943,945	\$ (56,713,828)
Instruction-Related Services:					
Supervision of instruction	5,619,326	151,274	2,352,952	-	(3,115,100)
Instructional library, media and technology	1,271,415	1,360	32,518	-	(1,237,537)
School site administration	10,171,221	207,978	1,059,607	-	(8,903,636)
Pupil Support Services:					
Home-to-school transportation	1,841,240	138,399	981,205	-	(721,636)
Food services	3,735,286	2,077,718	1,656,250	-	(1,318)
All other pupil services	7,250,684	2,681	4,589,893	-	(2,658,110)
General Administration Services:					
Data processing services	812,293	-	-	-	(812,293)
Other general administration	7,180,896	160,354	597,432	-	(6,423,110)
Plant services	14,223,606	151,246	1,073,342	-	(12,999,018)
Ancillary services	811,984	50,929	175,709	-	(585,346)
Community services	590,911	107,922	372,338	-	(110,651)
Interest on long-term debt	7,424,531	-	-	-	(7,424,531)
Other outgo	(154,174)	-	-	-	154,174
Depreciation (unallocated)	4,770,722	-	-	-	(4,770,722)
Total Governmental Activities	\$ 145,574,472	\$ 4,525,699	\$ 33,782,166	\$ 943,945	(106,322,662)
General Revenues:					
Taxes:					
Property taxes, levied for general purposes					46,318,410
Property taxes, levied for debt service					16,640,426
Property taxes, levied for other specific purposes					12,057,258
Federal and state aid not restricted to specific purpose					23,133,745
Interest and investment earnings					2,365,876
Miscellaneous					14,667,057
					<u>115,182,772</u>
					<u>8,860,110</u>
Net assets- July 1, 2008, originally stated					99,355,454
Adjustments for restatement (see Note 13)					(1,753,079)
Net assets - July 1, 2008, restated					<u>97,602,375</u>
Net assets - June 30, 2009					<u>\$ 106,462,485</u>

The notes to financial statements are an integral part of this statement.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2009

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 31,561,283	\$ 42,038,167	\$ 15,773,127	\$ 9,827,316	\$ 99,199,893
Accounts receivable	9,748,076	1,625,163	-	1,335,453	12,708,692
Due from other funds	-	2,000,000	-	5,095,837	7,095,837
Inventories	18,761	-	-	47,801	66,562
Prepaid expenditures	39,102	-	-	9,010	48,112
Total Assets	<u>\$ 41,367,222</u>	<u>\$ 45,663,330</u>	<u>\$ 15,773,127</u>	<u>\$ 16,315,417</u>	<u>\$ 119,119,096</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 10,364,135	\$ 4,803,331	\$ -	\$ 1,150,856	\$ 16,318,322
Due to other funds	2,028,373	5,067,464	-	-	7,095,837
Deferred revenue	1,090,100	-	-	91,761	1,181,861
Total Liabilities	<u>13,482,608</u>	<u>9,870,795</u>	<u>-</u>	<u>1,242,617</u>	<u>24,596,020</u>
Fund Balances					
Reserved for:					
Inventories	18,761	-	-	47,801	66,562
Revolving cash	20,000	-	-	-	20,000
Debt service	-	-	15,773,127	1,249	15,774,376
Prepaid expenditures	39,102	-	-	9,010	48,112
Categorical programs	-	-	-	-	-
Unreserved; reported in:					
General fund	27,806,751	-	-	-	27,806,751
Capital project funds	-	35,792,535	-	9,860,687	45,653,222
Other funds	-	-	-	5,154,053	5,154,053
Total Fund Balances	<u>27,884,614</u>	<u>35,792,535</u>	<u>15,773,127</u>	<u>15,072,800</u>	<u>94,523,076</u>
Total Liabilities and Fund Balances	<u>\$ 41,367,222</u>	<u>\$ 45,663,330</u>	<u>\$ 15,773,127</u>	<u>\$ 16,315,417</u>	<u>\$ 119,119,096</u>

The notes to financial statements are an integral part of this statement.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2009

Total fund balances - governmental funds \$ 94,523,076

Amounts reported for governmental *activities* in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$251,926,298 and the accumulated depreciation is (\$75,056,034). 176,870,264

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 unmatured interest owing at the end of the period was: (634,316)

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are: 631,293

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

General obligation bonds payable	\$ 143,311,085	
Certificates of participation payable	18,858,660	
Net OPEB liability	1,710,762	
Compensated absences payable	1,047,325	
		(164,927,832)

Total net assets - governmental activities \$ 106,462,485

The notes to financial statements are an integral part of this statement.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2009

REVENUES	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
General Revenues:					
Property taxes	\$ 56,741,041	\$ -	\$ 16,727,482	\$ 1,547,571	\$ 75,016,094
Federal and state aid not restricted to specific purpose	23,133,745	-	-	-	23,133,745
Earnings on investments	730,941	1,456,852	328,389	296,895	2,813,077
Interagency revenues	-	-	-	-	-
Miscellaneous	12,154,465	72,034	-	1,993,356	14,219,855
Program Revenues:					
Charges for services	1,662,568	-	-	2,863,132	4,525,700
Operating grants and contributions	24,371,240	1,596,847	-	7,814,079	33,782,166
Capital grants and contributions	-	-	-	943,945	943,945
Total Revenues	118,794,000	3,125,733	17,055,871	15,458,978	154,434,582
EXPENDITURES					
Instructional Services:					
Instruction	74,291,072	-	-	5,822,521	80,113,593
Instruction-Related Services:					
Supervision of instruction	4,739,032	-	-	637,412	5,376,444
Instructional library, media and technology	1,271,415	-	-	-	1,271,415
School site administration	8,977,711	-	-	909,712	9,887,423
Pupil Support Services:					
Home-to-school transportation	1,593,529	-	-	-	1,593,529
Food services	-	-	-	3,519,564	3,519,564
All other pupil services	6,815,534	-	-	135,150	6,950,684
General Administration Services:					
Data processing services	812,293	-	-	-	812,293
Other general administration	6,023,242	-	-	529,465	6,552,707
Plant services	11,811,656	399,178	-	2,119,558	14,330,392
Facility acquisition and construction	164,920	22,727,895	-	1,105,484	23,998,299
Ancillary services	837,101	-	-	-	837,101
Community services	582,055	-	-	27,082	609,137
Other outgo:					
Debt service - issuance costs	-	13,220	-	-	13,220
Debt service - principal	-	-	13,015,000	530,000	13,545,000
Debt service - interest	-	-	5,351,860	615,342	5,967,202
Total Expenditures	117,919,560	23,140,293	18,366,860	15,951,290	175,378,003
Excess (Deficiency) of Revenues Over (Under) Expenditures	874,440	(20,014,560)	(1,310,989)	(492,312)	(20,943,421)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	300,000	-	75,000	375,000
Interfund transfers out	(75,000)	-	-	(300,000)	(375,000)
Total Other Financing Sources and Uses	(75,000)	300,000	-	(225,000)	-
Net Change in Fund Balances	799,440	(19,714,560)	(1,310,989)	(717,312)	(20,943,421)
Fund Balances, July 1, 2008, as originally stated	28,085,174	58,507,095	17,084,116	11,790,112	115,466,497
Adjustments for Restatement	(1,000,000)	(3,000,000)	-	4,000,000	-
Fund Balances, July 1, 2008, as restated	27,085,174	55,507,095	17,084,116	15,790,112	115,466,497
Fund Balances, June 30, 2009	\$ 27,884,614	\$ 35,792,535	\$ 15,773,127	\$ 15,072,800	\$ 94,523,076

The notes to financial statements are an integral part of this statement.

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 Fiscal Year Ended June 30, 2009

Total net change in fund balances - governmental funds \$ (20,943,421)

Amounts reported for governmental *activities* in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

	\$	24,459,125	
Expenditures for capital outlay			
Depreciation expense		(4,770,722)	19,688,403

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 reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 13,545,000

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

	\$	13,220	
Issue costs incurred during the period			
Issue costs amortized for the period		(27,033)	(13,813)

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as Other Financing Source or Other Financing Use in the period it is incurred. In the government-wide statements the premium or discount is amortized as interest over the life of the debt. Amortization for premium or discount for the period is: 181,207

In governmental funds, postretirement benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postretirement benefits costs are recognized in the period that they are incurred. The increase in the net OPEB asset at the end of the period was: (1,710,762)

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 that 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: 799,102

In governmental funds, accreted interest on capital appreciation bonds and COPs is not recorded as an expenditure from current resources. In the government-wide statements of activities, however, this is recorded as interest expense for the period. (2,256,431)

In the statement of activities, compensated absences are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid* .) (429,175)

Change in net assets of governmental activities \$ 8,860,110

The notes to financial statements are an integral part of this statement.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2009

	Agency Funds		Total
	Student Body Funds	Payroll Clearing Fund	
Assets			
Cash	\$ 503,555	\$ 375,742	\$ 879,297
Accounts receivable	24,534	-	24,534
Stores inventory	40,434	-	40,434
Prepays	35,512	-	35,512
Total Assets	\$ 604,035	\$ 375,742	\$ 979,777
Liabilities			
Accounts payable	\$ 47,063	\$ 375,742	\$ 422,805
Due to student groups	556,981	-	556,981
Total Liabilities	\$ 604,044	\$ 375,742	\$ 979,786

The notes to financial statements are an integral part of this statement.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

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. 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 fund, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

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. Based on those criteria, the District has determined that there are no potential component units that should be included in the District's financial reporting entity.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting

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

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collected within the current period or within 60 days after year-end.

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.

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
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

E. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into three major, non-major, and fiduciary funds, as follows:

Major Governmental Funds:

- The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
- The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.
- The *Bond Interest and Redemption Fund* is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Non-major Governmental Funds:

- **Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains six non-major special revenue funds:
 1. The *Adult Education Fund* is used to account for resources committed to adult education programs maintained by the District.
 2. The *Child Development Fund* is used to account for resources committed to child development programs maintained by the District.
 3. The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.
 4. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.
 5. *Foundation Special Reserve Fund* is used to account for resources received from gifts or bequests under which both earnings and principal may be used for purposes that support the District's programs.
 6. The *Special Reserve for Other Postemployment Benefits Fund* is used to accumulate resources for the future payment of retiree health benefits.

- **Capital Projects Funds** are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains three non-major capital project funds:
 1. The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
 2. The *Special Reserve for Capital Projects Fund* is used to account for funds set aside for capital outlay projects and financial activity for certificates of participation.
 3. The *County School Facilities Fund* is used to account for state apportionments provided for modernization of school facilities under SB50.

- **Debt Service Funds** are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains one debt service fund:
 1. The *Debt Service Fund* is used to account for the accumulation of resources for, and repayment of the District's COPs

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Fiduciary Funds:

- *Agency Funds* are used to account for assets of others for which the District acts as an agent. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District. The District also maintains an account to pay for the District's sponsored Internal Revenue Code (IRC) Section 125 cafeteria plan for employee benefits.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and the final revised budgets are presented for the General Fund in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

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

2. Stores Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

3. Deferred Revenue

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

4. Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB 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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
 Notes to Financial Statements
 June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

4. Capital Assets (continued)

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 useful lives:

<u>Description</u>	<u>Years</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	5-15 years
Vehicles	8 years

5. Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability on the government-wide statement of net assets as the benefits are earned. For governmental funds, unpaid compensated absences are recognized as a fund liability only upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are recorded as accounts payable 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.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

6. Long-Term Obligations (continued)

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Net Assets

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

I. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenue Limit/Property Tax (continued)

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

K. New GASB Pronouncements

During the 2008-09 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 45 – In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement requires employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits.

GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations* was issued in November, 2006. This statement addresses standards for obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not expected to have any financial impact on the District.

GASB Statement No. 52 – *Land and Other Real Estate Held as Investments by Endowments* was issued in November, 2007. The statement establishes consistent standards for the reporting of land and other real estate held as investments by endowments and similar entities, such as pension and other postemployment benefit plans, external investment pools, and deferred compensation plans. It requires land and other real estate held to be reported at fair value. This statement is not expected to have any financial impact on the District.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

	Governmental Funds	Fiduciary Funds
Cash in county treasury	\$ 97,664,923	\$ -
Cash on hand and in banks	21,201	879,297
Cash with fiscal agent	1,493,769	-
Cash in revolving fund	20,000	-
Total Cash	<u>\$ 99,199,893</u>	<u>\$ 879,297</u>

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; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

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

Cash with Fiscal Agent- The District maintains required reserves for their Certificates of Participation with Wells Fargo Bank and Trust.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS (continued)

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 web site. The table below identifies some of the investment types permitted in the investment policy:

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

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

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 and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the Los Angeles County Investment Pool with a fair value of approximately \$97,664,923 and an amortized book value of \$97,217,719. The average weighted maturity for this pool is 495 days.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS (continued)

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 individual investments within the Los Angeles County Investment Pool are rated at least A by Moody's Investors Services.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2009, \$631,705 of the District's bank balance was exposed to custodial credit risk.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2009 consist of the following:

	<u>General Fund</u>	<u>Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>Fiduciary Funds</u>
Federal revenues	\$ 2,762,968	\$ -	\$ 431,265	\$ 3,194,233	\$ -
State revenues	5,033,768	-	406,004	5,439,772	-
Local revenues	1,951,340	1,625,163	498,184	4,074,687	24,534
Total accounts receivable	<u>\$ 9,748,076</u>	<u>\$ 1,625,163</u>	<u>\$ 1,335,453</u>	<u>\$ 12,708,692</u>	<u>\$ 24,534</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 4 - INTERFUND TRANSACTIONS

Interfund activity is reported as loans, services provided reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

A. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2008-09 fiscal year are as follows:

	<u>Transfers from Other Funds</u>		<u>Total</u>
	<u>Building Fund</u>	<u>Non-Major Governmental Funds</u>	
General Fund	\$ -	\$ 75,000	\$ 75,000
Other Governmental Funds	300,000	-	300,000
Total	<u>\$ 300,000</u>	<u>\$ 75,000</u>	<u>\$ 375,000</u>

Transfer from General Fund to Child Development Fund for cost of child care for the minimum school days.	\$ 75,000
Transfer from Capital Facilities Fund to Building Fund for the Boys and Girls Club at John Adams Middle School.	300,000
	<u>\$ 375,000</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 4 - INTERFUND TRANSACTIONS (continued)

B. Due from/ Due to Other Funds

Individual interfund receivable and payable balances as of June 30, 2009 are as follows:

	<u>Due to Other Funds</u>		<u>Total</u>
	<u>General Fund</u>	<u>Building Fund</u>	
Building Fund	\$ 2,000,000	\$ -	\$ 2,000,000
Other Governmental Funds	28,373	5,067,464	5,095,837
Total	<u>\$ 2,028,373</u>	<u>\$ 5,067,464</u>	<u>\$ 7,095,837</u>

Due from the General Fund to the Building Fund for the District's routine restricted maintenance program.	\$ 2,000,000
Due from the General Fund to the Capital Facilities Fund for reallocation of interest	28,373
Due from the Building Fund to the Capital Facilities Fund for reallocation of interest	67,464
Due from the Building Fund to the Capital Facilities Fund for developers fees to support Measure BB construction projects	5,000,000
	<u>\$ 7,095,837</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2009 is shown below:

	Beginning Balance July 1, 2008	Additions	Deletions	Ending Balance June 30, 2009
Land	\$ 6,588,760	\$ -	\$ -	\$ 6,588,760
Buildings and improvements	204,807,562	490,658	-	205,298,220
Furniture and equipment	10,834,500	473,758	232,813	11,075,445
Work in progress	5,469,164	23,593,788	99,079	28,963,873
Total at historical cost	227,699,986	24,558,204	331,892	251,926,298
Less accumulated depreciation:				
Buildings and improvements	61,591,785	4,369,646	-	65,961,431
Furniture and equipment	8,926,340	401,076	232,813	9,094,603
Total accumulated depreciation	70,518,125	4,770,722	232,813	75,056,034
Governmental activities capital assets, net	\$ 157,181,861	\$ 19,787,482	\$ 99,079	\$ 176,870,264

NOTE 6 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the fiscal year ended June 30, 2009 is shown below:

	Balance July 1, 2008, As Originally Stated	Audit Adjustment/ Restatement	Balance July 1, 2008, As Restated	Additions	Deductions	Balance June 30, 2009	Due within One Year
General obligations bonds	\$ 152,259,607	\$ -	\$ 152,259,607	\$ 1,927,351	\$ 13,015,000	\$ 141,171,958	\$ 12,185,000
Unamortized premium on issuance	2,320,334	-	2,320,334	-	181,207	2,139,127	97,233
Certificates of Participation	17,306,501	1,753,079	19,059,580	329,080	530,000	18,858,660	555,000
Compensated absences	618,150	-	618,150	429,175	-	1,047,325	-
Net OPEB Obligation	-	-	-	1,710,762	-	1,710,762	-
Totals	\$ 172,504,592	\$ 1,753,079	\$ 174,257,671	\$ 4,396,368	\$ 13,726,207	\$ 164,927,832	\$ 12,837,233

A. General Obligation Bond

Refunding Bonds of 1998

In August 1998 the Series 1998 bonds were issued for \$68,145,000 with interest rates ranging from 3.75 percent to 5.75 percent. The Series 1998 bonds were issued to refund the total outstanding principle amount of prior bond issues pursuant to the 1990 authorization. The bonds mature at various dates with the final maturity of August 1, 2018.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 6 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bond (continued)

Election of 1998

During the June 1998 election, the voters provided the District with the ability to issue \$42,000,000 in General Obligation Bonds. Series 1999 of these bonds were issued for \$38,000,034 in May 1999, \$15,825,000 in current interest serial bonds; and, \$22,175,034 in capital appreciations bonds, with interest rates ranging from 3.2% to 2.38%. The bonds mature at various dates with the final maturity of August 1, 2023.

Series 2001 of these bonds were issued for \$3,995,000 in June 2001 with interest rates ranging from 4.00 percent to 5.75 percent. The bonds mature at various dates with the final maturity of August 1, 2015. On March 7, 2006 the District issued \$3,285,000 in refunding bonds with interest rates ranging from 3.50 percent to 4.00 percent with a final maturity of August 1, 2025. Proceeds of this issue were used to refund a portion of the 2001 Series and have been deposited into an escrow account held in trust.

Election of 2006

On November 7, 2006, the voters approved Measure BB by fifty-five percent or more for the issuance and sale of \$268,000,000 in general obligation bonds. On October 16, 2007 the District issued Series A in the amount of \$60,000,000 with interest rates ranging from 4% to 5% and a final maturity date of August 1, 2032. The proceeds from the sale of the bonds will be used by the District to finance the construction, renovation, modernization and equipping of school facilities and to repay certain costs of issuance associated with the Bonds.

The outstanding bonded debt for Santa Monica-Malibu Unified School District at June 30, 2009 is:

Bond	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2008	Due within One Year
				Outstanding July 1, 2008	Addition	Redeemed		
Series 1998	8/1/2018	5.65% - 5.70%	\$ 68,145,000	\$ 44,305,000	\$ -	\$ 3,185,000	\$ 41,120,000	\$ 3,350,000
Series 1999	8/1/2023	5.15% - 5.50%	38,000,034	44,209,607	1,927,351	1,855,000	44,281,958	2,120,000
Series 2001	8/1/2025	4.00% - 5.75%	3,995,000	515,000	-	120,000	395,000	125,000
2006 Refunding	8/1/2025	3.50% - 4.00%	3,285,000	3,230,000	-	30,000	3,200,000	35,000
2006 Series A	8/1/2032	4.00%-5.00%	60,000,000	60,000,000	-	7,825,000	52,175,000	6,555,000
			<u>\$ 173,425,034</u>	<u>\$ 152,259,607</u>	<u>\$ 1,927,351</u>	<u>\$ 13,015,000</u>	<u>\$ 141,171,958</u>	<u>\$ 12,185,000</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 6 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bond (continued)

The annual requirements to amortized total general obligation bonds payable are as follows:

<u>Fiscal Year</u>	<u>Principal*</u>	<u>Interest</u>	<u>Total</u>
2009-2010	\$ 12,185,000	\$ 5,234,497	\$ 17,419,497
2010-2011	6,500,000	4,648,222	11,148,222
2011-2012	6,830,000	4,422,290	11,252,290
2012-2013	5,952,188	5,401,207	11,353,395
2013-2014	6,289,386	5,370,222	11,659,608
2014-2019	35,818,963	27,216,017	63,034,980
2019-2024	19,839,497	34,274,533	54,114,030
2024-2029	14,810,000	6,851,000	21,661,000
2029-2032	18,055,000	2,363,000	20,418,000
Total	<u>\$ 126,280,034</u>	<u>\$ 95,780,988</u>	<u>\$ 222,061,022</u>

* Excludes accreted interest of \$14,891,924 as of June 30, 2009

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 6 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation

The District has executed and delivered Certificates of Participate (COP's) to finance the acquisition of equipment, real property and improvements. The District has entered into agreements to sell and lease back the qualifying assets. Upon expiration of the lease period, title passes to the District. District lease payments comprise the revenue stream underlying the Certificates of Participation issued. On November 7, 2001 the District entered into an agreement with the Los Angeles County Regionalized Business Services Corporation to acquire interest in real property. Certificates (Series B and C) were issued for \$19,961,501. The debt bears interest rates ranging from 3.50% to 5.75%. The final debt payment is due May 1, 2025. The 1997 Series A issue was redeemed in full in prior years. COP's issued and outstanding at June 30, 2007 are as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	COP Outstanding			Redeemed	COP Outstanding June 30, 2009	Due within one year
				July 1, 2008, as restated	Addition				
11/1/2008	5/1/2025	3.5%-5.75%	\$ 19,961,501	\$ 19,059,580	\$ 329,080	\$ 530,000	\$ 18,858,660	\$ 555,000	

The future debt service requirements are as follows:

Fiscal Year	Principal*	Interest	Total
2009-10	\$ 555,000	\$ 594,325	\$ 1,149,325
2010-11	895,000	569,863	1,464,863
2011-12	935,000	531,573	1,466,573
2012-13	975,000	490,973	1,465,973
2013-14	1,020,000	446,560	1,466,560
2014-2019	6,754,183	2,195,351	8,949,534
2019-2024	4,723,350	6,410,810	11,134,160
2024-2025	918,968	1,398,431	2,317,399
Total	\$ 16,776,501	\$ 12,637,886	\$ 29,414,387

*Excludes accreted interest of \$1,809,159 as of June 30, 2009

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – JOINT VENTURES

The Santa Monica-Malibu Unified School District participates in three joint powers agreement (JPA) entities, the Alliance of Schools for Cooperative Insurance Programs (ASCIP), the Schools Excess Liability Fund (SELF) and the Schools Linked for Insurance Management (SLIM). The Santa Monica-Malibu Unified School District pays a premium commensurate with the level of coverage requested.

Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the Santa Monica-Malibu Unified School District beyond the District's representation on the governing boards.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA. The most currently available condensed financial information from each of the JPAs is shown below:

	Schools Excess Liability Fund (SELF) June 30, 2009	Alliance for Schools for Cooperative Insurance Programs (ASCIP) June 30, 2008	Schools Linked for Insurance Management (SLIM) June 30, 2008
Assets	\$ 209,217,000	\$ 215,712,557	\$ 30,702,061
Liabilities	161,555,000	130,986,429	27,655,333
Net Assets	<u>\$ 47,662,000</u>	<u>\$ 84,726,128</u>	<u>\$ 3,046,728</u>
Revenues	\$ 18,330,000	\$ 169,046,612	\$ 8,046,409
Expenses	27,701,000	160,805,930	13,463,485
Operating Income (Loss)	(9,371,000)	8,240,682	(5,417,076)
Non-Operating Income	8,315,000	11,619,191	1,915,362
Change in Net Assets	<u>\$ (1,056,000)</u>	<u>\$ 19,859,873</u>	<u>\$ (3,501,714)</u>

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District participates in a public entity risk pool, as described in Note 7, for claims in excess of insured amounts for workers' compensation and liability protection. The District purchases commercial insurance coverage for other types of risk. There have been no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 9 - EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes 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, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2008-09 was 9.428%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2008-09	\$ 2,046,627	100%
2007-08	\$ 1,928,264	100%
2006-07	\$ 1,756,471	100%

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 9 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2008-09 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2008-09	\$ 4,896,143	100%
2007-08	\$ 4,983,160	100%
2006-07	\$ 4,895,095	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of approximately \$2,680,712 to STRS (4.517% of salaries subject to STRS in 2008-09).

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 10 – MEASURE R PARCEL TAX

On February 5, 2008, the voters approved by 73% combining two existing parcel taxes, S and Y, into a single tax of \$346, adjusted annually for inflation and subject to annual audit and citizen oversight. The funds are to be used for non-capital expenditures, such as teacher salaries to reduce class size, books, materials, computers and other equipment for art, music, physical education and sports programs. No funds are to be used for administrator salaries.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Construction Commitments

As of June 30, 2009, the District had commitments with respect to unfinished capital projects of approximately \$35,184,933 to be paid from bond funds.

Litigation

According to the District's attorney, the District was engaged in legal proceedings during 2008-09 with regards to properties under eminent domain. Subsequent to June 30, 2009, the attorney's estimated the probable settlements at approximately \$3.6 million. Settlement agreements were reached in the amount of \$3,366,500.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

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

Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

	Retiree Benefits Fund
Retirees and beneficiaries receiving benefits	283
Active plan members	1,271
Total	<u>1,554</u>
Number of participating employers	1

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 receive over the age of 65 a lifetime monthly supplement of \$97 per month.

The District’s funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2008-09, the District contributed \$897,971.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution (ARC)	\$ 2,608,733
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>2,608,733</u>
Contributions made	<u>(897,971)</u>
Increase in net OPEB asset	1,710,762
Net OPEB obligation - July 1, 2008	-
Net OPEB obligation - June 30, 2009	<u><u>\$ 1,710,762</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008-09 are as follows:

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2009	\$ 2,608,733	34%	\$ 1,710,762

Funded Status and Funding Progress – OPEB Plans

As of July 1, 2007, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$21,221,071 million and the unfunded actuarial accrued liability (UAAL) was \$21,221,071 million.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress – OPEB Plans (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, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 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 designated 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.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2007
Actuarial Cost Method	Unit Credit Cost
Amortization Method	Level-dollar
Remaining Amortization Period	29
Actuarial Assumptions:	
Investment rate of return	2.5%
Discount rate	5.0%
Healthcare cost trend rate	8.0%

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 13 – ADJUSTMENTS FOR RESTATEMENT

The beginning net assets were restated as follows:

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>Net Assets</u>
Net Asset, as originally stated on July 1, 2008	\$ 28,085,174	\$ 58,507,095	\$ 1,523,139	\$ 99,355,454
Adjustments for restatement:				
To reclassify interfund transfers in as due to other funds that were related to Measure BB monies in the prior year.	(1,000,000)	(3,000,000)	-	-
To reclassify interfund transfers out as due from other funds that were related to Measure BB monies in the prior year.	-	-	4,000,000	-
To restate certificates of participation for accreted interest on capital appreciation bonds	-	-	-	(1,753,079)
Total Adjustment	<u>(1,000,000)</u>	<u>(3,000,000)</u>	<u>4,000,000</u>	<u>(1,753,079)</u>
Net Assets, as restated on July 1, 2008	<u>\$ 27,085,174</u>	<u>\$ 55,507,095</u>	<u>\$ 5,523,139</u>	<u>\$ 97,602,375</u>

NOTE 14 – FUND BALANCE

The following amounts were designated by the Board of Education for the purposes below:

	<u>General Fund</u>
Economic Uncertainties	\$ 5,712,221
Other Designations	<u>12,062,173</u>
Total	<u>\$ 17,774,394</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 15 – SUBSEQUENT EVENTS

On July 28, 2009 Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009. The July budget package reduced, on a state-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amount associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

The District recorded the revenue and related receivable associated with its portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package prior to notification by the State that the 2009-10 re-appropriation should not be accrued. No adjustment has been made to reduce revenue and the related receivable in the financial statements as of June 30, 2009 because the amount of the District's portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package is not deemed to be material to the District's financial statements.

Required Supplementary Information

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with
	Original	Final		Final Budget - Pos (Neg)
Revenues				
Revenue limit sources	\$ 65,779,658	\$ 63,943,268	\$ 63,990,441	\$ 47,173
Federal	4,147,946	4,889,024	8,588,201	3,699,177
Other state	10,861,795	11,023,197	11,057,126	33,929
Other local	30,456,808	35,868,538	35,158,232	(710,306)
Total Revenues	111,246,207	115,724,027	118,794,000	3,069,973
Expenditures				
Certificated salaries	57,823,973	58,683,975	57,861,556	822,419
Classified salaries	19,800,004	21,123,062	20,666,772	456,290
Employee benefits	22,088,411	22,286,314	21,787,101	499,213
Books and supplies	3,604,537	7,350,789	4,099,912	3,250,877
Services and other operating expenditures	11,431,859	15,539,472	13,490,300	2,049,172
Capital outlay	107,568	706,383	536,335	170,048
Direct support/indirect costs	(581,883)	(573,885)	(522,416)	(51,469)
Other outgo	6,800	6,800	-	6,800
Total Expenditures	114,281,269	125,122,910	117,919,560	7,203,350
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,035,062)	(9,398,883)	874,440	10,273,323
Other Financing Sources and Uses				
Other financing sources	-	1,000,000	-	(1,000,000)
Interfund transfers in	1,000,000	-	-	-
Interfund transfers out	(575,000)	(75,000)	(75,000)	-
Total Other Financing Sources and Uses	425,000	925,000	(75,000)	(1,000,000)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,610,062)	(8,473,883)	799,440	9,273,323
Fund Balances, July 1, 2008, as originally stated	28,085,174	28,085,174	28,085,174	-
Adjustments for restatement	-	-	(1,000,000)	(1,000,000)
Fund Balances, July 1, 2008, as restated	28,085,174	28,085,174	27,085,174	(1,000,000)
Fund Balances, June 30, 2009	\$ 25,475,112	\$ 19,611,291	\$ 27,884,614	\$ 8,273,323

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2009

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	\$ -	\$ 21,221,071	\$ 21,221,071	0%	not available	N/A

Supplementary Information Section

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2009

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

GOVERNING BOARD

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Ralph Mechur	President	2010
Barry Snell	Vice President	2010
Maria Leon-Vazquez	Member	2012
Oscar del la Torre	Member	2010
Kelly Pye	Member	2010
Jose Escarce	Member	2012
Ben Allen	Member	2012

DISTRICT ADMINISTRATORS

Tim Cuneo
Superintendent

Dr. Michael Matthews
Assistant Superintendent, Human Resources

Jan Maez
Assistant Superintendent, Business and Fiscal Services/Chief Financial Officer

Dr. Chiung-Sally Chou
Chief Academic Officer

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Combining Balance Sheet – Non-Major Governmental Funds
June 30, 2009

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Foundation Special Revenue Fund	Special Reserve Fund for Postemployment Benefits	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS											
Cash	\$ 214,096	\$ 13,157	\$ 454,260	\$ 2,998,348	\$ 341	\$ 1,713,356	\$ 655,404	\$ -	\$ 3,777,111	\$ 1,243	\$ 9,827,316
Accounts receivable	88,198	757,595	126,296	15,084	-	8,959	325,435	-	13,880	6	1,335,453
Due from other funds	-	-	-	-	-	-	5,095,837	-	-	-	5,095,837
Inventories	-	-	47,801	-	-	-	-	-	-	-	47,801
Prepaid expenses	-	9,010	-	-	-	-	-	-	-	-	9,010
Total Assets	<u>\$ 302,294</u>	<u>\$ 779,762</u>	<u>\$ 628,357</u>	<u>\$ 3,013,432</u>	<u>\$ 341</u>	<u>\$ 1,722,315</u>	<u>\$ 6,076,676</u>	<u>\$ -</u>	<u>\$ 3,790,991</u>	<u>\$ 1,249</u>	<u>\$ 16,315,417</u>
LIABILITIES AND FUND BALANCES											
LIABILITIES											
Accounts payable	\$ 28,372	\$ 617,143	\$ 208,913	\$ 289,110	\$ 338	\$ -	\$ 6,876	\$ -	\$ 104	\$ -	\$ 1,150,856
Deferred revenue	-	91,761	-	-	-	-	-	-	-	-	91,761
Total Liabilities	<u>28,372</u>	<u>708,904</u>	<u>208,913</u>	<u>289,110</u>	<u>338</u>	<u>-</u>	<u>6,876</u>	<u>-</u>	<u>104</u>	<u>-</u>	<u>1,242,617</u>
Fund Balances											
Reserved for:											
Prepaid expenditures	-	9,010	-	-	-	-	-	-	-	-	9,010
Inventories	-	-	47,801	-	-	-	-	-	-	-	47,801
Debt service	-	-	-	-	-	-	-	-	-	1,249	1,249
Unreserved:											
Capital projects funds	-	-	-	-	-	-	6,069,800	-	3,790,887	-	9,860,687
Special revenue funds	273,922	61,848	371,643	2,724,322	3	1,722,315	-	-	-	-	5,154,053
Total Fund Balances	<u>273,922</u>	<u>70,858</u>	<u>419,444</u>	<u>2,724,322</u>	<u>3</u>	<u>1,722,315</u>	<u>6,069,800</u>	<u>-</u>	<u>3,790,887</u>	<u>1,249</u>	<u>15,072,800</u>
Total Liabilities and Fund Balances	<u>\$ 302,294</u>	<u>\$ 779,762</u>	<u>\$ 628,357</u>	<u>\$ 3,013,432</u>	<u>\$ 341</u>	<u>\$ 1,722,315</u>	<u>\$ 6,076,676</u>	<u>\$ -</u>	<u>\$ 3,790,991</u>	<u>\$ 1,249</u>	<u>\$ 16,315,417</u>

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Combining Statement of Revenues, Expenses, and Changes in Fund Balances – Non-Major Governmental Funds
For the Fiscal Year Ended June 30, 2009

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Foundation Special Revenue Fund	Special Reserve Fund for Postemployment Benefits	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES											
General Revenues:											
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,547,571	\$ -	\$ 1,547,571
Earnings on investments	980	60	14,112	13,729	2,244	50,238	137,993	-	77,503	36	296,895
Miscellaneous	-	1,066,328	72,596	-	-	-	854,432	-	-	-	1,993,356
Program Revenues:											
Charges for services	25,145	1,124,432	1,713,555	-	-	-	-	-	-	-	2,863,132
Operating grants and contributions	526,523	5,650,421	1,252,372	488,750	(103,987)	-	-	-	-	-	7,814,079
Capital grants and contributions	-	-	-	-	-	-	-	943,945	-	-	943,945
Total Revenues	552,648	7,841,241	3,052,635	502,479	(101,743)	50,238	992,425	943,945	1,625,074	36	15,458,978
EXPENDITURES											
Instructional Services:											
Instruction	308,821	5,501,734	-	-	11,966	-	-	-	-	-	5,822,521
Supervision of instruction	-	637,412	-	-	-	-	-	-	-	-	637,412
School site administration	193,864	715,848	-	-	-	-	-	-	-	-	909,712
Pupil Support Services:											
Food services	-	659,324	2,860,240	-	-	-	-	-	-	-	3,519,564
All other pupil services	-	135,150	-	-	-	-	-	-	-	-	135,150
General Administration Services:											
Other general administration	17,220	366,827	138,369	-	-	-	7,049	-	-	-	529,465
Plant services	45,460	138,588	10,105	1,856,831	-	-	-	-	68,574	-	2,119,558
Community services	-	27,082	-	-	-	-	-	-	-	-	27,082
Facility acquisition and construction	-	-	-	22,824	-	-	138,715	943,945	-	-	1,105,484
Other outgo:											
Debt service - principal	-	-	-	-	-	-	-	-	530,000	-	530,000
Debt service - interest	-	-	-	-	-	-	-	-	615,342	-	615,342
Total Expenditures	565,365	8,181,965	3,008,714	1,879,655	11,966	-	145,764	943,945	1,213,916	-	15,951,290
Excess (Deficiency) of Revenues Over (Under) Expenditures	(12,717)	(340,724)	43,921	(1,377,176)	(113,709)	50,238	846,661	-	411,158	36	(492,312)
OTHER FINANCING SOURCES (USES)											
Interfund transfers in	-	75,000	-	-	-	-	-	-	-	-	75,000
Interfund transfers out	-	-	-	-	-	-	(300,000)	-	-	-	(300,000)
Total Other Financing Sources and Uses	-	75,000	-	-	-	-	(300,000)	-	-	-	(225,000)
Net Change in Fund Balances	(12,717)	(265,724)	43,921	(1,377,176)	(113,709)	50,238	546,661	-	411,158	36	(717,312)
Fund Balances, July 1, 2008, as originally stated	286,639	336,582	375,523	4,101,498	113,712	1,672,077	1,523,139	-	3,379,729	1,213	11,790,112
Adjustments for Restatement	-	-	-	-	-	-	4,000,000	-	-	-	4,000,000
Fund Balances, July 1, 2008, as restated	286,639	336,582	375,523	4,101,498	113,712	1,672,077	5,523,139	-	3,379,729	1,213	15,790,112
Fund Balances, June 30, 2009	\$ 273,922	\$ 70,858	\$ 419,444	\$ 2,724,322	\$ 3	\$ 1,722,315	\$ 6,069,800	\$ -	\$ 3,790,887	\$ 1,249	\$ 15,072,800

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2009

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	768	769
Grades 1 through 6, regular classes	4,624	4,625
Grades 7 and 8, regular classes	1,688	1,685
Home and hospital	3	4
Opportunity schools	-	1
Special education	211	215
	<u>7,294</u>	<u>7,299</u>
Total Elementary		
Secondary:		
Grades 9 through 12, regular classes	3,489	3,468
Continuation education	88	89
Home and hospital	5	6
Opportunity schools	9	10
Special education	134	141
	<u>3,725</u>	<u>3,714</u>
Total Secondary		
Classes for Adults:		
Concurrently enrolled	1	-
Not concurrently enrolled	149	115
	<u>150</u>	<u>115</u>
Total Adult Classes		
Total Average Daily Attendance	<u><u>11,169</u></u>	<u><u>11,128</u></u>
	<u>Hours of Attendance</u>	
<u>Annual Supplemental Instruction Hours</u>		
Elementary	55,385	
High School	180,143	

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2009

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Requirement	2008-09 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	36,000	42,120	180	Complied
Grade 1	53,100	50,400	53,135	180	Complied
Grade 2	53,100	50,400	53,135	180	Complied
Grade 3	53,100	50,400	53,135	180	Complied
Grade 4	54,480	54,000	54,489	180	Complied
Grade 5	54,480	54,000	54,489	180	Complied
Grade 6	54,480	54,000	54,720	180	Complied
Grade 7	54,480	54,000	54,720	180	Complied
Grade 8	54,480	54,000	54,720	180	Complied
Grade 9	64,800	64,800	64,890	180	Complied
Grade 10	64,800	64,800	64,890	180	Complied
Grade 11	64,800	64,800	64,890	180	Complied
Grade 12	64,800	64,800	64,890	180	Complied

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2009

General Fund	(Budget) 2010***	2009	2008	2007
Revenues and other financing sources	\$ 108,696,657	\$ 118,794,000	\$ 121,722,332	\$ 123,093,883
Expenditures	117,200,804	117,919,560	115,722,489	115,134,973
Other uses and transfers out	75,000	75,000	1,348,561	575,000
Total outgo	<u>117,275,804</u>	<u>117,994,560</u>	<u>117,071,050</u>	<u>115,709,973</u>
Change in fund balance (deficit)	<u>(8,579,147)</u>	<u>799,440</u>	<u>4,651,282</u>	<u>7,383,910</u>
Ending fund balance	<u>\$ 19,305,467</u>	<u>\$ 27,884,614</u>	<u>\$ 28,085,174</u>	<u>\$ 23,433,892</u>
Available reserves*	<u>\$ 3,518,274</u>	<u>\$ 17,628,526</u>	<u>\$ 20,430,607</u>	<u>\$ 18,698,302</u>
Available reserves as a percentage of total outgo	<u>3.0%</u>	<u>14.9%</u>	<u>17.5%</u>	<u>16.2%</u>
Total long-term debt	<u>\$ 152,090,599</u>	<u>\$ 164,927,832</u>	<u>\$ 170,184,258</u>	<u>\$ 106,823,088</u>
Average daily attendance at P-2**	<u>11,026</u>	<u>11,019</u>	<u>11,084</u>	<u>11,358</u>

The General Fund balance has increased by \$4,450,722 over the past two years. The fiscal year 2009-10 adopted budget projects a decrease of \$8,579,147. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo). Long-term debt has increased \$58,104,744 over the past two years.

* Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund or Special Reserve Fund (Other than Capital Outlay).

** Excludes Adult Education ADA.

*** Revised Final Budget September 2009.

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
National School Lunch and Breakfast Program	10.555	13396	\$ 923,245
Especially Needy Breakfast	10.553	13526	177,571
USDA Commodities	10.550	N/A	130,993
Fresh Fruit and Vegetable Program	10.582	14968	66,654
Child Nutrition: Child Care Food Program	10.558	13393	236,850
Total U.S. Department of Agriculture			1,535,313
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
NCLB: No Child Left Behind Act			
Title I, Part A, Basic Low-Income and Neglected	84.010	14329	930,019
Title II, Part A, Teacher Quality	84.367	14341	420,614
Title II, Part D, Enhancing Education Through Technology, Formula Grants	84.318	14334	14,597
Title II, Part D, Enhancing Education Through Technology, Competitive Grants	84.318	14368	71,165
Title III, Limited English Proficiency (LEP) Student Program	84.365	10084	168,282
Title IV, Part A, Drug-Free Schools	84.186	14347	33,911
Title V, Part A, Innovative Education Strategies	84.298A	13340	12,045
Adult Education: Adult Basic Education & ESL	84.002A	14508	65,465
Adult Education: Adult Secondary Education	84.002A	13978	9,855
Adult Education: English Literacy & Civics Education	84.002A	14109	60,329
Department of Rehab: Workability II, Transition Partnership	84.158	10006	137,947
Vocational Programs: Voc & Appl Tech Secondary II C	84.048	13924	420
Passed through Los Angeles County Superintendent of Schools			
Individuals with Disabilities Education Act (IDEA):			
Special Ed: IDEA- Basic Local Assistance Entitlement, Part B	84.027	13379	2,074,188
ARRA - Basic Local Assistance, Part B, Recovery Act	84.391	15003	1,200,000
Special Ed: IDEA Preschool Grants, Part B	84.173	13430	79,130
Special Ed: IDEA Preschool Staff Development	84.173	13431	870
Special Ed: IDEA- Early Intervention Grants, Part C	84.181	23761	29,772
Special Ed: IDEA Preschool Local Entitlement, Part B	84.027	13682	128,682
Total U.S. Department of Education			5,437,291
U.S. Department of Health & Human Services:			
Passed through California Dept. of Education (CDE):			
Child Development: Quality Improvement Activities	93.575	14678	11,646
Child Development: Federal Child Care, Center Based	93.596	13609	154,810
Child Development: School-Age Child Care Resource Contracts	93.575	13941	2,173
Passed through Los Angeles County Superintendent of Schools			
Head Start	93.600	10016	1,549,335
Direct Payments			
Medi-Cal Administrative Activities	93.778	10060	200,370
Total U.S. Department of Health & Human Services			1,918,334
Total Expenditures of Federal Awards			\$ 8,890,938

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2009

	General Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Foundation Special Revenue Fund	Special Reserve for Postemployment Benefits	Building Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Debt Service Fund
June 30, 2009, annual financial and budget report (SACS) fund balances	\$ 29,768,562	\$ 272,942	\$ 70,799	\$ 417,461	\$ 2,710,593	\$ -	\$ 1,714,470	\$ 38,667,509	\$ 970,961	\$ 3,780,431	\$ 15,700,903	\$ 1,244
Adjustments and reclassifications:												
Increasing (decreasing) the fund balance:												
Adjustment to record cash at fair market value	144,425	980	59	1,983	13,729	3	7,845	192,490	3,002	10,456	72,224	5
Reallocation of interest earned	(28,373)							(67,464)	95,837			
Reclassification of interfund transfer in to due from other funds	-	-	-	-	-	-	-	2,000,000	5,000,000	-	-	-
Reclassification of interfund transfer out to due to other funds	(2,000,000)	-	-	-	-	-	-	(5,000,000)	-	-	-	-
Net adjustments and reclassifications	(1,883,948)	980	59	1,983	13,729	3	7,845	(2,874,974)	5,098,839	10,456	72,224	5
June 30, 2009, audited financial statement fund balances	<u>\$ 27,884,614</u>	<u>\$ 273,922</u>	<u>\$ 70,858</u>	<u>\$ 419,444</u>	<u>\$ 2,724,322</u>	<u>\$ 3</u>	<u>\$ 1,722,315</u>	<u>\$ 35,792,535</u>	<u>\$ 6,069,800</u>	<u>\$ 3,790,887</u>	<u>\$ 15,773,127</u>	<u>\$ 1,249</u>

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2009

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

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.

Schedule of Expenditures of Federal Awards

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

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

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 Unaudited Actual Financial Report to the audited financial statements.

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**

We have audited the financial statements of Santa Monica-Malibu Unified School District as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated December 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #2009-1 through #2009-6 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item #2009-5.

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

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



San Diego, California
December 2, 2009



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

Compliance

We have audited the compliance of Santa Monica-Malibu Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. Santa Monica-Malibu Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Santa Monica-Malibu Unified School District's management. Our responsibility is to express an opinion on Santa Monica-Malibu Unified School District's compliance based on our audit.

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

In our opinion, Santa Monica-Malibu Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009.

Internal Control Over Compliance

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

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

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

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

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



San Diego, California
December 2, 2009



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AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Santa Monica-Malibu Unified School District, as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated December 2, 2009. Our audit was made 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-2009*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the laws and regulations applicable to the following items:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Adult Education	9	Not applicable ¹
Regional Occupational Centers and Programs	6	Not applicable ¹
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	Not applicable
Morgan-Hart Class Size Reduction Program	7	Not applicable ¹

Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	12	1 ²
K-8 only	1	Not applicable ¹
Grades 9-12 only	1	Not applicable ¹
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not applicable ¹
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	4	Not applicable
Before School	5	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Not applicable

¹ This program is not required to be audited per flexibility provisions in SBx3 4.

² The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19828.3 procedures (b), (c), and (e) were not performed.

Based on our audit, we found that, for the items tested, the Santa Monica-Malibu Unified School District complied with the state laws and regulations referred to above, except as described in the accompanying schedule of findings and questioned costs as items #2009-4 through #2009-6. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Santa Monica-Malibu Unified School District had not complied with the state laws and regulations; except as described in the accompanying schedule of findings and questioned costs as items #2009-4 through #2009-6.

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

Rigo Rigo & White, PC

San Diego, California
December 2, 2009

Findings and Questioned Costs Section

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>Yes</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
84.027-84.391 IDEA Cluster	

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>Yes</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditor's report issued on compliance for state programs:	<u>Qualified</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding #2009-1: Adult Education Cash Receipts (30000)

Our audit included an evaluation of internal controls over cash receipting for the Adult Education program. Currently, cash collected is not being reconciled to the “Z” tape from the register and then matched to the bank deposit. This process is not happening at the site or District level, therefore there is a potential for loss or fraud to occur due to the lack of controls in place.

Recommendation: We recommend that the sites reconcile the cash collected to the “Z” tape report and then prepare the deposit. All items should be provided to the District for review and investigate any variances between the “Z” tape and the cash turned in.

District Response: The Administrative Assistant at Adult Education reconciles its daily cash receipts and sends them to the District Office with all the original “Z” tapes. The District recounts the money, reviews all the documents with the staff from Adult Education together to ensure all the cash receipts are recorded correctly then deposits them to the bank. This procedure has been implemented after the auditors visited the Adult Education in April 2009 and presented the District with the finding.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings (continued)

Finding #2009-2: Student Body Funds (30000)

Santa Monica High School

There were internal control deficiencies found in testing student body funds at Santa Monica High School. The sequence of cash receipts is not accounted for by the District or the bookkeeper and therefore adequate support is not provided for deposits to the District to verify that all amounts collected are deposited. Also, in testing cash receipts we found that 5 out of 7 items tested, totaling \$12,725.73; did not have supporting documentation (for events such as fundraisers and social events). Lack of adequate controls could result in loss, fraud, or abuse of student body funds.

John Adams Middle School

Cash collected for fundraising activities is not reconciled to supporting documentation. The bookkeeper issues pre-numbered receipts for the total cash turned in from the fundraising events, such as dances, but the cash is not reconciled to sub-receipts (receipts issued to individual students, ticket logs, etc.). We found 1 out of 3 receipts tested in the amount of \$814 did not have adequate documentation to support the cash turned in.

Recommendation: We recommend that supporting documentation is kept for all cash received and has a clear audit trail to a timely deposit at the site and District level. All expenditures should have adequate documentation and should be reviewed for reasonableness and appropriateness.

District Response: District will implement deposits log forms (detail and summary) on all money received. Each sports or clubs deposits will submit a detail log of information on what the monies were received for (example: items purchase, unit price, totals). At the end of the event, the sports coaches or club advisors will turn in their final Potential Revenue along with the deposit summary logs in order to reconcile the profit and loss of the activities or events.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings (continued)

Finding #2009-3: Site Attendance Staff Training (60000)

The attendance personnel at the sites had not received formal periodic training in regards to attendance accounting. We found many sites were not aware of proper procedures over attendance and the State regulation that is applicable. There is a potential for inaccuracy of attendance reporting. After our exit conference held with District management, the District organized a site attendance staff training session, subsequent to June 30, 2009.

Recommendation: We recommend that annual trainings be held for the attendance personnel, including site administrators, to train staff on proper attendance procedures.

District Response: The District conducted an Attendance Workshop on September 24, 2009 where attendance clerks and administrators responsible for site attendance were invited to attend. The District's audit firm presented information to those attending related to what an attendance accounting system requires, what all attendance personnel should know about attendance recordkeeping, how to calculate instructional time and why every minute counts. They gave suggestions about how to be in compliance and have a clean audit. The workshop ended with the District's Director of Information Services providing specific information related to district procedures. The responsibility of compliance to audit standards rests with the office of Pupil Services in Santa Monica Malibu Unified. That office is taking a strong leadership role in continuing the staff development begun in September. They have begun additional training sessions that will address specific issues and answering the question raised at the first workshop. Pupil Services is actively addressing the need for more standardization in our process by developing common forms and procedures that will also be shared in a future staff development workshop.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs in 2008-09.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding #2009-4: School Accountability Report Card (72000)

State Program: Compliance with Williams Act requirements.

Criteria: The availability of sufficient textbooks and other instructional materials as indicated in a school's annual School Accountability Report Card (SARC) should match the District's board resolution of textbook sufficiency, as per Education Code Section 33126(b)(6)(B).

School facilities conditions assessments as indicated in a school's annual School Accountability Report Card should match the information indicated in facility conditions evaluation instruments developed by the Office of Public School Construction and approved by the State Allocation Board, or local evaluation instruments that meet the same criteria, as per Education Code Section 33126(b)(8) and 17002. Auditors are required to verify compliance in Section 19837.1 of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies*.

Condition: We found that 2 out of 8 schools' SARCs, for the 2007-08 school year, tested did not report accurate data for insufficient textbooks. According to Board Resolution No. 08-08 Regarding Sufficient Textbooks, Franklin Elementary and Malibu High School were reported as having insufficient textbooks, which was not reported in the SARCs. We also found that 7 out of 8 SARCs tested did not have facility inspection documentation to support the facility conditions assessments reported in the SARCs.

Cause: The district was not aware of the reporting requirements for the School Accountability Report Card.

Questioned Cost: \$0

Effect: The 2007-08 School Accountability Report Cards for the schools tested reported inaccurate information.

Recommendation: We recommend that the SARCs accurately report the information from the board resolution for sufficient textbooks. Also, that the District completes a local evaluation instrument that meets the criteria for proper School Accountability Report Card reporting for each school in the District. The results of the local evaluation instrument should then be indicated on the respective year's School Accountability Report Card.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section IV – State Award Findings and Questioned Costs

Finding #2009-4: School Accountability Report Card (72000) (continued)

District Response: The District agrees that the information in the Board resolution of textbook sufficiency and the School Accountability Report Card (SARC) should match. Staff will verify that the information in the school SARCs match the action by the Board of Education as they prepare the SARC reports this year. The facility inspections have occurred at all sites and the appropriate documentation will be reflected in the SARC.

Finding #2009-5: Attendance Reporting (10000)

Criteria: Contemporaneous attendance records should be retained to support the attendance reported to the State. These records should be signed by the teacher to verify the accuracy of the records.

Condition: This is the first year that John Adams Middle School is using the web-based period attendance. In the beginning of the year, many teachers were taking attendance manually on a printed roster and then switched to the web-based system in October.

There are deficiencies in the attendance process at this school site dating back to the beginning of the year. Some of the teachers who were taking manual attendance at the beginning of the year did not transfer the information to the web system once they switched, therefore students may be inaccurately recorded as present rather than absent (auditor found 1 out of 5 tested to be this way). After switching to the web-based system, the teachers did not sign and certify that the attendance that is being reported is accurate to the best of their knowledge. The teachers are not signing in every day and taking attendance accurately. The attendance clerk prints a list every day of the teachers who have not yet logged-in and taken attendance however, there is no follow through by the Vice Principle or Principle to ensure that those persons log-in and take attendance.

The longer a teacher waits to enter attendance, the higher the risk for inaccuracies. Some teachers never go back and enter in their attendance at all. Substitute rosters are also not being retained. When there is a substitute teacher, they are given a printed attendance roster where they take manual attendance which is turned-in to the attendance clerk for manual entry however the attendance clerk then throws them away. Therefore there is no clear audit trail to verify the accuracy of the attendance records.

Although the reliability of the attendance records is questionable, subsequent to the audit, the District analyzed the enrollment to ADA relationship for the 2008-09 school year and compared this to the three previous years. The ADA reported for 2008-09 appears to be reasonable compared to previous years.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section IV – State Award Findings and Questioned Costs (continued)

Finding #2009-5: Attendance Reporting (10000) (continued)

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

Questioned Cost: 927.36 ADA * \$6,208.84= \$5,757,830, however, analytical procedures performed show that the ADA appears reasonable compared to the prior years' ADA reported in relation to the enrollment at the school.

Effect: Contemporaneous attendance records were not retained and the attendance reported is not verifiable.

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

District Response: By converting to the District's web based attendance system the controls used to assure accuracy at John Adams Middle School suffered during the 2008-09 fiscal year. Staff now understands that even with the electronic system in place it is necessary that teacher signatures are provided to and maintained by the attendance office at the site. There is a procedure now in place that teachers submit this paperwork on a regular basis. The electronic process also provides site administrators the tools to verify that every teacher has completed the attendance process in the system each day. That verification was not occurring during the 2008-09 fiscal year, but is now done on a daily basis.

When the control deficiencies were identified last spring the site reviewed all of the documentation available. After P2 had been reported, John Adams MS staff made corrections and adjustments to the attendance system. District submitted a P2 revision to the State in order to report the correct ADA for John Adams MS. The adjustments made resulted a 2.99 ADA reduction from the P2 report. The independent auditor re-visited the site and was satisfied that the new procedures if maintained would correct the issues identified. They were not able to completely verify the accuracy of attendance records for the last year.

District staff is monitoring compliance with new procedures on a regular basis.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section IV – State Award Findings and Questioned Costs (continued)

Finding #2009-6: Attendance Internal Controls (10000)

Criteria: Attendance records should be accurate and agree to attendance documentation signed by the teacher.

Condition: Through our audit of Olympic Continuation High School, we found that the attendance procedures were lacking internal controls to ensure manual data entry is accurately entered. We found that the attendance clerk was not reconciling the sign in sheets to the attendance system regularly. In our testing we found the attendance was overstated 12 hours when comparing the attendance system to the teachers' sign in sheets. The adjustment was made to the attendance system to correct the overstatement at the time of the audit, but there appears to be a weakness over internal controls of attendance reporting. Lack of internal controls over attendance reporting can lead to over/understatements of apportionment.

Cause: The attendance clerk does not reconcile the attendance reported to the source documentation retained.

Questioned Cost: \$0

Effect: Incorrect attendance reporting

Recommendation: We recommend that the attendance clerk reconcile the attendance system to the teachers' sign in sheets on a daily basis to ensure accuracy of attendance reporting. Documentation for any adjustments made to the attendance system that do not reconcile to the sign in sheets should be retained for audit purposes.

District Response: The District agrees with the auditor's recommendation that the attendance clerk should be reconciling the attendance system to the teacher' sign in sheets, that process began immediately when this deficiency was brought to Fiscal staff attention. Record of all changes will be maintained at the school site. District staff, with participation from Fiscal, Information Services and Pupil Services, has concentrated on bringing the processes used at Olympic High School for attendance into compliance with audit standards.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2009

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2008-1: Child Development Cash Receipts (30000)</i>	Our audit evaluated internal controls over cash receipting process in the child development program in which \$1.9 million in parent fees are collected annually. We found improvements could be made to account for all receipts issued and match the receipts to the amounts being deposited. Specifically, money is collected at the individual sites where the child development program is run. Each site is given a receipt book to issue receipts when money is collected. When all the receipts in the book are used, the receipt book is returned to the Child Development Center. However, the Center does not account for the sequence of the receipts issued and returned nor do they reconcile the receipts to amounts deposited. Therefore, there is a significant potential risk that fraud or errors in cash collected could occur and not be detected.	30000	We recommend that the sites use a three part receipt book and that one copy of the receipt be turned in with the cash collected. The Child Development Center should reconcile the amounts with bank statements as well as account for the sequence of receipts. Any variances should be investigated and receipt books should be turned in once they are used up.	Implemented
<i>Finding #2008-2: Cafeteria Meal Counts</i>	Weekly meal counts for the Continuation, Community Day, and Preschools are prepared manually and are being totaled and reported with some exceptions. In our one month sample, we found a net of 7 "free" days underreported and 5 "paid" days underreported. These exceptions were not significant for reporting as a federal compliance audit exception but there is an internal control issue that should be addressed.	30000	We recommend that a second count be done by another employee to verify that the number of free, reduced, and paid meals is being recorded correctly each week.	Implemented

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2009

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2008-3: Employee Termination Notification</i>	Employee separation forms for classified staff are not being completed and processed by Human Resources when the employee terminates and does not physically sign the form. Without the separation form being complete, Payroll might not be informed of an employee's termination and it can lead to untimely removal of the terminated employee from the payroll system. Our audit sample did not find any exceptions in this area but there is a potential weakness that could be addressed with a procedural change.	30000	We suggest that a site administrator be authorized to sign the separation form when a classified employees separates from the District. Human Resources should process this form and distribute it to Payroll so the terminating employee can be removed timely from the payroll system.	Implemented
<i>Finding #2008-4: Health and Welfare Benefit Enrollment</i>	The District does not have a policy and procedure that requires periodic re-enrollment of employees and dependents who receive health and welfare benefits. There is a risk that the District is unknowingly paying for benefits for ineligible individuals, most likely due to unreported changes in dependent eligibility. Typically, School districts that periodically require re-enrollment are able to save money as a result of the process.	30000	We recommend the District adopt a procedure to require periodic re-enrollment of health and welfare benefits, for example every two to four years.	Implemented