

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

OF LOS ANGELES COUNTY

SANTA MONICA, CALIFORNIA

JUNE 30, 2007

BOARD OF EDUCATION

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
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Oscar de la Torre	Vice President	2010
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ADMINISTRATION

Dianne Talarico	Superintendent
Timothy Walker	Deputy Superintendent
Dr. Stephen R. Hodgson	Interim Assistant Superintendent, Fiscal, Business & Chief Financial Officer
Dr. Sally Chou	Assistant Superintendent, Educational Services, Chief Academic Officer

ORGANIZATION

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 Virgines 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.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

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

I have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2007, 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. My responsibility is to express opinions on these financial statements based on my audit.

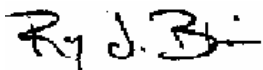
I conducted my audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; Standards and Procedures for Audits of California K-12 Local Educational Agencies 2006-07, prescribed by the State Controller, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of June 30, 2007, 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, I have issued my report dated December 1, 2007 on my consideration of Santa Monica-Malibu Unified School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

The accompanying required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 1.2 through 1.10 and 1.18 and 1.19 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santa Monica-Malibu Unified School District's basic financial statements. The accompanying supplementary information listed in the table of contents including the Schedule of Federal Expenditures of Federal Awards are presented for purposes of additional analysis and are 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 my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



December 1, 2007

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007

The discussion and analysis of Santa Monica-Malibu's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of the analysis is to look at the District's financial performance as a whole; readers should also review the auditor's letter, notes to the basic financial statements and the basic government-wide financial statements to enhance their understanding of the District's financial performance.

Santa Monica-Malibu Unified School District serves approximately 11,910 students in grades K-12. There are ten elementary schools, two middle school two high schools, one continuation school, one alternative school, one community day school, one adult education center, and thirteen child care and development centers throughout the District. Approximately 735 certificated (non-management), and 656 management, confidential, and classified employees provide for the needs of the District's students. Santa Monica-Malibu Unified School District is located in the City of Santa Monica, California.

USING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

- This comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Santa Monica-Malibu Unified School District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.
- The "Statement of Net Assets" and "Statement of Activities" provide information about the activities of the whole school district, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. "Fund Financial Statements" provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's major funds with all special revenue funds and other non-major funds presented in total in two columns.
- The major funds for Santa Monica-Malibu Unified School District are the General Fund, and the Bond Interest & Redemption Fund.
- The Management Discussion and Analysis has been provided to assist our citizens, taxpayers and investors in reviewing the District's finances.

FINANCIAL HIGHLIGHTS

The Statement of Revenues, Expenditures, and Changes in Fund Balance (Governmental Funds Statement) reflects revenues and expenditures for all District Funds before making adjustments in accordance with GASB 34. The Statement of Activities is based on the Governmental Funds Statement, but includes GASB 34 adjustments for the recognition of capital outlay as expenditures over the life of the assets instead of recognizing the entire cost of the assets as expenditures in the year the assets are acquired. Other adjustments include the recognition of indirect expenses, such as interest expense, on an accrual basis instead of recognizing the expenditures when payable.

- The School District's Government-wide Statement of Net Assets shows Total Net Assets of \$92,772,374, the result of assets of \$219,986,064 less liabilities of \$127,213,690.
- The State Revenue Limit sources accounted for \$66,279,714 in general fund revenue or 56% of all general fund revenues.
- As reflected in the Statement of Activities program specific revenues in the form of charges for services and grants and contributions accounted for \$35,438,154 or 25% of total revenues of \$143,471,974.
- The District had \$136,257,634 in expenses related to governmental activities. \$35,438,154 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily state revenue limit sources and property taxes) of \$108,033,820 were adequate to provide the remaining \$100,819,480 required for these programs. This resulted in a positive change in Total Net Assets of \$7,214,340.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007

REPORTING THE DISTRICT AS A WHOLE

Statement of Net Assets and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" "The Statement of Net Assets" and "The Statement of Activities" report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. However, the Santa Monica-Malibu Unified School District's goal is to provide services to our students, not to generate profits as commercial entities do. The reader will need to consider other non-financial factors as well as factors such as property tax base, current property tax laws, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the District.

In the "Statement of Net Assets" and the "Statement of Activities," the District could report everything in two types of Activities, the Governmental Activities or the Business-Type Activities: The Santa Monica-Malibu Unified School District reports its financial transactions in the Governmental Activities.

- Governmental Activities – Most of the School District's programs and services are reported here, including instruction, pupil services including transportation and food services, administration, plant services, facilities acquisition and construction, interest on the long-term debt and other services.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. Santa Monica-Malibu Unified School District does not have any of these types of activities at this time.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions.

Governmental funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting. Governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements. Governmental funds include most of the major funds of the District.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District uses an agency fund to account for resources held for student activities and groups. These funds include Associated Student Body funds.

The Santa Monica-Malibu Unified School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The Santa Monica-Malibu Unified School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

THE SCHOOL DISTRICT AS A WHOLE

The difference between assets and liabilities (net assets), as reported in the Statement of Net Assets and Statement of Activities, is one way to measure the District's financial health, or financial position. Over time, the increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenditures indicates the District's operating results. However, the District's goal is to provide the best services possible to its students, not to generate profits as expected by commercial entities. Therefore, other non-financial factors must be considered to assess the effectiveness of the District in obtaining its goals.

The District's total net assets for governmental activities were \$92,772,374 at June 30, 2007. The table below provides a summary of the District's net assets for the fiscal years 2006-2007 and 2005-2006.

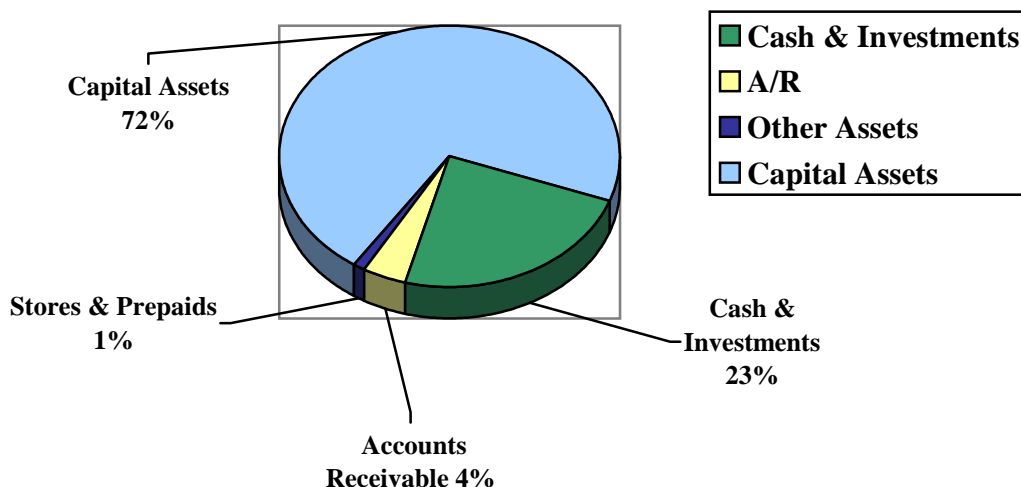
	Change in Net Assets Governmental Activities		
	2006-07	2005-06	Change
ASSETS			
Current and other assets	\$ 61,369,149	\$ 58,674,350	\$ 2,694,799
Capital assets - net of accumulated depreciation	158,616,915	159,580,300	(963,385)
Total Assets	<u>\$ 219,986,064</u>	<u>\$ 218,254,650</u>	<u>\$ 1,731,414</u>
LIABILITIES			
Current and other liabilities	20,390,602	21,789,163	(1,398,561)
Long-term liabilities	106,823,088	111,785,750	(4,962,662)
Total Liabilities	<u>127,213,690</u>	<u>133,574,913</u>	<u>(6,361,223)</u>
NET ASSETS			
Invested in capital assets net of related debt	54,362,673	52,714,435	1,648,238
Reserved for debt service and other	18,106,334	17,021,309	1,085,025
Unreserved	20,303,367	14,943,993	5,359,374
Total Net Assets	<u>\$ 92,772,374</u>	<u>\$ 84,679,737</u>	<u>\$ 8,092,637</u>

The change of \$8,092,637 includes an equity transfer of \$878,297 from the Retiree Benefits Trust account.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

As shown in the following chart, over 72% of the District's assets are invested in capital assets, such as land and buildings. The District also maintains liquid assets (cash and investments) of \$51,528,388, or 23%.



The Statement of Activities shows that revenues exceeded expenditures, resulting in an increase in net assets of \$7,214,340 for the year ending June 30, 2007 as compared to \$5,963,496 for the year ended June 30, 2006.

	Change in Statement of Activities		
	Governmental Activities		
	2006-07	2005-06	Change
REVENUES			
Charges for services	\$ 4,746,184	\$ 4,437,236	\$ 308,948
Operating grants and contributions	30,691,970	29,686,136	1,005,834
Property taxes	58,122,908	53,894,120	4,228,788
Federal and state aid not restricted to specific purposes	34,370,050	34,866,957	(496,907)
Interest and investment earnings	2,131,897	1,155,931	975,966
Miscellaneous	13,408,965	11,403,181	2,005,784
Total Revenues	\$ 143,471,974	\$ 135,443,561	\$ 8,028,413
EXPENSES			
Instruction	82,142,723	78,190,629	3,952,094
Instruction related services	16,755,979	16,321,081	434,898
Pupil services	11,339,858	11,045,643	294,215
Ancillary services	839,029	887,416	(48,387)
Community services	462,308	391,735	70,573
General administration	7,903,445	6,897,715	1,005,730
Plant services	13,090,988	11,873,526	1,217,462
Other outgo	27,235	12,730	14,505
Debt service - interest	3,696,069	3,859,590	(163,521)
Total Expenses and transfers	136,257,634	129,480,065	6,777,569
CHANGE IN NET ASSETS	\$ 7,214,340	\$ 5,963,496	\$ 1,250,844

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

The following shows the difference between the Governmental Funds Statement and the Statement of Activities.

	Governmental Statements at June 30, 2007		
	Activities	Funds	Difference
Revenues	\$ 143,471,974	\$ 143,885,033	\$ (413,059)
Expenditures	(136,257,634)	(138,394,914)	2,137,280
Change in net assets/fund balance	\$ 7,214,340	\$ 5,490,119	\$ 1,724,221

GOVERNMENTAL ACTIVITIES

The "Statement of Activities" shows the cost of program services and the charges for services and grants offsetting those services. Charges for services, operating grants and contributions, and capital grants and contributions made up 25% of revenues for governmental activities. General Revenues not restricted to specific programs made up 75% of the total revenues available. Both amounts remain comparable with the prior year.

Instruction and instruction related activities made up 73% of expenses in 2006-2007 and in 2005-2006. Pupil services including home-to-school transportation and food services made up approximately 8%. Administration including data processing remains at 6%. Plant services remains at 9%. Debt service interest remained at 3%. All other expenses were 1% of the total governmental activities expenses.

The table below shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

EXPENSES	Cost of governmental activities			
	2006-2007		2005-2006	
	Total	Net	Total	Net
Instruction	\$ 82,142,723	\$ (60,061,909)	\$ 78,190,629	\$ (56,755,855)
Instruction related services	16,755,979	(12,061,378)	16,321,081	(11,068,804)
Pupil services	11,339,858	(4,808,869)	11,045,643	(5,461,152)
Ancillary services	839,029	(695,472)	887,416	(668,705)
Community services	462,308	(218,331)	391,735	(13,789)
General administration	7,903,445	(7,452,476)	6,897,715	(6,490,377)
Plant services	13,090,988	(11,805,969)	11,873,526	(11,042,404)
Other outgo	27,235	(19,007)	12,730	3,983
Debt service - interest	3,696,069	(3,696,069)	3,859,590	(3,859,590)
Total Expenses and transfers	<u>\$ 136,257,634</u>	<u>\$ (100,819,480)</u>	<u>\$ 129,480,065</u>	<u>\$ (95,356,693)</u>

GENERAL FUND BUDGET INFORMATION

The District's budget is prepared in accordance with California law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007

The District begins the budget process in January of each year. By law, the Governing Board must adopt a Final Budget by June 30. Time is allocated during the Board meeting for public input and Board direction. A proposed Final Budget is presented in June, which reflects the latest known financial information, included in the Governor's May Revision of the state budget. This Budget is presented for adoption and forwarded to the County the following day. During the course of the fiscal year, the School District revises its budget as it deals with changes in revenues and expenditures. These reports include revisions based on state budget adoption that are normally presented in August, adjustments to actual in September, First Interim which is normally presented in December, and Second Interim which is normally presented in March.

For the General Fund, actual revenues were \$119,451,896 with original budget estimated at \$108,477,009. The difference of \$10,974,887 was due to a combination of factors including adjustments to revenues due to changes in ADA, state budget increases and adjustments for programs based on the actual allocations, and carryovers and the corresponding adjustments to district expenditures.

There are several reasons for expenditure budget revisions. Most notable are any negotiated salary increases approved by the Board of Education for District employees. The original budget does not presume negotiated salary increases. Also, any changes in the number of staff and/or staff utilization of health and welfare benefits that vary from the original projections, along with projection changes for the workers compensation retrospective premiums would also require budget revisions.

The implementation of new instructional programs can also affect budget projections. New academically focused programs will impact expenditures in personnel, instructional materials, outside services and supplies.

SOLVENCY

The District has maintained sufficient unrestricted reserves for a district its size. It does meet the state-recommended minimum Reserve for Economic Uncertainties of 3% of General Fund expenditures, transfers out, and other financing uses. In 2006-07, expenditures, transfers out, and other financing uses totaled for the General fund equaled \$115,709,972. The balance in this fund is \$23,433,892. The 3% reserve requirement is \$3,471,299. The undesignated general fund reserve for economic uncertainties was \$3,471,299, representing 100% of the reserve requirement. The District discontinued the Special Reserve - (Non-capital) Fund and transferred \$4,389,660 of the fund equity to the General fund and \$3,000,000 of fund equity to the Special Reserve - (Capital) Fund.

ENROLLMENT

The Santa Monica-Malibu Unified School District was originally organized as a political unit of the State of California on December 6, 1875, under the name of Santa Monica School District. On July 1 1953, the name was changed to the Santa Monica Unified School District. On July 1, 1970, the Santa Monica Community College District was separated from the Santa Monica Unified School District and on December 17, 1979, the name was changed to Santa Monica-Malibu Unified School District. 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 Virgines Unified School District and those portions of the Pacific Palisades that are included in the Los Angeles Unified School District. There were no boundary changes during the fiscal year. The Santa Monica-Malibu Unified School District Second Period ADA reported was approximately 7426 for grades Kindergarten through 8th of which 253 was for special programs. ADA of approximately 3,932 was reported for grades 9 – 12 of which 145 was for special programs. The District operates ten elementary schools, two middle schools, two high schools, one continuation high school, one alternative school, one community day school, one adult education center, and thirteen child care and development centers.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

The number of students enrolled establishes the basis of State revenue, staffing needs, and planning for facility needs. Therefore, enrollment is the most important projection a district can make. For the purpose of predicting enrollment and comparing historical enrollment data, the measurement data used is California Basic Education Data Survey (CBEDS) Day, which occurs the first week in October. Although the October CBEDS is the first solid indicator of the District's enrollment for the year, the largest source of State revenue is based on the student's Average Daily Attendance (ADA) in class. There are three reporting periods for ADA, P-1 ending on December 15; P-2 ends April 15; and Annual ending June 30. The District is funded on the ADA it reports for the P-2 reporting period.

Annual enrollment decreased from approximately 12,191 in 2005-06 to 11,910 in 2006-07.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2006-2007, the District had a net \$156,274,209 invested in land, buildings, equipment, and construction in progress. Assets of \$2,037,863 were capitalized in 2006-07. Assets with a net value of \$413,059 were abandoned or replaced during the current year. Depreciation expense was \$4,930,895. The net decrease in capital assets was \$3,497,437 (2.1%). The table below shows the fixed asset balances at June 30, 2007 and June 30, 2006.

	<u>District Total</u>		<u>% Change 2006 to 2007</u>
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	
Land	\$ 6,588,760	\$ 6,588,760	
Work-in process	222,379	227,645	-2.3%
Land improvements	1,215,060	1,596,012	-23.9%
Buildings and improvements	146,636,847	150,139,489	-2.3%
Furniture, equipment, and other capital assets	1,611,163	1,028,394	56.7%
Total Capital Assets and accumulated depreciation	<u>\$ 156,274,209</u>	<u>\$ 159,580,300</u>	<u>-2.1%</u>

Long-term obligations

At June 30, 2007, the Santa Monica-Malibu Unified School District had \$106,823,088 in long-term obligations outstanding. This reflects a decrease of \$4,962,662 (4.4%) from June 30, 2006. The table below summarizes those obligations.

	<u>District Total</u>		<u>% Change 2006 to 2007</u>
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	
General Obligation Bonds	\$ 84,095,035	\$ 88,530,035	-5.0%
Certificates of participation	17,816,501	18,311,501	-2.7%
Capital Leases		24,329	-100.0%
Accumulated vacation - net	564,025	745,152	-24.3%
Early Retirement benefits		230,000	-100.0%
Post-employment benefits	4,347,527	3,944,733	10.2%
Total long-term debt	<u>\$ 106,823,088</u>	<u>\$ 111,785,750</u>	<u>-4.4%</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007

FOR THE FUTURE

The Santa Monica-Malibu Unified School District student enrollment has experienced slow and declining enrollment in previous years. The enrollment continues to decline. Out-of district permits continue to decline. Enrollment declined in 2006-07 by approximately 281 from the 2005-06 (CBED's).

As the District prepares for 2007-2008 and beyond, the fiscal impact of the State of California's fiscal crisis is improving. Santa Monica-Malibu Unified School District received 71% of its General Fund revenue from the State of California in 2006-2007. The District is, therefore, highly dependent on state revenue. Federal funding is expected to remain fairly constant. Local revenues increased slightly from previous years but are dependent on the health of the local economy. Santa Monica-Malibu Unified School District will continue to make every effort to succeed in meeting one of the priority goals of the Board of Trustees: to remain fiscally solvent. With careful planning and monitoring of our finances, Santa Monica-Malibu Unified School District is confident that we can continue to provide a quality education for our students and meet the challenges of the future. An agreement was reached by the District and the Santa Monica-Malibu Classroom Teachers Association (SMMCTA) for the 2006-07 year.

Measure "BB", a General Obligation Bond approved by voters in November 2006, provided \$268 million of debt authorization to the District. The first series, a total of \$60 million, was issued in October 2007 and deposited into the District's Building Fund (Fund 21). A Board appointed advisory committee has been working with staff and the firm selected to provide program management services to establish the allocation of authorized funds. On October 18, 2007, the Board approved a committee recommendation for allocation of approximately \$111 million of the bond authorization. Programmatic and design phases of all projects are moving forward.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Assistant Superintendent of Fiscal and Business Services
1651 16th Street
Santa Monica, CA 90404

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 32,441
Investments	51,495,947
Accounts Receivable	9,760,068
Stores inventory	65,916
Prepaid items	14,777
Other assets	2,342,706
Capital assets - non depreciable	6,811,139
Capital assets - other net of accumulated depreciation	149,463,070
Total Assets	<u>\$ 219,986,064</u>
 LIABILITIES	
Accounts payable	17,264,230
Deferred revenue	1,759,891
Accrued interest	1,366,481
Long-term debt due within one year	6,476,729
Long-term debt due after one year	100,346,359
Total Liabilities	<u>127,213,690</u>
 NET ASSETS	
Invested in capital assets net of related debt	54,362,673
Restricted for debt service	8,329,955
Restricted for capital projects	2,472,234
Restricted for other purposes	7,150,911
Unrestricted	20,456,601
Total Net Assets	<u>\$ 92,772,374</u>

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



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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

	Expenses	Program revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
GOVERNMENTAL ACTIVITIES				Total Governmental Activities
Instruction	\$ 82,142,723	\$ 1,478,936	\$ 20,601,878	\$ (60,061,909)
Instruction related services	16,755,979	556,917	4,137,684	(12,061,378)
Pupil services	11,339,858	2,401,261	4,129,728	(4,808,869)
Ancillary services	839,029	35,008	108,549	(695,472)
Community services	462,308	59,496	184,481	(218,331)
General administration	7,903,445	102,066	348,903	(7,452,476)
Plant services	13,090,988	112,009	1,173,010	(11,805,969)
Other outgo	27,235	491	7,737	(19,007)
Debt service - interest	3,696,069			(3,696,069)
Total Governmental Activities	<u>136,257,634</u>	<u>4,746,184</u>	<u>30,691,970</u>	<u>(100,819,480)</u>
GENERAL REVENUES				
Property taxes levied for				
General purposes				38,315,436
Debt service				7,938,622
Other specific purposes				11,868,850
Federal and state aid not restricted to specific purposes				34,370,050
Interest and investment earnings				2,131,897
Miscellaneous				13,408,965
Total general revenue				<u>108,033,820</u>
CHANGE IN NET ASSETS				<u>7,214,340</u>
NET ASSETS, Beginning of year				84,679,737
Equity transfer				878,297
NET ASSETS, Adjusted Beginning of year				<u>85,558,034</u>
NET ASSETS, End of year				<u>\$ 92,772,374</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Bond Interest & Redemption</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash	\$ 20,000		\$ 12,441	\$ 32,441
Investments	30,390,245	\$ 6,940,844	14,164,858	51,495,947
Accounts receivable	7,881,748		1,878,320	9,760,068
Stores	17,787		48,129	65,916
Prepaid expenditures	14,777			14,777
Other assets - earned salary advance	2,342,706			2,342,706
Total Assets	<u><u>\$ 40,667,263</u></u>	<u><u>\$ 6,940,844</u></u>	<u><u>\$ 16,103,748</u></u>	<u><u>\$ 63,711,855</u></u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	15,892,486		1,371,744	17,264,230
Deferred revenue	1,340,885		419,006	1,759,891
Total Liabilities	<u><u>17,233,371</u></u>		<u><u>1,790,750</u></u>	<u><u>19,024,121</u></u>
FUND BALANCES				
Reserved	4,735,590	6,940,844	3,918,192	15,594,626
Unreserved				
Designated	3,471,299		878,595	4,349,894
Undesignated	15,227,003		9,516,211	24,743,214
Total Fund Balance	<u><u>23,433,892</u></u>	<u><u>6,940,844</u></u>	<u><u>14,312,998</u></u>	<u><u>44,687,734</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 40,667,263</u></u>	<u><u>\$ 6,940,844</u></u>	<u><u>\$ 16,103,748</u></u>	<u><u>\$ 63,711,855</u></u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2007**

Total Fund Balances - Governmental Funds \$ 44,687,734

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

Cost of capital assets	\$ 222,470,230	
Less: accumulated depreciation	<u>(66,196,021)</u>	156,274,209

Governmental funds do not report a liability for accrued interest until due and payable. (1,366,481)

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of post-employment benefits

General Obligation Bonds	\$ 84,095,035	
Certificates of Participation	17,816,501	
Post-employment benefits	4,347,527	
Accumulated vacation - net	<u>564,025</u>	(106,823,088)

Total Net Assets - Governmental Activities \$ 92,772,374

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	General	Bond Interest & Redemption	Other Governmental Funds	Total
REVENUES				
Revenue Limit Sources				
State apportionment	\$ 27,964,279		\$ 600,650	\$ 28,564,929
Local sources	38,315,435			38,315,435
Total Revenue Limit Sources	66,279,714		600,650	66,880,364
Federal revenues	4,741,434		2,566,145	7,307,579
Other state revenues	15,113,260	\$ 23,944	2,976,056	18,113,260
Other local revenues	26,922,789	8,119,034	10,147,308	45,189,131
Tuition and transfers	6,394,699			6,394,699
Total Revenues	119,451,896	8,142,978	16,290,159	143,885,033
EXPENDITURES				
Current Expenditures				
Certificated Salaries	57,591,237		3,408,041	60,999,278
Classified salaries	19,349,100		3,304,633	22,653,733
Employee benefits	21,415,805		1,830,262	23,246,067
Books and Supplies	5,240,421		2,192,902	7,433,323
Services and operating expenditures	10,913,551		2,386,472	13,300,023
Other outgo	(213,435)		220,013	6,578
Capital outlay	807,481		1,230,383	2,037,864
Debt service - principal	24,329	4,435,000	495,000	4,954,329
Debt service - interest	6,484	3,102,735	654,500	3,763,719
Total Expenditures	115,134,973	7,537,735	15,722,206	138,394,914
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,316,923	605,243	567,953	5,490,119
OTHER FINANCING SOURCES (USES)				
Operating transfers in	3,641,987		575,000	4,216,987
Operating transfers out	(575,000)		(3,641,987)	(4,216,987)
Total Other Financing Sources/(Uses)	3,066,987		(3,066,987)	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	7,383,910	605,243	(2,499,034)	5,490,119
FUND BALANCE, Beginning of year	11,660,322	6,335,601	20,323,395	38,319,318
Equity transfer	4,389,660		(3,511,363)	878,297
ADJUSTED FUND BALANCE	16,049,982	6,335,601	16,812,032	39,197,615
FUND BALANCE, End of year	\$ 23,433,892	\$ 6,940,844	\$ 14,312,998	\$ 44,687,734

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

Total net change in Fund Balances - Governmental Funds \$ 5,490,119

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 the estimated useful lives as depreciation expense.

Capital outlays	\$ 2,037,863	
Depreciation expense	<u>(4,930,895)</u>	(2,893,032)

Loss on the book value of assets disposed, sold or abandones is not recognized in the governmental funds		(413,059)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however interest expense is recognized as the interest accrues, regardless of when it is due.

Accrued interest - June 30, 2007	\$ (1,366,481)	
Accrued interest - June 30, 2006	<u>1,434,131</u>	67,650

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		4,435,000
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Repayment of COP principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		495,000
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Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		24,329
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In the statement of activities, certain operating expenses 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. This amount represents the differences between the amounts earned versus the amount used .

Compensated absences	\$ 181,127	
Post-employment benefits	230,000	
Early retirement benefits	<u>(402,794)</u>	<u>8,333</u>

Total change in Net Assets - Governmental Activities		<u><u>\$ 7,214,340</u></u>
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The accompanying notes are an integral part of these financial statements.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP) AND ACTUAL
BOND INTEREST & REDEMPTION FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	General Fund			Variance with Final Budget Favorable (Unfavorable)
	Budget Amounts		Actual	
	Original	Final		
REVENUES				
Revenue Limit Sources				
State apportionment	\$ 29,213,119	\$ 25,801,914	\$ 27,964,279	\$ 2,162,365
Local sources	37,340,704	40,567,618	38,315,435	(2,252,183)
Total Revenue Limit Sources	66,553,823	66,369,532	66,279,714	(89,818)
Federal revenues	4,622,884	5,213,492	4,741,434	(472,058)
Other state revenues	9,403,774	14,590,596	15,113,260	522,664
Other local revenues	21,581,187	26,615,975	26,922,789	306,814
Tuition and transfers	6,315,341	6,400,247	6,394,699	(5,548)
Total Revenues	108,477,009	119,189,842	119,451,896	262,054
EXPENDITURES				
Current Expenditures				
Certificated Salaries	54,797,811	58,677,058	57,591,237	1,085,821
Classified salaries	19,284,181	19,666,042	19,349,100	316,942
Employee benefits	21,412,222	21,881,430	21,415,805	465,625
Books and Supplies	3,561,212	9,582,251	5,240,421	4,341,830
Services and operating expenditures	10,078,886	12,509,321	10,913,551	1,595,770
Other outgo	(226,471)	(217,122)	(213,435)	(3,687)
Capital outlay	252,100	1,453,684	807,481	646,203
Debt service - principal	51,758	31,158	24,329	6,829
Debt service - interest	11,643	4,425	6,484	(2,059)
Total Expenditures	109,223,342	123,588,247	115,134,973	8,453,274
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(746,333)	(4,398,405)	4,316,923	8,715,328
OTHER FINANCING SOURCES (USES)				
Operating transfers in	700,000	3,641,987	3,641,987	
Operating transfers out	(575,000)	(575,000)	(575,000)	
Total Other Financing Sources/(Uses)	125,000	3,066,987	3,066,987	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(621,333)	(1,331,418)	7,383,910	8,715,328
FUND BALANCE, Beginning of year	11,660,322	11,660,322	11,660,322	
Equity transfer		4,389,660	4,389,660	
ADJUSTED FUND BALANCE	11,660,322	16,049,982	16,049,982	
FUND BALANCE, End of year	\$ 11,038,989	\$ 14,718,564	\$ 23,433,892	\$ 8,715,328

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP) AND ACTUAL
BOND INTEREST & REDEMPTION FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	Bond Interest & Redemption			Variance with Final Budget Favorable (Unfavorable)
	Budget Amounts		Actual	
	Original	Final		
REVENUES				
Other state revenues			\$ 23,944	\$ 23,944
Other local revenues	\$ 7,514,811	\$ 7,514,811	8,119,034	604,223
Total Revenues	7,514,811	7,514,811	8,142,978	628,167
EXPENDITURES				
Debt service - principal	4,435,000	4,435,000	4,435,000	
Debt service - interest	3,744,164	3,744,164	3,102,735	641,429
Total Expenditures	8,179,164	8,179,164	7,537,735	641,429
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(664,353)	(664,353)	4,316,923	1,269,596
FUND BALANCE, Beginning of year	6,335,601	6,335,601	6,335,601	
FUND BALANCE, End of year	\$ 5,671,248	\$ 10,060,908	\$ 15,042,184	\$ 1,269,596

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007**

	Trust Funds	Agency Funds		Total Fiduciary Funds
	Retiree Benefits	Warrant Pass-thru	Student Bodies	
ASSETS				
Cash	\$ -	\$ 2,569	\$ 531,816	\$ 534,385
Investments		566,654		566,654
Accounts Receivable			24,302	24,302
Stores inventory			36,892	36,892
Prepaid items		162,103	21,702	183,805
Total Assets	<u>\$ -</u>	<u>\$ 731,326</u>	<u>\$ 614,712</u>	<u>\$ 1,346,038</u>
LIABILITIES				
Accounts payable			57,751	57,751
Due to other agencies		731,326		731,326
Due to student groups			556,961	556,961
Total Liabilities		<u>731,326</u>	<u>614,712</u>	<u>1,346,038</u>
NET ASSETS				
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS – TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	Retiree Benefits
ADDITIONS	
Interest and investment earnings	\$ 45,488
Total Additions	<u>45,488</u>
DEDUCTIONS	
Total Deductions	<u> </u>
CHANGE IN NET ASSETS	45,488
NET ASSETS, Beginning of year	<u>832,809</u>
Equity transfer	<u>(878,297)</u>
ADJUSTED NET ASSETS, Beginning of year	<u>(45,488)</u>
NET ASSETS, End of year	<u>\$ -</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Santa Monica-Malibu Unified School District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Santa Monica-Malibu Unified School District accounts for their financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

A. Financial Reporting Entity

The Santa Monica-Malibu Unified School District and the Los Angeles County Regionalized Business Services Corporation have a financial and operational relationship that means the reporting entity definition criteria of GASB Statement No. 14, The Financial Reporting Entity, for inclusion of the corporation as a component unit of the district. Accordingly, the financial activities of the corporation have been included in the financial statements of the district. The following are those aspects of the relationship between the district and the corporation that satisfy GASB Statement No. 14 criteria.

Accountability:

1. The corporation's Board of Directors were appointed by the district's Board of Education.
2. The district is able to impose its will upon the corporation, based on the following:
 - All major financing arrangements, contracts, and other transactions of the corporation must have the consent of the district.
 - The district exercises significant influence over operations of the corporation, as it is anticipated that the district will be the sole lessee of all facilities owned by the corporation. Likewise it is anticipated that the district's lease payments will be the sole revenue source of the corporation.
3. The corporation provides specific financial benefits or imposes specific financial burdens on the district based upon the following:
 - Any deficits incurred by the corporation will be reflected in the lease payments of the district.
 - Any surpluses of the corporation revert to the district at the end of the lease period.
 - The district has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the corporation.

Scope of Public Service:

The corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State on November 1, 2001. The corporation was formed for the sole purpose of providing financial assistance to the district for construction and acquisition of major capital facilities. Upon completion, the district intends to occupy all corporation facilities under a lease-purchase agreement effective through May 2025. At the end of the lease term, title of all corporation property will pass to the district for no additional consideration.

B. Basis of Presentation:

For financial presentation purposes, the corporation's financial activity has been blended, or combined, with the financial data of the district. The financial statements present the corporation's financial activity within the COP's Debt Service Fund and the COP's Building fund. Capital assets acquired or constructed by the corporation and Certificates of participation issued by the Corporation are included in the statement of net assets.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the district. As a general rule the effect of interfund activity has been eliminated from these statements. Governmental activities are reported separately from business-type activities. Both governmental and business-type activities in the government wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

The statement of activities demonstrates the degrees to which the direct expenses of given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are also provided in the report for all governmental funds and fiduciary funds of the District. Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. The District reports the General fund and the Bond Interest & Redemption fund as major governmental funds.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Certain property taxes are recognized as revenues when collected because of the funding formula for California state apportionment. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net assets.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Available means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered). Principal and interest on general long-term debt is recognized when due.

C. Fund Accounting

The accounts of the Santa Monica-Malibu Unified School 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 balance (or retained earnings), revenues, and expenditures or expenses, as appropriate. 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 Santa Monica-Malibu Unified School District accounts are organized into fund types and account groups as follows:

Governmental Fund Types

General Fund (Major Governmental 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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Special Revenue Funds are used to account for specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains the following special revenue funds.

- Adult fund used to account for revenues and expenditures committed to adult education programs maintained by the District.
- Child Development fund is used to account for revenues and expenditures committed to child development programs maintained by the District.
- Cafeteria fund is used to account for revenues and expenditures committed to operate the District's food service operation.
- Deferred Maintenance fund is used to account for specific revenue sources and expenditures made for the purpose of major repair or replacement of District real property.
- Special Reserve (Non-capital) fund (Major Governmental Fund) is used to provide for the accumulation of general fund resources for general operating purposes. This fund was closed during the year.
- Foundation 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.
- Retiree Benefit fund is used to account for health and welfare benefits paid on behalf of retiree's.

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 the following debt service funds

- Bond Interest & Redemption fund (Major Governmental Fund) is used to account for taxes and revenues collected and repayment of bonds issued by the District.
- COP's Debt Service funds (1 & 2) are used to account for revenues collected and repayment of certificates of participation issued by the District.

Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains the following capital project funds.

- Building fund is used to account for proceeds from the sale of bonds and related expenditures.
- Capital Facilities fund is used to account for fees levied; revenues, and expenditures related to the approval for development of properties that affect the school facilities.
- Special Reserve (Capital) fund is used to provide for the accumulation of general fund resources for major repair or replacement of District real property.
- COP's Building fund is used to account for proceeds from the sale of certificates of participation and related expenditures.

Fiduciary Fund Types

Trust Funds are used to account for the assets of others for which the District acts as trustee. The District closed the Retiree Benefit trust fund. The fund was used to account for health and welfare benefits paid on behalf of retiree's and a Special Revenue fund was created to take its place.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Agency Funds are used to account for the assets of others for which the District acts as agent. The District maintains the following agency fund.

- Student body funds are used to account for revenues and expenditures to promote the general welfare, morale, and educational experiences of the student body.
- Warrant/Pass-through fund is used to account separately for the collection of federal and state taxes, credit union, insurance contributions, and other receipts from employees.

D. Basis of Accounting – Measurement Focus

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB 34 introduces an integrated approach, which includes government-wide statements with a reconciliation that clearly lines the two levels of financial reporting. Major funds are now the focus of the fund statements to highlight the more significant components of the governmental activities. Some of the significant changes in the statement include a Management Discussion and Analysis (MD&A) section providing an analysis of the district’s overall financial position and results of operations and financial statements prepared using full accrual accounting for all of the district’s activities.

Revenues – Exchange transactions result from transactions in which each party gives and receives essentially equal value, and is recorded on 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 that the resources will be collected within the current fiscal year or are expected to be collected soon thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days after the fiscal year end.

Revenues – Non-exchange transactions result from transactions in which the District receives value without directly giving equal value in return, including property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before recognized.

Under the modified accrual basis, state apportionments, interest, certain grants, and other local sources are considered both measurable and available at fiscal year-end.

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

E. Budgets and Budgetary Accounting

The Governing Board adopts an operating budget no later than July 1 in accordance with state law. The Governing Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. It is this final revised budget that is presented in these financial statements. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account. No budgets were prepared for the COP's Debt Service #2 or the COP's Building fund.

F. Encumbrances

The Santa Monica-Malibu Unified School District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies be recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances were liquidated at June 30 since they do not constitute expenditures or liabilities.

G. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as long-term liabilities of the District. The amount of the liability expected to be paid from current resources is recognized at year-end in the governmental fund that will pay the benefit. The non-current portion of the liability is recognized in the general long-term debt account group.

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 since 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.

H. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Los Angeles bills and collects the taxes for the District. The District recognizes tax revenues when received.

I. Investments

Investments held at June 30, 2007, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Changes in fair value are reported as revenue in the statement of revenues, expenses and changes in net assets. The effect of recording investments at fair value is reflected as a net change in the fair value of investments on the statement of revenues, expenses and changes in net assets. All investments not required to be reported at fair value are stated at cost or amortized cost.

J. Stores - Inventory of Supplies

Inventory is valued at lower of cost or market utilizing the weighted average method. Inventory in the applicable Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are withdrawn from the stores inventory for consumption. Reported inventories are equally offset by a fund balance reserve that indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

K. Prepaid

Prepaid expenditures or expenses represent payments made to vendors for services that will benefit periods beyond June 30, 2007.

L. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Years</u>		<u>Years</u>
Land Improvements	20	Cafeteria Equipment	15
Buildings	50	Musical Equipment	10
Building Improvements	20/30	Printing Equipment	10
Portable Classrooms	25	Audio/Visual Equipment	10
Autos/Trucks/Buses	8	Furniture/Other Equipment	5/20
Industrial Equipment	15/20	Data Processing Equipment	5/7
Grounds Equipment	15	Photocopiers/Computers	5

M. Interfund Balances

Receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables” in the fund financial statements. These amounts are eliminated in the governmental activities column of the statement of net assets.

N. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

O. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriate 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.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

P. 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 borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through legislation or restriction imposed by sources.

Q. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions 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 expenses during the reporting period. Actual results could differ from those estimates.

NOTE #2 - CASH AND INVESTMENTS

Cash and Investments as shown on the District's Statement of Net Assets are subject to the following risks:

	Carrying Amount	Risk
Cash on hand and in banks		
Cash on hand and in banks		
Governmental Funds	\$ 32,441	Custodial
Agency & Trust Funds	534,385	Custodial
Total Cash Deposits	566,826	
Wells Fargo 100% Money Market	1,496,332	Interest rate and credit
Investment pool		
Cash in county treasury		
Governmental Funds	49,999,615	Interest rate and credit
Agency & Trust Funds	566,654	Interest rate and credit
Total Cash and Investments	\$ 52,629,427	

Custodial Risk – Deposits is the risk that, in the event of a financial institution failure, the district's deposits may not be returned to the District. Santa Monica-Malibu Unified School District does not have a policy for custodial credit risk for deposits. California Government Code requires 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 pledge securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies area. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. The District's carrying value for demand deposits were \$566,826 at June 30, 2007 and the banks carrying value of \$1,659,748 was exposed to custodial credit risk, because it was partially insured and collateralized with securities held by the pledging financial institutions trust department or agent, but not in the name of Santa Monica-Malibu Unified School District.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Custodial Risk - Investments is a risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Los Angeles County Treasury as part of the common investment pool. Cash in County treasury is normally based on amortized cost, which is the par value of the investment adjusted by unamortized premium or discount. The amortized cost consisted of \$17,959,883,179 in deposits as of June 30, 2007. The fair market value of this pool as provided by the pool sponsor was \$17,928,785,830 as of that date. Interest earned by these pools is deposited into participating funds. The District is authorized 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; 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

Credit Risk - is a 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 their rating by a nationally recognized statistical rating organization. The District's investment in the county pool is not required to be rated, nor has it been rated as of June 30, 2007. The district has investments of \$1,496, 332 held in trust by Wells Fargo Bank & Trust.

NOTE #3 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2007, consist of the following:

	General Fund	Bond Interest & Redemption Fund	Non-Major Funds	Total Governmental Funds	Fiduciary Funds
State Revenue Limit	\$ 589,935		\$ 62,725	\$ 652,660	
Federal Government	1,327,192		456,884	1,784,076	
State Government	1,853,326		316,091	2,169,417	
Local Sources - Other	3,477,778		764,164	4,241,942	\$ 24,302
Local Sources - Interest	633,517		278,456	911,973	
Total	\$ 7,881,748	\$ -	\$ 1,878,320	\$ 9,760,068	\$ 24,302

NOTE #4 - INTERFUND ACTIVITIES

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 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 Receivables/Payables (Due To/Due From)

There were no individual fund interfund receivable and payable balances at June 30, 2007.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

B. Operating Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the year ended June 30, 2007 are as follows:

The General fund transferred to the Deferred Maintenance fund for local match.	\$ 500,000
The General fund transferred to the Child Development fund.	75,000
The Building fund transferred to the General fund.	500,000
The Special Reserve (capital) fund transferred to the General fund.	3,141,987
Total	<u>\$ 4,216,987</u>

Equity transfers represent the amounts transferred to begin or close a fund.

The Special Reserve (non-capital) fund transferred to the General fund.	\$ 4,389,660
The Special Reserve (non-capital) fund transferred to the Special Reserve Capital) fund.	3,000,000
The Trust - Retiree Benefits fund transferred to the Special Revenue fund.	878,297
Total	<u>\$ 8,267,957</u>

NOTE #5 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2007, consist of the following:

	General Fund	Bond Interest & Redemption Fund	Non-Major Funds	Total Governmental Funds	Fiduciary Funds
Accrued payroll	\$ 13,566,356		\$ 17,624	\$ 13,583,980	
Vendors	2,326,130		1,354,120	3,680,250	\$ 57,751
Total	<u>\$ 15,892,486</u>	<u>\$ -</u>	<u>\$ 1,371,744</u>	<u>\$ 17,264,230</u>	<u>\$ 57,751</u>

NOTE #6 - DEFERRED REVENUE

Deferred revenue at June 30, 2007, consists of the following:

	General Fund	Bond Interest & Redemption Fund	Non-Major Funds	Total Governmental Funds
Federal Government	\$ 15,390	\$ -		\$ 15,390
State Government	11,019		\$ 367,267	378,286
Local Sources	1,314,476		51,739	1,366,215
Total	<u>\$ 1,340,885</u>	<u>\$ -</u>	<u>\$ 419,006</u>	<u>1,759,891</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE #7 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2007 is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Balance End of Year
Capital Assets, not being depreciated				
Construction in process	\$ 227,644	\$ 222,379	\$ (227,644)	\$ 222,379
Land	6,588,760			6,588,760
Total assets not being depreciated	<u>6,816,404</u>	<u>222,379</u>	<u>(227,644)</u>	<u>6,811,139</u>
Capital Assets, being depreciated				
Site improvements	11,264,979	39,275	(30,909)	11,273,345
Buildings and portables	192,816,694	1,076,697	(180,464)	193,712,927
Equipment - other than technology	3,977,856	298,066		4,275,922
Technology and software- technology	3,429,491	401,446	(113,709)	3,717,228
Buses and other vehicles	2,679,669			2,679,669
Total assets being depreciated	<u>214,168,689</u>	<u>1,815,484</u>	<u>(325,082)</u>	<u>215,659,091</u>
Capital Assets, depreciation				
Site improvements	9,668,966	388,622	697	10,058,285
Buildings and portables	42,915,459	4,225,278	(64,657)	47,076,080
Equipment - other than technology	3,634,454	69,567		3,704,021
Equipment - technology	2,679,233	181,881	(75,707)	2,785,407
Buses and other vehicles	2,506,681	65,547		2,572,228
Total accumulated depreciation	<u>61,404,793</u>	<u>4,930,895</u>	<u>(139,667)</u>	<u>66,196,021</u>
Governmental Activities - capital assets net	<u>\$ 159,580,300</u>	<u>\$ (2,893,032)</u>	<u>\$ (413,059)</u>	<u>\$ 156,274,209</u>

NOTE #8 - LONG-TERM LIABILITIES

A. Long-Term Liability Summary

A schedule of changes in long-term liabilities for the year ended June 30, 2007, is shown below:

	Balance Beginning of Year	Additions and Adjustments	Deductions	Balance End of Year	Due Within One Year
General Obligation Bond	\$ 88,530,035		\$ 4,435,000	\$ 84,095,035	\$ 4,800,000
Certificates of Participation	18,311,501		495,000	17,816,501	510,000
Capital Leases	24,329		24,329	-	
Early Retirement Incentives	230,000		230,000	-	
Post-employment Benefits	3,944,733	\$ 402,794		4,347,527	602,704
Accumulated vacation	745,152		181,127	564,025	564,025
Total Long-term liabilities	<u>\$ 111,785,750</u>	<u>\$ 402,794</u>	<u>\$ 5,365,456</u>	<u>\$ 106,823,088</u>	<u>\$ 6,476,729</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

B. General Obligation Bonds

During the June 1998 election, the voters provided the District with the ability to issue \$75,000,000 of Taxable General Obligation Bonds. 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. Series 1999A of these bonds were issued for \$22,175,035 in June 1999, with interest rates ranging from 5.15 percent to 5.50 percent. 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 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.

Bonds issued and outstanding at June 30, 2007 are as follows:

Issue Date	Maturity Date	Interest Rate	Bonds Outstanding			
			Original Issue	June 30, 2006	Redeemed	June 30, 2007
08/98	08/01/18	5.65-5.70%	\$ 68,145,000	\$ 50,295,000	\$ 2,935,000	\$ 47,360,000
6/1/99	08/01/11	3.20-4.50%	15,825,000	12,030,000	1,360,000	10,670,000
6/1/99	08/01/23	5.15-5.50%	22,175,035	22,175,035		22,175,035
6/1/01	08/01/25	4.00-5.75%	3,995,000	745,000	115,000	630,000
3/7/06	08/01/25	3.50-4.00%	3,285,000	3,285,000	25,000	3,260,000
	Total		<u>\$ 113,425,035</u>	<u>\$ 88,530,035</u>	<u>\$ 4,435,000</u>	<u>\$ 84,095,035</u>

The future debt service requirements are as follows:

<u>Year Ending June 30</u>	Interest to		<u>Total</u>
	<u>Principal</u>	<u>Maturity</u>	
2008	\$ 4,800,000	\$ 2,924,284	\$ 7,724,284
2009	5,190,000	2,702,760	7,892,760
2010	5,630,000	2,449,742	8,079,742
2011	6,090,000	2,918,817	9,008,817
2012	8,117,188	3,455,532	11,572,720
2013 - 2017	30,782,233	17,599,900	48,382,133
2018 - 2022	20,827,926	24,743,906	45,571,832
2023 - 2025	2,657,688	2,380,756	5,038,444
	<u>\$ 84,095,035</u>	<u>\$ 59,175,697</u>	<u>\$ 143,270,732</u>

C. Certificates of Participation

The District has executed and delivered Certificates of Participation (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.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Beginning March 1, 1997 the District entered into agreements under the Los Angeles County Regionalized Business Services Corporation to acquire various capital assets. Certificates were issued for \$3,015,000. The debt bears interest rates ranging from 4.00 percent to 4.75 percent. The final debt payment is due February 15, 2017. 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 percent to 5.75 percent. The final debt payment is due May 1, 2025. The 1997 Issue was redeemed in full. COP's issued and outstanding at June 30, 2007 are as follows:

Issue Date	Maturity Date	Interest Rate	Certificates of Participation Outstanding			
			Original Issue	June 30, 2006	Redeemed	June 30, 2007
11/1/01	5/1/25	3.50-5.75%	\$ 19,961,501	\$ 18,311,501	\$ 495,000	\$ 17,816,501

The future debt service requirements are as follows:

Year Ending June 30	Principal	Interest to Maturity	Total
2008	\$ 510,000	\$ 635,500	\$ 1,145,500
2009	530,000	615,453	1,145,453
2010	555,000	594,325	1,149,325
2011	895,000	569,863	1,464,863
2012	935,000	531,573	1,466,573
2013 - 2017	6,200,000	1,942,688	8,142,688
2018 - 2022	5,382,201	4,859,458	10,241,658
2023 - 2025	2,809,301	4,139,979	6,949,280
	<u>\$ 17,816,501</u>	<u>\$ 13,888,837</u>	<u>\$ 31,705,338</u>

D. Post-employment Benefits

The District provides post-employment dental and health care benefits, in accordance with District employment contracts, to all employees who retire from the District. Currently, 109 employees meet those requirements. The District contributes 100% of the amount of premiums incurred by retirees and their dependents prior to age 65. Expenditures for post-employment benefits are recognized on a pay-as-you-go basis, as retiree's claims/premiums are paid. During the year, net expenditures of approximately \$601,000 were recognized for retirees' health care benefits. The outstanding liability of post-employment benefits at June 30, 2007 is \$4,347,527.

E. Accumulated Unpaid Employee

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2007, amounted to \$564,025.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE #9- FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Bond Interest & Redemption Fund	Non-Major Funds	Total Governmental Funds	Trust Fund
Reserved					
Restricted cash/investments	\$ 20,000		\$ 1,496,332	\$ 1,516,332	
Stores inventory	17,787		48,129	65,916	
Prepays	14,777			14,777	
Restricted for debt retirement		\$ 6,940,844	6,131	6,946,975	\$ 832,809
Restricted programs	4,683,026		2,367,600	7,050,626	
Total Reserved	<u>4,735,590</u>	<u>6,940,844</u>	<u>3,918,192</u>	<u>15,594,626</u>	<u>832,809</u>
Unreserved					
Designated for economic uncertainties	3,471,299		878,595	4,349,894	
Undesignated	15,227,003	7,038,661	2,477,550	24,743,214	
Total Unreserved	<u>18,698,302</u>	<u>7,038,661</u>	<u>3,356,145</u>	<u>29,093,108</u>	<u>-</u>
Total	<u>\$ 23,433,892</u>	<u>\$ 13,979,505</u>	<u>\$ 7,274,337</u>	<u>\$ 44,687,734</u>	<u>\$ 832,809</u>

NOTE #10- COMMITMENTS AND CONTINGENCIES

A. Litigation

The District is involved in various litigation. In the opinion of management (and legal counsel), the disposition of all litigation pending will not have a material effect on the District's financial statements.

C. Sick Leave

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees, therefore, are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized in the District's financial statements.

C. 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, in the opinion of

NOTE #11 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District does not prepare a budget for the COP's Debt Service #2, or the COP's Building fund.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE #12 - EMPLOYEE RETIREMENT SYSTEMS

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

A. STRS

Plan Description

The District contributes to the California 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 and disability benefits and survivor benefits to beneficiaries. State statutes, as legislatively amended, within the State Teachers' Retirement Law, establish benefit provisions. 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 Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal 2006-07 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal year ending June 30, 2007, 2006, and 2005 were \$4,895,095, 4,592,682, and \$4,364,374, respectively, and equal 100 percent of the required contributions for each year.

B. 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. State statutes, as legislatively amended, within the Public Employees' Retirement Laws, establish benefit provisions. CalPERS issue a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

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Funding Policy

Active plan members are required to contribute 7.0 percent 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 rates are a percent of annual payroll applied at approximately 9.12 percent for 2006-07, 9.11 percent for 2005-06, and 9.95 percent for 2004-05. The contribution requirements of the plan members are established by State statute. District's contributions to CalPERS for the fiscal year ending June 30, 2007, 2006, and 2005, were \$1,756,471, 1,719,678, and \$1,777,750, respectively, and equal 100 percent of the required contributions for each year.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE #13 – RISK MANAGEMENT

The District’s risk management activities are recorded in the General Fund through its participation in the public entity risk pools (JPA’s) for the workers’ compensation programs and excess property and liability coverage. Refer to Note #14 for additional information regarding the JPA’s. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE #14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District pays an annual premium to each entity for its health, dental, vision, workers' compensation, and property liability coverage. The relationships between the District, the pools and the JPA's are such that they are not component units of the District for financial reporting purposes. These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities. The District's share of year-end assets, liabilities or fund equity has not been calculated. None of the JPA's had long-term debts outstanding at June 30, 2007. The District is a member of the following public entity risk pools:

A. <u>Entity</u>	Schools Excess Liability Fund (SELF)	Alliance for Schools for Cooperative Insurance Programs (ASCIP)	Schools Linked for Insurance Management (SLIM)	Los Angeles Regionalized Insurance Services Authority (LARISA)
B. <u>Purpose</u>	Provides for self- funded excess liability coverage	Arranges for and provides property and liability coverage.	Arranges for and provides workers' compensation coverage	Arranges for and provides medical and dental benefits
C. <u>Participants</u>	Various school districts and other LEA's	School districts and County Superintendent in Los Angeles & Orange counties	School districts and County Superintendent in Los Angeles county	School districts and County Superintendent in Los Angeles county
D. <u>Governing Board</u>	Representatives from member District's	Representatives from member district's	Representatives from member district's	Representatives from member district's
E. <u>Condensed Audited Financial Information Follows</u>	(SELF)	(ASCIP)	(SLIM)	(LARISA)
(In thousands)	<u>June 30, 2007</u>	<u>June 30, 2006 *</u>	<u>June 30, 2006 *</u>	<u>June 30, 2006 *</u>
Assets	\$ 215,903	\$ 132,904	\$ 42,382	\$ 19,327
Liabilities	185,793	94,815	39,177	16,678
Net Assets	<u>\$ 30,110</u>	<u>\$ 38,089</u>	<u>\$ 3,205</u>	<u>\$ 2,649</u>
Operating Revenues	39,511	60,253	20,723	2,503
Expenses	(45,867)	(55,638)	(14,481)	(1,837)
Other Income	8,420	3,393	1,597	
Net Increase in Net Assets	<u>\$ 2,064</u>	<u>\$ 8,008</u>	<u>\$ 7,839</u>	<u>\$ 666</u>

*Latest Information



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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NON MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007**

	<u>Adult</u>	<u>Child Development</u>	<u>Cafeteria</u>	<u>Deferred Maintenance</u>
ASSETS				
Cash			\$ 12,441	
Investments	\$ 233,223	\$ 38,127	343,452	\$ 4,927,712
Accounts receivable	109,724	903,136	217,527	87,002
Stores			48,129	
Total Assets	<u>\$ 342,947</u>	<u>\$ 941,263</u>	<u>\$ 621,549</u>	<u>\$ 5,014,714</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	46,894	544,588	242,042	280,330
Deferred revenue	52,855	366,151		
Total Liabilities	<u>99,749</u>	<u>910,739</u>	<u>242,042</u>	<u>280,330</u>
FUND BALANCES				
Reserved			48,129	2,367,192
Unreserved				
Designated				
Undesignated	243,198	30,524	331,378	2,367,192
Total Fund Balance	<u>243,198</u>	<u>30,524</u>	<u>379,507</u>	<u>4,734,384</u>
Total Liabilities and Fund Balance	<u>\$ 342,947</u>	<u>\$ 941,263</u>	<u>\$ 621,549</u>	<u>\$ 5,014,714</u>

<u>Special Reserve (Non Capital)</u>	<u>Foundation</u>	<u>Special Reserve Foundation</u>	<u>Total Non-Major Special Revenue</u>
\$ -	\$ 202,675	\$ 862,272	\$ 12,441
	3,752	16,323	6,607,461
			1,337,464
			48,129
<u>\$ -</u>	<u>\$ 206,427</u>	<u>\$ 878,595</u>	<u>\$ 8,005,495</u>
	44,683		1,158,537
			419,006
	<u>44,683</u>		<u>1,577,543</u>
			2,415,321
		878,595	878,595
	161,744		3,134,036
	<u>161,744</u>	<u>878,595</u>	<u>6,427,952</u>
<u>\$ -</u>	<u>\$ 206,427</u>	<u>\$ 878,595</u>	<u>\$ 8,005,495</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NON MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	Adult		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue Limit Sources			
State apportionment	\$ 573,473	\$ 600,650	\$ 27,177
Federal revenues	143,860	143,860	
Other state revenues	109,505	56,650	(52,855)
Other local revenues	67,924	71,138	3,214
Total Revenues	<u>894,762</u>	<u>872,298</u>	<u>(22,464)</u>
EXPENDITURES			
Current Expenditures			
Certificated Salaries	445,081	438,612	6,469
Classified salaries	194,155	194,155	
Employee benefits	135,299	130,327	4,972
Books and Supplies	49,492	33,688	15,804
Services and operating expenditures	45,062	21,974	23,088
Other outgo	16,419	16,418	1
Capital outlay	1,661		1,661
Total Expenditures	<u>887,169</u>	<u>835,174</u>	<u>51,995</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>7,593</u>	<u>37,124</u>	<u>29,531</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in			
Total Other Financing Sources/(Uses)			
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>7,593</u>	<u>37,124</u>	<u>29,531</u>
FUND BALANCE, Beginning of year	206,074	206,074	
Equity transfer			
ADJUSTED FUND BALANCE	<u>206,074</u>	<u>206,074</u>	
FUND BALANCE, End of year	<u>\$ 213,667</u>	<u>\$ 243,198</u>	<u>\$ 29,531</u>

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

Child Development			Cafeteria		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,492,022	\$ 1,470,522	\$ (21,500)	\$ 961,505	\$ 951,763	\$ (9,742)
2,406,061	2,340,226	(65,835)	55,145	79,455	24,310
2,735,764	2,541,361	(194,403)	2,529,081	2,394,944	(134,137)
<u>6,633,847</u>	<u>6,352,109</u>	<u>(281,738)</u>	<u>3,545,731</u>	<u>3,426,162</u>	<u>(119,569)</u>
2,574,244	2,574,243	1			
1,726,956	1,723,210	3,746	1,434,220	1,355,133	79,087
1,173,278	1,131,249	42,029	522,282	458,283	63,999
801,777	781,723	20,054	1,368,293	1,337,009	31,284
292,231	203,874	88,357	122,436	103,279	19,157
125,351	123,929	1,422	84,500	79,666	4,834
4,000		4,000	4,000		4,000
<u>6,697,837</u>	<u>6,538,228</u>	<u>159,609</u>	<u>3,535,731</u>	<u>3,333,370</u>	<u>202,361</u>
<u>(63,990)</u>	<u>(186,119)</u>	<u>(122,129)</u>	<u>10,000</u>	<u>92,792</u>	<u>82,792</u>
<u>75,000</u>	<u>75,000</u>				
<u>75,000</u>	<u>75,000</u>				
<u>11,010</u>	<u>(111,119)</u>	<u>(122,129)</u>	<u>10,000</u>	<u>92,792</u>	<u>82,792</u>
<u>141,643</u>	<u>141,643</u>		<u>286,715</u>	<u>286,715</u>	
<u>141,643</u>	<u>141,643</u>		<u>286,715</u>	<u>286,715</u>	
<u>\$ 152,653</u>	<u>\$ 30,524</u>	<u>\$ (122,129)</u>	<u>\$ 296,715</u>	<u>\$ 379,507</u>	<u>\$ 82,792</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NON MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	Deferred Maintenance		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Revenue Limit Sources			
State apportionment			
Federal revenues			
Other state revenues	\$ 500,000	\$ 499,725	\$ (275)
Other local revenues	150,000	250,877	100,877
Total Revenues	<u>650,000</u>	<u>750,602</u>	<u>100,602</u>
EXPENDITURES			
Current Expenditures			
Certificated Salaries			
Classified salaries			
Employee benefits			
Books and Supplies	19,678	19,677	1
Services and operating expenditures	611,969	611,969	
Other outgo			
Capital outlay	966,641	827,163	139,478
Total Expenditures	<u>1,598,288</u>	<u>1,458,809</u>	<u>139,479</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(948,288)</u>	<u>(708,207)</u>	<u>240,081</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	500,000	500,000	
Total Other Financing Sources/(Uses)	<u>500,000</u>	<u>500,000</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(448,288)</u>	<u>(208,207)</u>	<u>240,081</u>
FUND BALANCE, Beginning of year	4,942,591	4,942,591	
Equity transfer			
ADJUSTED FUND BALANCE	<u>4,942,591</u>	<u>4,942,591</u>	
FUND BALANCE, End of year	<u>\$ 4,494,303</u>	<u>\$ 4,734,384</u>	<u>\$ 240,081</u>

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

Special Reserve (Non-capital)			Foundation		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 351,000	\$ 350,999	\$ (1)	\$ 482,220	\$ 475,405	\$ (6,815)
<u>351,000</u>	<u>350,999</u>	<u>(1)</u>	<u>482,220</u>	<u>475,405</u>	<u>(6,815)</u>
			408,003	395,186	12,817
			101,852	100,901	951
			36,140	20,805	15,335
			25,884	10,467	15,417
			<u>571,879</u>	<u>527,359</u>	<u>44,520</u>
<u>351,000</u>	<u>350,999</u>	<u>(1)</u>	<u>(89,659)</u>	<u>(51,954)</u>	<u>37,705</u>
<u>351,000</u>	<u>350,999</u>	<u>(1)</u>	<u>(89,659)</u>	<u>(51,954)</u>	<u>37,705</u>
<u>7,038,661</u>	<u>7,038,661</u>		<u>213,698</u>	<u>213,698</u>	
<u>(7,389,660)</u>	<u>(7,389,660)</u>				
<u>(350,999)</u>	<u>(350,999)</u>		<u>213,698</u>	<u>213,698</u>	
<u>\$ 1</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ 124,039</u>	<u>\$ 161,744</u>	<u>\$ 37,705</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NON MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	Special Reserve (Retiree Benefits)		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue Limit Sources			
State apportionment			
Federal revenues			
Other state revenues			
Other local revenues	\$ -	\$ 298	\$ 298
Total Revenues	298	298	298
EXPENDITURES			
Current Expenditures			
Certificated Salaries			
Classified salaries			
Employee benefits			
Books and Supplies			
Services and operating expenditures			
Other outgo			
Capital outlay			
Total Expenditures			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		298	298
OTHER FINANCING SOURCES (USES)			
Operating transfers in			
Total Other Financing Sources/(Uses)			
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES		298	298
FUND BALANCE, Beginning of year			
Equity transfer	878,297	878,297	
ADJUSTED FUND BALANCE	878,297	878,297	
FUND BALANCE, End of year	\$ 878,297	\$ 878,595	\$ 298

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

Total Non-Major Special Revenue		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 573,473	\$ 600,650	\$ 27,177
2,597,387	2,566,145	(31,242)
3,070,711	2,976,056	(94,655)
6,315,989	6,085,022	(230,967)
<u>12,557,560</u>	<u>12,227,873</u>	<u>(329,687)</u>
3,427,328	3,408,041	19,287
3,355,331	3,272,498	82,833
1,932,711	1,820,760	111,951
2,275,380	2,192,902	82,478
1,097,582	951,563	146,019
226,270	220,013	6,257
976,302	827,163	149,139
<u>13,290,904</u>	<u>12,692,940</u>	<u>597,964</u>
<u>(733,344)</u>	<u>(465,067)</u>	<u>268,277</u>
575,000	575,000	
<u>575,000</u>	<u>575,000</u>	
(158,344)	109,933	268,277
12,829,382	12,829,382	
(6,511,363)	(6,511,363)	
6,318,019	6,318,019	
<u>\$ 6,159,675</u>	<u>\$ 6,427,952</u>	<u>\$ 268,277</u>



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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NON MAJOR DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007**

	<u>COP'S Debt Service #1</u>	<u>COP'S Debt Service #2</u>	<u>Total Non-Major Debt Service</u>
ASSETS			
Cash			
Investments	\$ 1,136	\$ 1,382,980	\$ 1,384,116
Accounts receivable	21	4,974	4,995
Total Assets	<u>\$ 1,157</u>	<u>\$ 1,387,954</u>	<u>\$ 1,389,111</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Total Liabilities			
FUND BALANCES			
Reserved	<u>1,157</u>	<u>1,387,954</u>	<u>1,389,111</u>
Total Fund Balance	<u>1,157</u>	<u>1,387,954</u>	<u>1,389,111</u>
Total Liabilities and Fund Balance	<u>\$ 1,157</u>	<u>\$ 1,387,954</u>	<u>\$ 1,389,111</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NON MAJOR DEBT SERVICE FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	COP's Debt Service #1		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other local revenues	\$ 20	\$ 60	\$ 40
Total Revenues	<u>20</u>	<u>60</u>	<u>40</u>
EXPENDITURES			
Debt service - principal			
Debt service - interest			
Total Expenditures	<u></u>	<u></u>	<u></u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	20	60	40
OTHER FINANCING SOURCES (USES)			
FUND BALANCE, Beginning of year	1,097	1,097	
FUND BALANCE, End of year	<u>\$ 1,117</u>	<u>\$ 1,157</u>	<u>\$ 40</u>

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

COP's Debt Service #2			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ 968,582	\$ 968,582	\$ 20	\$ 968,642	\$ 968,622
	968,582	968,582	20	968,642	968,622
	495,000	(495,000)		495,000	(495,000)
	654,500	(654,500)		654,500	(654,500)
	1,149,500	(1,149,500)		1,149,500	(1,149,500)
	(180,918)	(180,918)	20	(180,858)	(180,878)
1,568,872	1,568,872		1,569,969	1,569,969	
\$ 1,568,872	\$ 1,387,954	\$ (180,918)	\$ 1,569,989	\$ 1,389,111	\$ (180,878)

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NON MAJOR CAPITAL PROJECT FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007**

	<u>Building</u>	<u>Capital Facilities</u>	<u>Special Reserve (Capital)</u>	<u>COP'S Building</u>
ASSETS				
Investments	\$ 776,774	\$ 3,560,246	\$ 1,722,909	\$ 113,352
Accounts receivable	25,111	463,455	46,887	408
Total Assets	<u>\$ 801,885</u>	<u>\$ 4,023,701</u>	<u>\$ 1,769,796</u>	<u>\$ 113,760</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	213,207			
Total Liabilities	<u>213,207</u>			
FUND BALANCES				
Reserved				113,760
Unreserved				
Undesignated	588,678	4,023,701	1,769,796	
Total Fund Balance	<u>588,678</u>	<u>4,023,701</u>	<u>1,769,796</u>	<u>113,760</u>
Total Liabilities and Fund Balance	<u>\$ 801,885</u>	<u>\$ 4,023,701</u>	<u>\$ 1,769,796</u>	<u>\$ 113,760</u>

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

Total
Non-Major
Capital Project

\$ 6,173,281
535,861
\$ 6,709,142

213,207
213,207

113,760

6,382,175
6,495,935
\$ 6,709,142

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NON MAJOR CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	Building		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Revenue Limit Sources			
Other local revenues	\$ 90,000	\$ 88,031	\$ (1,969)
Total Revenues	<u>90,000</u>	<u>88,031</u>	<u>(1,969)</u>
EXPENDITURES			
Current Expenditures			
Classified salaries	32,135	32,135	
Employee benefits	9,503	9,502	1
Services and operating expenditures	471,888	471,887	1
Capital outlay	403,220	403,220	
Total Expenditures	<u>916,746</u>	<u>916,744</u>	<u>2</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(826,746)</u>	<u>(828,713)</u>	<u>(1,967)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers out	<u>(500,000)</u>	<u>(500,000)</u>	
Total Other Financing Sources/(Uses)	<u>(500,000)</u>	<u>(500,000)</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(1,326,746)</u>	<u>(1,328,713)</u>	<u>(1,967)</u>
FUND BALANCE, Beginning of year	1,917,391	1,917,391	
Equity transfer			
ADJUSTED FUND BALANCE	<u>1,917,391</u>	<u>1,917,391</u>	
FUND BALANCE, End of year	<u>\$ 590,645</u>	<u>\$ 588,678</u>	<u>\$ (1,967)</u>

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

Capital Facilities			Special Reserve (Capital)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 934,000	\$ 1,901,561	\$ 967,561	\$ 1,102,143	\$ 1,103,540	\$ 1,397
934,000	1,901,561	967,561	1,102,143	1,103,540	1,397
9,000	9,000		1,151,500	954,022	197,478
298,500		298,500			
307,500	9,000	298,500	1,151,500	954,022	197,478
626,500	1,892,561	1,266,061	(49,357)	149,518	198,875
			(3,141,987)	(3,141,987)	
			(3,141,987)	(3,141,987)	
626,500	1,892,561	1,266,061	(3,191,344)	(2,992,469)	198,875
2,131,140	2,131,140		1,762,265	1,762,265	
			3,000,000	3,000,000	
2,131,140	2,131,140		4,762,265	4,762,265	
\$ 2,757,640	\$ 4,023,701	\$ 1,266,061	\$ 1,570,921	\$ 1,769,796	\$ 198,875

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NON MAJOR CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	COP's Building		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Revenue Limit Sources			
Other local revenues	\$ -	\$ 512	\$ 512
Total Revenues		512	512
EXPENDITURES			
Current Expenditures			
Classified salaries			
Employee benefits			
Services and operating expenditures			
Capital outlay			
Total Expenditures			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		512	512
OTHER FINANCING SOURCES (USES)			
Operating transfers out			
Total Other Financing Sources/(Uses)			
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES		512	512
FUND BALANCE, Beginning of year	113,248	113,248	
Equity transfer			
ADJUSTED FUND BALANCE	113,248	113,248	
FUND BALANCE, End of year	\$ 113,248	\$ 113,760	\$ 512

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

Total Non-Major Capital Projects		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 2,126,143	\$ 3,093,644	\$ 967,501
<u>2,126,143</u>	<u>3,093,644</u>	<u>967,501</u>
32,135	32,135	
9,503	9,502	1
1,632,388	1,434,909	197,479
701,720	403,220	298,500
<u>2,375,746</u>	<u>1,879,766</u>	<u>495,980</u>
(249,603)	1,213,878	1,463,481
<u>(3,641,987)</u>	<u>(3,641,987)</u>	
<u>(3,641,987)</u>	<u>(3,641,987)</u>	
(3,891,590)	(2,428,109)	1,463,481
<u>5,924,044</u>	<u>5,924,044</u>	
3,000,000	3,000,000	
<u>8,924,044</u>	<u>8,924,044</u>	
<u>\$ 5,032,454</u>	<u>\$ 6,495,935</u>	<u>\$ 1,463,481</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**TRUST FUNDS – STUDENT BODIES
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Adams Middle School	Lincoln Middle School	Malibu High	Santa Monica High	Total Student Body Funds
ASSETS					
Cash	\$ 44,712	\$ 156,039	\$ 65,218	\$ 265,847	\$ 531,816
Accounts Receivable				24,302	24,302
Stores inventory		24,301	12,591		36,892
Prepaid items		906	7,000	13,796	21,702
Total Assets	<u>\$ 44,712</u>	<u>\$ 181,246</u>	<u>\$ 84,809</u>	<u>\$ 303,945</u>	<u>\$ 614,712</u>
LIABILITIES					
Accounts payable	<u>2,376</u>	<u>19,882</u>	<u>25,730</u>	<u>9,763</u>	<u>57,751</u>
Other liabilities - Due to student groups					
Beginning balance	48,606	170,503	99,126	202,102	520,337
Additions	90,146	215,748	275,108	1,357,138	1,938,140
Deductions	<u>(96,416)</u>	<u>(224,887)</u>	<u>(315,155)</u>	<u>(1,265,058)</u>	<u>(1,901,516)</u>
Ending balance	<u>42,336</u>	<u>161,364</u>	<u>59,079</u>	<u>294,182</u>	<u>556,961</u>
Total Liabilities	<u>44,712</u>	<u>181,246</u>	<u>84,809</u>	<u>303,945</u>	<u>614,712</u>
NET ASSETS					
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2007**

A comparison of the average daily attendance (ADA) for the current and prior school year is shown in the following summary.

	Annual ADA	Second Period ADA		Increase/ (Decrease)
		2006-07	Amended 2005-06	
ELEMENTARY				
Kindergarten	730	728	763	(35)
Grades 1st through 3rd	2,277	2,278	2,311	(33)
Grades 4th through 6th	2,418	2,420	2,483	(63)
Grades 7th through 8th	1,739	1,747	1,868	(121)
Home and Hospital	1	1	1	
Special Education (includes non-public)	235	233	236	(3)
Extended year	19	19	11	8
Total Elementary	<u>7,419</u>	<u>7,426</u>	<u>7,673</u>	<u>(247)</u>
SECONDARY				
High School				
Grades 9th through 12th	3,666	3,694	3,636	58
Continuation Education	92	93	94	(1)
Home and Hospital	5	4	3	1
Special Education (includes non-public)	105	107	136	(29)
Community Day School	15	16	5	11
Extended year	18	18	21	(3)
Total High School	<u>3,901</u>	<u>3,932</u>	<u>3,895</u>	<u>37</u>
Adult				
Concurrently enrolled	1	1		1
Nonconcurrent mandated	236	243	222	21
Total Adult	<u>237</u>	<u>244</u>	<u>222</u>	<u>22</u>
Total Secondary	<u>4,138</u>	<u>4,176</u>	<u>4,117</u>	<u>59</u>
Total Average Daily Attendance	<u>11,557</u>	<u>11,602</u>	<u>11,790</u>	<u>(188)</u>
SUMMER SCHOOL/INTERCESSION - ANNUAL PUPIL HOURS OF ATTENDANCE				
Elementary supplemental instructional hours	51,026	50,138	55,314	(5,176)
High School supplementary instructional hours	189,913	158,691	204,812	(46,121)
	<u>240,939</u>	<u>208,829</u>	<u>260,126</u>	<u>(51,297)</u>

See accompanying notes to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL MINUTES
FOR THE YEAR ENDED JUNE 30, 2007**

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.

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>1982-83 Actual Minutes</u>	<u>2006-07 Actual Minutes</u>	<u>No. of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	36,000	39,240	180	In Compliance
Grade 1	50,400	53,100	53,100	180	In Compliance
Grade 2	50,400	53,100	53,100	180	In Compliance
Grade 3	50,400	53,100	53,100	180	In Compliance
Grade 4	54,000	54,480	54,510	180	In Compliance
Grade 5	54,000	54,480	54,510	180	In Compliance
Grade 6	54,000	54,480	55,800	180	In Compliance
Grade 7	54,000	54,480	55,800	180	In Compliance
Grade 8	54,000	54,480	55,800	180	In Compliance
Grade 9	64,800	64,800	65,025	180	In Compliance
Grade 10	64,800	64,800	65,025	180	In Compliance
Grade 11	64,800	64,800	65,025	180	In Compliance
Grade 12	64,800	64,800	65,025	180	In Compliance

See accompanying notes to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**SCHEDULE OF TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

	(Budget) 2008 ¹	2007	2006	2005
GENERAL FUND				
Revenues	\$ 113,192,641	\$ 119,451,896	\$ 113,471,699	\$ 105,702,538
Other sources and transfers in	500,000	3,641,987	700,000	620,000
Total Revenues and other Sources	<u>113,692,641</u>	<u>123,093,883</u>	<u>114,171,699</u>	<u>106,322,538</u>
Expenditures	113,950,927	115,134,973	106,915,105	102,850,554
Other uses and transfers out	575,000	575,000	1,575,000	2,164,000
Total Expenditures and Other Uses	<u>114,525,927</u>	<u>115,709,973</u>	<u>108,490,105</u>	<u>105,014,554</u>
INCREASE/(DECREASE) IN FUND BALANCE	<u>(833,286)</u>	<u>7,383,910</u>	<u>5,681,594</u>	<u>1,307,984</u>
ENDING FUND BALANCE	<u>\$ 22,600,606</u>	<u>\$ 23,433,892</u>	<u>\$ 11,660,322</u>	<u>\$ 5,978,728</u>
AVAILABLE RESERVES ²	<u>\$ 22,550,606</u>	<u>\$ 18,698,302</u>	<u>\$ 16,076,595</u>	<u>\$ 8,456,726</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>19.69%</u>	<u>16.16%</u>	<u>14.82%</u>	<u>8.05%</u>
LONG-TERM DEBT	<u>\$ 100,910,384</u>	<u>\$ 106,823,088</u>	<u>\$ 111,785,750</u>	<u>\$ 113,957,327</u>
AVERAGE DAILY ATTENDANCE AT P-2 ⁵	<u>11,148</u>	<u>11,358</u>	<u>11,568</u>	<u>11,981</u>

The general fund balance has increased by \$17,455,164 (292%) over the past two years. The fiscal year 2007-2008 budget projects a decrease of \$833,286. For a District this size, the State recommends available reserves of at least 3.00% of total general fund expenditures, transfers out, and other uses (total outgo). The 2006-07 available reserve of 16.2% is above this requirement.

The District has not incurred operating deficits in any of the past three years, and anticipates incurring an operating deficit during the 2007-2008 fiscal year. Total long-term debt has decreased by \$15,084,315 over the past two years.

Average daily attendance has decreased by 623 over the past two years. A decrease of 210 ADA is anticipated during fiscal year 2007-2008.

¹ Budget 2008 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the general fund

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

FEDERAL PROGRAM	Catalog Number	Resource Number	Total Entitlement	Program Expenditures
U. S. DEPARTMENT OF AGRICULTURE				
Passed through California Department of Education				
Federal Commodities [2]	10.550	5345	[1]	\$ 138,284
National School Lunch and Breakfast Program [2]	10.553, 55	5310	[1]	951,763
Child Care Food Program (CCFP) [2]	10.558	5320	[1]	207,637
Less: Unadjusted differences				(138,284)
Subtotal				<u>1,159,400</u>
U.S. DEPARTMENT OF EDUCATION				
Passed through Los Angeles County Superintendent of Schools				
Individuals with Disabilities - Local Assistance [2]	84.027	3310	2,061,137	2,061,137
Individuals with Disabilities - Preschool/Staff Development [2]	84.173	3315, 45	76,482	76,482
Individuals with Disabilities - Preschool Local [2]	84.027A	3320	116,755	116,755
Individuals with Disabilities - Infant Discretionary [2]	84.027A	3330	98	98
Individuals with Disabilities - Local Staff Development [2]	84.027	3340	7,720	7,720
Individuals with Disabilities - Low Incidence [2]	84.027A	3360	1,979	1,979
Passed through California Department of Education				
Adult Education	84.002	3919-3926	143,860	143,860
NCLB Title I - Part A Basic Grants Low-Income and Neglected	84.010	3010	1,326,014	1,181,371
NCLB: Title II, Part A, Teacher Quality	84.367	4035	474,725	399,597
NCLB: Title II, Part D, Enhancing Educ. Thru Technology	84.318	4045, 46	213,203	203,760
NCLB: Title III, Immigrant Education Program	84.365	4201	3,203	3,203
NCLB: Title III, Limited English Proficiency (LEP)	84.365	4203	149,885	59,254
NCLB: Title IV, Part A, Drug-Free Schools	84.186	3710	41,239	40,925
NCLB: Title V, Part A, Innovative Education Strategies	84.298	4110	12,066	10,825
Department of Rehab: Workability II, Transition Partnership	84.158	3410	131,377	131,377
Individuals with Disabilities - Early Intervention	84.181	3385	31,330	31,330
Vocational Programs: Voc & Appl Tech Secondary II C	84.048	3550	59,034	59,034
Smaller Learning Communities	84-215L	5811	45,386	45,386
California English Language Development	84-369	0000	171	171
California Alternative Performance Testing	84.UNK	0000	265	265
Subtotal				<u>4,574,529</u>
U. S. DEPARTMENT OF HEALTH & HUMAN SERVICES				
Passed through California Department of Education				
Child Development: Federal Child Care, Center-based	93.596	5025	153,385	153,385
Child Development: Quality Improvement Activities	93.575	5035, 80, 95	18,571	18,571
Passed through Los Angeles County Superintendent of Schools				
Headstart	93.600	5210	1,090,929	1,090,929
Direct payments				
Medi-Cal Administrative Activities [2]	93.778	0000	524,992	191,291
Special ED - MEDI-Cal Billing [2]	93.778	5640	119,474	119,474
Subtotal				<u>1,573,650</u>
Total Federal Programs				<u><u>7,307,579</u></u>

[1] Entitlement not applicable. Maximum program revenues based upon level of service, ADA or other criteria.

[2] Major Federal Program

See accompanying notes to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

There following represents material differences noted between the Annual Financial and Budget Report (SACS-2000) and the audited financial statements

	Child Development
FUND BALANCE	
(SACHS Form), June 30, 2007	\$ 113,067
Adjustments	
Increase in:	
Deferred revenue	(58,208)
Decrease in:	
Accounts receivable	(24,335)
Audited Financial Statement, June 30, 2007	<u>\$ 30,524</u>

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	Actual Results for the Years					
	2006-07		2005-06		2004-05	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
State and local revenue included in revenue limit	\$66,279,714	55.5	\$64,980,766	57.3	\$62,449,217	59.1
Federal revenue	4,741,434	4.0	5,347,378	4.7	4,869,075	4.6
Other state revenue	15,113,260	12.6	10,229,671	9.0	16,063,413	15.2
Interest	1,190,374	1.0	699,746	0.6	358,568	0.3
Other local revenue and tuition	32,127,114	26.9	32,169,153	28.4	21,962,265	20.8
Total Revenues	119,451,896	100.0	113,426,714	100.0	105,702,538	100.0
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	57,591,237	48.2	54,043,839	47.6	51,608,298	48.8
Classified salaries	19,349,100	16.2	18,645,345	16.4	17,736,380	16.8
Employee benefits	21,415,805	17.9	19,958,559	17.6	20,447,477	19.3
Total Salaries and Benefit	98,356,142	82.3	92,647,743	81.6	89,792,155	84.9
Books and supplies	5,240,421	4.4	3,986,125	3.5	3,208,964	3.0
Contracts and operating expenses	10,913,551	9.1	10,002,157	8.8	9,776,676	9.2
Other outgoing	(213,435)	(0.2)	(230,291)	(0.2)	(514,689)	(0.5)
Capital outlay	807,481	0.7	430,959	0.4	110,218	0.1
Debt service	30,813	-	78,412	0.1	69,306	0.1
Total Expenditures	115,134,973	96.3	106,915,105	94.2	102,442,630	96.8
EXCESS OF REVENUES OVER EXPENDITURES	4,316,923	3.7	6,511,609	5.8	3,259,908	3.2
OTHER FINANCING SOURCES/(USES)						
Transfers in	3,641,987	3.0	744,985	0.7	620,000	0.6
Transfers out	(575,000)	(0.5)	(1,575,000)	(1.4)	(2,571,924)	(2.4)
Total Other Financing Uses	3,066,987	2.5	(830,015)	(0.7)	(1,951,924)	(1.8)
INCREASE (DECREASE) IN FUND BALANCE	7,383,910	6.2	5,681,594	5.1	1,307,984	1.4
FUND BALANCE, Beginning	* 16,049,982		5,978,728		4,670,744	
FUND BALANCE, Ending	\$23,433,892	19.6	\$11,660,322	10.3	\$ 5,978,728	5.7

*2006-07 Beginning balance includes \$4,389,660 Equity transfer In

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**CAFETERIA FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	Actual Results for the Years					
	2006-07		2005-06		2004-05	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
REVENUES						
Federal - NSLP and Breakfast Program	\$ 951,763	27.8	\$ 943,182	28.1	\$ 911,347	27.5
State meal program	79,455	2.3	58,807	1.8	57,325	1.7
Food sales	2,288,121	66.8	2,259,033	67.2	2,345,805	70.7
Other	106,823	3.1	96,609	2.9	4,879	0.1
Total Revenues	3,426,162	100.0	3,357,631	100.0	3,319,356	100.0
EXPENDITURES						
Salaries and benefits	1,813,416	52.9	1,735,296	51.7	1,723,980	51.9
Food and supplies	1,337,009	39.0	1,305,628	38.9	1,246,514	37.6
Services	103,279	3.0	110,268	3.3	75,503	2.3
Direct/indirect costs	79,666	2.3	90,261	2.7	171,696	5.2
Debt service						
Total Expenditures	3,333,370	97.2	3,241,453	96.6	3,217,693	97.0
EXCESS REVENUE OVER EXPENDITURE:	92,792	2.8	116,178	3.4	101,663	3.0
Transfers out					(20,000)	(0.6)
INCREASE IN FUND BALANCE	92,792	2.8	116,178	3.4	81,663	2.4
FUND BALANCE, Beginning	286,715		170,537		88,874	
FUND BALANCE, Ending	\$ 379,507	11.1	\$ 286,715	8.5	\$ 170,537	5.1

* * * * *

	MEALS SERVED/CLAIMED					
	2006-07		2005-06		2004-05	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	311,628	49.8	314,337	49.3	318,610	49.2
Free	256,005	40.9	255,716	40.1	260,400	40.2
Reduced price	57,917	9.3	67,522	10.6	68,474	10.6
Total Lunches	625,550	100.0	637,575	100.0	647,484	100.0
BREAKFAST - Needy						
Paid	16,053	15.6	17,482	15.8	17,927	16.1
Free	74,129	71.8	78,243	70.8	82,524	73.9
Reduced price	12,955	12.6	14,779	13.4	11,169	10.0
Total Breakfast	103,137	100.0	110,504	100.0	111,620	100.0
BREAKFAST - Basic						
Paid					104	0.1
Free					144	0.1
Reduced price					13	
Total Breakfast					261	0.2

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE #1 - PURPOSE OF SCHEDULES

A. 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.

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The 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 46201 through 46206.

C. 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.

D. Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. To comply with Circular A-133, this schedule was prepared for the District.

E. 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 SACS 2000 to the audited financial statements.

F. Excess Sick Leave

There was no sick leave authorized or approved by the Santa Monica-Malibu Unified School District that was in excess of amounts allowed by applicable state law and policy for employees who are members of the California State Teachers' Retirement System. Therefore, a schedule to disclose any excess was not prepared.

G. General Fund Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the general fund for the past two years.

H. Cafeteria Account Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the cafeteria account for the past two years.

ROY J. BLAIR

CERTIFIED PUBLIC ACCOUNTANT

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

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

I have audited the basic financial statements of Santa Monica-Malibu Unified School District as of and for the year ended June 30, 2007, and have issued my report thereon dated December 7, 2007. I conducted my audit in accordance with generally accepted 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 my audit, I considered Santa Monica-Malibu Unified School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the Santa Monica-Malibu Unified School District's internal control over financial reporting.

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 Santa Monica-Malibu Unified School District's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2007-1 to 2007-3 to be significant deficiencies in internal control over financial reporting.

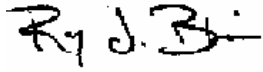
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of 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 internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

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, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Governing Board, Management, the California State Controller's Office, Department of Finance, Department of Education, 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. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "R. J. B." with a horizontal line extending from the end of the "B".

December 7, 2007

ROY J. BLAIR

CERTIFIED PUBLIC ACCOUNTANT

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

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

Compliance

I 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 year ended June 30, 2007. 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. My responsibility is to express an opinion on Santa Monica-Malibu Unified School District's compliance based on my audit.

I conducted my 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 Nonprofit Organizations*. Those standards and OMB Circular A-133 require that I 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 other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Santa Monica-Malibu Unified School District's compliance with those requirements.

In my 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 year ended June 30, 2007.

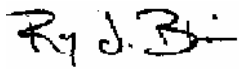
Internal Control over Compliance

The management of Santa Monica-Malibu Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the 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 my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Santa Monica-Malibu Unified School 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. My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended for the information of the Governing Board, Management, the California State Controller's Office, Department of Finance, Department of Education, 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. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "R. J. B." with a horizontal line extending from the end.

December 7, 2007

ROY J. BLAIR
CERTIFIED PUBLIC ACCOUNTANT

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 Phone (909) 481-3334 Fax: (909) 948-2417 E-Mail: RoyBlair@Roadrunner.Com

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

I have audited the compliance of the Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2007 and have issued my report thereon dated December 7, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies* prescribed in the California Code of Regulations, Title 5, Section 19810. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether 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. I believe that my audit provides a reasonable basis for my opinion.

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

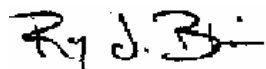
	Procedures in Audit Guide	Procedures Performed
Attendance Accounting		
Attendance reporting	8	Yes
Kindergarten continuation	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers/programs	6	Not applicable
Incentives for Longer Instructional Day		
School districts	6	Yes
County offices of education	3	Not applicable
Community Day Schools	9	No
Morgan-Hart Class Size Reduction Program	7	Not applicable
Instructional Materials		
General requirements	12	Yes
Grades K – 8 only	1	Yes
Grades 9 – 12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Not applicable
GANN Limit Calculation	1	Yes
School Construction Funds		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Not applicable
Excess Sick Leave	2 or 3	Yes
Notice of Right to Elect California State Teachers Retirement System (CasSTRS) Membership	1	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-Safe)	3	Yes
School Accountability Report Card	3	Yes
Class Size Reduction Program		
General Requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not applicable
District/Charter School with one school K - 3	4	Not applicable
Charter School Compliance	Various	Not applicable

I did not perform testing for Community Day Schools because ADA reported was below the minimum required.

Based on my audit, I 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 Findings and Recommendations section of this report. Further, based on my examination, for items not tested, nothing came to my attention to indicate that the Santa Monica-Malibu Unified School District had not complied with the state laws and regulations.

This report is intended for the information of the Governing Board, Management, the California State Controller's Office, Department of Finance, Department of Education, 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. However, this report is a matter of public record and its distribution is not limited.



December 7, 2007

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2007**

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified
Internal control over financial reporting:
 Material weakness identified? No
 Reporting conditions identified not considered to be a material weakness? Yes
 Noncompliance material to financial statements noted? No

FEDERAL AWARDS

Internal control over major programs:
 Material weakness identified? No
 Reporting conditions identified not considered to be a material weakness? No
Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133,
Section .510(a) No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.550 - 555	National School Lunch/ Breakfast Programs
10.558	Child Care Food Program
84.027, 173	Individuals with Educational Disabilities
93.778	Medical Administrative Activities

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

STATE AWARDS

Internal control over state programs:
 Material weakness identified? No
 Reporting conditions identified not considered to be material weakness? Yes
Type of auditors' report issued on compliance for state programs: Unqualified

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

The following findings represent reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with generally accepted government audit standards. The District is required to respond to the following findings. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous

2007-1 Finding (20000) – **NON-CAPITALIZED EQUIPMENT**

My test of expenditures disclosed that the District has not adequately maintained a detailed listing of non-capitalized fixed assets. Fixed assets include furniture, fixtures, and equipment. Non-capitalized fixed assets are those items between the state minimum requirement of \$500 and the District capitalization threshold of \$5,000. The majority of non-capitalized items purchased during the year were computers and other peripheral equipment. The risk of loss on computer equipment is high mainly because some computers (notebooks) are easy to move and equipment is costly.

The District did include all capital fixed assets acquired in the current year by reconciling all capital outlay accounts and construction records. A physical inventory of capitalized assets was conducted and the detailed listing including depreciation was made current.

The District's fixed assets accounting system should provide for the following:

- Maintain detail records indicating asset description, acquisition date and costs, funding source, location and serial/identification.
- Such detailed property records should be periodically checked by physical inventory with differences reconciled and records adjusted to reflect shortages.
- Procedures in place governing the disposition of property and equipment including monitoring the disposition of property acquired with grant funds.
- All equipment items should be marked so as identify them as property of the District and equipment items purchased with grant funds specifically marked as such.

Impact

The delay in recording the non-capitalized assets on the detailed listing is causing the District to be out of compliance with State Educational Code Section 35168 which requires all equipment with a current market value that exceeds \$500 to be included in a historical inventory listing. The delay is also putting the District at risk of not being able to recover lost or stolen equipment or obtaining insurance reimbursement for the equipment if stolen.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

Recommendation

We recommend that the District's management review its procedures relating to the non-capitalized fixed assets accounting system and implement appropriate modifications to ensure safeguarding of assets and compliance with Federal and State requirements.

District Response

The District will implement appropriate procedures for maintaining the non-capitalized fixed assets accounting system.

2007-2 Finding (30000) – **STUDENT BODY REVENUE POTENTIALS**

The preparation of revenue potentials (a reconciliation of actual cash collected to expected revenues) is one of the key controls necessary to ensure the complete and correct recording of student body cash collections. Most sites are preparing reconciliations but are preparing them incorrectly

Impact

Revenue earned in the student body fund is subject to greater risk of loss due to the nature of fundraising events and decentralization of the cash collection procedures. Revenue potentials are the primary internal control for assuring the District that all revenues are being properly accounted for. These documents when properly prepared will most likely alert responsible parties of the presence of errors or fraud.

Recommendation

A reconciliation of potential revenues to actual receipts (Revenue Potentials) should be prepared for all fund raising activities. The revenue potential form used at each school site should contain the following elements:

1. Potential Income is equal to the selling price of the items sold multiplied by the number of items purchased. This element should also be utilized to track the cost of the items, check numbers used to purchase the items, and the purchase dates. This purchasing information is a good reference source for future sales and also tracks cost so that profits can be determined.
2. Actual Receipts/Fund-Raiser Deposits is the total of all cash collected (deposits) generated from the sale of items noted above. The receipt number issued to the advisor, date, and deposit amount should be logged. This is necessary to be able to recap the deposits of the sale and to trace these deposits to the appropriate accounts at the end of the sale to the appropriate accounts to ensure that all postings were correct.
3. An analysis is then documented to compare the potential income as calculated in the Potential Income section to the actual funds raised as calculated in the Receipts/Fund-Raiser Deposits section. The difference between these two amounts should be explained and documented. The explanation can consist of merchandise not sold, merchandise lost or destroyed, or funds lost or stolen.

District Response

The District conducted an internal ASB audit in March and April 2007 and informed site personnel of the need to prepare revenue potentials. We will continue to train and monitor the sites on all aspects of the potential.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

2007-3 Finding (30000) – **STUDENT BODY STORES**

The ASB at Lincoln Middle School did not prepare an inventory of the merchandise purchased but not sold, at June 30, 2007 and continues to maintain a December 31, 2006 book amount of \$24,301 which appears to be based on sales value and not cost.

The inventory at Malibu High School ASB is recorded at Sales value and not at cost.

Impact

This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associated Student Body of the site.

Recommendation

According to the policies and procedures outlined in the “Accounting Procedures for Student Body Organizations”, prepared by the California Department of Education, a physical inventory should be taken quarterly under supervision of the student store advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. Stores inventory is recorded at the lower of cost or market value.

District Response

The District conducted an internal ASB audit in March and April 2007 and informed site personnel of the need to prepare inventory records at year end. We will continue to train and monitor the sites and District ASB clerk on all aspects of the inventory

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

There were no findings representing reportable conditions, material weaknesses, and instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

The following findings represent reportable conditions, material weaknesses, and instances of noncompliance related to State Awards, Compliance, and Questioned Costs.

2007-4 Finding (10000, 30000) **INSTRUCTIONAL MINUTES**

The schedule of Instructional Minutes as prepared by the District contained numerous errors. My audit of the instructional minutes disclosed that the District barely met minimum required minutes. The errors included the following:

1. Bell schedules did not properly reflect the actual minutes offered.
2. Instructional minutes were calculated incorrectly.
3. The wrong number of minimum days.

State requirements are that the Instructional minutes offered exceed the greater of 1982-83 Actual Instructional Minutes or the 1986-87 minimum. The District was unaware of this requirement and a few sites did not meet this requirement in the original calculations.

Impact

The District did comply in 2006-07 with the provisions of *Education Code* Sections 46200 and 46206. However, due to the severity of the penalty if compliance requirements are not met it is essential that the District monitor instructional minute calculations.

Recommendation

I recommend that the District implement the following procedures.

1. Bell schedules reflecting the actual minutes offered should be submitted to the governing board for approval at the beginning of each year. A separate bell schedule should be prepared for each type such as Regular Day, Minimum Day, Shortened Day, etc. A school calendar that reflects the schedule to be in place for that day should be noted on the calendar. This data should be submitted with a calculation of the sites annual instructional minutes to be reviewed by District administration.
2. The District administration should review and test instructional minutes calculations submitted and trace to submitted schedules and calendars.
3. The District person responsible for the oversight of this issue should familiarize themselves with the state requirements and approved exceptions.
4. A certification of the instructional minutes actually offered during the year should be submitted by the site along with documents to substantiate any changes from original submittals.

District Response

The District agrees the importance of continuous monitoring of site instructional minutes to ensure state compliance; and will provide additional support and assistance at the sites to ensure instructional minutes are calculated correctly and compliant.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of findings and questioned costs.

**CURRENT
STATUS**

FINANCIAL STATEMENT PREPARATION

2006-1 Finding (30000) **IMPLEMENTED**

In conducting my audit it is apparent that the district currently does not have a staff person trained to prepare a year-end financial statement, in accordance with governmental accounting standards (GASB 34 format). Also, records used to prepare a year-end financial statement are not adequate. These records include a listing of all accounts receivable and accounts payable by object, long-term liabilities by function, and depreciation records also by function. Currently, the county accounting system does not lend itself to easily preparing the required records.

Impact

Because the District has not actually prepared a year-end financial statement, in accordance with governmental accounting standards it has been necessary for the auditor to accumulate the necessary data by different means. The district has been issuing GASB 34 financial statements for the past several years with substantial assistance from the auditor.

Recommendation

I recommend that the District implement a process whereby the year-end records necessary to prepare a year-end financial statement, in accordance with governmental accounting standards are completed timely. In addition, the district should provide for the necessary training of individuals responsible for understanding and preparing the year-end financial statements.

INVENTORY OF CAPITALIZED ASSETS

2006-2 Finding (20000, 30000) **IMPLEMENTED**

In the prior year audit report we recommended that the District improve the system used to maintain Capitalized and Non-capitalized asset acquisitions and deletions. The District did attempt to include all assets acquired in the current year by reconciling all capital outlay accounts and construction records. However, a physical inventory of capitalized assets was not conducted.

Impact

An inventory of all capital assets should be conducted periodically. Items that were lost, traded in or sold would be identified and removed from depreciation records. In addition, a periodic inspection of assets minimizes the likelihood of their being misplaced.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

**CURRENT
STATUS**

2006-2
Continued

Recommendation

I recommend that a physical inventory be conducted of capitalized assets, excluding real property, sometime during the year. At a minimum department heads could certify the existence of assets under their domain by comparing equipment listings prepared by the business department and notifying the District of any additions or deletions to the list.

ATTENDANCE REPORTING

2006-03

Finding (10000, 30000)

IMPLEMENTED

My audit of the 2005-06 Second Period and Annual "Reports of School District Attendance" reports noted that the attendance data summarized by the computer system did not include current data. While conducting my testing of the attendance at several sites I noticed that the attendance accounting process was behind required timelines. Data used by the District to report average daily attendance to the state are accumulated by the attendance office from computerized attendance reports prepared by the data processing department. This data is the accumulation of input from each site into the computer system. If site personnel are not timely in reporting absences and enrollment data then monthly reports will not include all absences. Additional errors include incorrect coding of short term Independent Study days at Cabrillo and Grant elementary and schedule creation at Adams and Lincoln middle schools.

Results

Due to the effects of the above errors on the Period 2 attendance summaries, the corresponding state attendance report was misstated. The effect on the Average Daily Attendance (ADA) between originally reported at P2 and amended for grades K – 12 was a decrease in ADA of 12.84 and is summarized as follows:

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

**CURRENT
STATUS**

2006-3
Continued

Recommendation

Based on the finding the Second Period Report of School District Attendance was revised to reflect the understatement of Average Daily Attendance (ADA) caused by the errors found. I recommend that site personnel be advised of state requirements to submit attendance data in a timely manner.