

**SANTA MONICA-MALIBU UNIFIED
SCHOOL DISTRICT**

**COUNTY OF LOS ANGELES
SANTA MONICA, CALIFORNIA**

AUDIT REPORT

June 30, 2008



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2008

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A Professional
Accountancy Corporation

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

MURRIETA OFFICE
PH: 951.698.8783
FAX: 951.699.1064
25090 Jefferson Avenue
Murrieta, CA 92562

SAN DIEGO OFFICE
PH: 619.270.8222
FAX: 619.260.9085
2727 Camino Del Rio S.
Suite 219
San Diego, CA 92108

MEMBERS OF

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Santa Monica-Malibu, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Santa Monica-Malibu Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2008 on our consideration of the Santa Monica-Malibu Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13 and budgetary comparison information on page 43 is not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in cursive script that reads "Nigro Nigro & White, PC".

San Diego, California
December 2, 2008

Management's Discussion and Analysis

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

This discussion and analysis of Santa Monica-Malibu Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's General Fund financial status improved as compared to the prior year. The District was able to end the year with \$4.6 million more revenues than expenditures.
- Government-wide, net assets increased by \$13.4 million to an ending balance of \$99.4 million.
- The total cost of basic programs was \$141.6 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was \$105.8 million.
- The District increased its capital assets by \$5.2 million or 2%.
- Long-term debt increased \$58.9 million primarily with the issuance of \$60 million in the first series of Measure BB general obligation bonds.
- Average daily attendance (ADA) decreased by 362 over the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

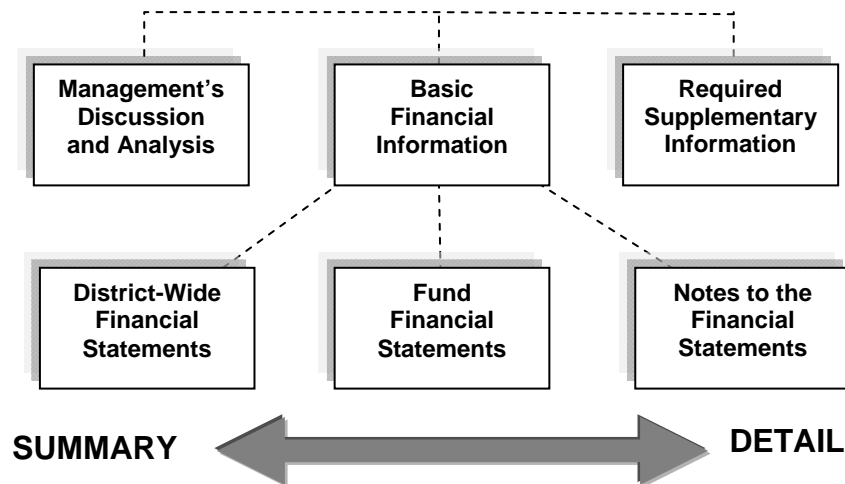
This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

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

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



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

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

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

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

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

District-wide Statements

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

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

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

Fund Financial Statements

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

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

The District has two kinds of funds:

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were significantly larger on June 30, 2008, than they were the year before – increasing approximately \$13.4 million from the previous year to the ending balance of \$99.4 million. (See Table A-1).

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

	(in millions)		Total
	Governmental Activities		Percentage
	2007*	2008	Change
			2007-08
Current and other assets	\$ 63.7	\$ 131.9	107%
Capital assets	156.3	157.2	1%
Total assets	220.0	289.1	31%
Other liabilities	20.4	17.2	-16%
Long-term liabilities	113.6	172.5	52%
Total liabilities	134.0	189.7	42%
Total net assets	\$ 86.0	\$ 99.4	16%

* As restated (See Note 13)

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net assets and governmental activities. The District's total revenues were \$155.0 million (See Table A-2).

The total cost of all programs and services was \$141.6 million. The District's expenses are predominantly related to educating and caring for students, 75%. The purely administrative activities of the District accounted for just 5% of total costs. The total costs increased by 4%.

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

	(in millions)		Total
	Governmental Activities		Percentage
	2007	2008	Change
			2007-08
Revenues:			
<i>Program revenues</i>			
Charges for services	\$ 4.7	\$ 5.3	12%
Operating grants and contributions	30.7	30.5	-1%
<i>General revenues</i>			
Property taxes	58.1	67.7	16%
Other revenues	49.9	51.5	3%
Total revenues	<u>143.5</u>	<u>155.0</u>	8%
Expenses:			
Instruction-related	98.9	95.1	-4%
Student support services	11.3	11.6	2%
Maintenance & operations	13.9	15.3	10%
Administration	7.9	7.7	-3%
Other expenses*	4.2	11.9	184%
Total expenses	<u>136.3</u>	<u>141.6</u>	4%
Increase in net assets	<u>\$ 7.2</u>	<u>\$ 13.4</u>	86%

*increase due to depreciation expense that was previously allocated as well as interest on long-term debt

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

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

- The cost of all *governmental* activities this year was \$141.6 million.
- Some of the cost was paid by the users of the District's programs \$5.3 million.
- The federal and state governments subsidized programs with grants and contributions \$30.5 million.
- Most of the District's costs \$105.8 million, however, were paid for by District taxpayers and the taxpayers of California. This portion of governmental activities was paid for with property taxes, unrestricted state aid based on the statewide education aid formula, and with investment earnings.

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

	Total Cost of Services	Net Cost of Services
Instructional services	\$ 95.1	\$ 68.5
Pupil support services	11.6	5.1
Maintenance & operations	15.3	14.1
Administration	7.7	7.0
Other expenses	11.9	11.2
Total expenses	<u>\$ 141.6</u>	<u>\$ 105.8</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$115.5 million, which is above last year's ending fund balance of \$44.7 million. The District's General Fund had more revenues than expenditures in 2008 by \$4.7 million.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. While the District's final budget for the General Fund anticipated expenditures would exceed revenues by \$2.0 million, the actual results for the year show that revenues exceeded expenditures and other outgo by \$5.0 million. Actual revenues were \$.6 million less than anticipated, and expenditures were \$7.7 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2008 that will be carried over into the 2008-09 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As shown in Table A-4, by the end of 2007-08 the District had invested over \$227.7 million in capital assets. (More detailed information about the District's capital assets is presented in Note 5 to the financial statements.)

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

	(In millions)		Total Percentage
	Governmental Activities		Change
	2007	2008	2007-08
Land	\$ 6.6	\$ 6.6	0%
Buildings and improvements	205.0	204.8	0%
Furniture and equipment	10.7	10.8	2%
Work in progress	0.2	5.5	2359%
Total	\$ 222.5	\$ 227.7	2%

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$172.5 million in general obligation bonds, certificates of participation, capital leases and compensated absences – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements.)

Table A-5
Santa Monica-Malibu Unified School District's Long-Term Debt
(In millions)

			Total
	2007*	2008	Percentage Change
	2007*	2008	2007-08
General Obligation Bonds	\$ 95.2	\$ 154.6	62%
Certificates of participation	17.8	17.3	-3%
Compensated absences	0.6	0.6	10%
Total	<u>\$ 113.6</u>	<u>\$ 172.5</u>	52%

**As restated (See Note 13)*

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

FACTORS BEARING ON THE DISTRICT'S FUTURE

On September 23, 2008, Governor Schwarzenegger signed the 2008-09 Budget, ending the longest budget stalemate in California's history. The final spending plan includes \$24.0 billion of "solutions", including \$10.3 billion in spending cuts, \$9.6 billion in revenue-related provisions, and \$4.0 billion in borrowing.

The final budget agreement includes:

- A total of \$10.3 billion in spending reductions, including \$3.3 billion in cuts to "base" K-14 education spending.
- Changes to the budget process that would substantially increase the size of the state's reserve and limit the use of future revenues that exceed anticipated levels. The agreement also would give governors vast new power to unilaterally reduce spending midway through the budget year.
- Assumes that the state will issue bonds backed by lottery proceeds in 2009-10. The budget agreement includes provisions aimed at doubling the amount Californians spend on lottery purchases and would replace schools' allocation from lottery proceeds with a General Fund appropriation equivalent to the amount allocated to education from the lottery in 2008-09. The General Fund allocation for education would increase over time based on enrollment and per capita personal income growth.
- A one-time shift of \$350 million in property tax revenues from redevelopment agencies to schools and a commensurate reduction in state General Fund support for schools and community colleges.

As signed by the Governor, the 2008-09 Budget provides \$58.1 billion in funding for K-14 education programs under the Proposition 98 guarantee. The Budget reduces "base" K-14 education spending by \$3.3 billion.

The 2008-09 Budget and related legislation:

- Provide a 0.68 percent COLA to fund revenue limits for school districts and county offices of education, which is below the 5.66 percent statutory COLA and the 2.12 percent COLA proposed by the Conference Committee. The 2008-09 Budget does not provide a COLA for categorical programs, such as class size reduction and instructional materials.
- Do not provide \$150 million in 2008-09 Proposition 98 "settle-up" funds needed to meet prior-year Proposition 98 obligations.

Proposed to modify Proposition 49, the After School Education and Safety Program (ASES) Act, by submitting a ballot measure to voters in November 2008. However, the Governor vetoed the bill that would have submitted the measure to voters. The measure would have removed Proposition 49's minimum funding level of \$550 million and would have allowed annual ASES budgeting decisions to be made by the Legislature.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Financial Section

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2008

	Total Governmental Activities
ASSETS	
Cash	\$ 120,471,594
Accounts receivable	10,670,629
Inventories	68,167
Prepaid expenses	700,371
Capital assets:	
Land	6,588,760
Improvement of sites	11,513,785
Buildings	193,293,777
Furniture and equipment	10,834,500
Work in progress	5,469,164
Less accumulated depreciation	(70,518,125)
Total capital assets, net of depreciation	157,181,861
Total assets	289,092,622
LIABILITIES	
Accounts payable and current liabilities	15,964,184
Deferred revenue	1,268,392
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds payable	8,645,492
Certificates of participation payable	530,000
Portion due or payable after one year:	
General obligation bonds payable	145,934,449
Certificates of participation payable	16,776,501
Compensated absences payable	618,150
Total liabilities	189,737,168
NET ASSETS	
Invested in capital assets, net of related debt	43,802,514
Restricted for:	
Capital projects	4,902,868
Debt service	17,085,329
Educational programs	7,501,909
Unrestricted	26,062,834
Total Net Assets	\$ 99,355,454

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Instructional Services:				
Instruction	\$ 78,743,599	\$ 2,090,981	\$ 19,322,763	\$ (57,329,855)
Instruction-Related Services:				
Supervision of instruction	5,213,213	231,219	2,625,802	(2,356,192)
Instructional library, media and technology	1,315,099	276,205	731,837	(307,057)
School site administration	9,854,924	245,440	1,150,540	(8,458,944)
Pupil Support Services:				
Home-to-school transportation	1,630,673	190,389	1,136,345	(303,939)
Food services	3,355,935	1,727,871	1,449,188	(178,876)
All other pupil services	6,600,627	8,067	2,009,371	(4,583,189)
General Administration Services:				
Data processing services	895,023	-	-	(895,023)
Other general administration	6,793,576	184,648	527,945	(6,080,983)
Plant services	15,329,597	128,869	1,093,772	(14,106,956)
Ancillary services	762,315	50,559	128,161	(583,595)
Community services	555,598	129,623	328,581	(97,394)
Interest on long-term debt	6,160,662	-	-	(6,160,662)
Other outgo	51,387	403	1,022	(49,962)
Depreciation (unallocated)	4,322,104	-	-	(4,322,104)
Total Governmental Activities	\$ 141,584,332	\$ 5,264,274	\$ 30,505,327	(105,814,731)

General Revenues:

Taxes:

Property taxes, levied for general purposes	39,342,867
Property taxes, levied for debt service	16,616,856
Property taxes, levied for special purposes	11,777,673
Federal and state aid not restricted to specific purpose	33,518,211
Interest and investment earnings	3,746,590
Miscellaneous	14,187,263

Total general revenues 119,189,460

Change in net assets 13,374,729

Net assets - July 1, 2007, originally stated 92,772,374

Adjustments for restatement (See Note 13) (6,791,649)

Net assets - July 1, 2007, restated 85,980,725

Net assets - June 30, 2008 \$ 99,355,454

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2008

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 32,086,948	\$ 59,608,645	\$ 17,084,116	\$ 11,691,885	\$ 120,471,594
Accounts receivable	8,659,968	577,519	-	1,433,142	10,670,629
Inventories	20,366	-	-	47,801	68,167
Prepaid expenditures	55,265	-	-	-	55,265
Total Assets	<u>\$ 40,822,547</u>	<u>\$ 60,186,164</u>	<u>\$ 17,084,116</u>	<u>\$ 13,172,828</u>	<u>\$ 131,265,655</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued liabilities	\$ 11,606,061	\$ 1,679,069	\$ -	\$ 1,245,636	\$ 14,530,766
Deferred revenue	1,131,312	-	-	137,080	1,268,392
Total Liabilities	<u>12,737,373</u>	<u>1,679,069</u>	<u>-</u>	<u>1,382,716</u>	<u>15,799,158</u>
Fund Balances					
Reserved for:					
Inventories	20,366	-	-	47,801	68,167
Revolving cash	20,000	-	-	10,000	30,000
Debt service	-	-	17,084,116	1,213	17,085,329
Prepaid expenditures	55,265	-	-	-	55,265
Categorical programs	7,501,909	-	-	-	7,501,909
Unreserved; reported in:					
General fund	20,487,634	-	-	-	20,487,634
Capital project funds	-	58,507,095	-	4,902,868	63,409,963
Other funds	-	-	-	6,828,230	6,828,230
Total Fund Balances	<u>28,085,174</u>	<u>58,507,095</u>	<u>17,084,116</u>	<u>11,790,112</u>	<u>115,466,497</u>
Total Liabilities and Fund Balances	<u>\$ 40,822,547</u>	<u>\$ 60,186,164</u>	<u>\$ 17,084,116</u>	<u>\$ 13,172,828</u>	<u>\$ 131,265,655</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2008

Total fund balances - governmental funds \$ 115,466,497

Amounts reported for governmental *activities* in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$227,699,986 and the accumulated depreciation is (\$70,518,125). 157,181,861

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: (1,433,418)

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are: 645,106

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

Certificates of participation payable	\$ 17,306,501	
General obligation bonds	154,579,941	
Compensated absences payable	<u>618,150</u>	<u>(172,504,592)</u>

Total net assets - governmental activities \$ 99,355,454

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2008

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
General Revenues:					
Property taxes	\$ 49,920,059	\$ -	\$ 16,652,383	\$ 1,164,955	\$ 67,737,397
Federal and state aid not restricted to specific purpose	33,518,211	-	-	-	33,518,211
Earnings on investments	1,181,233	1,879,367	278,998	406,994	3,746,592
Miscellaneous	11,927,018	-	-	2,260,245	14,187,263
Program Revenues:					
Charges for services	2,258,911	-	-	3,005,362	5,264,273
Operating grants and contributions	21,916,900	24,157	-	8,564,270	30,505,327
Total Revenues	120,722,332	1,903,524	16,931,381	15,401,826	154,959,063
EXPENDITURES					
Instructional Services:					
Instruction	72,933,820	-	-	5,931,345	78,865,165
Instruction-Related Services:					
Supervision of instruction	4,539,504	-	-	673,709	5,213,213
Instructional library, media and technology	1,315,099	-	-	-	1,315,099
School site administration	8,953,415	-	-	906,067	9,859,482
Pupil Support Services:					
Home-to-school transportation	1,798,229	-	-	-	1,798,229
Food services	-	-	-	3,364,354	3,364,354
All other pupil services	6,559,095	-	-	41,532	6,600,627
General Administration Services:					
Data processing services	905,392	-	-	-	905,392
Other general administration	6,364,125	-	-	492,523	6,856,648
Plant services	10,949,853	1,501,728	-	1,607,267	14,058,848
Facility acquisition and construction	60,014	5,462,708	-	505,652	6,028,374
Ancillary services	767,318	-	-	-	767,318
Community services	574,780	-	-	18,282	593,062
Other outgo:					
Debt service - issuance costs	-	696,497	-	-	696,497
Debt service - principal	1,802	-	4,800,000	1,143,864	5,945,666
Debt service - interest	43	-	3,743,109	-	3,743,152
Total Expenditures	115,722,489	7,660,933	8,543,109	14,684,595	146,611,126
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,999,843	(5,757,409)	8,388,272	717,231	8,347,937
OTHER FINANCING SOURCES (USES)					
Proceeds from long term debt	-	60,675,826	1,755,000	-	62,430,826
Interfund transfers in	1,000,000	4,000,000	-	1,348,561	6,348,561
Interfund transfers out	(1,348,561)	(1,000,000)	-	(4,000,000)	(6,348,561)
Total Other Financing Sources and Uses	(348,561)	63,675,826	1,755,000	(2,651,439)	62,430,826
Net Change in Fund Balances	4,651,282	57,918,417	10,143,272	(1,934,208)	70,778,763
Fund Balances, July 1, 2007	23,433,892	588,678	6,940,844	13,724,320	44,687,734
Fund Balances, June 30, 2008	\$ 28,085,174	\$ 58,507,095	\$ 17,084,116	\$ 11,790,112	\$ 115,466,497

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2008

Total net change in fund balances - governmental funds **\$ 70,778,763**

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

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

Expenditures for capital outlay	\$ 5,229,756	
Depreciation expense	<u>(4,322,104)</u>	907,652

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 5,311,802

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

Issue costs incurred during the period	\$ 675,825	
issue costs amortized for the period	<u>(30,719)</u>	645,106

In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as increase to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were: (62,430,826)

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is: 110,492

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

Current year accreted interest	\$ (1,827,198)	
Current year unmatured interest	(1,433,418)	
Prior year unmatured interest	<u>1,366,481</u>	(1,894,135)

In the statement of activities, compensated absences are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*.) (54,125)

Change in net assets of governmental activities **\$ 13,374,729**

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2008

	Agency Funds		
	Student Body Funds	Payroll Clearing Fund	Total
Assets			
Cash	\$ 578,482	\$ -	\$ 578,482
Stores inventory	40,435	-	40,435
Prepays	90,345	-	90,345
Total Assets	\$ 709,262	\$ -	\$ 709,262
Liabilities			
Accounts payable	\$ 91,413	\$ 206,552	\$ 297,965
Due to student groups	617,849	-	617,849
Total Liabilities	\$ 709,262	\$ 206,552	\$ 915,814

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. Based on those criteria, the District has determined that there are no potential component units that should be included in the District's financial reporting entity.

C. Basis of Presentation

Government-wide Financial Statements:

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

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

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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

Fund Financial Statements:

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

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

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting

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

Revenues – exchange and non-exchange transactions:

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Deferred revenue:

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

E. Fund Accounting

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

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.

The *Bond Interest and Redemption Fund* is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains six non-major special revenue funds:

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

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

1. The Special Reserve Fund for Capital Outlay Projects exists to provide for the accumulation of monies for capital outlay projects.
2. 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.

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

1. The Debt Service Fund is used to account for the accumulation of resources for, and repayment of the District's COPs

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Fiduciary Funds:

The District maintains one type of fiduciary fund.

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains agency funds, one for each school that operates a student body fund. The amounts reported for student body funds represent the combined totals of all schools within the District. In addition, the District maintains the Payroll Clearing fund, which is used to account separately for the collection of federal and state taxes, credit union, insurance contributions, and other receipts from employees.

F. Budgets and Budgetary Accounting

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

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

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

G. Encumbrances

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

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

2. Stores Inventories

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

3. Deferred Revenue

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

4. Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

4. Capital Assets (continued)

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

5. Compensated Absences

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

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

6. Long-Term Obligations

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

6. Long-Term Obligations (continued)

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

7. Fund Balance Reserves and Designations

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

8. Net Assets

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

I. Revenue Limit/Property Tax

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

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenue Limit/Property Tax (continued)

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

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

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

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

J. Use of Estimates

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

K. New GASB Pronouncements

During the 2007-08 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 48-*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* was issued in September 2006. This statement establishes criteria that governments use to ascertain whether proceed received as lump sum payment in exchange for certain receivables should be reported as a revenue or liability. The District had no such transactions during the year.

GASB Statement No. 50-*Pension Disclosures-and amendment of GASB Statements No. 25 and No.27* was issued in May 2007. This statement amends statements 25 and 27 to require defined benefit pension plans and sole and agent employers present certain information related to note disclosures.

L. Reclassifications

Comparative financial information for the prior year has been presented for additional analysis; certain amounts presented in prior year data may have been reclassified in order to be consistent with the current year's presentation. Amount previously recorded as COP Debt #2 and COP Building have been reclassified in the Special Reserve Fund for Capital Outlay Projects, included in the non-major governmental funds.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

	Governmental Funds	Fiduciary Funds
Cash in county treasury	\$ 118,936,362	\$ -
Cash on hand and in banks	22,047	578,482
Cash with fiscal agent	1,493,185	-
Cash in revolving fund	20,000	-
Total deposits	<u>\$ 120,471,594</u>	<u>\$ 578,482</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Policies and Practices

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

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

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

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

Interest Rate Risk

Interest rate risk is the risk when changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in the market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the Santa Monica-Malibu County Investment Pool with a fair value of approximately \$118,599,207 and an amortized book value of \$118,729,810. The weighted average maturity for this pool is 556 days as of June 30, 2008.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The individual investments within the Los Angeles County Investment Pool are rated at least A by Moody's Investors Services.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008, \$208,803 of the District's bank balance was exposed to custodial credit risk. Subsequent to June 30, 2008, the District secured the cash in the bank and provided a letter of collateralization for these amounts.

Concentration of Credit Risk

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

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2008 consist of the following:

	General Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Federal Government:				
Categorical aid programs	\$ 1,417,321	\$ -	\$ 350,901	\$ 1,768,223
State Government:				
Revenue Limit	2,820,612	-	-	2,820,612
Lottery	716,594	-	-	716,594
Categorical aid programs	642,819	-	632,616	1,275,435
Local:				
Other	2,699,873	577,519	317,349	3,594,741
Interest	362,748	-	132,276	495,024
Totals	<u>\$ 8,659,968</u>	<u>\$ 577,519</u>	<u>\$ 1,433,142</u>	<u>\$ 10,670,629</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 4 - INTERFUND TRANSACTIONS

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

A. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2007-08 fiscal year are as follows:

	Transfers from Other Funds			Total
	General Fund	Building Fund	Other Governmental Funds	
General Fund	\$ -	\$ -	\$ 1,348,561	\$ 1,348,561
Building Fund	1,000,000	-	-	1,000,000
Other Governmental Funds	-	4,000,000	-	4,000,000
Total	<u>\$ 1,000,000</u>	<u>\$ 4,000,000</u>	<u>\$ 1,348,561</u>	<u>\$ 6,348,561</u>

The General Fund transferred to the Child Development Fund for early start/dismisal expenditures	\$ 75,000
The General Fund transferred to the Deferred Maintenance Fund for expenditures	523,561
The General Fund transferred to the Special Reserve Fund for Postemployment Benefits	750,000
The Building Fund transferred to the General Fund for maintenance expenditures	1,000,000
The Capital Facilities Fund transferred to the Building Fund for developer fees	4,000,000
	<u>\$ 6,348,561</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2008 is shown below:

	Beginning Balance July 1, 2007	Additions	Deletions	Ending Balance June 30, 2008
Land	\$ 6,588,760	\$ -	\$ -	\$ 6,588,760
Buildings and improvements	204,986,272	459,167	637,877	204,807,562
Furniture and equipment	10,672,819	638,399	476,718	10,834,500
Work in progress	222,379	5,456,614	209,829	5,469,164
Total at historical cost	222,470,230	6,554,180	1,324,424	227,699,986
Less accumulated depreciation:				
Buildings and improvements	57,134,365	4,474,068	16,647	61,591,786
Furniture and equipment	9,061,656	317,046	452,363	8,926,339
Total accumulated depreciation	66,196,021	4,791,114	469,010	70,518,125
Governmental activities capital assets, net	\$ 156,274,209	\$ 1,763,066	\$ 855,414	\$ 157,181,861

NOTE 6 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2008 is shown below:

	Balance July 1, 2007	Audit Adjustment/ Restatement	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Due within One Year
General obligations bonds	\$ 84,095,035	\$ 11,137,374	\$ 95,232,409	\$ 61,827,198	\$ 4,800,000	\$ 152,259,607	\$ 8,535,000
Unamortized Premium on Issuance	-	-	-	2,430,826	110,492	2,320,334	110,492
Certificates of Participation	17,816,501	-	17,816,501	-	510,000	17,306,501	530,000
Capital leases	-	1,802	1,802	-	1,802	-	-
Compensated absences	564,025	-	564,025	54,125	-	618,150	-
Net OPEB Obligation	4,347,527	(4,347,527)	-	-	-	-	-
	\$ 106,823,088	\$ 6,791,649	\$ 113,614,737	\$ 64,312,149	\$ 5,422,294	\$ 172,504,592	\$ 9,175,492

A. General Obligation Bond

Refunding Bonds of 1998

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 6 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bond (continued)

Election of 1998

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

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

Election of 2006

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

The outstanding bonded debt for Santa Monica-Malibu Unified School District at June 30, 2008 is:

Bond	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2007	Audit Adjustment/ Restatement	Adjusted Beginning Balance	Addition	Redeemed	Bonds Outstanding June 30, 2008	Due in One Year
Series 1998	8/1/2018	5.65% - 5.70%	\$ 68,145,000	\$ 47,360,000	\$ -	\$ 47,360,000	\$ -	\$ 3,055,000	\$ 44,305,000	\$ -
Series 1999	8/1/2023	5.15% - 5.50%	38,000,034	32,845,035	11,137,374	43,982,409	1,827,198	1,600,000	44,209,607	1,855,000
Series 2001	8/1/2025	4.00% - 5.75%	3,995,000	630,000	-	630,000	-	115,000	515,000	125,000
2006 Refunding	8/1/2025	3.50% - 4.00%	3,285,000	3,260,000	-	3,260,000	-	30,000	3,230,000	-
2006 Series A	8/1/2032	4.00%-5.00%	60,000,000	-	-	-	60,000,000	-	60,000,000	6,555,000
			<u>\$ 173,425,034</u>	<u>\$ 84,095,035</u>	<u>\$ 11,137,374</u>	<u>\$ 95,232,409</u>	<u>\$ 61,827,198</u>	<u>\$ 4,800,000</u>	<u>\$ 152,259,607</u>	<u>\$ 8,535,000</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 6 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bond (continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008-2009	\$ 13,015,000	\$ 5,206,013	\$ 18,221,013
2009-2010	12,185,000	5,234,497	17,419,497
2010-2011	6,500,000	4,648,222	11,148,222
2011-2012	6,830,000	4,422,290	11,252,290
2012-2013	5,952,188	5,401,207	11,353,395
2013-2018	34,547,232	26,927,113	61,474,345
2018-2023	23,392,927	33,555,147	56,948,074
2023-2028	15,292,688	12,150,512	27,443,200
2028-2032	21,580,000	3,442,000	25,022,000
Total	<u>\$ 139,295,035</u>	<u>\$ 100,986,999</u>	<u>\$ 240,282,034</u>

* Excludes accreted interest of \$12,964,572 as of June 30, 2008

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 6 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation

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

Issue Date	Maturity Date	Interest Rate	Original Issue	COP Outstanding July 1, 2007	Addition	Redeemed	Bonds Outstanding June 30, 2008	Due within One Year
11/1/2001	5/1/2025	3.5%-5.75%	\$ 19,961,501	\$ 17,816,501	\$ -	\$ 510,000	\$ 17,306,501	\$ 530,000

The future debt service requirements are as follows:

Fiscal Year	Principal	Interest	Total
2008-09	\$ 530,000	\$ 615,453	\$ 1,145,453
2009-10	555,000	594,325	1,149,325
2010-11	895,000	569,863	1,464,863
2011-12	935,000	531,573	1,466,573
2012-13	975,000	490,973	1,465,973
2013-2018	6,900,000	1,644,893	8,544,893
2018-2023	4,662,832	6,029,008	10,691,840
2023-2025	1,853,669	2,777,251	4,630,920
Total	\$ 17,306,501	\$ 13,253,337	\$ 30,559,838

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 7 – JOINT VENTURES

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 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:

(In thousands)	Schools Excess Liability Fund (SELF)	Alliance for Schools for Cooperative Insurance Programs (ASCIP)	Schools Linked for Insurance Management (SLIM)
Assets	\$ 238,680	\$ 183,291	\$ 43,572,293
Liabilities	189,962	118,425	37,023,851
Net Assets	<u>\$ 48,718</u>	<u>\$ 64,866</u>	<u>\$ 6,548,442</u>
Revenues	\$ 31,701	\$ 154,238	\$ 17,596,010
Expenses	22,991	19,013	16,482,323
Operating Income	8,710	135,225	1,113,687
Non-Operating Income	9,898	7,764,480	2,230,024
Change in Net Assets	<u>\$ 18,608</u>	<u>\$ 7,899,705</u>	<u>\$ 3,343,711</u>

NOTE 8 – RISK MANAGEMENT

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

NOTE 9 - EMPLOYEE RETIREMENT PLANS

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 9 - EMPLOYEE RETIREMENT PLANS (continued)

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2007-08 was 9.306%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$1,928,264, \$1,756,471, and \$1,719,678, respectively, which represent 100% of the required contributions for each fiscal year.

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2007-08 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$4,983,160, \$4,895,095, and \$4,592,682, respectively, and equal 100% of the required contributions for each year.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 9 - EMPLOYEE RETIREMENT PLANS (continued)

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of approximately \$3,940,824 million to STRS (4.517% of salaries subject to STRS in 2007-08 and 2.237% of salaries subject to STRS in 2003-04).

NOTE 10 – PARCEL TAX

Measure S

On June 3, 2003, the District voters passed the “Santa Monica-Malibu Unified School District Quality Public Education Preservation Act of 2003”, (Measure “S”). This Measure is a qualified special parcel tax of \$225 per parcel to be levied by the District each year for six years with exemptions for parcels owned and occupied by persons age 65 or older. The revenues raised by this Measure shall be used to prevent deterioration in the quality of public education in Santa Monica and Malibu in the face of cuts in funding for public schools, and to promote continued student achievement in the core curriculum.

Measure Y

In an election held November 2000, the voters of the District approved a \$98 per parcel yearly tax to “improve education in Santa Monica-Malibu schools, retain experienced teachers and attract new qualified teachers, retain teaching specialists in reading, math and science, preserve educational programs in music and art and to maintain small class sizes.” The tax is collectible beginning July 1, 2001 and was renewed on February 2, 2008 with the passage of Measure R that combined Measures S and Y into a single tax.

Measure R

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 11 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Construction Commitments

As of June 30, 2008, the District had commitments with respect to unfinished capital projects of approximately \$15,597,493 to be paid from bond funds.

NOTE 12 – GASB STATEMENT NO. 45

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement will require employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be phased in over three years based upon the entity's revenues. GASB Statement No. 45 will be effective for the Santa Monica-Malibu Unified School District beginning in the 2008-09 fiscal year. The effect of this pronouncement on the financial condition of the District has not been determined.

NOTE 13– ADJUSTMENTS FOR RESTATEMENT

The beginning net assets were restated as follows:

	<u>Net Assets</u>
Net Asset, as originally stated on July 1, 2007	\$ 92,772,374
Adjustments for restatement:	
To restate general obligation bonds for accreted interest on capital appreciation bonds	(11,137,374)
Restated to include final payment on the capital lease that was previously omitted	(1,802)
To eliminate previously recorded OPEB liability pending GASB 45 implementation in the 2008-2009 fiscal year	<u>4,347,527</u>
Total Adjustments	<u>(6,791,649)</u>
Net Assets, as restated on July 1, 2007	<u>\$ 85,980,725</u>

Required Supplementary Information

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Pos (Neg)
Revenues				
Revenue Limit Sources	\$ 67,248,066	\$ 67,227,228	\$ 67,272,805	\$ 45,577
Federal	4,427,306	4,568,928	4,290,877	(278,051)
Other State	11,475,046	12,000,850	12,020,355	19,505
Other Local	30,042,223	37,523,352	37,138,295	(385,057)
Total Revenues	113,192,641	121,320,358	120,722,332	(598,026)
Expenditures				
Certificated Salaries	57,131,446	58,429,929	58,150,759	279,170
Classified Salaries	19,623,910	21,329,696	20,501,666	828,030
Employee Benefits	22,398,782	21,757,271	20,674,228	1,083,043
Books and Supplies	4,016,965	8,324,068	4,898,027	3,426,041
Services and Other Operating Expenditures	11,194,836	13,061,494	11,228,447	1,833,047
Capital Outlay	57,694	945,685	720,312	225,373
Direct Support/Indirect Costs	(503,604)	(501,129)	(452,795)	48,334
Other Outgo	30,898	15,681	1,845	13,836
Total Expenditures	113,950,927	123,362,695	115,722,489	7,736,874
Excess (Deficiency) of Revenues Over (Under) Expenditures	(758,286)	(2,042,337)	4,999,843	7,138,848
Other Financing Sources and Uses				
Interfund Transfers In	500,000	1,000,000	1,000,000	-
Interfund Transfers Out	(575,000)	(1,348,561)	(1,348,561)	-
Total Other Financing Sources and Uses	(75,000)	(348,561)	(348,561)	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(833,286)	(2,390,898)	4,651,282	7,138,848
Fund Balances, July 1, 2007	23,433,892	23,433,892	23,433,892	-
Fund Balances, June 30, 2008	\$ 22,600,606	\$ 21,042,994	\$ 28,085,174	\$ 7,138,848

Supplementary Information Section

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Local Education Agency Organization Structure
June 30, 2008

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

GOVERNING BOARD		
Member	Office	Term Expires
Oscar del la Torre	President	2010
Jose Escarce	Vice President	2008
Maria Leon-Vazquez	Member	2008
Ralph Mechur	Member	2008
Kelly Pye	Member	2010
Barry Snell	Member	2010
Kathy Wisnicki	Member	2008

DISTRICT ADMINISTRATORS

Tim Cuneo*
Interim Superintendent

Dr. Michael Matthews
Assistant Superintendent, Human Resources

Jan Maez
Assistant Superintendent, Chief Financial Officer

Dr. Sally Chou
Chief Academic Officer

*Assumed position following Dianne Talarico effective July 1, 2008

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Combining Balance Sheet – Non-Major Governmental Funds (Unaudited)
June 30, 2008

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Foundation Special Revenue Fund	Special Reserve Fund for Postemployment Benefit	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS										
Cash	\$ 418,723	\$ 311,890	\$ 316,822	\$ 4,114,885	\$ 137,380	\$ 1,661,824	\$ 1,369,671	\$ 3,359,489	\$ 1,201	\$ 11,691,885
Accounts receivable	51,775	866,175	224,448	36,331	2,529	10,253	221,379	20,240	12	1,433,142
Inventories	-	-	47,801	-	-	-	-	-	-	47,801
Total Assets	<u>\$ 470,498</u>	<u>\$ 1,178,065</u>	<u>\$ 589,071</u>	<u>\$ 4,151,216</u>	<u>\$ 139,909</u>	<u>\$ 1,672,077</u>	<u>\$ 1,591,050</u>	<u>\$ 3,379,729</u>	<u>\$ 1,213</u>	<u>\$ 13,172,828</u>
LIABILITIES AND FUND BALANCES										
LIABILITIES										
Accounts payable and accrued liabilities	\$ 183,859	\$ 704,403	\$ 213,548	\$ 49,718	\$ 26,197	\$ -	\$ 67,911	\$ -	\$ -	\$ 1,245,636
Deferred revenue	-	137,080	-	-	-	-	-	-	-	137,080
Total Liabilities	<u>183,859</u>	<u>841,483</u>	<u>213,548</u>	<u>49,718</u>	<u>26,197</u>	<u>-</u>	<u>67,911</u>	<u>-</u>	<u>-</u>	<u>1,382,716</u>
Fund Balances										
Reserved for:										
Revolving cash	-	-	10,000	-	-	-	-	-	-	10,000
Inventories	-	-	47,801	-	-	-	-	-	-	47,801
Debt service	-	-	-	-	-	-	-	-	1,213	1,213
Unreserved:										
Capital projects funds	-	-	-	-	-	-	1,523,139	3,379,729	-	4,902,868
Special revenue funds	<u>286,639</u>	<u>336,582</u>	<u>317,722</u>	<u>4,101,498</u>	<u>113,712</u>	<u>1,672,077</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,828,230</u>
Total Fund Balances	<u>286,639</u>	<u>336,582</u>	<u>375,523</u>	<u>4,101,498</u>	<u>113,712</u>	<u>1,672,077</u>	<u>1,523,139</u>	<u>3,379,729</u>	<u>1,213</u>	<u>11,790,112</u>
Total Liabilities and Fund Balances	<u>\$ 470,498</u>	<u>\$ 1,178,065</u>	<u>\$ 589,071</u>	<u>\$ 4,151,216</u>	<u>\$ 139,909</u>	<u>\$ 1,672,077</u>	<u>\$ 1,591,050</u>	<u>\$ 3,379,729</u>	<u>\$ 1,213</u>	<u>\$ 13,172,828</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

Combining Statement of Revenues, Expenses, and Changes in Fund Balances – Non-Major Governmental Funds (Unaudited)

June 30, 2008

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Foundation Special Revenue Fund	Special Reserve Fund for Postemployment Benefit	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES										
General Revenues:										
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,164,955	\$ -	\$ 1,164,955
Earnings on investments	-	16,555	10,695	-	13,688	43,482	209,051	113,468	55	406,994
Miscellaneous	-	811,008	77,549	-	-	-	1,371,688	-	-	2,260,245
Program Revenues:										
Charges for services	27,240	1,200,362	1,777,760	-	-	-	-	-	-	3,005,362
Operating grants and contributions	717,934	5,746,476	1,124,037	666,965	308,858	-	-	-	-	8,564,270
Total Revenues	745,174	7,774,401	2,990,041	666,965	322,546	43,482	1,580,739	1,278,423	55	15,401,826
EXPENDITURES										
Instructional Services:										
Instruction	392,365	5,233,013	-	-	305,967	-	-	-	-	5,931,345
Instruction-Related Services:										
Supervision of instruction	1,689	607,409	-	-	64,611	-	-	-	-	673,709
School site administration	197,208	708,859	-	-	-	-	-	-	-	906,067
Pupil Support Services:										
Food services	-	514,990	2,849,364	-	-	-	-	-	-	3,364,354
All other pupil services	-	41,532	-	-	-	-	-	-	-	41,532
General Administration Services:										
Other general administration	23,900	296,746	132,150	-	-	-	13,390	26,337	-	492,523
Plant services	86,571	122,513	12,512	1,382,990	-	-	2,681	-	-	1,607,267
Facility acquisition and construction	-	-	-	440,422	-	-	65,230	-	-	505,652
Community services	-	18,282	-	-	-	-	-	-	-	18,282
Other outgo:										
Debt service - principal	-	-	-	-	-	-	-	1,143,864	-	1,143,864
Total Expenditures	701,733	7,543,344	2,994,026	1,823,412	370,578	-	81,301	1,170,201	-	14,684,595
Excess (Deficiency) of Revenues Over (Under) Expenditures	43,441	231,057	(3,985)	(1,156,447)	(48,032)	43,482	1,499,438	108,222	55	717,231
OTHER FINANCING SOURCES (USES)										
Interfund transfers out	-	-	-	-	-	-	(4,000,000)	-	-	(4,000,000)
Interfund transfers in	-	75,000	-	523,561	-	750,000	-	-	-	1,348,561
Total Other Financing Sources and Uses	-	75,000	-	523,561	-	750,000	(4,000,000)	-	-	(2,651,439)
Net Change in Fund Balances	43,441	306,057	(3,985)	(632,886)	(48,032)	793,482	(2,500,562)	108,222	55	(1,934,208)
Fund Balances, July 1, 2007	243,198	30,525	379,508	4,734,384	161,744	878,595	4,023,701	3,271,507	1,158	13,724,320
Fund Balances, June 30, 2008	\$ 286,639	\$ 336,582	\$ 375,523	\$ 4,101,498	\$ 113,712	\$ 1,672,077	\$ 1,523,139	\$ 3,379,729	\$ 1,213	\$ 11,790,112

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2008

	Second Period Report	Annual Report
Elementary:		
Kindergarten	733	736
Grades 1 through 3, regular classes	2,212	2,221
Grades 4 through 6, regular classes	2,388	2,393
Grades 7 and 8, regular classes	1,675	1,674
Home and Hospital	2	3
Special Education	226	226
Total Elementary	7,237	7,255
Secondary:		
Grades 9 through 12, regular classes	3,592	3,568
Continuation Education	91	93
Home and Hospital	4	5
Community Day School	16	14
Special Education	143	140
Total Secondary	3,847	3,819
Classes for Adults:		
Not Concurrently Enrolled	156	167
Total Adult Classes	156	167
Total Average Daily Attendance	11,240	11,241
<u>Supplemental Instruction Hours</u>	<u>Hours of Attendance</u>	
Elementary	50,522	
Secondary	194,269	
Total	244,791	

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
June 30, 2008

Grade Level	1982-83	1986-87	2007-08	Number of Days	
	Actual Minutes	Minutes Requirement		Traditional Calendar	Status
Kindergarten	36,000	36,000	42,010	180	Complied
Grade 1	53,100	50,400	53,211	180	Complied
Grade 2	53,100	50,400	53,211	180	Complied
Grade 3	53,100	50,400	53,180	180	Complied
Grade 4	54,480	54,000	54,510	180	Complied
Grade 5	54,480	54,000	54,510	180	Complied
Grade 6	54,480	54,000	55,640	180	Complied
Grade 7	54,480	54,000	55,640	180	Complied
Grade 8	54,480	54,000	55,640	180	Complied
Grade 9	64,800	64,800	64,800	180	Complied
Grade 10	64,800	64,800	64,800	180	Complied
Grade 11	64,800	64,800	64,800	180	Complied
Grade 12	64,800	64,800	64,800	180	Complied

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2008

General Fund	(Budget) 2009***	2008	2007	2006
Revenues and other financing sources	\$ 112,246,207	\$ 121,722,332	\$ 123,093,883	\$ 114,171,699
Expenditures	114,281,269	115,722,489	115,134,973	106,915,105
Other uses and transfers out	575,000	1,348,561	575,000	1,575,000
Total outgo	114,856,269	117,071,050	115,709,973	108,490,105
Change in fund balance (deficit)	(2,610,062)	4,651,282	7,383,910	5,681,594
Ending fund balance	\$ 25,475,112	\$ 28,085,174	\$ 23,433,892	\$ 11,660,322
Available reserves*	\$ 17,789,447	\$ 20,430,607	\$ 18,698,302	\$ 16,076,595
Available reserves as a percentage of total outgo	15.5%	17.5%	16.2%	14.8%
Total long-term debt	\$ 161,119,258	\$ 170,184,258	\$ 106,823,088	\$ 111,785,750
Average daily attendance at P-2**	10,820	11,084	11,358	11,568

The General Fund balance has increased by \$16,424,852 over the past two years. The fiscal year 2008-09 adopted budget projects a decrease of \$2,610,062. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo). Long-term debt has increased \$58,398,508 over the past two years.

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

** Excludes Adult Education

*** Revised Final Budget September 2008.

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
National School Lunch and Breakfast Program	10.553, 555	03396	\$ 1,034,301
Federal Commodities	10.550	N/A	118,985
Child Nutrition: Child Care Food Program	10.558	13393	218,965
Total U.S. Department of Agriculture			<u>1,372,251</u>
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
NCLB: No Child Left Behind Act			
Title I, Part A, Basic Low-Income and Neglected	84.010	14329	976,925
Title II, Part A, Teacher Quality	84.367	14341	401,683
Title II, Part D, Enhancing Education Through Technology, Formula Grants	84.316	14334	4,716
Title III, Limited English Proficiency (LEP) Student Program	84.365	10084	222,861
Title IV, Part A, Drug-Free Schools	84.186	14347	37,934
Title V, Part A, Innovative Education Strategies	84.298A	13340	4,300
Adult Education: Adult Basic Education & ESL	84.002A	14508	75,006
Adult Education: Adult Secondary Education	84.002A	13978	7,976
Adult Education: English Literacy & Civics Education	84.002A	14109	73,603
Department of Rehab: Workability II, Transition Partnership	84.158	10006	131,377
Vocational Programs: Voc & Appl Tech Secondary II C	84.048	13924	58,327
California Alternative Performance Testing	84.UNK		
Passed through Los Angeles County Superintendent of Schools			
Individuals with Disabilities Education Act (IDEA):			
Special Ed: IDEA- Basic Local Assistance Entitlement, Part B	84.027	13379	2,046,055
Special Ed: IDEA Preschool Grants, Part B	84.173	13430	72,778
Special Ed: IDEA Preschool Staff Development	84.173	13431	727
Special Ed: IDEA- Early Intervention Grants, Part C	84.181	23761	30,518
Special Ed: IDEA Preschool Local Entitlement, Part B	84.027	13682	115,529
Total U.S. Department of Education			<u>4,260,315</u>
U.S. Department of Health & Human Services:			
Passed through California Dept. of Education (CDE):			
Child Development: Quality Improvement Activities	93.575	14678	3,464
Child Development: Federal Child Care, Center Based	93.596	13609	154,810
Child Development: School-Age Child Care Resource Contracts	93.575	13941	3,393
Passed through Los Angeles County Superintendent of Schools			
Head Start	93.600	10016	1,366,207
Direct Payments			
Medi-Cal Administrative Activities	93.778	10060	179,179
Total U.S. Department of Health & Human Services			<u>1,709,345</u>
Total Expenditures of Federal Awards			<u>\$ 7,341,911</u>

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2008

	Special Reserve Fund for Capital Outlay Projects	Schedule of Capital Assets	Schedule of Debt
June 30, 2008, annual financial and budget report (SACS) balances	\$ 1,886,544	\$ 157,183,917	\$ 157,219,689
Adjustments and reclassifications:			
Increasing (decreasing) the fund balance:			
Overstatement of capital asset additions	-	(2,056)	-
Understatement of cash	1,493,185	-	-
Understatement of general obligation bonds due to accreted interest on capital appreciation bonds	-	-	12,964,569
Understatement of unamortized bond premiums	-	-	2,320,334
Net adjustments and reclassifications	1,493,185	(2,056)	15,284,903
June 30, 2008, audited financial statement balances	\$ 3,379,729	\$ 157,181,861	\$ 172,504,592

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Excess Sick Leave
June 30, 2008

Section 19855.3 (a)(3)(c) disclosure

Santa Monica-Malibu Unified School District provides more than 12 sick leave days in a school year to employees who are CalSTRS members. In conducting our audit we identified the following two as recipients of excess sick leave, however this is not a complete list:

1. Superintendent
2. Chief Academic Officer

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2008

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Expenditures of Federal Awards

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

Subrecipients

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2008

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of Excess Leave

This schedule provides information on whether the District grants excess sick leave, as that term is defined in subdivision (c) of Education Code Section 22170.5, to employees who are members of the California State Teachers Retirement System.

Other Independent Auditors' Reports



A Professional
Accountancy Corporation

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

MURRIETA OFFICE
PH: 951.698.8783
FAX: 951.699.1064
25090 Jefferson Avenue
Murrieta, CA 92562

SAN DIEGO OFFICE
PH: 619.270.8222
FAX: 619.260.9085
2727 Camino Del Rio S.
Suite 219
San Diego, CA 92108

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

We have audited the financial statements of Santa Monica-Malibu Unified School District as of and for the year ended June 30, 2008, and have issued our report thereon dated December 2, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider findings #2008-1 through #2008-4 described in the accompanying schedule of findings and questioned costs to be a significant deficiency 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 presented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described above are a material weakness.

Compliance and Other Matters

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

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

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



San Diego, California
December 2, 2008



A Professional
Accountancy Corporation

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

MURRIETA OFFICE
PH: 951.698.8783
FAX: 951.699.1064
25090 Jefferson Avenue
Murrieta, CA 92562

SAN DIEGO OFFICE
PH: 619.270.8222
FAX: 619.260.9085
2727 Camino Del Rio S.
Suite 219
San Diego, CA 92108

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

Compliance

We have audited the compliance of Santa Monica-Malibu Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Santa Monica-Malibu Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Santa Monica-Malibu Unified School District's management. Our responsibility is to express an opinion on Santa Monica-Malibu Unified School District's compliance based on our audit.

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

In our opinion, Santa Monica-Malibu Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

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

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

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

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



San Diego, California
December 2, 2008



A Professional
Accountancy Corporation

Jeff Nigro, CPA
Elizabeth Nigro, CPA
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MURRIETA OFFICE
PH: 951.698.8783
FAX: 951.699.1064
25090 Jefferson Avenue
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SAN DIEGO OFFICE
PH: 619.270.8222
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AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 2, 2008. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-2008*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupational Centers and Programs	6	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	No (see below)
Morgan-Hart Class Size Reduction Program	7	Not applicable

Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Excess Sick Leave	3	Yes
Notice of Right to Elect CalSTRS Membership	1	Yes
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not applicable
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	4	Not applicable
Before School	5	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Not applicable

We did not perform testing for Independent Study and Community Day School because the ADA was under the level that requires testing.

Based on our audit, we found that, for the items tested, the Santa Monica-Malibu Unified School District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Santa Monica-Malibu Unified School District had not complied with the state laws and regulations.

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

Nigro Nigro & White, PC

San Diego, California
December 2, 2008

Findings and Questioned Costs Section

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I - Part A, Basic Grants
84.367	Title II - Part A, Teacher Quality
93.600	Head Start

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

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for state programs:	<u>Unqualified</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings

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

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

Finding #2008-1: Child Development Cash Receipts (30000)

Our audit evaluated internal controls over cash receipting process in the child development program in which \$1.9 million in parent fees are collected annually. We found improvements could be made to account for all receipts issued and match the receipts to the amounts being deposited. Specifically, money is collected at the individual sites where the child development program is run. Each site is given a receipt book to issue receipts when money is collected. When all the receipts in the book are used, the receipt book is returned to the Child Development Center. However, the Center does not account for the sequence of the receipts issued and returned nor do they reconcile the receipts to amounts deposited. Therefore, there is a significant potential risk that fraud or errors in cash collected could occur and not be detected.

Recommendation: We recommend that the sites use a three part receipt book and that one copy of the receipt be turned in with the cash collected. The Child Development Center should reconcile the amounts with bank statements as well as account for the sequence of receipts. Any variances should be investigated and receipt books should be turned in once they are used up.

District Response: The recommendations of the auditor team were implemented at the time of the preliminary audit. All receipts books and receipt numbers at individual site locations are recorded and tracked. As deposits are submitted to the CDS the total of cash, checks, and/or money orders is reconciled to a copy of the receipts. This reconciliation includes verification that all receipt numbers are accounted for.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings (continued)

Finding #2008-2: Cafeteria Meal Counts (30000)

Weekly meal counts for the Continuation, Community Day, and Preschools are prepared manually and are being totaled and reported with some exceptions. In our one month sample, we found a net of 7 “free” days underreported and 5 “paid” days underreported. These exceptions were not significant for reporting as a federal compliance audit exception but there is an internal control issue that should be addressed.

Recommendation: We recommend that a second count be done by another employee to verify that the number of free, reduced, and paid meals is being recorded correctly each week.

District Response: The procedure that is currently being practiced in Food Services follows the audit recommendation. Current practice is that site personnel perform the initial count as paperwork is submitted to the District Office. District Office personnel (Food and Nutrition Services Accounting Technician) will perform a second count of the listed lunches served in order to verify the site counts. All differences will be investigated and corrected appropriately. A third and final count is performed as the information is entered into the data processing system in Food and Nutrition Services.

Finding #2008-3: Employee Termination Notification (30000)

Employee separation forms for classified staff are not being completed and processed by Human Resources when the employee terminates and does not physically sign the form. Without the separation form being complete, Payroll might not be informed of an employee’s termination and it can lead to untimely removal of the terminated employee from the payroll system. Our audit sample did not find any exceptions in this area but there is a potential weakness that could be addressed with a procedural change.

Recommendation: We suggest that a site administrator be authorized to sign the separation form when a classified employee separates from the District. Human Resources should process this form and distribute it to Payroll so the terminating employee can be removed timely from the payroll system.

District Response: The SMMUSD Human Resources Department will now practice a policy of completing an employee separation form for each terminated employee. If the employee cannot or will not sign, the Assistant Superintendent of Human Resources will sign the form. Any supporting documentation will be placed in the employee’s personnel file. The separation form shall then be processed and forwarded to payroll so that the terminated employee can be removed in a timely manner from the payroll system.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings (continued)

Finding #2008-4: Health and Welfare Benefit Enrollment (30000)

The District does not have a policy and procedure that requires periodic re-enrollment of employees and dependents who receive health and welfare benefits. In fact, one terminated employee out of a sample of 10 was still receiving district paid health benefits six months after termination. The employee was not on COBRA or retired but was inadvertently left on the benefit roster during the year-end roll forward process. This exception appears to be isolated but from our experience, there is a risk that the District is unknowingly paying for benefits for ineligible individuals, most likely due to unreported changes in dependent eligibility. Typically, school districts that periodically require re-enrollment are able to save money as a result of the process.

Recommendation: We recommend the District adopt a procedure to require periodic re-enrollment of health and welfare benefits, for example every two to four years.

District Response: In September, 2008, the Human Resources Department provided each employee with a health benefits reenrollment form. They were due back in the office by October 15, 2008. The Human Resources Department has been entering that data into our databases. In January, we will provide all employees with a data form where they can verify their information. Once the information is verified and in our databases, we will have future verifications every two years. The most cumbersome of all these tasks is the initial data entry. Once that is done and verified, it will be a much more manageable task in the years to come.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section III – Federal Award Findings and Questioned Costs

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

There were no federal award findings or questioned costs in 2007-08.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section IV – State Award Findings and Questioned Costs

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

There were no state award findings and questioned costs in 2007-08.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2007-01: Non-Capitalized Equipment</i>	<p>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.</p> <p>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.</p> <p>The District's fixed assets accounting system should provide the following:</p> <ul style="list-style-type: none"> • 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 to identify them as property of the District and equipment items purchased with grant funds specifically marked as such. 	20000	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.	Implemented

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2007-02: Student Body Revenue Potentials</i>	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.	30000	<p>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:</p> <ol style="list-style-type: none"> 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. 	Implemented

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2007-03: Student Body Stores</i>	<p>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.</p> <p>The inventory at Malibu High School ASB is recorded at sales value and not at cost.</p>	30000	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.	Implemented
<i>Finding 2007-04: Instructional Minutes</i>	<p>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:</p> <ol style="list-style-type: none"> 1. Bell schedules did not properly reflect the actual minutes offered. 2. Instructional minutes were calculated incorrectly. 3. The wrong number of minimum days. <p>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.</p>	10000 30000	<p>We recommend that the District implement the following procedures.</p> <ol style="list-style-type: none"> 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. 	Implemented

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2007-04: Instructional Minutes (continued)</i>		10000 30000	<ol style="list-style-type: none"> 2. The District administration should review and test instruction 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 instructions minutes actually offered during the year should be submitted by site along with documents to substantiate any changes from original submittals. 	