

**SANTA MONICA-MALIBU
UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2010**

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**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
 AUDIT REPORT
 For the Fiscal Year Ended June 30, 2010
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Board of Trustees
Santa Monica-Malibu Unified School District
Santa Monica-Malibu, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of and for the fiscal year ended June 30, 2010, 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, 2010, 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 November 15, 2010 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, the budgetary comparison schedule on page 49, and the schedule of funding progress on page 50 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise Santa Monica-Malibu Unified School District's basic financial statements. The combining and individual non-major fund financial statements, the schedule of financial trends and analysis, and 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*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Christ White Accountancy Corporation

San Diego, California
November 15, 2010

Management's Discussion and Analysis

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

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, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's General Fund expenditures exceeded revenues \$6.9 million in fiscal year 2009-10. Available reserves met state requirements but declined over the prior year by 2%
- Government-wide expenditures also exceeded revenues by \$1.9 million to an ending balance of \$104.5 million.
- The total cost of basic programs was \$143.2 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was \$112.2 million.
- The District increased its capital assets by \$19.5 million or 8%.
- Long-term debt increased \$51.9 million or 31% due to the issuance of \$60 million in general obligation bonds less payments made to service the debt in 2009-10.
- Average daily attendance (ADA) increased by 87 over the previous year to 11,106.

OVERVIEW OF THE FINANCIAL STATEMENTS

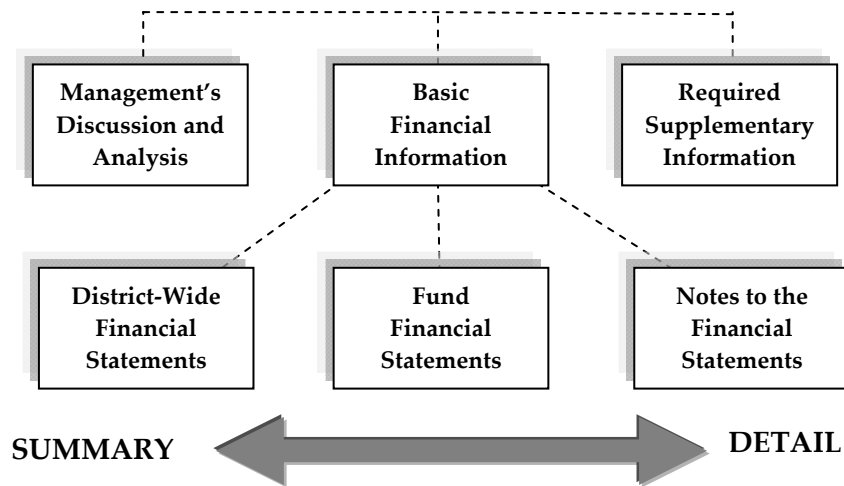
This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

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

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



SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

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

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

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

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

District-wide Statements

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

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

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

Fund Financial Statements

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

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

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 less on June 30, 2010, than they were the year before – decreasing approximately \$1.9 million from the previous year to the ending balance of \$104.5 million. (See Table A-1). The District's negative unrestricted net assets of \$4 million consists of a positive \$16 million in unrestricted net assets from District operation less \$20 million in accreted interest liability, which is payable to bondholders in future years for the capital appreciation bonds outstanding.

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

	Governmental Activities		Total
	2009	2010	Percentage Change 2009-10
Current assets	\$ 112,654,552	\$ 165,306,804	47%
Noncurrent assets	176,870,264	191,603,057	8%
Total assets	289,524,816	356,909,861	23%
Current liabilities	30,971,732	46,089,835	49%
Noncurrent liabilities	152,090,599	206,288,804	36%
Total liabilities	183,062,331	252,378,639	38%
Total net assets	\$ 106,462,485	\$ 104,531,222	-2%

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net assets and governmental activities. The District's total revenues were \$141.3 million (See Table A-2).

The total cost of all programs and services was \$143.2 million. The District's expenses are predominantly related to educating and caring for students, 74%. The purely administrative activities of the District accounted for just 5% of total costs. The total costs decreased by 2%.

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

	Governmental Activities		Total
	2009	2010	Percentage Change 2009-10
Revenues:			
<i>Program revenues</i>			
Charges for services	\$ 4,525,699	\$ 4,365,439	-4%
Operating grants and contributions	33,782,166	26,681,567	-21%
Capital grants and contributions	943,945	-	-100%
<i>General revenues</i>			
Property taxes	75,016,094	80,144,227	7%
Other revenues	40,166,678	30,120,282	-25%
Total revenues	<u>154,434,582</u>	<u>141,311,515</u>	-8%
Expenses:			
Instruction-related	97,086,493	94,322,653	-3%
Student support services	12,827,210	12,380,827	-3%
Maintenance and operations	14,223,606	13,414,225	-6%
Administration	7,993,189	7,187,492	-10%
Other expenses	13,443,974	15,937,581	19%
Total expenses	<u>145,574,472</u>	<u>143,242,778</u>	-2%
Change in net assets	<u>\$ 8,860,110</u>	<u>\$ (1,931,263)</u>	-122%

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

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. 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 \$143.2 million.
- Some of the cost was paid by the users of the District's programs \$4.4 million.
- The federal and state governments subsidized programs with grants and contributions of \$26.7 million.
- Most of the District's costs (\$112.2 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.
- Other expenses (\$15,937,581) include interest on long-term debt and depreciation.

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

	Total Cost of Services	Net Cost of Services
Instructional services	\$ 94,322,653	\$ 72,065,621
Pupil support services	12,380,827	6,057,893
Maintenance and operations	13,414,225	12,518,467
Administration	7,187,492	6,333,610
Other expenses	15,937,581	15,220,181
Total expenses	\$ 143,242,778	\$ 112,195,772

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

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 \$129.2 million, which is above last year's ending fund balance of \$94.5 million due to the issuance of a \$60 million general obligation bond. The District's General Fund had more expenditures than revenues in 2009-10 by \$6.9 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 \$14.4 million, the actual results for the year show expenditures exceeded revenues by \$8.4 million. Actual revenues were \$0.9 million less than anticipated, and expenditures were \$6.9 million less than budgeted. These amounts reflect the budget reductions to match the funding shortfall.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As shown in Table A-4, by the end of 2009-10 the District had invested over \$271.4 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

	Governmental Activities		Total
	2009	2010	Percentage
			Change
			2009-10
Land	\$ 6,588,760	\$ 10,002,583	52%
Buildings and improvements	205,298,220	208,291,069	1%
Furniture and equipment	11,075,445	11,298,376	2%
Work in progress	28,963,873	41,815,949	44%
Total capital assets	\$ 251,926,298	\$ 271,407,977	8%

Long-Term Debt

At year-end the District had \$216.8 million in general obligation bonds, unamortized premiums, certificates of participation, other postemployment benefits, 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

	Governmental Activities		Total
	2009	2010	Percentage
			Change
			2009-10
Compensated absences	\$ 1,047,325	\$ 923,367	-12%
Certificates of participation	18,858,660	18,650,155	-1%
General obligation bonds	141,171,958	191,020,049	35%
Unamortized premium on issuance	2,139,127	3,088,335	44%
Other postemployment benefits	1,710,762	3,099,131	81%
Total long-term debt	\$ 164,927,832	\$ 216,781,037	31%

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

FACTORS BEARING ON THE DISTRICT'S FUTURE

The state's budget situation continues to reflect challenging economic conditions. The 2010 State Budget was balanced on optimistic state and federal revenue projections, the sale of state properties, additional borrowings, and the suspension of the Proposition 98 minimum guarantee. While the state's economy continues to gradually recover along with the nation's, a relatively slow pace of job growth in California presents a headwind for a more rapid rate of economic recovery.

The state's budget challenges have adversely impacted the K-12 education budget. As a result, the average unified school district in the state of California in 2010-11 is expected to lose approximately \$25 per unit of average daily attendance over 2009-10 in revenue limit state funding, to an average funded revenue limit of approximately \$5,030 per unit of average daily attendance. However, a corresponding decrease in the deficit factor offsets the loss keeping funding levels in 2010-11 the same as 2009-10, and without the \$253 per ADA one-time funding reduction experienced in 2009-10.

Federal funding for categorical programs was given another one-time funding boost in 2010-11 with the Education Jobs Act funding. In addition, the final 10% of the State Fiscal Stabilization funds, part of the American Recovery and Reinvestment Act (ARRA), are to be paid in 2010-11. ARRA funds must be spent prior to the September 30, 2011.

After the defeat of the parcel tax measure in May 2010 and the Board's action to make significant expenditure reductions, the education community for Santa Monica Malibu Unified under the leadership of both the Education Foundation and the PTA began a short term fundraising effort. Their efforts were focused on the restoration of a portion of the previous reductions. The time frame they worked under was an ending date of August 15th. In 60 days this active group of community leaders raised over \$1.6 million that would allow the Board to rescind some of their budget reductions for the 2010-11 fiscal year.

State categorical program flexibility continues for 2009-10 and 2010-11 with no anticipated changes. School districts continue to be authorized to use funding from 42 Tier III categorical programs for any purpose. K-3 class size reduction penalties have been relaxed for two more years and school agencies maintain the flexibility to shorten the school year until 2012-13. Reserve requirements for economic uncertainties, if reduced by school agencies, must be fully restored by 2011-12.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Other Factors

Enrollment

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

All of these factors were considered in preparing the Santa Monica-Malibu Unified School District budget for the 2010-11 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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Financial Section

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 151,976,600
Accounts receivable	12,025,237
Inventories	48,175
Prepaid expenses	1,256,792
Total current assets	<u>165,306,804</u>
Noncurrent assets:	
Capital assets:	
Land	10,002,583
Buildings and improvements	208,291,069
Furniture and equipment	11,298,376
Construction in progress	41,815,949
Less accumulated depreciation	<u>(79,804,920)</u>
Total capital assets, net of depreciation	<u>191,603,057</u>
Total assets	<u>356,909,861</u>
LIABILITIES	
Current liabilities:	
Accounts payable	14,499,537
General obligation bond anticipation note	20,000,000
Deferred revenue	1,098,065
Certificates of participation payable, current	895,000
Unamortized premiums on long-term debt	97,233
General obligation bonds payable, current	<u>9,500,000</u>
Total current liabilities	<u>46,089,835</u>
Noncurrent liabilities:	
Compensated absences payable, noncurrent	923,367
Certificates of participation payable, noncurrent	17,755,155
General obligation bonds payable, noncurrent	181,520,049
Unamortized premiums on long-term debt	2,991,102
Other postemployment benefits	<u>3,099,131</u>
Total noncurrent liabilities	<u>206,288,804</u>
Total liabilities	<u>252,378,639</u>
NET ASSETS	
Invested in capital assets, net of related debt	75,863,487
Restricted for:	
Capital projects	11,088,205
Debt service	16,237,807
Prepaid expenditures	185,098
Educational programs	5,284,660
Unrestricted	<u>(4,128,035)</u>
Total net assets	<u>\$ 104,531,222</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instructional services:				
Instruction	\$ 78,627,611	\$ 1,702,160	\$ 17,149,444	\$ (59,776,007)
Instruction-related services:				
Supervision of instruction	5,430,765	200,565	2,253,170	(2,977,030)
Instructional library, media and technology	1,090,990	1,738	7,550	(1,081,702)
School site administration	9,173,287	214,604	727,801	(8,230,882)
Pupil support services:				
Home-to-school transportation	1,619,262	127,922	923,521	(567,819)
Food services	3,375,011	1,551,242	1,776,603	(47,166)
All other pupil services	7,386,554	7,776	1,935,870	(5,442,908)
General administration services:				
Data processing services	780,223	-	-	(780,223)
Other general administration	6,407,269	147,501	706,381	(5,553,387)
Plant services	13,414,225	180,902	714,856	(12,518,467)
Ancillary services	731,417	59,100	124,419	(547,898)
Community services	713,139	171,929	361,952	(179,258)
Interest on long-term debt	9,513,540	-	-	(9,513,540)
Other outgo	230,599	-	-	(230,599)
Depreciation (unallocated)	4,748,886	-	-	(4,748,886)
Total governmental activities	<u>\$ 143,242,778</u>	<u>\$ 4,365,439</u>	<u>\$ 26,681,567</u>	<u>(112,195,772)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				50,498,608
Property taxes, levied for debt service				17,450,412
Property taxes, levied for other specific purposes				12,195,207
Federal and state aid not restricted to specific purpose				16,073,651
Interest and investment earnings				1,535,135
Miscellaneous				12,511,496
		Total general revenues		<u>110,264,509</u>
		Change in net assets		(1,931,263)
		Net assets - July 1, 2009		<u>106,462,485</u>
		Net assets - June 30, 2010		<u>\$ 104,531,222</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2010

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 22,203,477	\$ 99,846,624	\$ 16,236,545	\$ 13,689,954	\$ 151,976,600
Accounts receivable	10,012,045	344,497	-	1,668,695	12,025,237
Due from other funds	-	-	-	750,000	750,000
Inventories	13,761	-	-	34,414	48,175
Prepaid expenditures	185,098	-	-	-	185,098
Total assets	<u>\$ 32,414,381</u>	<u>\$ 100,191,121</u>	<u>\$ 16,236,545</u>	<u>\$ 16,143,063</u>	<u>\$ 164,985,110</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 10,520,324	\$ 2,525,821	\$ -	\$ 876,084	\$ 13,922,229
General obligation bond anticipation note	-	20,000,000	-	-	20,000,000
Due to other funds	-	-	-	750,000	750,000
Deferred revenue	958,293	-	-	139,772	1,098,065
Total liabilities	<u>11,478,617</u>	<u>22,525,821</u>	<u>-</u>	<u>1,765,856</u>	<u>35,770,294</u>
FUND BALANCES					
Reserved for:					
Inventories	13,761	-	-	34,414	48,175
Revolving cash	20,000	-	-	-	20,000
Prepaid expenditures	185,098	-	-	-	185,098
Debt service	-	-	16,236,545	1,262	16,237,807
Categorical programs	5,284,660	-	-	-	5,284,660
Unreserved; reported in:					
General fund	15,432,245	-	-	-	15,432,245
Special revenue funds	-	-	-	3,253,326	3,253,326
Capital project funds	-	77,665,300	-	11,088,205	88,753,505
Total fund balances	<u>20,935,764</u>	<u>77,665,300</u>	<u>16,236,545</u>	<u>14,377,207</u>	<u>129,214,816</u>
Total liabilities and fund balances	<u>\$ 32,414,381</u>	<u>\$ 100,191,121</u>	<u>\$ 16,236,545</u>	<u>\$ 16,143,063</u>	<u>\$ 164,985,110</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2010

Total fund balances - governmental funds		\$ 129,214,816
Amounts reported for governmental <i>activities</i> 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 capital assets is \$271,407,977 and the accumulated depreciation is (\$79,804,920).		191,603,057
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:		(577,308)
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in assets on the government-wide statement of net assets are:		1,071,694
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:		
	Compensated absences payable	\$ 923,367
	Certificates of participation payable	18,650,155
	General obligation bonds payable	191,020,049
	Unamortized premiums on long-term debt	3,088,335
	Other postemployment benefits	3,099,131
		<u>(216,781,037)</u>
Total net assets - governmental activities		<u>\$ 104,531,222</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
General revenues:					
Property taxes	\$ 60,850,556	\$ -	\$ 17,549,756	\$ 1,743,916	\$ 80,144,228
Federal and state aid not restricted to specific purpose	13,903,916	-	1,201,158	968,577	16,073,651
Interest and investment earnings	141,077	1,238,875	69,935	85,253	1,535,140
Miscellaneous	10,285,308	6,398	565,043	2,073,790	12,930,539
Program revenues:					
Charges for services	1,871,031	-	-	2,494,408	4,365,439
Operating grants and contributions	18,941,193	132,579	-	7,607,794	26,681,566
Total revenues	<u>105,993,081</u>	<u>1,377,852</u>	<u>19,385,892</u>	<u>14,973,738</u>	<u>141,730,563</u>
EXPENDITURES					
Instructional services:					
Instruction	71,886,561	-	-	5,869,901	77,756,462
Instruction-related services:					
Supervision of instruction	4,695,077	-	-	647,377	5,342,454
Instructional library, media and technology	1,090,990	-	-	-	1,090,990
School site administration	8,133,868	-	-	892,780	9,026,648
Pupil support services:					
Home-to-school transportation	1,621,352	-	-	-	1,621,352
Food services	-	-	-	3,402,819	3,402,819
All other pupil services	7,178,237	-	-	171,657	7,349,894
General administration services:					
Data processing services	780,223	-	-	-	780,223
Other general administration	5,902,418	-	-	562,968	6,465,386
Plant services	11,632,384	265,818	-	1,511,832	13,410,034
Facility acquisition and construction	23,229	19,239,269	-	-	19,262,498
Ancillary services	740,417	-	-	-	740,417
Community services	705,847	-	-	12,000	717,847
Other outgo:					
Debt service - principal	-	-	12,185,000	555,000	12,740,000
Debt service - interest	-	-	6,737,474	594,325	7,331,799
Debt service - issuance costs and discounts	-	671,000	-	-	671,000
Total expenditures	<u>114,390,603</u>	<u>20,176,087</u>	<u>18,922,474</u>	<u>14,220,659</u>	<u>167,709,823</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,397,522)</u>	<u>(18,798,235)</u>	<u>463,418</u>	<u>753,079</u>	<u>(25,979,260)</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	186,861	-	-	471,122	657,983
Interfund transfers out	(471,122)	-	-	(186,861)	(657,983)
Proceeds from long-term debt	-	60,000,000	-	-	60,000,000
All other financing sources	1,732,933	671,000	-	-	2,403,933
Contributions	-	-	-	(1,732,933)	(1,732,933)
Total other financing sources and uses	<u>1,448,672</u>	<u>60,671,000</u>	<u>-</u>	<u>(1,448,672)</u>	<u>60,671,000</u>
Net change in fund balances	(6,948,850)	41,872,765	463,418	(695,593)	34,691,740
Fund balances, July 1, 2009	<u>27,884,614</u>	<u>35,792,535</u>	<u>15,773,127</u>	<u>15,072,800</u>	<u>94,523,076</u>
Fund balances, June 30, 2010	<u>\$ 20,935,764</u>	<u>\$ 77,665,300</u>	<u>\$ 16,236,545</u>	<u>\$ 14,377,207</u>	<u>\$ 129,214,816</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2010

Total net change in fund balances - governmental funds \$ 34,691,740

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:

	\$	19,481,679	
Expenditures for capital outlay			
Depreciation expense		(4,748,886)	14,732,793

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 a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 12,740,000

Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is: 140,835

In governmental funds, postretirement benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postretirement benefits costs are recognized in the period that they are incurred. This year, the difference between OPEB costs and actual employer contributions was: (1,388,369)

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: (61,090,043)

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period was: 440,401

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: 57,008

In governmental funds, accreted interest on capital appreciation bonds and COPs is not recorded as an expenditure from current resources. In the government-wide statements of activities, however this is recorded as interest expense for the period. (2,379,586)

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*). 123,958

Change in net assets of governmental activities \$ (1,931,263)

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2010

	Agency Funds		
	Student	Payroll	Total
	Body Funds	Clearing Fund	
ASSETS			
Cash and investments	\$ 619,464	\$ 58,117	\$ 677,581
Accounts receivable	45	-	45
Stores inventory	40,434	-	40,434
Prepays	10,196	-	10,196
Total assets	<u>\$ 670,139</u>	<u>\$ 58,117</u>	<u>\$ 728,256</u>
LIABILITIES			
Accounts payable	\$ 55,963	\$ 58,117	\$ 114,080
Due to student groups	614,176	-	614,176
Total liabilities	<u>\$ 670,139</u>	<u>\$ 58,117</u>	<u>\$ 728,256</u>

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

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

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 non-fiduciary 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, 2010

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.

The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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, 2010

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, 2010

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.

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 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, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Non-major Governmental Funds:

- **Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains six non-major special revenue funds:
 1. The *Adult Education Fund* is used to account for resources committed to adult education programs maintained by the District.
 2. The *Child Development Fund* is used to account for resources committed to child development programs maintained by the District.
 3. The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.
 4. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.
 5. The *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 *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
 2. The *Special Reserve for Capital Projects Fund* is used to account for funds set aside for capital outlay projects and financial activity for certificates of participation.
- **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, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Fiduciary Funds:

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

F. Budgets and Budgetary Accounting

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

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

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, 2010

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.

2. 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."

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, 2010

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 estimated 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 resignations 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. 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, 2010

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 and any premiums or discounts are reported as other financing sources and 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 January 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 (January 1), and become delinquent if unpaid by August 31.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

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

K. New GASB Pronouncement

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* was issued in February 2009. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is required to be implemented in the 2010-11 fiscal year.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

	Governmental Funds	Fiduciary Funds
Cash in county treasury	\$ 150,361,902	\$ 58,117
Cash on hand and in banks	1,594,698	619,464
Cash in revolving fund	20,000	-
Total cash and cash equivalents	\$ 151,976,600	\$ 677,581

Policies and Practices

Governmental agencies in the state of California are 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 or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of the applicable agreements rather than the general provisions of the California Government Code.

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 its County Treasurer (Education Code Section 41001). The fair value of the District’s investment in the pool is disclosed in the notes to the 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 recorded on the amortized cost basis and is based on the accounting records maintained by the County Treasurer.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the investment policy:

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the Los Angeles County Investment Pool with a fair value of approximately \$151,294,862 and an amortized book value of \$150,420,019. The average weighted maturity for this pool is 536 days.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (continued)

Credit Risk

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

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, 2010, the District's bank balance of \$2,234,162 was not exposed to custodial credit risk because the first \$250,000 deposited per bank was covered under the FDIC insurance limit, and the remaining amount was collateralized with securities held by the pledging financial institution's trust department or agency.

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.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2010 consist of the following:

	Governmental Funds	Fiduciary Funds
Federal	\$ 6,307,078	\$ -
State categorical	1,957,492	-
Other	3,760,667	45
Total	<u>\$ 12,025,237</u>	<u>\$ -</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

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, expenditures and expenses. Reimbursements occur 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 2009-10 fiscal year are as follows:

	<u>Transfers to Other Funds</u>		<u>Total</u>
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	
General Fund	\$ -	\$ 186,861	\$ 186,861
Other Governmental Funds	471,122	-	471,122
Total	<u>\$ 471,122</u>	<u>\$ 186,861</u>	<u>\$ 657,983</u>

Transfer from the General Fund to the Child Development Fund to cover deficit spending and child care for short school days	\$ 471,122
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Transfer from the Child Development Fund to the General Fund to pay back loan from prior year	186,861
	<u>\$ 657,983</u>

B. Due from/ Due to Other Funds

As of June 30, 2010 the Child Development Fund owed \$750,000 to the Special Reserve for Capital Outlay Fund for a temporary loan to cover a cash shortage.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2010 is shown below:

	Beginning Balance July 1, 2009	Additions	Deletions	Ending Balance June 30, 2010
Land	\$ 6,588,760	\$ 3,413,823	\$ -	\$ 10,002,583
Buildings and improvements	205,298,220	2,992,849	-	208,291,069
Furniture and equipment	11,075,445	222,931	-	11,298,376
Construction in progress	28,963,873	15,825,446	2,973,370	41,815,949
Total at historical cost	<u>\$ 251,926,298</u>	<u>\$ 22,455,049</u>	<u>\$ 2,973,370</u>	<u>\$ 271,407,977</u>
Less accumulated depreciation:				
Buildings and improvements	65,961,431	4,383,081	-	70,344,512
Furniture and equipment	9,094,603	365,805	-	9,460,408
Total accumulated depreciation	<u>75,056,034</u>	<u>4,748,886</u>	<u>-</u>	<u>79,804,920</u>
Total capital assets, net	<u>\$ 176,870,264</u>	<u>\$ 17,706,163</u>	<u>\$ 2,973,370</u>	<u>\$ 191,603,057</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 6 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the fiscal year ended June 30, 2010 is shown below:

	Balance			Balance	
	July 1, 2009	Additions	Deductions	June 30, 2010	Due in One Year
General obligation bonds	\$ 141,171,958	\$ 62,033,091	\$ 12,185,000	\$ 191,020,049	\$ 9,500,000
Unamortized premium on issuance	2,139,127	1,090,043	140,835	3,088,335	97,233
Certificates of participation	18,858,660	346,495	555,000	18,650,155	895,000
Compensated absences	1,047,325	-	123,958	923,367	-
Net OPEB obligation	1,710,762	1,388,369	-	3,099,131	-
Total	<u>\$ 164,927,832</u>	<u>\$ 64,857,998</u>	<u>\$ 13,004,792</u>	<u>\$ 216,781,037</u>	<u>\$ 10,492,233</u>

A. General Obligation Bonds

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.

Election of 1998

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

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

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 6 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bond (continued)

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. On August 5, 2009 the District issued Series B in the amount of \$60,000,000 with interest rates ranging from 1.5%-6.095% and a final maturity date of August 2, 2034. 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, 2010 is:

Bond	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding			Bonds Outstanding June 30, 2010	Due Within One Year
				July 1, 2009	Additions*	Redeemed		
Series 1998	8/1/2018	5.65% - 5.70%	\$ 68,145,000	\$ 41,120,000	\$ -	\$ 3,350,000	\$ 37,770,000	\$ 3,525,000
Series 1999	8/1/2023	5.15% - 5.50%	38,000,034	44,281,958	2,033,091	2,120,000	44,195,049	2,400,000
Series 2001	8/1/2025	4.00% - 5.75%	3,995,000	395,000	-	125,000	270,000	130,000
2006 Refunding	8/1/2025	3.50% - 4.00%	3,285,000	3,200,000	-	35,000	3,165,000	35,000
2006 Series A	8/1/2032	4.00% - 5.00%	60,000,000	52,175,000	-	6,555,000	45,620,000	410,000
2006 Series B	8/2/2034	1.50% - 6.095%	60,000,000	-	60,000,000	-	60,000,000	3,000,000
			<u>\$ 233,425,034</u>	<u>\$ 141,171,958</u>	<u>\$ 62,033,091</u>	<u>\$ 12,185,000</u>	<u>\$ 191,020,049</u>	<u>\$ 9,500,000</u>

*additions include accretion amounts and new debt issuances

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

Fiscal Year	Principal*	Interest	Total
2010-2011	\$ 9,500,000	\$ 8,545,522	\$ 18,045,522
2011-2012	7,465,000	8,318,379	15,783,379
2012-2013	6,482,188	9,271,897	15,754,085
2013-2014	6,934,386	9,219,712	16,154,098
2014-2015	7,409,593	9,168,392	16,577,985
2015-2020	39,293,635	47,163,419	86,457,055
2020-2025	29,745,232	45,189,194	74,934,426
2025-2030	32,675,000	17,743,111	50,418,111
2030-2035	34,590,000	5,706,344	40,296,344
Total	<u>\$ 174,095,034</u>	<u>\$ 160,325,970</u>	<u>\$ 334,421,004</u>

*Does not include accreted interest of \$16,925,015 as of June 30, 2010

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

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, 2010 are as follows:

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>COP Outstanding July 1, 2009</u>	<u>Addition*</u>	<u>Redeemed</u>	<u>COP Outstanding June 30, 2010</u>	<u>Due within one year</u>
11/1/2008	5/1/2025	3.5%-5.75%	\$ 19,961,501	\$ 18,858,660	\$ 346,495	\$ 555,000	\$ 18,650,155	\$ 895,000

* Addition includes accreted amount

The future debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Principal*</u>	<u>Interest</u>	<u>Total</u>
2010-11	\$ 895,000	\$ 569,863	\$ 1,464,863
2011-12	935,000	531,573	1,466,573
2012-13	975,000	490,973	1,465,973
2013-14	1,020,000	446,560	1,466,560
2014-15	1,065,000	400,060	1,465,060
2015-2020	6,542,112	2,813,201	9,355,313
2020-2025	4,789,390	6,791,330	11,580,720
Total	\$ 16,221,501	\$ 12,043,559	\$ 28,265,061

*Does not include accreted interest of \$2,428,654

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 7 – JOINT VENTURES

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

The JPA arranges for and provides property and liability insurance for its member school districts. The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPA.

Condensed audited financial information for the most recently audited fiscal period is as follows:

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

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.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

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 California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS).

California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement 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 2009-10 was 9.709%. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2009-10	\$ 2,185,011	100%
2008-09	\$ 2,046,627	100%
2007-08	\$ 1,928,264	100%

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 9 - EMPLOYEE RETIREMENT PLANS (continued)

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 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 2009-10 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2009-10	\$ 4,752,967	100%
2008-09	\$ 4,896,143	100%
2007-08	\$ 4,983,160	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$2,548,873 to CalSTRS (4.267% of salaries subject to CalSTRS in 2009-10).

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 10 – MEASURE R PARCEL TAX

On February 5, 2008, the voters approved by 73% Measure “R”, the Quality Education funding Renewal Measure which combined two previous 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 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. No funds are to be used for administrator salaries.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Construction Commitments

As of June 30, 2010, the District had commitments with respect to unfinished capital projects of approximately \$11.4 million to be paid from bond funds.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

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

Plan Descriptions and Contribution Information

A. Plan Description

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 (certificated)/ age 50 (classified) with at least 10 years of service. The District provides medial benefits at the same level they are receiving at the time of retirement for a period of up to 5 years or to age 65, whichever occurs first. In addition, all retirees over the age of 65 receive a lifetime monthly supplement of \$97 per month. Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	326
Active plan members	1,184
Total	<u>1,510</u>
Number of participating employers	1

B. Funding Policy

The District’s funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2009-10 the District contributed \$891,579.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution (ARC)	\$ 2,305,698
Interest on net OPEB obligation	85,538
Adjustment to ARC	(111,288)
Annual OPEB cost	<u>2,279,948</u>
Contributions made	891,579
Increase in net OPEB obligation	<u>1,388,369</u>
Net OPEB obligation - July 1, 2009	1,710,762
Net OPEB obligation - June 30, 2010	<u><u>\$ 3,099,131</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2009 and 2010 were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2009	\$ 2,608,733	34%	\$ 1,710,762
2010	\$ 2,279,948	39%	\$ 3,099,131

D. Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a five percent investment rate of return per year (net of administrative expenses), based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq. The UAAL is being amortized as a level percentage of payroll over a period of 30 years. The remaining amortization period at June 30, 2010, was 29 years. The actuarial value of assets was not determined in this actuarial valuation as there were none.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level-dollar
Remaining Amortization Period	29 years
Asset Valuation	\$ -
Actuarial Assumptions:	
Return on Assets	5.0%
Discount rate	5.0%
Medical/Rx Trend Rate	6.0%
Dental Trend Rate	4.0%

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 13 – FUND BALANCE

The following fund balance amounts were designated by the District’s governing board as of June 30, 2010, as of follows:

	<u>General Fund</u>
Economic uncertainties	\$ 3,641,060
Health Benefit rate increase	350,000
Risk management	300,000
Prior year encumbrance	200,000
Children Center loan	350,000
ARRA- SFSF	1,019,851
Medi-Cal Billing	476,819
English Language Acquisition	22,366
Lottery- Instructional Materials	408,313
Economic Impact Aid	41,466
Economic Impact Aid-LEP	10,901
Other local programs	2,104,944
Total designations	<u>\$ 5,284,660</u>

NOTE 14 – GENERAL OBLIGATION BOND ANTICIPATION NOTES

On July 23, 2009, the District issued \$20,000,000 in General Obligation Bond Anticipation Notes (BANS) at an interest rate of 2% and due July 20, 2010. The BANS will be repaid with the issuance of Series C bonds subsequent to June 30, 2010. The BANS were accrued as a current liability in the Building Fund as of June 30, 2010. The BANS were permitted for uses to finance the construction, renovation, modernization, and equipping of school facilities and pay certain costs of issuance with the Bonds.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 15 – SUBSEQUENT EVENTS

Current Loans

The District issued \$2,779,000 in Tax Revenue Anticipation Notes (TRANS) on July 1, 2010 through the Los Angeles County Schools Pooled Financing Program. The notes matured on June 30, 2011 and yielded 2% interest. The notes were sold by the District to supplement its cash flow.

Election of 2006 General Obligation Bonds, Series C

On July 14, 2010 the District issued 2006 General Obligation Bonds, Series C bonds in the amount of \$10,690,000 and Series C-1 Build America Bonds in the amount of \$54,310,000 with interest rates ranging from 3% to 6.634% and a final maturity date of July 1, 2035. This was used to repay the general obligation bond anticipation note.

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Required Supplementary Information

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
REVENUES				
Revenue limit sources	\$ 59,192,045	\$ 56,120,320	\$ 56,424,649	\$ 304,329
Federal	7,913,651	8,422,080	8,533,156	111,076
Other state	10,080,881	9,770,920	9,609,899	(161,021)
Other local	30,510,080	32,621,661	31,425,377	(1,196,284)
Total revenues	<u>107,696,657</u>	<u>106,934,981</u>	<u>105,993,081</u>	<u>(941,900)</u>
EXPENDITURES				
Certificated salaries	57,492,087	56,662,003	56,378,563	283,440
Classified salaries	20,740,787	21,464,005	21,304,620	159,385
Employee benefits	23,338,984	23,312,712	22,171,797	1,140,915
Books and supplies	3,853,194	6,461,620	3,827,781	2,633,839
Services and other operating expenditures	11,236,909	12,693,932	10,979,452	1,714,480
Capital outlay	1,123,000	1,198,062	280,851	917,211
Transfers of indirect costs	(590,957)	(505,462)	(552,461)	46,999
Other outgo	6,800	6,800	-	6,800
Total expenditures	<u>117,200,804</u>	<u>121,293,672</u>	<u>114,390,603</u>	<u>6,903,069</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,504,147)</u>	<u>(14,358,691)</u>	<u>(8,397,522)</u>	<u>5,961,169</u>
OTHER FINANCING SOURCES AND USES				
Interfund transfers in	1,000,000	108,335	186,861	78,526
Interfund transfers out	(75,000)	(75,000)	(471,122)	(396,122)
Other sources	-	-	1,732,933	1,732,933
Total other financing sources and uses	<u>925,000</u>	<u>33,335</u>	<u>1,448,672</u>	<u>1,415,337</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(8,579,147)</u>	<u>(14,325,356)</u>	<u>(6,948,850)</u>	<u>7,376,506</u>
Fund balances, July 1, 2009	<u>29,768,562</u>	<u>27,740,189</u>	<u>27,884,614</u>	<u>-</u>
Fund balances, June 30, 2010	<u>\$ 21,189,415</u>	<u>\$ 13,414,833</u>	<u>\$ 20,935,764</u>	<u>\$ 7,376,506</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2010

Required information from Actuarial Study since implementation of GASB 45 shown below:

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2009	\$ -	\$ 19,679,640	\$ 19,679,640	0%	\$ 32,275,084	61%
July 1, 2007	-	21,221,071	21,221,071	0%	not available	N/A

Supplementary Information Section

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2010

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.

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

DISTRICT ADMINISTRATORS

Tim Cuneo
Superintendent

Dr. Michael Matthews
Assistant Superintendent, Human Resources

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

Dr. Chiung-Sally Chou
Chief Academic Officer

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Combining Balance Sheet – Non-Major Governmental Funds
June 30, 2010

	Adult Education Fund	Child Development Fund	Cafeteria Special Revenue Fund	Deferred Maintenance Fund	Foundation Special Revenue Fund	Special Reserve Fund for Postemployment Benefits	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS										
Cash and cash equivalents	\$ 2,907	\$ 662,870	\$ 419,158	\$ 727,513	\$ 3	\$ 1,733,084	\$ 6,745,109	\$ 3,398,052	\$ 1,258	\$ 13,689,954
Accounts receivable	282,895	959,914	200,167	8,097	-	5,851	203,795	7,972	4	1,668,695
Due from other funds	-	-	-	-	-	-	-	750,000	-	750,000
Inventories	-	-	34,414	-	-	-	-	-	-	34,414
Total assets	<u>\$ 285,802</u>	<u>\$ 1,622,784</u>	<u>\$ 653,739</u>	<u>\$ 735,610</u>	<u>\$ 3</u>	<u>\$ 1,738,935</u>	<u>\$ 6,948,904</u>	<u>\$ 4,156,024</u>	<u>\$ 1,262</u>	<u>\$ 16,143,063</u>
LIABILITIES AND FUND BALANCES										
LIABILITIES										
Accounts payable	\$ 18,589	\$ 624,179	\$ 211,943	\$ 4,647	\$ 3	\$ -	\$ 1,850	\$ 14,873	\$ -	\$ 876,084
Due to other funds	-	750,000	-	-	-	-	-	-	-	750,000
Deferred revenue	-	139,772	-	-	-	-	-	-	-	139,772
Total liabilities	<u>18,589</u>	<u>1,513,951</u>	<u>211,943</u>	<u>4,647</u>	<u>3</u>	<u>-</u>	<u>1,850</u>	<u>14,873</u>	<u>-</u>	<u>1,765,856</u>
FUND BALANCES										
Reserved for:										
Inventories	-	-	34,414	-	-	-	-	-	-	34,414
Debt service	-	-	-	-	-	-	-	-	1,262	1,262
Unreserved:										
Special revenue funds	267,213	108,833	407,382	730,963	-	1,738,935	-	-	-	3,253,326
Capital project funds	-	-	-	-	-	-	6,947,054	4,141,151	-	11,088,205
Total fund balances	<u>267,213</u>	<u>108,833</u>	<u>441,796</u>	<u>730,963</u>	<u>-</u>	<u>1,738,935</u>	<u>6,947,054</u>	<u>4,141,151</u>	<u>1,262</u>	<u>14,377,207</u>
Total liabilities and fund balances	<u>\$ 285,802</u>	<u>\$ 1,622,784</u>	<u>\$ 653,739</u>	<u>\$ 735,610</u>	<u>\$ 3</u>	<u>\$ 1,738,935</u>	<u>\$ 6,948,904</u>	<u>\$ 4,156,024</u>	<u>\$ 1,262</u>	<u>\$ 16,143,063</u>

See accompanying note to supplementary information.

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Combining Statement of Revenues, Expenses, and Changes in Fund Balances – Non-Major Governmental Funds
For the Fiscal Year Ended June 30, 2010

	Adult Education Fund	Child Development Fund	Cafeteria Special Revenue Fund	Deferred Maintenance Fund	Foundation Special Revenue Fund	Special Reserve Fund for Postemployment Benefits	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES										
General revenues:										
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,743,916	\$ -	\$ 1,743,916
Federal and state aid not restricted to specific purpose	437,812	106,586	-	424,179	-	-	-	-	-	968,577
Interest and investment earnings	1,233	9,812	628	(13,729)	-	16,620	44,625	26,051	13	85,253
Miscellaneous	25,973	1,110,016	73,542	-	-	-	864,259	-	-	2,073,790
Program revenues:										
Charges for services	9,282	896,408	1,588,718	-	-	-	-	-	-	2,494,408
Operating grants and contributions	148,901	6,008,048	1,415,645	35,200	-	-	-	-	-	7,607,794
Total revenues	623,201	8,130,870	3,078,533	445,650	-	16,620	908,884	1,769,967	13	14,973,738
EXPENDITURES										
Instructional services:										
Instruction	273,830	5,596,071	-	-	-	-	-	-	-	5,869,901
Instruction-related services:										
Supervision of instruction	-	647,377	-	-	-	-	-	-	-	647,377
School site administration	189,323	703,457	-	-	-	-	-	-	-	892,780
Pupil support services:										
Food services	-	475,916	2,926,903	-	-	-	-	-	-	3,402,819
All other pupil services	-	171,657	-	-	-	-	-	-	-	171,657
General administration services:										
Other general administration	13,080	410,103	129,278	-	3	-	10,504	-	-	562,968
Plant services	45,889	360,575	-	813,864	-	-	21,126	270,378	-	1,511,832
Community services	-	12,000	-	-	-	-	-	-	-	12,000
Other outgo:										
Debt service - principal	-	-	-	-	-	-	-	555,000	-	555,000
Debt service - interest	-	-	-	-	-	-	-	594,325	-	594,325
Total expenditures	522,122	8,377,156	3,056,181	813,864	3	-	31,630	1,419,703	-	14,220,659
Excess (deficiency) of revenues over (under) expenditures	101,079	(246,286)	22,352	(368,214)	(3)	16,620	877,254	350,264	13	753,079
OTHER FINANCING SOURCES (USES)										
Interfund transfers in	-	471,122	-	-	-	-	-	-	-	471,122
Interfund transfers out	-	(186,861)	-	-	-	-	-	-	-	(186,861)
Contributions	(107,788)	-	-	(1,625,145)	-	-	-	-	-	(1,732,933)
Total other financing sources and uses	(107,788)	284,261	-	(1,625,145)	-	-	-	-	-	(1,448,672)
Net change in fund balances	(6,709)	37,975	22,352	(1,993,359)	(3)	16,620	877,254	350,264	13	(695,593)
Fund balances, July 1, 2009	273,922	70,858	419,444	2,724,322	3	1,722,315	6,069,800	3,790,887	1,249	15,072,800
Fund balances, June 30, 2010	\$ 267,213	\$ 108,833	\$ 441,796	\$ 730,963	\$ -	\$ 1,738,935	\$ 6,947,054	\$ 4,141,151	\$ 1,262	\$ 14,377,207

See accompanying note to supplementary information.

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2010

	Second Period Report	Second Period Report After Audit Finding Adjustments*	Annual Report	Annual Report After Audit Finding Adjustments
Elementary:				
Kindergarten	781	782	786	786
Grades 1 through 3, regular classes	2,251	2,254	2,263	2,263
Grades 4 through 6, regular classes	2,414	2,415	2,420	2,420
Grades 7 and 8, regular classes	1,666	1,667	1,666	1,666
Opportunity schools	1	1	1	1
Home and hospital	1	1	2	2
Special education	221	221	219	219
Total Elementary	7,335	7,341	7,357	7,357
Secondary:				
Grades 9 through 12, regular classes	3,511	3,508	3,493	3,493
Continuation education	87	83	87	87
Opportunity schools	12	12	13	13
Home and hospital	6	6	10	10
Special education	156	156	156	156
Total Secondary	3,772	3,765	3,759	3,759
Total Average Daily Attendance	11,107	11,106	11,116	11,116

* The only ADA change due to an audit finding adjustment was for continuation education (see Finding #2010-5)

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2010

Grade Level	1982-83 Actual Minutes	1982-83 Reduced Minutes	1986-87 Minutes Requirement	1986-87 Reduced Minutes	2009-10 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	35,000	36,000	35,000	41,175	175	Complied
Grade 1	53,100	51,625	50,400	49,000	51,675	175	Complied
Grade 2	53,100	51,625	50,400	49,000	51,675	175	Complied
Grade 3	53,100	51,625	50,400	49,000	51,700	175	Complied
Grade 4	54,480	52,967	54,000	52,500	53,047	175	Complied
Grade 5	54,480	52,967	54,000	52,500	53,047	175	Complied
Grade 6	54,480	52,967	54,000	52,500	54,070	175	Complied
Grade 7	54,480	52,967	54,000	52,500	54,070	175	Complied
Grade 8	54,480	52,967	54,000	52,500	54,070	175	Complied
Grade 9	64,800	63,000	64,800	63,000	63,020	175	Complied
Grade 10	64,800	63,000	64,800	63,000	63,020	175	Complied
Grade 11	64,800	63,000	64,800	63,000	63,020	175	Complied
Grade 12	64,800	63,000	64,800	63,000	63,020	175	Complied

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2010

General Fund	(Budget) 2011**	2010	2009	2008
Revenues and other financing sources	\$ 101,607,504	\$ 107,912,875	\$ 118,794,000	\$ 121,722,332
Expenditures	106,710,418	114,390,603	117,919,560	115,722,489
Other uses and transfers out	-	471,122	75,000	1,348,561
Total outgo	106,710,418	114,861,725	117,994,560	117,071,050
Change in fund balance (deficit)	(5,102,914)	(6,948,850)	799,440	4,651,282
Ending fund balance	\$ 15,832,850	\$ 20,935,764	\$ 27,884,614	\$ 28,085,174
Available reserves*	\$ 10,351,772	\$ 15,432,244	\$ 17,628,526	\$ 20,430,607
Available reserves as a percentage of total outgo	10%	13%	15%	17%
Total long-term debt	\$ 206,288,804	\$ 216,781,037	\$ 164,927,832	\$ 170,184,258
Average daily attendance at P-2	11,106	11,106	11,019	11,084

The General Fund balance has decreased by \$7,149,410 over the past two years. The fiscal year 2010-11 adopted budget projects a decrease of \$5,102,914. 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). ABX4 2 reduced the 3% reserve requirement by one-third for the 2009-10 year. Long-term debt has increased \$46,596,779 over the past two years.

* Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund.

** Revised Final Budget, September 2010.

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
National School Lunch and Breakfast Program	10.555	13396	\$ 991,514
ARRA - Equipment Assistance Grant	10.579	15006	65,340
Especially Needy Breakfast	10.553	13526	205,176
Federal Commodities	10.550	N/A	121,879
Fresh Fruit and Vegetable Program	10.582	14968	56,880
Child Nutrition: Child Care Food Program	10.558	13393	<u>237,052</u>
Total U.S. Department of Agriculture			<u>1,677,841</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	1,169,018
ARRA - Title I, Part A, Basic Low-Income and Neglected	84.389	15005	431,019
Title II, Part A, Teacher Quality	84.367	14341	291,895
Title II, Part A, Administrator Training	84.367	14344	2,943
Title II, Part D, Enhancing Education Through Technology, Formula Grants	84.318	14334	12,105
Title II, Part D, Enhancing Education Through Technology, Competitive Grants	84.318	14368	232,778
Title III, Limited English Proficiency (LEP) Student Program	84.365	10084	129,385
Title IV, Part A, Drug-Free Schools	84.186	14347	43,965
Title V, Part A, Innovative Education Strategies	84.298A	13340	9,547
Adult Education: Adult Basic Education & ESL	84.002A	14508	80,907
Adult Education: Adult Secondary Education	84.002A	13978	18,188
Adult Education: English Literacy & Civics Education	84.002A	14109	49,759
Department of Rehab: Workability II, Transition Partnership	84.158	10006	137,946
ARRA - Transitional Partnership Program	84.390A	10130	26,196
ARRA - State Fiscal Stabilization Fund	84.394	25008	3,582,584
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	2,225,884
ARRA - Special Ed: IDEA- Basic Local Assistance	84.391	15003	1,189,038
Special Ed: IDEA Preschool Grants, Part B	84.173	13430	62,632
ARRA - Special Ed: IDEA Preschool Grants, Part B	84.392	15000	95,950
Special Ed: IDEA Preschool Staff Development	84.173	13431	726
Special Ed: IDEA- Early Intervention Grants, Part C	84.181	23761	30,720
Special Ed: IDEA Preschool Local Entitlement, Part B	84.027	13682	112,864
ARRA - Special Ed: IDEA Preschool Local Entitlement, Part B	84.391	15002	<u>136,582</u>
Total U.S. Department of Education			<u>10,072,631</u>
U.S. Department of Health & Human Services:			
Passed through California Dept. of Education (CDE):			
Child Development: Quality Improvement Activities	93.575	14678	36,212
Child Development: Federal Child Care, Center Based	93.596	13609	154,810
Passed through Los Angeles County Office of Education			
Head Start	93.600	10016	1,875,286
Direct Payments			
Medi-Cal Administrative Activities	93.778	10060	404,451
Medi-Cal Billing Option	93.778	10013	<u>179,539</u>
Total U.S. Department of Health & Human Services			<u>2,650,298</u>
Total Expenditures of Federal Awards			<u>\$ 14,400,770</u>

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2010

There were no adjustments made to reconcile the fund balances to the audited financial statements in 2009-10.

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2010

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. For 2009-10 through 2012-13, the instructional day and minute requirements have been reduced pursuant to Education Code Section 46201.2.

Schedule of Financial Trends and Analysis

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

Schedule of Expenditures of Federal Awards

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

Subrecipients

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Other Independent Auditor's Reports

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Board of Trustees
Santa Monica-Malibu Unified School District
Santa Monica, California

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

Independent Auditor's Report

We have audited the basic financial statements of Santa Monica-Malibu Unified School District as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as Findings #2010-1 through #2010-2 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

This report is intended solely for the information and use of the Board, management, others within the entity, the California Department of Education, the California State Controller's Office, and the 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.

Chintalvi & Accountancy Corporation

San Diego, California
November 15, 2010

Board of Trustees
Santa Monica-Malibu Unified School District
Santa Monica, California

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

Independent Auditor's Report

Compliance

We have audited Santa Monica-Malibu Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Santa Monica-Malibu Unified School District's major federal programs for the year ended June 30, 2010. 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. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Santa Monica-Malibu Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Santa Monica-Malibu Unified School District's compliance with those requirements.

In our opinion, Santa Monica-Malibu School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item #2010-3 and #2010-4.

Internal Control Over Compliance

Management of Santa Monica-Malibu Unified School District's 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Santa Monica-Malibu Unified School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items #2010-3 and #2010-4. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of the Board, management, others within the entity, the California Department of Education, the California State Controller's Office, the 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.

Chintal White Accountancy Corporation

San Diego, California
November 15, 2010

Board of Trustees
 Santa Monica-Malibu Unified School District
 Santa Monica, California

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Santa Monica-Malibu Unified School District (the District), as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 15, 2010. 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 2009-2010*, 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 opinions.

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 state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable

Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement – Receipt of Funds	1	Yes
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 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, except as described in the accompanying schedule of findings and questioned costs as items #2010-5 and #2010-6. Further, based on our audit, 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, others within the entity, the California Department of Education, the California Department of Finance, the California 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.

Cheryl White
Accountancy Corporation

San Diego, California
November 15, 2010

Findings and Questioned Costs Section

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>Yes</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>
84.394	ARRA - State Fiscal Stabilization Fund
10.553, 10.555	Child Nutrition Cluster
84.010, 84.389	Title I Part A Cluster
84.318	Title II Part D
93.778	Medi-Cal Administrative Activities
84.027, 84.173, 84.181, 84.391, 84.392	Individuals with Disabilities Education Act (IDEA) Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 432,023</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(ies) identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditor's report issued on compliance for state programs:	<u>Qualified</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings

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

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

Finding #2010-1: Credit Cards (30000)

Our audit included an evaluation of internal controls over District credit cards. We found that two out of 11 credit card transactions did not have receipts for purchases of gasoline from Clean Energy. The District’s credit card policy states that receipts must be turned in to Fiscal Services timely for all purchases, therefore there are cardholders not adhering to the District policy. The District must pay credit card bills timely to avoid late fees and not receiving documentation timely can lead to payment of inappropriate expenses.

Recommendation:

We recommend a policy be put in place to ensure receipts are turned in to support credit card purchases.

District Response:

To revoke the credit cards from the Transportation Department may be problematic from an operational point of view causing difficulty providing Transportation services. However, the District concurs that missing receipts is not acceptable. Fiscal Services staff will meet with all Department Heads who have district credit cards for fueling vehicles and develop a procedure consistent between departments. When there was a missing receipt, Fiscal Services staff would request the director whose department is responsible to review the statement, and sign to approve the statement. The procedure will include appropriate personnel actions for non-compliance.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings (continued)

Finding #2010-2: Student Body Funds (30000)

In testing the student body activity at the site level, we noted the following deficiencies:

John Adams Middle

Cash collected for fundraising events is not reconciled to supporting documentation. The bookkeeper issues pre-numbered receipts for the total cash turned in from events, such as dances, but the cash is not reconciled to sub-receipts (ie. receipts issued to individual students, ticket logs, etc.). We found 1 out of 3 receipts tested, in the amount of \$591 for a dance event, did not have adequate documentation to support cash turned in.

There appears to be a lack of controls over cash disbursements for the ASB. We found 1 out of 5 disbursements in the amount of \$1,101 was for a reimbursement which was not preapproved. We also found 1 out of 5 cash disbursements, in the amount of \$2,324 to repair District owned musical instrument, was not appropriate for ASB. District equipment should not be repaired with student funds.

Recommendation:

Lack of adequate controls can result in loss, fraud, or abuse of student body funds. Therefore we recommend that supporting documentation is kept for all cash received and all expenditures have adequate documentation and are reviewed for reasonableness.

District's Response:

The school site started to implement the practice of issuing receipts when they receive cash. This will help having by having the documentation to support cash turned in to the District.

The Music teacher was not aware that the Associated Student Body (ASB) needs to approve the requests for expenditures before they spend money. The new ASB advisor is now aware and will always notify club advisors and sport coaches that expenditures must be preapproved. The ASB advisor will make sure that this procedure will be implemented in the 2010-11 school year.

Music teachers were not aware that the money should have been deposited to the District's Gift Account, and that all transactions should have been done through the District Office. The ASB balances from the Music accounts for the 2010-11 school year will now be taken out, and a check will be issued to the District's Gift account (90120). Music accounts in ASB will be closed, and any future transactions will be handled through the District's Gift account.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings (continued)

Finding #2010-2: Student Body Funds (30000) (continued)

Malibu High School

There appears to be a lack of controls over cash receipting. 1 out of 5 cash receipts in the amount of \$41 did not have an inventory count sheet to reconcile cash collected to the inventory sold.

Recommendation:

Lack of adequate controls can result in loss, fraud, or abuse of student body funds. Therefore we recommend that supporting documentation is kept for all cash received.

District Response:

The advisor and students or Club members were not aware of the inventory count sheet at that time. The ASB Account Clerk has since notified them that all fundraising activities will be required to have a completed *Detail Deposit Log Form*, which will show an accounting of items sold. That form includes the *Deposit Slip*, which will be completed with the prices submitted, and listing the amount of coin, currency and checks in order to reconcile the collection of monies for items sold.

The District conducted an In-Service ASB Training on February 3, 2010 and will continue to provide the training to the ASB advisors and staff.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

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., deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

Finding #2010-3: Internal Control Over Allowable Costs (30000)

Program: Child Nutrition Cluster- CFDA#84.553, 84.555; Title I Cluster- CFDA# 84.010, 84.389; Title II- CFDA#84.398; IDEA Cluster- CFDA#84.027, 84.173, 84.181, 84.391, 84.392

Condition: The Directors of Federal Programs are not periodically reviewing payroll reports for persons being charged to their program.

Context: Our testing of major federal programs includes interviewing the Program Directors to obtain an understanding of internal controls. Through inquiry we found that the Program Directors do not review payroll reports to ensure employees being charged to the programs are appropriate.

Criteria: Directors of federal programs should review payroll reports regularly to ensure that persons being charged to federal resources are appropriate for these programs.

Questioned Cost: None. This is an internal control finding and no questioned costs were identified as a result of this inquiry.

Effect: There is a potential for employee's salaries to be incorrectly charged to federal programs.

Cause: There is currently no policy in place to ensure payroll reports are being reviewed for appropriateness for federal program.

Recommendation: We recommend that the Directors of federal programs review payroll reports by first and last name for persons being charged to federal programs.

District Response: The Position Control Forms (PCs) for all Federal Programs were signed by the programs' Directors, and all the budgets were approved by the program directors. One of the duties of the Accountants in the Fiscal Services is reviewing and reconciling the actual financial reports, which include the payroll reports, to ensure all the charges are legitimate.

In the past, the payroll reports contained the employees' Social Security Numbers (SSNs), so access of the detailed payroll reports was limited to the Fiscal Services Department. In May 2010, the Los Angeles County Office of Education (LACOE) established the Employee ID Numbers to replace the SSNs. The detailed payroll no longer contain the employees' SSNs; the District is scheduled to release the detailed payroll data to all Administrators in 2011-12.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section III – Federal Award Findings and Questioned Costs

Finding #2010-4: Individuals with Disabilities Act (IDEA) Documentation of Time and Effort (50000)

Program: IDEA Cluster (CFDA#s: 84.027, 84.173, 84.181, 84.391, 84.392)

Condition: The District does not have an adequate procedure in place to obtain documentation of employee time and effort by use of Personnel Activity Reports or semi-annual time certifications for employees whose time was charged to the Federal programs listed above.

Context: The District did not provide the auditors with the semi-annual time certifications for employees in the federal programs listed above in a timely manner. The time certifications were requested during the 2009-10 fiscal year, however were not prepared and furnished until November 2010.

Criteria: LEA's are required to document their salary and wage charges to all federal programs in accordance with the standards specified by OMB Circular A-87, Attachment B, Section 11(h).

Questioned Cost: The total salaries and benefits charged to the IDEA program were \$4,567,784. However, the District provided time certifications subsequent our audit field work, thus eliminating the questioned costs. These documents were not readily available upon request.

Cause: Clerical oversight

Effect: The District was not be in full compliance with the federal regulations as they pertain to the operation of the federal program listed above.

Recommendation: We recommend the District implement a procedure to complete and maintain time documentation semi-annually for the current fiscal year. Per guidance outlined at OMB Circular A-87, Attachment B, Section 11(h), the semi-annual time certifications may be prepared by the employee or the supervisory official having first-hand knowledge of the work performed by the employee.

District Response: Time reporting and documentation for Federal grants and entitlements is critical and must be properly handled. The District will follow-up with training of all departments so they understand the importance of timely preparation of the necessary documents. It is critical that these are completed close to the time worked and not months after the fact.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section IV – State Award Findings and Questioned Costs

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

Finding #2010-5: Continuation High Attendance Procedures (10000)

Criteria: Education Code Section 46300 states that for attendance reporting “there shall be included the attendance of pupils while engaged in educational activities required of those pupils and under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law. Attendance is required to be taken daily by certificated personnel.”

Condition: Teachers at the continuation high school were not consistently taking attendance everyday throughout the school year.

Context: Our audit of attendance includes verifying that all teachers are taking attendance daily. After reviewing the attendance system we noted that teachers were not consistently taking attendance every day. Although the school uses positive attendance, which will only assign attendance credit to those students marked present by the teacher, the mainframe attendance system at the District would default all the students to present if the attendance was not submitted by the teacher. This setting resulted in possible overstatement of Average Daily Attendance (ADA) since every student was given attendance credit when the teachers did not take attendance.

After the initial audit visit and finding reported to management, the District was able to identify the teachers and days that attendance was not taken and then proceeded to remove all attendance credit claimed for those instances to avoid any overstatement of ADA. The District also updated the attendance system, so that it would no longer default to present if attendance is not taken and thus avoid future overstatement. The removal of attendance credit due to the audit finding resulted in a reduction of 4 (four) ADA for Continuation Education.

Cause: Lack of proper supervision.

ADA Impact: None. The District removed all questionable apportionment from the attendance system and revised the P2 attendance report. The auditor verified the correction and it appears that revised ADA is materially correct.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

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

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

Finding #2010-5: Continuation High Attendance Procedures (10000) (continued)

Effect: Possible overstatement of ADA

Recommendation: We recommend that teachers take attendance everyday to ensure compliance with state requirements. The attendance clerk should run a report at the end of each day which shows teachers that have not submitted their attendance and then have the Principal review the report to avoid future instances of noncompliance.

District Response: District Fiscal Services staff has worked with the school site and have trained both teaching and office staffs regarding their responsibilities in taking and reporting of attendance. The clerical staff now verifies, at least weekly, that every teacher is using the online attendance as proscribed. The teachers now understand how attendance should be prepared and entered into the electronic reporting system and what signatures are needed from them. The staff was operating under the assumption that sign in sheets that were kept in the previous year were sufficient attendance records. Continuation High attendance requires hourly or period by period attendance due to the method of calculating ADA.

So that no overstatement of attendance occurred in the 2009-10 fiscal year, P2 and Annual Attendance reports have been corrected and revised. The adjustments made resulted in a reduction of four (4) ADA for Olympic Continuation High School Education. The auditor verified the correction.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section IV – State Award Findings and Questioned Costs

Finding #2010-6: Continuation High School Attendance Reporting (10000)

Criteria: In order to demonstrate compliance with Education Code Section 46300 which requires certificated staff supervision of pupils engaged in educational activities, contemporaneous records should be retained to support the attendance reported to the State. When a web based attendance system is used, attendance rosters should be printed out in order for certificated personnel to certify the attendance being reported is accurate. These rosters should be signed timely by the teacher to verify the accuracy of the records.

Condition: The Olympic Continuation high school site was not aware of the requirement to maintain contemporaneous records and therefore certificated personnel did not sign weekly attendance rosters to certify the records were accurate.

Context: During our initial attendance testing at Olympic Continuation we found through review and inquiry with site staff that contemporaneous attendance records including signed attendance rosters are not maintained. Through additional procedures, the District was able to identify which teachers were taking attendance. Once it was determined which teachers were taking attendance, the teachers signed an affidavit certifying the attendance reported is accurate.

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

Questioned Cost: None.

Effect: Contemporaneous attendance records were not obtained.

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

District Response: All Olympic Continuation High School teachers are each taking daily attendance in two (2) formats: a hard-copy attendance sheet by class period as well as online web attendance input. At the end of each week, teachers verify their original attendance with the computerized version, and then sign both versions. These attendance records are kept in the Principal's office.

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2009-1: Adult Education Cash Receipts</i>	Our audit included an evaluation of internal controls over cash receipting for the Adult Education program. Currently, cash collected is not being reconciled to the "Z" tape from the register and then matched to the bank deposit. This process is not happening at the site or District level, therefore there is a potential for loss or fraud to occur due to the lack of controls in place.	30000	We recommend that the sites reconcile the cash collected to the "Z" tape report and then prepare the deposit. All items should be provided to the District for review and investigate any variances between the "Z" tape and the cash turned in.	Implemented
<i>Finding #2009-2: Student Body Funds</i>	<p>Santa Monica High School There were internal control deficiencies found in testing student body funds at Santa Monica High School. The sequence of cash receipts is not accounted for by the District or the bookkeeper and therefore adequate support is not provided for deposits to the District to verify that all amounts collected are deposited. Also, in testing cash receipts we found that 5 out of 7 items tested, totaling \$12,725.73; did not have supporting documentation (for events such as fundraisers and social events). Lack of adequate controls could result in loss, fraud, or abuse of student body funds</p> <p>John Adams Middle School Cash collected for fundraising activities is not reconciled to supporting documentation. The bookkeeper issues pre-numbered receipts for the total cash turned in from the fundraising events, such as dances, but the cash is not reconciled to sub-receipts (receipts issued to individual students, ticket logs, etc.). We found 1 out of 3 receipts tested in the amount of \$814 did not have adequate documentation to support the cash turned in.</p>	30000	We recommend that supporting documentation is kept for all cash received and has a clear audit trail to a timely deposit at the site and District level. All expenditures should have adequate documentation and should be reviewed for reasonableness and appropriateness.	Not Implemented (See Finding #2010-2)

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2009-3: Site Attendance Staff Training</i>	The attendance personnel at the sites had not received formal periodic training in regards to attendance accounting. We found many sites were not aware of proper procedures over attendance and the State regulation that is applicable. There is a potential for inaccuracy of attendance reporting. After our exit conference held with District management, the District organized a site attendance staff training session, subsequent to June 30, 2010.	60000	We recommend that annual trainings be held for the attendance personnel, including site administrators, to train staff on proper attendance procedures.	Implemented
<i>Finding #2009-4: School Accountability Report Card</i>	<p>State Program: Compliance with Williams Act requirements.</p> <p>Criteria: The availability of sufficient textbooks and other instructional materials as indicated in a school’s annual School Accountability Report Card (SARC) should match the District’s board resolution of textbook sufficiency, as per Education Code Section 33126(b)(6)(B). School facilities conditions assessments as indicated in a school’s annual School Accountability Report Card should match the information indicated in facility conditions evaluation instruments developed by the Office of Public School Construction and approved by the State Allocation Board, or local evaluation instruments that meet the same criteria, as per Education Code Section 33126(b)(8) and 17002. Auditors are required to verify compliance in Section 19837.1 of the <i>Standards and Procedures for Audits of California K-12 Local Educational Agencies</i>.</p>	72000	We recommend that the SARCs accurately report the information from the board resolution for sufficient textbooks. Also, that the District completes a local evaluation instrument that meets the criteria for proper School Accountability Report Card reporting for each school in the District. The results of the local evaluation instrument should then be indicated on the respective year’s School Accountability Report Card.	Implemented

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2009-4: School Accountability Report Card (continued)</i>	<p>Condition: We found that 2 out of 8 schools' SARCs, for the 2007-08 school year, tested did not report accurate data for insufficient textbooks. According to Board Resolution No. 08-08 Regarding Sufficient Textbooks, Franklin Elementary and Malibu High School were reported as having insufficient textbooks, which was not reported in the SARCs. We also found that 7 out of 8 SARCs tested did not have facility inspection documentation to support the facility conditions assessments reported in the SARCs.</p> <p>Cause: The district was not aware of the reporting requirements for the School Accountability Report Card.</p> <p>Questioned Cost: \$0</p> <p>Effect: The 2007-08 School Accountability Report Cards for the schools tested reported inaccurate information.</p>	72000		
<i>Finding #2009-5: Attendance Reporting</i>	<p>Criteria: Contemporaneous attendance records should be retained to support the attendance reported to the State. These records should be signed by the teacher to verify the accuracy of the records.</p> <p>Condition: This is the first year that John Adams Middle School is using the web-based period attendance. In the beginning of the year, many teachers were taking attendance manually on a printed roster and then switched to the web-based system in October.</p>	10000	<p>We recommend that the District require all school sites to retain contemporaneous attendance records, which includes certificated personnel taking attendance everyday and authorizing the accuracy of the attendance records by signing attendance rosters. Documentation for any changes to the attendance system that are not reflected on signed attendance rosters should be retained, such as absent notes or substitute rosters.</p>	Implemented

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	Finding	Code	Recommendation	Current Status
<p><i>Finding #2009-5: Attendance Reporting (continued)</i></p>	<p>Condition (continued) There are deficiencies in the attendance process at this school site dating back to the beginning of the year. Some of the teachers who were taking manual attendance at the beginning of the year did not transfer the information to the web system once they switched, therefore students may be inaccurately recorded as present rather than absent (auditor found 1 out of 5 tested to be this way). After switching to the web-based system, the teachers did not sign and certify that the attendance that is being reported is accurate to the best of their knowledge. The teachers are not signing in every day and taking attendance accurately. The attendance clerk prints a list every day of the teachers who have not yet logged-in and taken attendance however, there is no follow through by the Vice Principle or Principle to ensure that those persons log-in and take attendance.</p> <p>The longer a teacher waits to enter attendance, the higher the risk for inaccuracies. Some teachers never go back and enter in their attendance at all. Substitute rosters are also not being retained. When there is a substitute teacher, they are given a printed attendance roster where they take manual attendance which is turned-in to the attendance clerk for manual entry however the attendance clerk then throws them away. Therefore there is no clear audit trail to verify the accuracy of the attendance records.</p> <p>Although the reliability of the attendance records is questionable, subsequent to the audit, the District analyzed the enrollment to ADA relationship for the 2008-09 school year and compared this to the three previous years. The ADA reported for 2008-09 appears to be reasonable compared to previous years.</p>	<p>10000</p>		

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2009-5: Attendance Reporting (continued)</i>	<p>Cause: The school site was not aware of the proper attendance accounting procedures.</p> <p>Questioned Cost: 927.36 ADA * \$6,208.84= \$5,757,830, however, analytical procedures performed show that the ADA appears reasonable compared to the prior years' ADA reported in relation to the enrollment at the school.</p> <p>Effect: Contemporaneous attendance records were not retained and the attendance reported is not verifiable.</p>	10000		
<i>Finding #2009-6: Attendance Internal Controls</i>	<p>Criteria: Attendance records should be accurate and agree to attendance documentation signed by the teacher.</p> <p>Condition: Through our audit of Olympic Continuation High School, we found that the attendance procedures were lacking internal controls to ensure manual data entry is accurately entered. We found that the attendance clerk was not reconciling the sign in sheets to the attendance system regularly. In our testing we found the attendance was overstated 12 hours when comparing the attendance system to the teachers' sign in sheets. The adjustment was made to the attendance system to correct the overstatement at the time of the audit, but there appears to be a weakness over internal controls of attendance reporting. Lack of internal controls over attendance reporting can lead to over/understatements of apportionment.</p> <p>Cause: The attendance clerk does not reconcile the attendance reported to the source documentation retained.</p> <p>Questioned Cost: \$0</p> <p>Effect: Incorrect attendance reporting</p>	10000	<p>We recommend that the attendance clerk reconcile the attendance system to the teachers' sign in sheets on a daily basis to ensure accuracy of attendance reporting. Documentation for any adjustments made to the attendance system that do not reconcile to the sign in sheets should be retained for audit purposes.</p>	<p>Not Fully Implemented- (Finding #2010-6)</p>