

**MEASURE BB BOND BUILDING FUND OF
SANTA MONICA-MALIBU UNIFIED
SCHOOL DISTRICT**

AUDIT REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
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June 30, 2013**

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**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2013**

The District is currently operating ten elementary schools, two middle schools, one K-8 school, two high schools, one continuation high school, one adult education center, and fourteen child care and development centers, along with off-campus learning and regional occupational programs. The District serves approximately 11,700 students. Measure BB funds are used to repair, renovate, and construct District school facilities.

On November 7, 2006, the voters of Santa Monica-Malibu Unified School District approved by more than 55% Measure BB, authorizing the issuance and sale of \$268,000,000 of general obligation bonds. On October 2, 2007, the District issued Series A of the Election of 2006 general obligation bonds in the amount of \$60,000,000 with interest rates ranging 4.0% - 5.0%. On August 5, 2009, the District issued Series B in the amount of \$60,000,000 with interest rates ranging 1.500% - 7.556%. On July 14, 2010, the District issued Series C of the Election of 2006 general obligation bonds in the amount of \$65,000,000 with interest rates ranging 3.000% - 6.634%. On March 19, 2013, the district issued Series D of the Election of 2006 general obligation bonds in the amount of \$82,995,327 with interest rates ranging from 0.17% to 5.00%. On January 8, 2013, the District issued \$45,425,000 of 2013 General Obligation Refunding Bonds, with interest rates ranging from 2.00% to 5.00%. The bonds were issued to refund all or a portion of the District's outstanding General Obligation Bonds, Election of 2006, Series A and pay costs of issuance of the bonds.

Measure BB was a Proposition 39 bond, issued by the Santa Monica-Malibu Unified School District. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a district seeks approval of a bond proposition pursuant to the 55% majority authorized in Proposition 39, including formation, composition and purpose of the Citizens' Bond Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Oversight Committee Member Listing, continued
June 30, 2013**

The Citizens' Oversight Committee was comprised of the following members as of June 30, 2013:

Member	Title	Representation
Charlie Yen	Chair	Parent
Lori Whiteshell	Member	Parent Active in PTA
Gordon Lee	Vice Chair	Business Organization
Barry Seid	Member	Senior Citizen Organization
Steven Rodman	Member	Bona-fide Taxpayers Association
Debbie Mulvaney	Member	Member at Large
Marianne Riggins	Member	Member at Large

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

SAN DIEGO

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*Licensed by the California
State Board of Accountancy*

Governing Board Members and
Measure BB Citizens' Oversight Committee
Santa Monica-Malibu Unified School District
Santa Monica, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Measure BB Bond Building Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

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

Auditor's Responsibility (continued)

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

As discussed in Note 1A, the financial statements present only the individual Proposition 39 Bond Building Fund, consisting of the net construction proceeds of the Measure BB Bond Building Fund's general obligation bonds as issued by the District, through the County of Los Angeles, and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District as of June 30, 2013 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Measure BB Bond Building Fund's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2014 on our consideration of the Measure BB Bond Building Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Measure BB Bond Building Fund's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated January 10, 2014 on our consideration of the Measure BB Bond Building Fund's compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Measure BB Bond Building Fund for the fiscal year ended June 30, 2013 should be considered in assessing the results of our financial audit.

Christy White Associates

San Diego, California
January 10, 2014

**MANAGEMENT'S DISCUSSION AND
ANALYSIS**

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2013**

This section of Santa Monica-Malibu Unified School District's (the District's) Measure BB Bond Building Fund annual financial and performance report presents our discussion and analysis of the District's Measure BB bond program during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the District's Measure BB bond financial statements and performance audit, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The Measure BB Bond Building Fund balance increased \$24.0 million in fiscal year 2012-13 to \$113.0 million as of June 30, 2013.
- Expenditures in the program increased \$18.9 million in fiscal year 2012-13 to \$59.6 million for the year ended June 30, 2013
- Series D was issued on March 19, 2013 for \$82,995,327 with interest rates ranging from 0.17% to 5.00%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the Measure BB Bond Building Fund financial statements, and the performance audit required by state law.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

The District accounts for Measure BB bond activity in the District's Building Fund. The Building Fund is a governmental fund type accounted for on a modified accrual basis of accounting that does not include long-term assets or liabilities.

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management’s Discussion and Analysis (Unaudited), continued
For the Fiscal Year Ended June 30, 2013**

FINANCIAL ANALYSIS OF THE MEASURE BB BOND BUILDING FUND

Balance Sheet: The District’s Measure BB Bond Building Fund balance as of June 30, 2013 was \$113.0 million, reflecting an increase of 27% since June 30, 2012 (see Table A-1). The \$123.4 million dollars in the cash in county treasury account represents cash held by the Los Angeles County Treasurer for purposes associated only with the bond authorization approved by the voters. It has been determined that Measure BB funds cannot be used for Routine Restricted Maintenance expenditures in the General Fund.

**Table A-1
Measure BB Bond Building Sub-Fund Balance Sheet**

	(in millions)		Total
	2012	2013	Percentage Change 2012-13
Cash in county treasury*	\$ 96.9	\$ 123.4	27%
Interest receivable	0.2	0.2	23%
Total assets	\$ 97.1	\$ 123.7	27%
Accounts payable	\$ 8.1	\$ 10.7	32%
Total liabilities	8.1	10.7	32%
Total Fund Balance	\$ 89.0	\$ 113.0	27%

**See Note #2 in Notes to Financial Statements Section for full description of Cash in county treasury.*

MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited), continued
For the Fiscal Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE MEASURE BB BOND BUILDING FUND (continued)

Changes in net assets. The District's total Measure BB revenues decreased 47%. The total cost of the Measure BB expenditures increased 46%. The interest income reported represents funds earned on the cash held by the county treasurer. The total expenditures of \$59.6 million represents only Measure BB authorized expenditures.

Table A-2
Changes in Measure BB Bond Building Fund Balance

	(in millions)		Total
	2012	2013	Percentage Change 2012-13
Revenues:			
Interest income	\$ 1.1	\$ 0.6	-47%
Total revenues	1.1	0.6	-47%
Expenditures:			
Facilities acquisition and construction	40.7	59.5	46%
Debt service	-	0.1	N/A
Total expenditures	40.7	59.6	46%
Excess deficiency of revenues over (under) expenditures	(39.6)	(59.0)	49%
Other Financing Sources and Uses:			
Proceeds from debt issuance	-	83.0	N/A
Total other financing sources and uses	-	83.0	N/A
Change in fund balance	\$ (39.6)	\$ 24.0	N/A

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited), continued
For the Fiscal Year Ended June 30, 2013**

MEASURE BB BOND BUILDING FUND BUDGETARY HIGHLIGHTS

Over the course of the year as conditions change, the budget of the Measure BB program is reviewed by staff. When changes occur that are outside of the Board approved allocations, staff will prepare an item for Board approval. The item is reviewed first by the District's Measure BB Advisory Committee and forwarded to the Board with their recommendation. Staff will address the entire program and recommend budget revision for the entire program. The voter authorization for Measure BB totaled \$268 million. When staff recommends a budget revision they will demonstrate how new allocations are accommodated within that limitation. The original budget of the program had contingencies for construction changes and a program reserve for unexpected changes. With revisions to the program budget, these amounts will be adjusted. Each year, on a single year basis, staff prepares an annual budget. This amount is used to track expenditures in any single year. When the budget is reported in this report that annual budget is used to compare with actual expenditures. It is not uncommon that expenditures may occur more quickly than expected and an annual budget revision is not completed. In this case one might have a discrepancy in the fiscal year annual budget, while the overall program budget is within its limits. This did not occur in the 2012-13 fiscal year.

FACTORS BEARING ON THE DISTRICT BOND PROGRAM'S FUTURE

The District wishes to take advantage of favorable market conditions in the construction industry and therefore will continue to expedite each of the major projects in the program. Planning for the construction phases began in early 2010. The first phase of construction began in the summer of 2010. As with all construction programs unexpected events can occur. The team of district staff along with Parsons, the project manager, and California Construction Management staff is prepared to meet these challenges as they present themselves. One significant factor affecting the timeline of projects is the review performed by the Division of State Architect (DSA). The District has experienced delays due to the DSA process. District staff works very closely with the DSA to prevent lengthy delays.

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 Measure BB bond 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 Jan Maez, Assistant Superintendent, Business Services, Santa Monica-Malibu Unified School District.

FINANCIAL SECTION

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2013**

ASSETS

Cash in county treasury*	\$ 123,446,666
Accounts receivable	245,847
Total assets	<u>\$ 123,692,513</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 10,729,366
Total liabilities	<u>10,729,366</u>

FUND BALANCE

Restricted for capital projects	112,963,147
Total liabilities and fund balance	<u>\$ 123,692,513</u>

**See Note #2 in the Notes to Financial Statements section for a full description of Cash in county treasury.*

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2013**

REVENUES	
Interest income	\$ 582,005
Total revenues	<u>582,005</u>
EXPENDITURES	
Facility acquisition and construction	59,488,526
Debt service - issuance costs	130,000
Total expenditures	<u>59,618,526</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(59,036,521)</u>
OTHER FINANCING SOURCES (USES)	
Proceeds from long-term debt	82,995,327
Total other financing sources and uses	<u>82,995,327</u>
Net Change in Fund Balance	23,958,806
Fund balance, July 1, 2012	<u>89,004,341</u>
Fund Balance, June 30, 2013	<u>\$ 112,963,147</u>

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

MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

On November 7, 2006, the voters of the District authorized the issuance and sale of \$268 million in general obligation bonds (Measure BB) for the repair and renovation of district classrooms, bathrooms, plumbing, roofs, computer technology, and fire safety equipment; improvement of handicapped student accessibility; earthquake retrofitting of classrooms; removal of asbestos and mold; and upgrading, acquiring, constructing, repairing and equipping classrooms, science labs, local neighborhood schools, sites and facilities.

A committee to the District's Governing Board and Superintendent, called the Measure BB Advisory Committee (BBAC) was established. The BBAC's goals include advising on District construction priorities, reviewing construction plans, reviewing project plans and budgets, and monitoring construction progress. Their role is in an advisory capacity to the Superintendent.

As a requirement of the Measure BB election, the Board has also established the Measure BB Citizens Bond Oversight Committee (BOC). The BOC duties include:

- Informing the public concerning expenditure of bond proceeds.
- Reviewing expenditure reports produced by the District to ensure that (a) bond proceeds are being expended only for the purposes set forth in the Measure BB; and (b) no bond proceeds were used for any teacher or administrative salaries or other operating expenses.
- Providing an annual report to the Board that includes a statement indicating whether the District is in compliance with the requirements of Article XIII A, Section 1(b)(3) of the California Constitutions and a summary of the Committee's proceeding and activities for the preceding year.

The statements presented are for the individual Measure BB Bond Building Fund and are not intended to be a complete presentation of the District's financial position or results of operations.

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2013**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Accounting Policies

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

C. Basis of Accounting

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

The financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

D. 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.

E. Deposits and Investments

In accordance with Education Code Section 41001, the District maintains a portion of its cash in the Los Angeles County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2013**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The five classifications are *Nonspendable, Restricted, Committed, Assigned and Unassigned*. The category applicable to Proposition 39 bonds is the *Restricted* classification. The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

G. Use of Estimates

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

H. 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.

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

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2013**

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash

Cash as of June 30, 2013 is classified in the accompanying financial statements as cash in county treasury for \$123,446,666. The California School Accounting Manual requires school districts to report “cash in county treasury” to be reported as cash instead of investments due to the pooled nature of the deposit and the ability of school districts to access funds immediately and with no restrictions.

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, and obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

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

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2013**

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. 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. The District maintains an investment with the Los Angeles County Investment Pool with a fair value at June 30, 2013 of approximately \$122,482,497, and an amortized book value of \$123,446,666. The weighted average maturity for the Los Angeles County Investment Pool is 632 days as of June 30, 2013.

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2013**

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 credit rating organization. The investments within the Los Angeles County Investment Pool were not rated.

Concentration of Credit Risk

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

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013 consists of interest earned on the District's investment in the County Treasury for \$245,847.

NOTE 4 – MEASURE BB GENERAL OBLIGATION BONDS

General Obligation Bonds

On November 7, 2006, the voters of the Santa Monica-Malibu Unified School District approved by more than 55% Measure BB, authorizing the issuance and sale of \$268,000,000 of general obligation bonds.

On October 2, 2007, the District issued Series A of the Election of 2006 general obligation bonds in the amount of \$60,000,000. The Series A issuance consists of current interest bonds with stated interest rates ranging from 4.0% to 5.0%, and fully maturing on August 1, 2032. As of June 30, 2013, the principal balance outstanding on the Election of 2006, Series A general obligation bonds was \$3,325,000.

On August 5, 2009, the District issued Series B of the Election of 2006 general obligation bonds in the amount of \$60,000,000. The Series B issuance consists of current interest bonds with stated interest rates ranging from 1.500% to 7.556%, and fully maturing on August 1, 2034. As of June 30, 2013, the principal balance outstanding on the Election of 2006, Series B general obligation bonds was \$55,835,000.

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2013**

NOTE 4 – MEASURE BB GENERAL OBLIGATION BONDS (continued)

On July 14, 2010, the District issued Series C of the Election of 2006 general obligation bonds in the amount of \$65,000,000. The Series C issuance consists of current interest bonds with stated interest rates ranging from 3.000% to 6.634%, and fully maturing on August 1, 2035. As of June 30, 2013, the principal balance outstanding on the Election of 2006, Series C general obligation bonds was \$64,340,000.

On March 19, 2013, the District issued Series D of the Election of 2006 general obligation bonds in the amount of \$82,995,327. The Series D issuance consists of current interest serial bonds and current interest term bonds with interest rates ranging from 0.17% to 5.00% and fully maturing on July 1, 2037. As of June 30, 2013, the principal balance outstanding on the Election of 2006, Series D general obligation bonds was \$82,995,327.

On January 8, 2013, the District issued \$45,425,000 of 2013 General Obligation Refunding Bonds, with interest rates ranging from 2.00% to 5.00%. The bonds were issued to refund all or a portion of the District’s outstanding General Obligation Bonds, Election of 2006, Series A and pay costs of issuance of the bonds.

Debt service principal and interest are paid out of the District’s separate Bond Interest and Redemption Fund from taxes collected by Los Angeles County Assessor’s Office. The annual requirements to amortize the outstanding Measure BB general obligation bonds payable, as of June 30, 2013, are as follows for Series A, Series B, Series C, Series D, and 2013 GO Refunding Bonds respectively:

Series A

Year Ending June 30,	Principal	Interest	Total
2014	\$ 435,000	\$ 124,300	\$ 559,300
2015	555,000	104,500	659,500
2016	685,000	79,700	764,700
2017	825,000	49,500	874,500
2018	825,000	16,500	841,500
	<u>\$ 3,325,000</u>	<u>\$ 374,500</u>	<u>\$ 3,699,500</u>

MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2013

NOTE 4 – MEASURE BB GENERAL OBLIGATION BONDS (continued)

Series B

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 645,000	\$ 3,836,590	\$ 4,481,590
2015	770,000	3,804,440	4,574,440
2016	905,000	3,762,565	4,667,565
2017	1,055,000	3,713,565	4,768,565
2018	1,265,000	3,655,565	4,920,565
2019 - 2023	9,210,000	16,996,376	26,206,376
2024 - 2028	14,180,000	13,256,007	27,436,007
2029 - 2033	20,620,000	6,825,830	27,445,830
2034 - 2037	7,185,000	299,029	7,484,029
	<u>\$ 55,835,000</u>	<u>\$ 56,149,967</u>	<u>\$ 111,984,967</u>

Series C

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 355,000	\$ 3,442,931	\$ 3,797,931
2015	365,000	3,334,998	3,699,998
2016	375,000	3,222,755	3,597,755
2017	425,000	3,101,653	3,526,653
2018	630,000	2,968,070	3,598,070
2019 - 2023	5,955,000	12,218,477	18,173,477
2024 - 2028	12,475,000	6,448,925	18,923,925
2029 - 2033	21,885,000	2,469,731	24,354,731
2034 - 2038	21,875,000	819,395	22,694,395
	<u>\$ 64,340,000</u>	<u>\$ 38,026,935</u>	<u>\$ 102,366,935</u>

MEASURE BB BOND BUILDING FUND
 SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
 Notes to Financial Statements, continued
 June 30, 2013

NOTE 4 – MEASURE BB GENERAL OBLIGATION BONDS (continued)

Series D

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,545,000	\$ 1,927,593	\$ 5,472,593
2015	2,245,000	2,564,875	4,809,875
2016	805,000	2,534,375	3,339,375
2017	-	2,526,325	2,526,325
2018	135,000	2,523,625	2,658,625
2019 - 2023	2,800,000	12,388,425	15,188,425
2024 - 2028	8,425,000	11,222,338	19,647,338
2029 - 2033	14,556,480	11,239,045	25,795,525
2034 - 2037	50,483,847	32,401,953	82,885,800
	<u>\$ 82,995,327</u>	<u>\$ 79,328,554</u>	<u>\$ 162,323,881</u>

2013 General Obligation Refunding Bonds

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 210,000	\$ 1,655,044	\$ 1,865,044
2015	225,000	1,678,781	1,903,781
2016	230,000	1,674,231	1,904,231
2017	235,000	1,667,231	1,902,231
2018	245,000	1,657,631	1,902,631
2019 - 2023	8,115,000	7,531,956	15,646,956
2024 - 2028	14,165,000	5,155,756	19,320,756
2029 - 2033	22,000,000	1,916,266	23,916,266
	<u>\$ 45,425,000</u>	<u>\$ 22,936,896</u>	<u>\$ 68,361,896</u>

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2013**

NOTE 5 – CONSTRUCTION COMMITMENTS

As of June 30, 2013, the Measure BB Bond program had construction commitments with respect to unfinished capital projects of approximately \$64,855,116.

NOTE 6 – MEASURE BB EXPENDITURES BY PROJECT

The following table presents the expenditure amounts by project for the fiscal year ended June 30, 2013:

Project	Amount
Cabrillo Elementary School	\$ (14,449)
Edison Elementary School	16,748,569
Franklin Elementary School	1,393
Grant Elementary School	1,756
McKinley Elementary School	102,052
Point Dume Elementary School	5,879
Roosevelt Elementary School	571
Webster Elementary School	130,339
Will Rogers Elementary School	3,785
John Adams Middle School	8,875,463
Lincoln Middle School	5,923,883
Malibu High School	1,430,725
Santa Monica High School	24,422,522
Olympic Continuation School	210,466
Washington West	1,455,554
Muir/SMASH	743
Data Center	9,169
BB Technology	180,106
Bond Issuance Costs	130,000
Total	<u>\$ 59,618,526</u>

**SUPPLEMENTARY INFORMATION
SECTION**

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – Measure BB Bond Building Fund
For the Fiscal Year Ended June 30, 2013**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final
	Original	Final		Budget - Pos (Neg)
REVENUES				
Other local	\$ 1,100,000	\$ 1,100,000	\$ 582,005	\$ 1,682,005
Total revenues	1,100,000	1,100,000	582,005	1,682,005
EXPENDITURES				
Classified salaries	330,637	377,074	259,492	(117,582)
Employee benefits	149,021	170,492	110,751	(59,741)
Books and supplies	47,650	78,150	38,633	(39,517)
Services and other operating	12,645,820	17,164,480	10,405,014	(6,759,466)
Capital outlay	33,056,900	44,953,720	48,804,636	3,850,916
Total expenditures	46,230,028	62,743,916	59,618,526	(3,125,390)
Excess (deficiency) of revenues over (under) expenditures	(45,130,028)	(61,643,916)	(59,036,521)	2,607,395
OTHER FINANCING SOURCES AND USES				
Proceeds from long-term debt	-	-	82,995,327	82,995,327
Total other financing sources and uses	-	-	82,995,327	82,995,327
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(45,130,028)	(61,643,916)	23,958,806	85,602,722
Fund Balance, July 1, 2012	89,004,341	89,004,341	89,004,341	-
Fund Balance, June 30, 2013	\$ 43,874,313	\$ 27,360,425	\$ 112,963,147	85,602,722

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2013**

There were no adjustments between the Annual Financial and Budget Report and the Audited Financial Statements in 2012-13.

**OTHER INDEPENDENT AUDITORS'
REPORTS**

INDEPENDENT AUDITORS' 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

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

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Licensed by the California
State Board of Accountancy

Governing Board Members and
Measure BB Citizens' Oversight Committee
Santa Monica-Malibu Unified School District
Santa Monica, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District's basic financial statements, and have issued our report thereon dated January 10, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Christy White Associates

San Diego, California
January 10, 2014

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

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Santa Monica-Malibu Unified School District
Santa Monica, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Measure BB Bond Building Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

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

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

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Measure BB for the fiscal year ended June 30, 2013. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds of the sale of the Measure BB Bonds were only used for the purposes set forth in the Measure BB ballot language and not for any other purpose, such as teacher and administrative salaries.
- The Governing Board of the District, in establishing the approved projects set forth in the ballot measure, evaluated the remodeling, new construction and renovations of items which will improve learning and to accommodate growth in the District, with no funds expended on administrator salaries.

In performing our audit of compliance, we performed procedures including but not limited to those listed as follows:

Internal Control Evaluation

Procedures Performed:

Inquiries were made of management regarding internal controls to:

- Prevent fraud or waste regarding Measure BB projects, including budgetary controls
- Ensure adequate separation of duties exists in the fiscal services department for Measure J funds
- Prevent material misstatements in the financial statements
- Ensure expenditures are allocated to the proper fund(s)
- To follow applicable regulations, including regulations related to bidding and contract management

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the fiscal year 2012-13 financial statement balances for the Measure BB Bond are not materially misstated.

Results of Procedures Performed:

The result of our audit tests show that internal control procedures appear to be working to meet the financial and compliance objectives required by generally accepted accounting standards and applicable laws and regulations. An unmodified opinion was expressed on the financial statements.

Facilities Site Walk

Procedures Performed:

We performed a site walk to verify that Measure BB funds expended for capital outlay were for valid facilities acquisition and construction purposes. For fiscal year 2012-13, we toured the construction site at Santa Monica High School (Science and Technology Project).

Results of Procedures Performed:

Santa Monica High School is near the end of Phase 1 of their \$55 million modernization project at 75% complete. The new location for the campus' electrical powerhouse is in progress, mostly foundation work thus far. The new science building is equipped with a new alarm system. The approximate completion of the new 85,000 square foot science building is scheduled for Feb/Mar of 2014. We were able to verify that the Measure BB funds expended for capital outlay were for valid construction purposes.

Test of Expenditures

Procedures Performed:

The following performance tests of expenditures were performed:

1. We tested expenditures to determine whether Measure BB Bond funds were spent solely on voter and Board approved school facilities projects (as set forth in the District's Facilities Master Plan and the Measure BB ballot measure language). The expenditure test included a sample of 20 payments, totaling \$22.2 million, or approximately 37% of total expenditures for 2012-13.
2. We tested payments made to Gaudet Design Group, Rob Low Associates, Simpson & Simpson Mgmt, Testing Engineers Southwest, Neil Perlmutter Associates, and Jane Buelow & Associates. We obtained the contracts for the companies listed above and ensured that position rates per contract were accurately billed to the District. In addition, for project management, we analyzed the billing rates, hours charged, and ratio of consultants to District employees as compared to other school districts' project management agreements.

Results of Procedures Performed:

We found the expenditures tested to be in compliance with the terms of the Measure BB ballot measure and applicable state laws and regulations without exception. Also, our analysis indicated that the District is receiving program management services that are reasonable as compared to other school districts, with regard to billing rates, hours charged, and the ratio of consultants to District employees.

Test of Contracts and Bid Procedures

Procedures Performed:

For the fiscal year ended June 30, 2013, we performed testing of 1 lease-leaseback contract and 1 formal bid contract to determine compliance with District policy and Public Contract Code provisions related to contracting and bidding.

Results of Procedures Performed:

We found that each of the contracts tested above for bidding procedures followed proper bidding procedures and were awarded to the lowest responsible bidder.

In addition, we tested change orders and determined the change orders were executed in accordance with District internal controls and were in compliance with applicable provisions of the Public Contract Code. Contracts tested with change orders included the following projects: New Construction Edison, New Construction and Modernization-JAMS, Site Improvements-Lincoln, Fire Alarm-Malibu, and Washington West – CDS Project. Moreover, we noted that the District has been providing the Governing Board with a listing of change orders to contracts that relate to Measure BB Bond projects in fiscal year 2012-13.

Citizens' Oversight Committee

Procedures Performed:

In accordance with AB 1908 (Assembly Bill) and Ed Code Section 15278, the District is required to establish a bond oversight committee for Prop 39 bonds including one active member from each of the following sectors: a business organization, senior citizens organization, bona fide taxpayers association, and one parent/guardian of a child enrolled in the District and one parent/guardian of a child enrolled in the District who is also a member of a parent teacher association. The COC is to meet pursuant to Education Code Section 15280.

Results of Procedures Performed:

In our review of the minutes of the Citizens' Bond Oversight Committee for Measure BB, we found that there was adequate documentation of meetings held during fiscal year 2012-13. In addition, the District has submitted annual audit reports during the life of the Measure BB.

In our review of the composition of the committee, we noted that the District has the proper members in the CBOC that come from each of the sectors noted above.

Our audit of compliance was made for the purposes set forth in the second and third paragraphs of this report and would not necessarily disclose all instances of noncompliance.

Opinion

In our opinion, based on the fieldwork described above as well as the other tests that we conducted, the District complied with the compliance requirements for the Measure BB as listed and tested above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on accountability requirements pursuant to the passage of Proposition 39 and the enactment of AB 1908 (Chapter 44, Statutes of 2000). Accordingly, this report is not suitable for any other purpose.

Christy White Associates

San Diego, California
January 10, 2014

FINDINGS AND RESPONSES SECTION

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2013**

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*.

We found Santa Monica-Malibu Unified School District's accounting systems to be functioning efficiently and effectively to account for the Measure BB. In addition, our tests resulted in no findings and recommendations related to the financial and performance audit of the Measure BB for the year ended June 30, 2013.

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2013**

FINDING #2012-1: BIDDING PROCEDURES

Criteria: The California Uniform Public Cost Accounting Act (Public Contract Code Section 22000) requires that the District submit formal bid notices to specified trade journals for all projects with contract value exceeding \$175,000.

Condition: During our testing of awards of contracts subject to formal and informal bid procedures in 2011-12 we noted that the district did not submit formal bid notices to the required trade journals as required by the California Uniform Public Cost Accounting Act (CUPCAA) for all projects with contract value exceeding \$175,000. This finding affected one (100%) of formal bid contracts awarded in 2011-12.

Cause: Unknown.

Effect: Noncompliance with CUPCAA.

Questioned Costs: None.

Recommendation: The District should ensure that all formal bid notices are properly submitted to the required trade journals in accordance with CUPCAA.

District Response: In the 2011-12 fiscal year, the District has adopted the Lease-Lease Back contract structure for all major projects (\$1m-\$55m) which includes a prequalification/invitation to respond to RFQ and RFP. The District has revised the non-Lease Lease Back procurements such as the "Formal bids" advertisements to include the required trade journals per CUPCAA along with our current noticing to local newspapers, websites, and e mail blasts. The revision to include the required trade journal will provide 100% compliance in the future.

Current Status: Implemented.