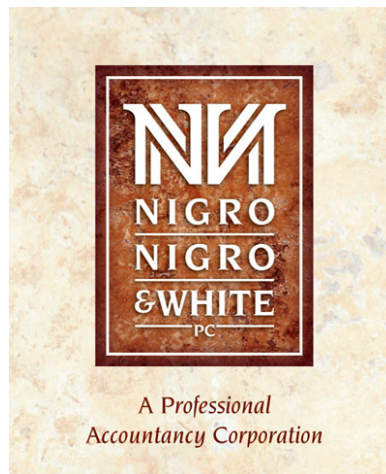


**MEASURE BB  
BOND BUILDING FUND OF  
SANTA MONICA-MALIBU UNIFIED  
SCHOOL DISTRICT**

**COUNTY OF LOS ANGELES**

**AUDIT REPORT  
June 30, 2008**



**MEASURE BB BOND BUILDING FUND  
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
AUDIT REPORT  
June 30, 2008**

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**MEASURE BB BOND BUILDING FUND  
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Introduction and Citizens' Bond Oversight Committee Member Listing  
June 30, 2008**

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Santa Monica-Malibu Unified School District (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. The District serves approximately 11,200 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. As of June 30, 2008, the principal balance outstanding on the Election of 2006 general obligation bonds was \$60,000,000.

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.

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2008:

<b><u>Member</u></b>	<b><u>Office</u></b>	<b><u>Term Expires</u></b>
Jeffrey Jarow	Chair	June 2010
Susanne Trimbath	Vice Chair	June 2010
Neil Carrey	Member	June 2010
Laurie Charchut	Member	June 2010
Ralph Erickson	Member	June 2009
Arlene Hopkins	Member	June 2009
Jerry Nickelsburg	Member	June 2010
Robert Tompkins	Member	June 2010



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

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet of the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District (the "District") as of June 30, 2008 and the related statement of revenues, expenditures and changes in fund balance as of and for the year ended June 30, 2008. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1A, the financial statements present only the individual Measure BB Bond Building Fund of the District and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District as of June 30, 2008, and the results of its operations 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 January 5, 2009 on our consideration of the Santa Monica-Malibu Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls 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.

*Nigro Nigro & White, PC*

San Diego, California  
January 5, 2009

**MEASURE BB BOND BUILDING FUND  
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Balance Sheet  
June 30, 2008**

---

**ASSETS**

Cash in county treasury	\$	59,299,943
Accounts receivable		577,519

<b>Total Assets</b>	<b>\$</b>	<b>59,877,462</b>
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**LIABILITIES AND FUND BALANCE**

**Liabilities**

Accounts payable	\$	1,673,601
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<b>Total Liabilities</b>		<b>1,673,601</b>
--------------------------	--	------------------

**Fund Balance**

Unreserved		58,203,861
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<b>Total Liabilities and Fund Balance</b>	<b>\$</b>	<b>59,877,462</b>
---	-----------	-------------------

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

**MEASURE BB BOND BUILDING FUND  
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2008**

---

<b>REVENUES</b>	
Interest income	\$ 1,879,367
<b>Total Revenues</b>	<u>1,879,367</u>
<b>EXPENDITURES</b>	
Plant services	1,192,127
Facility acquisition and construction	5,462,708
Debt service - issuance costs	<u>20,671</u>
<b>Total Expenditures</b>	<u>6,675,506</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(4,796,139)</u>
<b>OTHER FINANCING SOURCES AND USES</b>	
Proceeds from long-term debt	60,000,000
Interfund transfers in	4,000,000
Interfund transfers out	<u>(1,000,000)</u>
<b>Total Other Financing Sources and Uses</b>	<u>63,000,000</u>
<b>Net Change in Fund Balance</b>	58,203,861
<b>Fund Balance, July 1, 2007</b>	<u>-</u>
<b>Fund Balance, June 30, 2008</b>	<u><u>\$ 58,203,861</u></u>

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

**MEASURE BB BOND BUILDING FUND  
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

---

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The Santa Monica-Malibu Unified School District (the “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. 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.

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.

An advisory committee to the District’s Governing Board and Superintendent, called the Measure BB Citizens’ Bond Oversight Committee, was established. The Committee’s oversight goals include advising on District construction priorities, reviewing construction plans, reviewing project plans and budgets, and ensuring compliance with the conditions of Measure BB.

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.

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).



**MEASURE BB BOND BUILDING FUND  
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

---

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 collectible within the current period or within 60 days after year-end. 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.

F. 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.

**MEASURE BB BOND BUILDING FUND  
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

---

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. 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 minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Deposits and investments as of June 30, 2008 consist of the following:

Cash in county treasury	\$	59,299,943
Total	\$	59,299,943

**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.

**MEASURE BB BOND BUILDING FUND  
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

---

**NOTE 2 – DEPOSITS AND INVESTMENTS (continued)**

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.

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, 2008 of approximately \$59,234,166, and an amortized book value of \$59,299,943. The weighted average maturity for the Los Angeles County Investment Pool is 556 days as of June 30, 2008.

**Credit Risk**

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

**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.

**MEASURE BB BOND BUILDING FUND  
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

---

**NOTE 3 – 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, 2008, the principal balance outstanding on the Election of 2006 general obligation bonds was \$60,000,000.

The annual requirements to amortize the outstanding Measure BB general obligation bonds payable, as of June 30, 2008, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008-09	\$ 7,825,000	\$ 2,221,100	\$ 10,046,100
2009-10	6,555,000	2,492,600	9,047,600
2010-11	410,000	2,230,400	2,640,400
2011-12	265,000	2,214,000	2,479,000
2012-13	325,000	2,203,400	2,528,400
2014-2018	3,325,000	10,728,000	14,053,000
2019-2023	6,815,000	9,734,900	16,549,900
2024-2028	12,900,000	7,475,000	20,375,000
2029-2033	21,580,000	3,442,000	25,022,000
Total	<u>\$ 60,000,000</u>	<u>\$ 42,741,400</u>	<u>\$ 102,741,400</u>

**MEASURE BB BOND BUILDING FUND  
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

---

**NOTE 4 – CONSTRUCTION COMMITMENTS**

As of June 30, 2008, the District had outstanding construction commitments of \$15,597,493.

**NOTE 5 – INTERFUND TRANSACTIONS**

Interfund activity is reported as loans, services provided reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Interfund activity for the year ended June 30, 2008 consisted of the following:

	<u>Transfers from Other Funds</u>		
	<u>General Fund</u>	<u>Building Fund</u>	<u>Total</u>
Building Fund	\$ 1,000,000	\$ -	\$ 1,000,000
Capital Facilities Fund	-	4,000,000	4,000,000
Total	<u>\$ 1,000,000</u>	<u>\$ 4,000,000</u>	<u>\$ 5,000,000</u>

The Building Fund transferred to the General Fund for maintenance expenditures	\$ 1,000,000
The Capital Facilities Fund transferred to the Building Fund for developer fees	4,000,000
Total	<u>\$ 5,000,000</u>

**NOTE 6 – ACCOUNTS RECEIVABLE**

Accounts receivable of the Measure BB Bond Building Fund consisted of the following as of June 30, 2008:

Interest earned on cash in county treasury	\$ 577,519
Total	<u>\$ 577,519</u>



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

We have audited the financial statements of the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District (the "District") as of and for the year ended June 30, 2008, and have issued our report thereon dated January 5, 2009. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

This report is intended solely for the information and use of the Measure BB Citizens' Bond Oversight Committee, the District's Governing Board, management, and the taxpayers of the District and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, reading "Nigro Nigro & White, PC". The signature is written in a cursive, flowing style.

San Diego, California  
January 5, 2009





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Accountancy Corporation

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Santa Monica, California

## INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

We have audited the financial statements of the Measure BB Bond Building Fund of the Santa Monica-Malibu Unified School District (the "District") as of and for the year ended June 30, 2008 and have issued our report thereon dated January 5, 2009. Our audit was made in accordance with generally accepted auditing standards in the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Proposition 39/Measure BB general obligation bonds for the fiscal year ended June 30, 2008. 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 ballot proposition 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 proposition, evaluated the remodeling, new construction and renovation of District facilities which will repair and renovate local schools and improve student safety conditions of the District.

To meet our objectives audit tests were performed and included, but were not limited to, the following:

1. We verified that bond proceeds were deposited in the District's name and invested in accordance with applicable legal requirements.
2. We sampled twelve contracts and verified compliance with the Public Contract Code bid requirements, board approvals, that invoices paid were within the contract terms and change orders were approved.



3. We tested payments made to the construction project management company and reviewed the terms of the contract.
4. We tested approximately \$2,332,096 in bond fund invoices paid in 2007-08. This relates to our testing of 40 separate payments for validity, allowability and accuracy. Expenditures selected in our test included payments made to the construction project management company, architects, and other vendors. Measure BB expenditures made in 2007-08 were primarily for project planning and design purposes, with school site construction expected to commence in 2008-09.

Our audit of compliance made for the purposes set forth in the preceding paragraph of this report would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied with the compliance requirements for the Measure BB bond proceeds as listed and tested above.

This report is intended for the information of the District's Governing Board, management, and the Citizens' Bond Oversight Committee; however, this report is a matter of public record.

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

San Diego, California  
January 5, 2009

**MEASURE BB BOND BUILDING FUND  
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Schedule of Findings and Recommendations  
For the Year Ended June 30, 2008**

---

*We found Santa Monica-Malibu Unified School District's accounting systems to be functioning efficiently and effectively to account for the Measure BB Bond Building Fund. In addition, our tests resulted in no findings and recommendations related to the financial and performance audit of the Measure BB Bond Building Fund for the year ended June 30, 2008.*