

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

AUDIT REPORT

For the Fiscal Year Ended
June 30, 2012



**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
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June 30, 2012**

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**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Bond Oversight Committee Member Listing
June 30, 2012**

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%. As of June 30, 2012, the principal balance outstanding on the 2006 Election general obligation bonds was \$165,995,000.

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, 2012:

| Member | Title | Representation |
|-------------------|--------------|--------------------------------|
| Jeffrey Jarow | Chair | Business Organization |
| Neil Carrey | Vice Chair | Member at Large |
| Laurie Charchut | Member | Parent Active in PTA |
| Jerry Nickelsburg | Member | Parent |
| Steve Rodman | Member | Bona-Fide Taxpayer Association |
| Vacant* | Member | Senior Citizen Organization |
| Vacant* | Member | Member at Large |

* The District is actively engaged in soliciting applications for the vacant positions.

INDEPENDENT AUDITORS' REPORT

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Heather Daud

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State Board of Accountancy

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

We have audited the accompanying balance sheet of the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District (the "District") and the related statement of revenues, expenditures and changes in fund balance as of and for the fiscal year ended June 30, 2012. 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, consisting of the net construction proceeds of Measure BB Election 2006 general obligation bonds as issued by 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, 2012, and the results of its operations for the fiscal year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2012 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District's basic financial statements. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information 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.

Christy White Associates

San Diego, California
December 5, 2012

**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, 2012**

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, 2012. 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 decreased \$39.6 million in fiscal year 2011-12 to \$89.0 million as of June 30, 2012.
- Expenditures in the program increased \$24.0 million in fiscal year 2011-12 to \$40.7 million as of June 30, 2012.
- As the program progresses and there becomes an additional need for funds, the District will issue portions of the remaining bond authorization. There were no debt issuances during fiscal year 2011-12.

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, 2012**

FINANCIAL ANALYSIS OF THE MEASURE BB BOND BUILDING FUND

Balance Sheet. The District's Measure BB Bond Building Fund balance as of June 30, 2012 was \$89.0 million, reflecting an decrease of 31% since June 30, 2011 (see Table A-1). The \$96.9 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 |
|--------------------------|---------------|---------|---------------------------------|
| | 2011 | 2012 | Percentage Change 2011-12 |
| Cash in county treasury* | \$ 130.4 | \$ 96.9 | -26% |
| Interest receivable | 0.4 | 0.2 | -49% |
| Total assets | 130.8 | 97.1 | -26% |
| Accounts payable | 2.2 | 8.1 | 267% |
| Total liabilities | 2.2 | 8.1 | 267% |
| Total Fund Balance | \$ 128.6 | \$ 89.0 | -31% |

*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, 2012

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

Changes in net assets. The District's total Measure BB revenues decreased 37%. The total cost of the Measure BB expenditures increased 144%. The interest income reported represents funds earned on the cash held by the county treasurer. The total expenditures of \$40.7 million represents only Measure BB authorized expenditures.

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

| | (in millions) | | Total |
|---|----------------------|------------------|--|
| | 2011 | 2012 | Percentage Change 2011-12 |
| Revenues: | | | |
| Interest income | \$ 1.8 | \$ 1.1 | -37% |
| Total revenues | <u>1.8</u> | <u>1.1</u> | -37% |
| Expenditures: | | | |
| Facilities acquisition and construction | 15.9 | 40.7 | 156% |
| Debt service | 0.8 | - | N/A |
| Total expenditures | <u>16.7</u> | <u>40.7</u> | 144% |
| Excess deficiency of revenues over (under) expenditures | (14.9) | (39.6) | 166% |
| Other Financing Sources and Uses: | | | |
| Proceeds from debt issuance | 65.0 | - | N/A |
| Premiums on bond issuance | 0.8 | - | N/A |
| Total other financing sources and uses | <u>65.8</u> | <u>-</u> | N/A |
| Change in fund balance | <u>\$ 50.9</u> | <u>\$ (39.6)</u> | 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, 2012**

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 2011-12 fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2011-12 fiscal year, the District had invested \$64.3 million of Measure BB bond funds in a broad range of capital projects, including capital assets consisting of land improvements, building construction, work in progress, and equipment.

Long-Term Debt

At year-end, the District had \$166.0 million in Measure BB general obligation bonds outstanding. The District will issue additional bonded debt as cash needs in the Measure BB program are projected. There is not an estimated date for the next bond issuance.

**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, 2012**

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. The design phases are nearly complete and the District expects to have the entitlement or environmental phases complete by the end of the next fiscal year. 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, 2012**

| | |
|---|----------------------|
| ASSETS | |
| Cash in county treasury* | \$ 96,865,323 |
| Accounts receivable | 204,539 |
| Total assets | <u>\$ 97,069,862</u> |
| LIABILITIES AND FUND BALANCE | |
| LIABILITIES | |
| Accounts payable | \$ 8,065,521 |
| Total liabilities | <u>8,065,521</u> |
| FUND BALANCE | |
| Restricted for capital projects | <u>89,004,341</u> |
| Total liabilities and fund balance | <u>\$ 97,069,862</u> |

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

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

**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, 2012**

| | |
|--|----------------------|
| REVENUES | |
| Interest income | \$ 1,128,149 |
| Total revenues | <u>1,128,149</u> |
| EXPENDITURES | |
| Facility acquisition and construction | <u>40,691,835</u> |
| Total expenditures | <u>40,691,835</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(39,563,686)</u> |
| Net Change in Fund Balance | (39,563,686) |
| Fund balance, July 1, 2011 | <u>128,568,027</u> |
| Fund Balance, June 30, 2012 | <u>\$ 89,004,341</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, 2012

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, 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.

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, 2012**

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, 2012**

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, 2012**

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash

Cash as of June 30, 2012 is classified in the accompanying financial statements as cash in county treasury for \$96,865,323. 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, 2012**

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, 2012 of approximately \$97,162,233, and an amortized book value of \$96,865,323. The weighted average maturity for the Los Angeles County Investment Pool is 617 days as of June 30, 2012.

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

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 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.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2012 consists of interest earned on the District's investment in the County Treasury for \$204,539.

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, 2012, the principal balance outstanding on the Election of 2006, Series A general obligation bonds was \$44,945,000.

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, 2012, the principal balance outstanding on the Election of 2006, Series B general obligation bonds was \$56,365,000.

MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012

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, 2012, the principal balance outstanding on the Election of 2006, Series C general obligation bonds was \$64,685,000.

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, 2012, are as follows for Series A, Series B and Series C respectively:

Series A

| Year Ending June 30, | Principal | Interest | Total |
|-----------------------------|----------------------|----------------------|----------------------|
| 2013 | \$ 325,000 | \$ 2,203,400 | \$ 2,528,400 |
| 2014 | 435,000 | 2,190,400 | 2,625,400 |
| 2015 | 555,000 | 2,173,000 | 2,728,000 |
| 2016 | 685,000 | 2,150,800 | 2,835,800 |
| 2017 | 825,000 | 2,123,400 | 2,948,400 |
| 2018 - 2022 | 5,860,000 | 10,012,300 | 15,872,300 |
| 2023 - 2027 | 11,500,000 | 8,050,000 | 19,550,000 |
| 2028 - 2032 | 19,595,000 | 4,421,750 | 24,016,750 |
| 2033 | 5,165,000 | 258,250 | 5,423,250 |
| Total | \$ 44,945,000 | \$ 33,583,300 | \$ 78,528,300 |

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 4 – MEASURE BB GENERAL OBLIGATION BONDS (continued)

Series B

| Year Ending June 30, | Principal | Interest | Total |
|-----------------------------|----------------------|----------------------|-----------------------|
| 2013 | \$ 530,000 | \$ 3,870,690 | \$ 4,400,690 |
| 2014 | 645,000 | 3,849,490 | 4,494,490 |
| 2015 | 770,000 | 3,823,690 | 4,593,690 |
| 2016 | 905,000 | 3,785,190 | 4,690,190 |
| 2017 | 1,055,000 | 3,739,940 | 4,794,940 |
| 2018 - 2022 | 8,250,000 | 17,698,388 | 25,948,388 |
| 2023 - 2027 | 13,110,000 | 14,660,487 | 27,770,487 |
| 2028 - 2032 | 19,195,000 | 9,047,506 | 28,242,506 |
| 2033 - 2035 | 11,905,000 | 1,470,020 | 13,375,020 |
| Total | \$ 56,365,000 | \$ 61,945,401 | \$ 118,310,401 |

Series C

| Year Ending June 30, | Principal | Interest | Total |
|-----------------------------|----------------------|----------------------|-----------------------|
| 2013 | \$ 345,000 | \$ 3,978,727 | \$ 4,323,727 |
| 2014 | 355,000 | 3,968,378 | 4,323,378 |
| 2015 | 365,000 | 3,957,727 | 4,322,727 |
| 2016 | 375,000 | 3,946,778 | 4,321,778 |
| 2017 | 425,000 | 3,935,527 | 4,360,527 |
| 2018 - 2022 | 4,940,000 | 19,271,838 | 24,211,838 |
| 2023 - 2027 | 10,960,000 | 17,526,986 | 28,486,986 |
| 2028 - 2032 | 19,820,000 | 13,117,578 | 32,937,578 |
| 2033 - 2036 | 27,100,000 | 4,694,219 | 31,794,219 |
| Total | \$ 64,685,000 | \$ 74,397,758 | \$ 139,082,758 |

NOTE 5 – CONSTRUCTION COMMITMENTS

As of June 30, 2012, the Measure BB Bond program had construction commitments with respect to unfinished capital projects of approximately \$92.7 million.

MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012

NOTE 6 – MEASURE BB EXPENDITURES BY PROJECT

The following table presents the expenditure amounts by project for the fiscal year ended June 30, 2012:

| Project | Amount |
|-------------------------------|---------------|
| Cabrillo Elementary School | \$ 19,627 |
| Edison Elementary School | 9,940,955 |
| Franklin Elementary School | 32,008 |
| Grant Elementary School | 15,607 |
| McKinley Elementary School | 743,889 |
| Point Dume Elementary School | 500,045 |
| Roosevelt Elementary School | 13,298 |
| Webster Elementary School | 43,594 |
| Will Rogers Elementary School | 19,896 |
| John Adams Middle School | 8,706,672 |
| Lincoln Middle School | 4,125,276 |
| Malibu High School | 3,779,794 |
| Santa Monica High School | 12,244,534 |
| Olympic Continuation School | 195,457 |
| Muir/SMASH | 11,184 |
| Child Development Service | 119,859 |
| BB Technology | 180,140 |
| Total | \$ 40,691,835 |

**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, 2012**

| | Budgeted Amounts | | Actual (Budgetary Basis) | Variance with Final Budget - Pos (Neg) |
|--|------------------|---------------|-----------------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Other local | \$ 1,000,000 | \$ 1,000,000 | \$ 1,128,149 | \$ 128,149 |
| Total revenues | 1,000,000 | 1,000,000 | 1,128,149 | 128,149 |
| EXPENDITURES | | | | |
| Classified salaries | 255,675 | 284,390 | 279,456 | 4,934 |
| Employee benefits | 127,416 | 133,521 | 114,153 | 19,368 |
| Books and supplies | 91,500 | 1,132,600 | 994,541 | 138,059 |
| Services and other operating expenditures | 7,480,834 | 23,288,439 | 8,008,384 | 15,280,055 |
| Capital outlay | 45,722,300 | 50,603,216 | 31,295,301 | 19,307,915 |
| Total expenditures | 53,677,725 | 75,442,166 | 40,691,835 | 34,750,331 |
| Excess (deficiency) of revenues over (under) expenditures | (52,677,725) | (74,442,166) | (39,563,686) | 34,878,480 |
| Fund Balance, July 1, 2011 | 128,568,027 | 128,568,027 | 128,568,027 | - |
| Fund Balances, June 30, 2012 | \$ 75,890,302 | \$ 54,125,861 | \$ 89,004,341 | \$ 34,878,480 |

**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, 2012**

There were no adjustments between the Annual Financial and Budget Report and the Audited Financial Statements in 2011-12.

**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

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*Licensed by the California
State Board of Accountancy*

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

We have audited the financial statements of the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated December 5, 2012. 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

Management of Santa Monica-Malibu Unified School District is responsible for establishing and maintaining effective 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 the 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 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.

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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District 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 Santa Monica-Malibu Unified School District's Governing Board, the Measure BB Citizens' Bond Oversight Committee, management, others within the entity, and the taxpayers Santa Monica-Malibu Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
December 5, 2012

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

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

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 fiscal year ended June 30, 2012 and have issued our report thereon dated December 5, 2012. 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.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and recommendations based on our audit objectives.

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, 2012. 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.

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 construction management and management of the District office regarding internal controls to:

- Prevent fraud, waste, or abuse regarding Measure BB projects, including budgetary controls
- Ensure adequate separation of duties exists in the business services department for Measure BB funds
- Prevent material misstatements in the Measure BB financial statements
- Ensure expenditures are allocated to the proper District fund(s)

We performed tests to determine whether the controls designated by management were operating effectively, and to provide reasonable assurance that the fiscal year 2011-12 financial statement balances for the Measure BB Bond Building Fund are not materially misstated.

Results of Procedures Performed:

The results 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 unqualified 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. We toured five District construction sites where 2011-12 construction work occurred: Santa Monica High School (Science and Technology Project), John Adams Middle School (Modernization and New Construction Project), Lincoln Middle School (Modernization and New Construction Project), McKinley Elementary School (Modernization and New Construction Project), Edison Language Academy (New Construction Project).

Results of Procedures Performed:

Results of the site walks indicate that the major 2011-12 Measure BB construction projects at Santa Monica High School, John Adams Middle School, Lincoln Middle School, McKinley Elementary School and Edison Language Academy were successfully completed and advanced into 2012-13 expenditure/construction phases where applicable.

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 63 payments, totaling \$18.9 million, or approximately 46.4% of total expenditures for 2011-12.
2. We tested payments made to Orbach Huff & Suarez, LLP, Ninyo & Moore, AMEC Environment & Infrastructure Inc, Gaudet Design Group, BTC Labs, 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, 2012, we performed testing of 2 lease-leaseback contracts, 1 formal bid contract and 1 informal 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 the contracts tested were awarded in all cases to the lowest responsible bidder and appear to be working follow proper bidding procedures, except as noted in the accompanying schedule of findings and responses as finding #2012-1. 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: Entry and Main Office Reconfiguration Project and the Lincoln Middle School Modernization of Building E 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 2011-12.

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

In our opinion, the District complied, in all material respects, with the compliance requirements for the Measure BB Bond proceeds as listed and tested above, except as noted in the accompanying schedule of findings and responses as finding #2012-1.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

Christy White Associates

San Diego, California
December 5, 2012

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, 2012**

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.

**MEASURE BB BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2012**

There were no findings in the fiscal year ending 2010-11.