

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

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2009**

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2009
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**MEASURE BB BOND BUILDING SUB-FUND
 OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
 Introduction and Citizens' Bond Oversight Committee Member Listing
 June 30, 2009**

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 adult education center, and thirteen child care and development centers. The District serves approximately 11,600 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, 2009, the principal balance outstanding on the Election of 2006 general obligation bonds was \$52,175,000.

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, 2009:

Member	Title	Representation
Jeffrey Jarow	Chair	Business Organization
Neil Carrey	Vice Chair	Members at Large
Laurie Charchut	Member	Parent Active in PTA
Ralph Erickson	Member	Senior Citizen Organization
Jerry Nickelsburg	Member	Parent
Steve Rodman	Member	Bona-Fide Taxpayer
Robert Tompkins	Member	Members at Large

Management's Discussion and Analysis

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

This section of Santa Monica-Malibu Unified School District's (the District's) Measure BB Bond Building Sub-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, 2009. 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 Sub-Fund balance decreased \$19 million in fiscal year 2008-09 to \$36 million as of June 30, 2009.
- Expenditures in the program increased significantly in the second year. Fiscal year 2009-10 saw expenditures for acquisition and construction in excess of \$20.7 million dollars. While most of these expenditures are for planning phases of the program, it demonstrates that the program is progressing.
- As the program progresses and there becomes an additional need for funds, the district will issue portions of the remaining bond authorization. It is anticipated that the District will issue bonds in August of 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the Measure BB Bond Building Sub-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 a sub-fund to 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 SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

FINANCIAL ANALYSIS OF THE MEASURE BB BOND BUILDING SUB-FUND

Balance Sheet. The District's Measure BB Bond Building Sub-Fund fund balance as of June 30, 2009 was \$35.7 million, reflecting a decrease of 39% since June 30, 2008. (See Table A-1) The \$42.7 million dollars in the Cash in county treasury account represents cash held by the county treasurer for purposes associated only with the bond authorization approved by the voters. The Due from other funds of \$2.0 million dollars represents the amount owed to the program that had been transferred into the General Fund. It has been determined that Measure BB funds can't be used for Routine Restricted Maintenance expenditures in the General Fund.

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

	(in thousands)		Total Percentage Change
	<u>2008-09</u>	<u>2007-08</u>	
Cash in county treasury	\$ 42.7	\$ 59.3	-28%
Interest receivable	0.2	0.6	-66%
Due from other funds	2.0	-	
Total assets	<u>44.9</u>	<u>59.9</u>	-25%
Accounts payable	4.1	1.7	141%
Due to other funds	5.1	-	
Total liabilities	<u>9.2</u>	<u>1.7</u>	441%
Total Fund Balance	<u>\$ 35.7</u>	<u>\$ 58.2</u>	-39%

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net assets. The District's total Measure BB revenues decreased 34%. The total cost of the Measure BB expenditures increased 214%. The Interest Income reported represents funds earned on the cash held by the county. The Other Local Income represents a grant funded by Chevron that is specific to Measure BB activities. The total expenditures of \$20.94 million dollars represents only Measure BB authorized expenses.

**Table A-2
Changes in Measure BB Bond Building Sub-Fund's Fund Balance**

	<u>(in thousands)</u>		<u>Total Percentage Change</u>
	<u>2008-09</u>	<u>2007-08</u>	
Revenues:			
Interest income	\$ 1.24	\$ 1.87	-34%
Net increase in the fair value of investments	0.20	-	
Other local	0.07	-	
Total revenues	<u>1.51</u>	<u>1.87</u>	-34%
Expenses:			
Plant services	0.18	1.19	-85%
Facilities acquisition and construction	20.75	5.46	280%
Debt service	0.01	0.02	-35%
Total expenses	<u>20.94</u>	<u>6.67</u>	214%
Excess deficiency of revenues over (under) expenditures	(19.43)	(4.80)	305%
<i>Other Financing Sources and Uses:</i>			
Proceeds from debt issuance	-	60.00	-100%
Transfers in from other funds	-	4.00	-100%
Transfers out to other funds	-	(1.00)	-100%
Total other financing sources and uses	<u>-</u>	<u>63.00</u>	-100%
Change in fund balance	<u>\$ (19.43)</u>	<u>\$ 58.20</u>	-34%

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

MEASURE BB BOND BUILDING SUB-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. Staff will address the entire program and recommend budget revision for the entire program. The voter authorization for Measure BB total \$268 million dollars. 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. That actually occurred in the 2008-09 fiscal year and this report reflects a variance of \$7.3 million dollars in Services and other operating expenditures. This does not indicate that the total program budget is overspent – it is only a matter of timing.

The 2007-08 financial report for the Measure BB program reflected transfers from the fund to the General Fund and a transfer into the fund from Developers Fees. These transfers occurred again early in the 2008-09 fiscal year. In an effort to report only voter authorized Measure BB funds these transfers will be reversed with any associated interest earned on the funds through a beginning balance restatement in the 2009-10 fiscal year.

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2009 the District had invested \$27.6 million of Measure BB bond funds in a broad range of capital assets, including: land improvements, building construction, work in progress, and equipment.

Long-Term Debt

At year-end, the District had \$52.2 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. It is anticipated that the District will issue additional bonds in August of 2009.

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

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 in full force 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 will begin in early 2010, with the first phases of construction to occur the summer of 2010. As with all construction programs unexpected events can occur. The team of district staff along with Parsons and CCM staff is prepared to meet these challenges as they present themselves.

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.

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of the Measure BB Bond Building Sub-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, 2009. 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 Sub-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 Sub-Fund of Santa Monica-Malibu Unified School District as of June 30, 2009, and the results of its operations for the fiscal year ended June 30, 2009, 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 21, 2010 on our consideration of the Santa Monica-Malibu Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 performed for the purpose of forming an opinion on the financial statements that collectively comprise Measure BB Bond Building Sub-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 purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit for the basic financial statements taken as a whole.

San Diego, California
January 21, 2010

Financial Section

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**
Balance Sheet
June 30, 2009

ASSETS	
Cash in county treasury	\$ 42,718,973
Interest receivable	238,931
Due from other funds	<u>2,000,000</u>
Total Assets	\$ <u>44,957,904</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 4,117,820
Due to other funds	<u>5,067,464</u>
Total Liabilities	<u>9,185,284</u>
Fund Balance	
Unreserved	<u>35,772,620</u>
Total Liabilities and Fund Balance	\$ <u>44,957,904</u>

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

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2009**

REVENUES	
Interest income	\$ 1,240,992
Net increase in the fair value of investments	196,733
Other local	<u>71,624</u>
Total Revenues	<u>1,509,349</u>
EXPENDITURES	
Plant services	175,452
Facility acquisition and construction	20,751,918
Debt service	13,220
Indirect costs	<u>-</u>
Total Expenditures	<u>20,940,590</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(19,431,241)</u>
Net Change in Fund Balance	<u>(19,431,241)</u>
Fund Balance, July 1, 2008, as originally stated	58,203,861
Adjustments for restatement (see Note 8)	<u>(3,000,000)</u>
Fund Balance, June 30, 2008, as restated	<u>55,203,861</u>
Fund Balance, June 30, 2009	<u><u>\$ 35,772,620</u></u>

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

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2009

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 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.

A 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 Sub-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 SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2009

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 SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2009

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 – CASH

Summary of Cash

Cash as of June 30, 2009 is classified in the accompanying financial statements as cash in county treasury for \$42,718,973. 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.

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH (continued)

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.

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 some 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

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH (continued)

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, 2009 of approximately \$42,718,973, and an amortized book value of \$42,522,240. The weighted average maturity for the Los Angeles County Investment Pool is 495 days as of June 30, 2009.

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 SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2009

NOTE 3 – INTEREST RECEIVABLE

Interest receivable as of June 30, 2009 consists of interest earned on the District’s investment in the County Treasury for \$238,931.

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, 2009, the principal balance outstanding on the Election of 2006 general obligation bonds was \$52,175,000.

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, 2009, are as follows:

Fiscal Year	Principal	Interest	Total
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
2013-14	435,000	2,190,400	2,625,400
2015-2019	3,870,000	10,595,000	14,465,000
2020-2024	7,855,000	9,401,500	17,256,500
2025-2029	14,405,000	6,830,000	21,235,000
2030-2033	18,055,000	2,363,000	20,418,000
Total	\$ 52,175,000	\$ 40,520,300	\$ 92,695,300

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2009

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 fiscal year ended June 30, 2009 consisted of the following:

	<u>Due to Other Funds</u>		<u>Total</u>
	<u>General Fund</u>	<u>Measure BB Building Sub-Fund</u>	
Measure BB Building Sub-Fund	\$ 2,000,000	\$ -	\$ 2,000,000
Other Governmental Funds	-	5,067,464	5,067,464
Total	<u>\$ 2,000,000</u>	<u>\$ 5,067,464</u>	<u>\$ 7,067,464</u>

Due from the General Fund to the Measure BB Bond Building Sub-Fund to reimburse for amounts transferred in the 2007-08 fiscal year	\$ 1,000,000
Due from the General Fund to the Measure BB Bond Building Sub-Fund to reimburse for amounts temporarily borrowed in the 2008-09 fiscal year	1,000,000
Due from the Measure BB Bond Building Sub-Fund to the Capital Facilities Fund for the reallocation of interest	67,464
Due from the Measure BB Bond Building Sub-Fund to the Capital Facilities Fund for developers fees temporarily borrowed in the 2008-09 fiscal year	1,000,000
Due from the Measure BB Bond Building Sub-Fund to the Capital Facilities Fund for the reimbursement of amounts transferred in the 2007-08 fiscal year	4,000,000
	<u>\$ 7,067,464</u>

NOTE 6 – CONSTRUCTION COMMITMENTS

As of June 30, 2009, the Measure BB Bond had construction commitments with respect to unfinished capital projects of approximately \$35,184,933.

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2009

NOTE 7 – EXCESS OF EXPENDITURES OVER BUDGET

For the fiscal year ended June 30, 2009, Measure BB Bond Building Sub-Fund expenditures exceeded budget, in individual expenditure categories, as follows:

Books and supplies	\$	84,850
Services and other operating expenditures	\$	7,378,105

NOTE 8 – ADJUSTMENTS FOR RESTATEMENT

The beginning fund balance was restated as follows:

	<u>Measure BB Building Fund</u>
Fund Balance, as originally stated on July 1, 2008	\$ 58,203,861
Adjustments for restatement:	
To reimburse the Capital Facilities Fund for amounts transferred in the 2007-08 fiscal year for capital projects	(4,000,000)
To reimburse the Measure BB Bond Building Sub-Fund for amounts transferred out in the 2007-08 fiscal year for deferred maintenance	<u>1,000,000</u>
Total Adjustments	<u>(3,000,000)</u>
Fund Balance, as restated on July 1, 2008	<u><u>\$ 55,203,861</u></u>

Supplementary Information Section

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – Measure BB Bond Building Sub-Fund
For the Fiscal Year Ended June 30, 2009**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget -
	Original	Final		Pos (Neg)
Revenues				
Other local	\$ 1,000,000	\$ 1,000,000	\$ 1,509,349	\$ 509,349
Total Revenues	1,000,000	1,000,000	1,509,349	509,349
Expenditures				
Classified salaries	324,111	324,111	309,173	14,938
Employee benefits	103,565	103,565	98,130	5,435
Books and supplies	49,968	49,968	134,818	(84,850)
Services and other operating expenditures	8,170,399	8,170,399	15,548,504	(7,378,105)
Capital outlay	23,710,000	23,710,000	4,849,965	18,860,035
Total Expenditures	32,358,043	32,358,043	20,940,590	11,417,453
Excess (Deficiency) of Revenues Over (Under) Expenditures	(31,358,043)	(31,358,043)	(19,431,241)	11,926,802
Other Financing Sources (Uses)				
Interfund transfers out	(1,000,000)	(1,000,000)	-	1,000,000
Total Other Financing Sources (Uses)	(1,000,000)	(1,000,000)	-	1,000,000
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(32,358,043)	(32,358,043)	(19,431,241)	12,926,802
Fund Balance, July 1, 2008, as originally stated	58,203,861	58,203,861	58,203,861	-
Adjustments for restatement	-	-	(3,000,000)	(3,000,000)
Fund Balance, July 1, 2008, as restated	58,203,861	58,203,861	55,203,861	(3,000,000)
Fund Balances, June 30, 2009	\$ 25,845,818	\$ 25,845,818	\$ 35,772,620	\$ 9,926,802

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2009**

	<u>Measure BB Bond Building Sub-Fund</u>
June 30, 2009, annual financial and budget report (SACS) fund balance	\$ 38,643,351
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Adjustment to record cash at fair market value	196,733
Reallocation of interest earned	(67,464)
Restatement of 2007-08 transfers in/out as reimbursements due to/from other funds	(3,000,000)
To correctly classify 2008-09 transfer in from Capital Facilities Fund as a temporary loan	1,000,000
To correctly classify 2008-09 transfer out to General Fund as a temporary loan	<u>(1,000,000)</u>
Net adjustments and reclassifications	<u>(2,870,731)</u>
June 30, 2009, audited financial statement fund balance	<u><u>\$ 35,772,620</u></u>

Other Independent Auditors' Reports

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

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

We have audited the financial statements of the Measure BB Bond Building Sub-Fund of Santa Monica-Malibu Unified School District (the "District") as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated January 21, 2010. 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.

San Diego, California
January 21, 2010

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

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

We have audited the financial statements of the Measure BB Bond Building Sub-Fund of the Santa Monica-Malibu Unified School District (the "District") as of and for the fiscal year ended June 30, 2009 and have issued our report thereon dated January 21, 2010. 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, 2009. 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 or waste 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 financial statements
- Ensure expenditures are allocated to the proper fund(s)

Internal Control Overview:

There were three companies engaged to help create the Facilities Master Plan for the Santa Monica-Malibu Unified School District: Harley Ellis Devereaux (HED), Concordia, and Sidewalk Studio. In addition, there is a School Board appointed group called the Ad Hoc Facilities Committee, which oversees the projects. The project team was put together to develop a facilities master plan that identified the physical needs of the District, including the sites that are in need of repair and renovation. This repair and renovation includes: removal of asbestos and mold from schools, repair leaky roofs, install fire safety equipment, upgrade outdated bathrooms and plumbing and make classrooms seismically safe. The plan will reduce overcrowding in neighborhood schools and allow schools to build and equip more science labs and upgrade computer technology. The original facilities master plan is not being brought forward as a formal and final plan. The plan was used during the bond election and it identified over a billion dollars worth of needs over a 25 year period. The current master plan being used is more site specific and was drafted with input from consultants and the Measure BB Citizens Oversight Committee. All of the projects are going to be managed by site so that if any delays occur at a site, they will not affect the progress of the total project.

The allocation process of the funds focused on secondary schools including 4 middle schools and high schools. The allocation was primarily based on individual site's needs. The Board of Trustees was very involved in the Measure BB Funds and the decisions to be made in regards to them. Parsons Corp. was chosen as the project manager and California Construction Management (CCM) was chosen as the construction manager. Parsons Corp. and CCM have had an ongoing working relationship.

Internal Control Evaluation (continued)
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Procedures Performed (continued):

Business Services Department:

The Purchasing or Facilities Department initiates a purchase with a purchase requisition which must be approved by the Director of Purchasing before a purchase order is generated. All contracts are encumbered by the accounts payable department for budgeting purposes. The accounts payable clerk makes sure all necessary supporting documentation is attached for any expenditure that exceeds bid limits. Once the invoice is approved for payment by either purchasing or facilities, whichever department initiated the requisition, it is processed for payment in the QSS system. Depending on the type of invoice, it may require approval from both departments. The accounts payable clerk matches up the invoice with the purchase order for amount, purchase order number, goods/services rendered, approvals, etc. The invoice information is entered into the QSS system by the accounts payable clerk and a voucher ID is assigned to the invoice once it is downloaded into the County system PeopleSoft. Los Angeles County Office of Education (LACOE) requires the supporting documentation then be sent to their office for review before they will release a warrant. The County then mails warrants back to the District Office to be sent to the vendor. The Director of Fiscal Services then authorized and signs the checks.

The senior buyer inputs purchase orders into fixed assets files if it exceeds \$500 (if over the \$5,000 capitalization threshold, it is bar-coded).

Director of Purchasing puts together bid packages with the Assistant Superintendent outlining the time frame for bid opening, bid submitting, bid in newspaper, etc. The Director of Purchasing meets with Parsons Corp. to create the details of the bid packages. Bid packages require bidders to submit references and any other necessary prequalification documentation which is checked and verified by the purchasing department. The Director of Purchasing and the Facilities Technician open bids together and the Assistant Superintendent compiles the bid tabulation spreadsheet and submits the recommendation to the board for approval of contract award. The Director of Purchasing and the Facilities Technician will award the contract after it has been Board approved.

The Director of Fiscal Services makes or reviews all journal entries. All revenue is posted by LACOE except for local income. An administrative assistant receives all checks from the mail while an account technician processes and posts local revenue to the financial system (QSS). The Director of Fiscal Services reviews journal entries for accuracy and reasonableness before it is posted to QSS. Any discrepancies are followed up with the LACOE. The QSS and PeopleSoft systems are reconciled on a monthly basis by the Director of Fiscal Services for Measure BB funds.

Internal Control Evaluation (continued)
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Procedures Performed (continued):

Construction Management/Project Management:

The Program Controls Manager oversees cost scheduling and budgeting. Parsons Corp. meets with the District to approve and finalize the method used to allocate costs to the various projects/sites. The proposal includes a budget by project/site and a ratio calculated by dividing the total construction budget by site that will be used to allocate most expenses. Parsons Corp. inputs all the data from a QSS report generated by the District into their computer software, Impact, and allocates all the expenses for the year based on a proposed ratio. Each site is assigned a separate account code and the bulk of the invoices get routed to Parsons Corp. where they will determine the account string to charge each invoice. Any discrepancies in account coding are followed up on by District and Parsons Corp. Parsons Corp. is performing monthly reconciliations between their system, Impact, and the District's system, QSS. Parsons Corp. also tracks the expenses in comparison to the contract amounts to ensure contracts stay within their contracted amounts.

The escalating market factor was determined by a subcontractor of Parsons Corp. who performed the estimate. Parsons Corp. compiles a monthly cash flow statement that looks forward six years and is updated annually. Parsons Corp. has Fund 21 read only access in the QSS system and can identify the expenditures that do not pass through Parsons Corp. Parsons Corp Project Manager approves all invoices and checks for accuracy and reasonableness. Written procedures are in place to initiate, track, and monitor disbursements.

The Parsons Corp software has three interfaces that communicate with each other: Impact which contains all financial data, Orbit which tracks all transmittals including request for information, change orders, meeting minutes, etc, and P6 which maintains all of the schedules. The Orbit software emails documentation to all necessary or approving parties. All of their responses are tracked in P6. A change order cannot be executed in orbit without board approval. Orbit will even track and monitor supporting documentation for change orders.

The main Project Manager at Parsons Corp has weekly meetings with the District to address progress and any concerns that may arise. Financial concerns are addressed with the Director of Fiscal Services and the Assistant Superintendent of Fiscal Services.

Internal Control Evaluation (continued)

Procedures Performed (continued):

Tests of Controls:

Based on the internal control procedures documented in summary form above, we then performed tests to determine whether the controls designated by management were operating effectively, and to provide reasonable assurance that the fiscal year 2008-09 financial statement balances for the Measure BB Bond Building Sub-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 the fiscal year ended June 30, 2009 were for valid facilities acquisition and construction purposes. Due to many of the sites still being in the planning phases rather than actually having begun construction, we were only able to visit one site. NNW toured the District's construction site at John Adams Middle School (JAMS).

Results of Procedures Performed:

The parking lots at JAMS appeared to be complete, except for striping of lot spaces, signage, and landscaping work that was not yet completed as of October 28, 2009. Completed areas of the JAMS parking lots project included concrete curbs and walkways, handicap ramps, irrigation, light poles foundations and fixtures installation, and parking lot entry gate.

Test of Expenditures

Procedures Performed:

The following performance tests of expenditures were performed:

1. We tested approximately \$4.1 million (20%) of the 2008-09 expenditures (41 separate payments) for validity, allowability and accuracy. Expenditures sampled in our test included payments made to the construction management company, architects, and other vendors.
2. We tested payments made to Parsons Commercial Technology, the Measure BB project management; HMC Architects, Osborn Architects, and RL Binder Faia Architecture, the Measure BB main architect firms to design the construction projects. We obtained the contracts for the companies listed above and ensure that position rates per contract were accurately billed to the District.

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.

Test of Contracts and Bid Procedures

Procedures Performed:

For the fiscal year ended June 30, 2009, NNW performed testing of 4 contracts to determine compliance with District policy and Public Contract Code provisions related to contracting and bidding:

- Project: Lead Paint Stabilization
Contractor: Matrix Environmental
Original Contract Award Amount: \$110,988
- Project: Olympic Hazardous Materials Removal & Demolition
Contractor: American Demolition
Original Contract Award Amount: \$51,773
- Project: Webster Fire Damage Reconstruction
Contractor: Graph Company
Original Contract Award Amount: \$74,500
- Project: Hazardous Materials Inspection & Monitoring Services
Contractor: ATC Associates
Original Contract Award Amount: Based on lowest per hour rates.

Test of Contracts and Bid Procedures (continued)

Results of Procedures Performed:

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

Establishment of the Citizen's Oversight Committee

Procedures Performed:

In accordance with AB 1908 (Assembly Bill) and Education 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 taxpayer association, and one parent/guardian of a child enrolled in the District who is also a member of a parent teacher association. The governing board of the school district shall establish and appoint members to an independent citizens' oversight committee, pursuant to Section 15282, within 60 days of the date that the governing board enters the election results on its minutes. We determined if the legal requirements for establishing the Citizens' Oversight Committee were met.

Results of Procedures Performed:

We found Santa Monica-Malibu's governing board did appoint members to the Citizens' Oversight Committee related to the Proposition 39 Bond that was passed October 2, 2007 in a timely manner, within 60 days.

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

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

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

San Diego, California
January 21, 2010

Findings and Recommendations Section

**MEASURE BB BOND BUILDING SUB-FUND
OF SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Findings and Recommendations
For the Fiscal Year Ended June 30, 2009**

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 Sub-Fund. In addition, our tests resulted in no findings and recommendations related to the financial and performance audit of the Measure BB Bond Building Sub-Fund for the fiscal year ended June 30, 2009.