

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

**PERFORMANCE AND FINANCIAL  
AUDIT REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2016**

**San Diego**

**Los Angeles**

**San Francisco  
Bay Area**

**christywhite**  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION *associates*

**MEASURE BB BOND BUILDING FUND  
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
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June 30, 2016**

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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, 2016**

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

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

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

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

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2016:

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

## INDEPENDENT AUDITORS' REPORT

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

### Report on the Financial Statements

We have audited the accompanying financial statements of the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's Measure BB Bond Building Fund basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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State Board of Accountancy*

## **Auditor's Responsibility (continued)**

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Santa Monica-Malibu Unified School District's Measure BB Bond Building Fund as of June 30, 2016 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

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

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2017 on our consideration of the Measure BB Bond Building Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Measure BB Bond Building Fund's internal control over financial reporting and compliance.

## **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated February 27, 2017 on our consideration of the District's compliance with the requirements of Proposition 39 with regards to the Measure BB Bond Building Fund. That report is an integral part of our audit of the District's Measure BB Bond Building Fund for the fiscal year ended June 30, 2016 should be considered in assessing the results of our financial audit.



San Diego, California  
February 27, 2017

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**MANAGEMENT'S DISCUSSION AND  
ANALYSIS**

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**MEASURE BB BOND BUILDING FUND  
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2016**

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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, 2016. 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 fund balance for the Measure BB Bond Building Fund amounted roughly \$42.1 million in fiscal year 2014-15 to slightly over \$27.8 million as of June 30, 2016.
- Revenues and other financing sources were \$278 thousand during the year ended June 30, 2016, which exceeded total expenditures and outgo of \$14.6 million.

**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, 2016**

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**FINANCIAL ANALYSIS OF THE MEASURE BB BOND BUILDING FUND**

**Balance Sheet:** The District’s Measure BB Bond Building Fund balance as of June 30, 2016 was \$27.8 million, reflecting a decrease of 34% since June 30, 2015 (see Table A-1). The \$29.8 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 Fund  
Balance Sheet**

	<b>2015</b>	<b>2016</b>	<b>Total Percentage Change 2015-16</b>
Cash in county treasury	\$ 45,806,918	\$ 29,821,624	-35%
Interest receivable	166,702	99,500	-40%
Total assets	\$ 45,973,620	\$ 29,921,124	-35%
Accounts payable	\$ 3,832,053	\$ 2,071,281	-46%
Total liabilities	3,832,053	2,071,281	-46%
Total Fund Balance	\$ 42,141,567	\$ 27,849,843	-34%



**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, 2016**

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

**Changes in fund balance.** The District’s total Measure BB revenues decreased 29%. The total cost of the Measure BB expenditures decreased 39%. The interest income reported represents funds earned on the cash held by the county treasurer. The total expenditures of \$14.6 million represents only Measure BB authorized expenditures.

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

	<b>2015</b>	<b>2016</b>	<b>Total Percentage Change 2015-16</b>
Revenues:			
Interest income	\$ 394,153	\$ 278,647	-29%
Total revenues	394,153	278,647	-29%
Expenditures:			
Facilities acquisition and construction	23,900,204	14,570,371	-39%
Total expenditures	23,900,204	14,570,371	-39%
Excess deficiency of revenues over (under) expenditures	(23,506,051)	(14,291,724)	-39%
<b>Change in fund balance</b>	<b>\$ (23,506,051)</b>	<b>\$ (14,291,724)</b>	<b>-39%</b>

**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, 2016**

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**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 2015-16 fiscal year.

**FACTORS BEARING ON THE DISTRICT BOND PROGRAM'S FUTURE**

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

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's Measure BB bond finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jan Maez, Assistant Superintendent, Business Services, Santa Monica-Malibu Unified School District.

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# FINANCIAL SECTION

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**MEASURE BB BOND BUILDING FUND  
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Balance Sheet  
June 30, 2016**

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**ASSETS**

Cash and investments	\$ 29,821,624
Accounts receivable	99,500
<b>Total Assets</b>	<u>29,921,124</u>

**LIABILITIES AND FUND BALANCE**

**LIABILITIES**

Accounts payable	2,071,281
<b>Total Liabilities</b>	<u>2,071,281</u>

**FUND BALANCE**

Restricted for capital projects	27,849,843
<b>Total Liabilities and Fund Balance</b>	<u>\$ 29,921,124</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  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Fiscal Year Ended June 30, 2016**

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<b>REVENUES</b>	
Interest income	\$ 278,647
Total revenues	<u>278,647</u>
 <b>EXPENDITURES</b>	
Facility acquisition and construction	<u>14,570,371</u>
Total expenditures	<u>14,570,371</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(14,291,724)</u>
Net Change in Fund Balance	(14,291,724)
Fund balance, July 1, 2015	<u>42,141,567</u>
Fund Balance, June 30, 2016	<u>\$ 27,849,843</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, 2016**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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

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

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

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

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

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

**MEASURE BB BOND BUILDING FUND  
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2016**

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**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. The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**MEASURE BB BOND BUILDING FUND  
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2016**

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**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, 2016**

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**NOTE 2 – CASH AND INVESTMENTS**

**Summary of Cash**

Cash as of June 30, 2016 is classified in the accompanying financial statements as cash in county treasury for \$29,821,624. 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, 2016**

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**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, 2016 of approximately \$29,821,624, and an amortized book value of \$29,856,464. The weighted average maturity for the Los Angeles County Investment Pool is 608 days as of June 30, 2016.

**MEASURE BB BOND BUILDING FUND  
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2016**

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

**Fair Value**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Los Angeles County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements at June 30, 2016 were as follows:

<b>Fair Market Value of Investments</b>	
	<b>Uncategorized</b>
Investment in county treasury	\$ 29,856,464
<b>Total fair market value of investments</b>	<b>\$ 29,856,464</b>

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized credit rating organization. The investments within the Los Angeles County Investment Pool were not rated.

**MEASURE BB BOND BUILDING FUND  
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2016**

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

**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, 2016 consists of interest earned on the District’s investment in the county treasury for \$99,500.

**NOTE 4 – MEASURE BB GENERAL OBLIGATION BONDS**

**General Obligation Bonds**

In an election held November 7, 2006, the voters authorized the District to issue and sale \$268,000,000 of principal amount of general obligation bonds. These bonds were issued for the purpose of financing the construction, renovation, modernization, and equipping of school facilities and to pay costs of issuance associated with the bonds. There were six issuances under this election

Series A, which was issued on October 2, 2007 for \$60,000,000 with interest rates ranging from 4.00% to 5.00%. The original issuance consisted of \$45,835,000 in current interest serial bonds and \$14,165,000 in current interest term bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing February 1, 2008, principal on the bonds is payable annually each August 1, commencing August 1, 2008 through the final maturity date of August 1, 2032. The principal balance outstanding on June 30, 2016 amounted to \$1,650,000.

The annual requirements to amortize the outstanding for Series A as of June 30, 2016 are as follows:

**Series A**

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 825,000	\$ 49,500	\$ 874,500
2018	825,000	16,500	841,500
<b>Total</b>	<b>\$ 1,650,000</b>	<b>\$ 66,000</b>	<b>\$ 1,716,000</b>

**MEASURE BB BOND BUILDING FUND**  
**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements, continued**  
**June 30, 2016**

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**NOTE 4 – MEASURE BB GENERAL OBLIGATION BONDS (continued)**

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, 2016, the principal balance outstanding on the Election of 2006, Series B general obligation bonds was \$5,390,000.

The annual requirements to amortize the outstanding for Series B as of June 30, 2016 are as follows:

**Series B**

<b>Year Ending June 30,</b>	<b>Principal</b>		<b>Interest</b>		<b>Total</b>
2017	\$	1,055,000	\$	243,125	\$ 1,298,125
2018		1,265,000		185,125	1,450,125
2019		1,440,000		117,500	1,557,500
2020		1,630,000		40,750	1,670,750
Total	\$	5,390,000	\$	586,500	\$ 5,976,500

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, 2016, the principal balance outstanding on the Election of 2006, Series C general obligation bonds was \$63,245,000.

The annual requirements to amortize the outstanding for Series C as of June 30, 2016 are as follows:

**Series C**

<b>Year Ending June 30,</b>	<b>Principal</b>		<b>Interest</b>		<b>Total</b>
2017	\$	425,000	\$	3,101,653	\$ 3,526,653
2018		630,000		2,968,070	3,598,070
2019		800,000		2,820,964	3,620,964
2020		975,000		2,659,644	3,634,644
2021		1,150,000		2,472,600	3,622,600
2022 - 2026		9,555,000		8,807,525	18,362,525
2027 - 2031		17,900,000		3,436,387	21,336,387
2032 - 2036		31,810,000		1,759,407	33,569,407
Total	\$	63,245,000	\$	28,026,250	\$ 91,271,250

**MEASURE BB BOND BUILDING FUND**  
**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements, continued**  
**June 30, 2016**

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**NOTE 4 – MEASURE BB GENERAL OBLIGATION BONDS (continued)**

On March 19, 2013, the District issued Series D of the Election of 2006 general obligation bonds in the amount of \$82,995,327. The Series D issuance consists of current interest serial bonds and current interest term bonds with interest rates ranging from 0.17% to 5.00% and fully maturing on July 1, 2037. As of June 30, 2016, the principal balance outstanding on the Election of 2006, Series D general obligation bonds was \$78,682,822.

The annual requirements to amortize the outstanding for Series D as of June 30, 2016 are as follows:

<u>Series D</u>				
<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2017	\$ -	\$2,526,325	\$	2,526,325
2018	135,000	2,523,625		2,658,625
2019	265,000	2,515,625		2,780,625
2020	395,000	2,502,425		2,897,425
2021	525,000	2,484,025		3,009,025
2022 - 2026	5,760,000	11,852,438		17,612,438
2027 - 2031	13,195,000	9,802,575		22,997,575
2032 - 2036	19,119,410	35,058,790		54,178,200
2037 - 2040	37,005,917	3,035,883		40,041,800
Accretion	2,282,495	(2,282,495)		-
Total	\$ 78,682,822	\$ 70,019,216	\$	148,702,038

On January 8, 2013, the District issued \$45,425,000 of 2013 General Obligation Refunding Bonds, with interest rates ranging from 2.00% to 5.00%. The bonds were issued to refund all or a portion of the District's outstanding General Obligation Bonds, Election of 2006, Series A and pay costs of issuance of the bonds. As of June 30, 2016, the principal balance outstanding on the 2013 General Obligation Refunding Bonds was \$44,760,000.

The annual requirements to amortize the outstanding for 2013 GO Refunding Bonds as of June 30, 2016 are as follows:

**MEASURE BB BOND BUILDING FUND  
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2016**

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**NOTE 4 – MEASURE BB GENERAL OBLIGATION BONDS (continued)**

**2013 General Obligation Refunding Bonds**

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 235,000	\$ 1,667,231	\$ 1,902,231
2018	245,000	1,657,631	1,902,631
2019	1,235,000	1,628,031	2,863,031
2020	1,420,000	1,574,931	2,994,931
2021	1,610,000	1,514,331	3,124,331
2022 - 2026	11,440,000	6,313,681	17,753,681
2027 - 2031	18,750,000	3,238,034	21,988,034
2032 - 2036	9,825,000	334,969	10,159,969
<b>Total</b>	<b>\$ 44,760,000</b>	<b>\$ 17,928,839</b>	<b>\$ 62,688,839</b>

On November 10, 2015, the District issued \$47,915,000 of 2015 General Obligation Refunding Bonds, with interest rates ranging from 3.25% to 5.00%. The bonds were issued to advance refund the District's outstanding General Obligation Bonds, Election of 2006, Series B-1 and pay costs of issuance of the bonds. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing February 1, 2016, principal on the bonds is payable annually each August 1, commencing August 1, 2020 through the final maturity date of August 1, 2034. The principal balance outstanding on June 30, 2016 amounted to \$47,915,000.

The annual requirements to amortize the outstanding for 2015 GO Refunding Bonds as of June 30, 2016 are as follows:

**2015 General Obligation Refunding Bonds**

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ -	\$ 1,277,574	\$ 1,277,574
2018	-	1,991,025	1,991,025
2019	-	1,991,025	1,991,025
2020	-	1,991,025	1,991,025
2021	1,880,000	1,991,025	3,871,025
2022 - 2026	12,425,000	8,347,625	20,772,625
2027 - 2031	18,005,000	5,056,700	23,061,700
2032 - 2036	15,605,000	1,338,850	16,943,850
	<b>\$ 47,915,000</b>	<b>\$ 23,984,849</b>	<b>\$ 71,899,849</b>

**MEASURE BB BOND BUILDING FUND  
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2016**

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**NOTE 5 – CONSTRUCTION COMMITMENTS**

As of June 30, 2016, the Measure BB Bond program had construction commitments with respect to unfinished capital projects of approximately \$15,947,493 which includes technology commitments.

**NOTE 6 – MEASURE BB EXPENDITURES BY PROJECT**

The following table presents the expenditure amounts by project for the fiscal year ended June 30, 2016:

<b>Project</b>	<b>Amount</b>
Webster Elementary School	\$ 6,191
Washington West	130,234
Olympic Continuation School	138,039
Lincoln Middle School	157,221
John Adams Middle School	264,934
Malibu High School	625,329
Technology/ Data Center	1,211,757
Edison Elementary School	4,962,084
Santa Monica High School	7,074,582
Total	<u>\$ 14,570,371</u>



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**OTHER INDEPENDENT AUDITORS'  
REPORTS**

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District's basic financial statements, and have issued our report thereon dated February 27, 2017.

**Internal Control over Financial Reporting**

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

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

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## **Internal Control over Financial Reporting (continued)**

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Christy White Associates*

San Diego, California  
February 27, 2017

## INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Measure BB Bond Building Fund of Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Measure BB Bond Building Fund's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Measure BB for the fiscal year ended June 30, 2016. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

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

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

<b>Internal Control Evaluation</b>
------------------------------------

**Procedures Performed:**

Inquiries were made of management regarding internal controls to:

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

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the fiscal year 2015-16 financial statement balances for the Measure BB Bond are not materially misstated.

**Results of Procedures Performed:**

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

## Facilities Site Walk

### **Procedures Performed:**

We performed a site walk to verify that Measure BB funds expended for capital outlay were for valid facilities acquisition and construction purposes. For fiscal year 2015-16, we toured the construction site at Edison Language Academy.

### **Results of Procedures Performed:**

At the time of our site walk, two preschool classrooms were completed and the joining playground is still in progress. The preschool classrooms had new flooring (carpet and polished concrete) installation and sound insulation. The classrooms have a new connecting kitchen and bathroom. The kindergarten playground, which is accessible from the kindergarten classrooms, had partial installation of playground equipment, sandbox and handicap accessible rails.

We were able to verify that the Measure BB funds expended for capital outlay were for valid construction purposes.

## Test of Expenditures

### **Procedures Performed:**

The following performance tests of expenditures were performed:

1. We tested expenditures to determine whether Measure BB Bond funds were spent solely on voter and Board approved school facilities projects (as set forth in the District's Facilities Master Plan and the Measure BB ballot measure language).
2. 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:**

The expenditure test included a sample of 25 payments, totaling \$587 thousand. Additionally, we tested \$1.1 million in accounts payable for a total of approximately 8% of total expenditures for 2015-16. We tested payments made to California Testing & Inspections, Simpson & Simpson, Sandy Pringle Associates, and WWCOT. 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:**

We did not test lease-leaseback contracts, as there were none for 2015-16. We did, however, review bid procedures and change orders (four separate contracts) to ensure each was properly approved and did not exceed more than ten percent of the contract amount. We performed these procedures to determine compliance with District policy and Public Contract Code provisions related to contracting and bidding.

### **Results of Procedures Performed:**

We determined the bids and 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: Samohi Phase II – West Site Improvements, New Construction Edison Language Academy and John Adams Middle School. Moreover, we noted that the District provided the Governing Board with a listing of contract change orders for Measure BB Bond projects in fiscal year 2015-16.

## Citizens' Bond Oversight Committee

### **Procedures Performed:**

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

### **Results of Procedures Performed:**

In our review of the minutes of the Citizens' Bond Oversight Committee for Measure BB, we found that there was adequate documentation of meetings held during fiscal year 2015-16. In addition, the District has submitted annual audit reports during the life of the Measure BB.

In our review of the composition of the committee, we noted that the District has the proper members in the CBOC that come from each of the sectors noted above. Our audit of compliance was made for the purposes set forth in the second and third paragraphs of this report and would not necessarily disclose all instances of noncompliance.

## Opinion

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

## Purpose of this Report

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

*Christy White Associates*

San Diego, California  
February 27, 2017



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# **FINDINGS AND RESPONSES SECTION**

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**MEASURE BB BOND BUILDING FUND  
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Schedule of Findings and Responses  
For the Fiscal Year Ended June 30, 2016**

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*There were no findings and recommendations related to the financial and performance audits performed for the Santa Monica-Malibu Unified School District over the Measure BB Bond Building Fund for the year ended June 30, 2016.*

**MEASURE BB BOND BUILDING FUND  
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2016**

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*There were no prior year findings or recommendations related to the financial and performance audit of Santa Monica-Malibu Unified School District's Measure BB Bond Building Fund for the year ended June 30, 2015.*