

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

**PERFORMANCE AND FINANCIAL
AUDIT REPORT**

**FOR THE FISCAL YEAR ENDED
June 30, 2017**

**MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
PERFORMANCE AND FINANCIAL AUDIT REPORT**

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**MEASURE ES BOND BUILDING FUND
 SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
 Introduction and Citizen’s Bond Oversight Committee Member Listing
 June 30, 2017**

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 11,000 students. Measure ES funds are used to repair, renovate, and construct District school facilities.

On November 6, 2012, the voters of Santa Monica-Malibu Unified School District approved by more than 55% Measure ES, authorizing the issuance and sale of \$385,000,000 of general obligation bonds. On August 13, 2014, the District issued Series A of the Election of 2012 general obligation bonds in the amount of \$30,000,000 with interest rates ranging 1.00% - 3.25%. On July 1, 2015, the District issued Series B of the Election of 2012 general obligation bonds in the amount of \$60,000,000 with interest rates ranging 2.00% - 5.00%. On June 21, 2017, the District issued Series C of the Election of 2012 general obligation bonds in the amount of \$60,000,000, with interest rates ranging from 3.125% to 5.00%.

Measure ES 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, 2017:

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



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA
ALEXANDER C HOM, CPA
ADAM V GUISE, CPA
TRAVIS J HOLE, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES

433 NORTH CAMDEN DRIVE, SUITE 730
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES

5800 HANNUM AVENUE, SUITE E
CULVER CITY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
www.mlhcpas.com

INDEPENDENT AUDITORS' REPORT

Governing Board Members and
Measure ES 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 ES Bond Building Fund of Santa Monica-Malibu Unified School District (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's Measure ES 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.

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 ES 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 ES Bond Building Fund as of June 30, 2017 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 March 1, 2018 on our consideration of the Measure ES 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 ES 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 March 1, 2018 on our consideration of the District's compliance with the requirements of Proposition 39 with regards to the Measure ES Bond Building Fund. That report is an integral part of our audit of the District's Measure ES Bond Building Fund for the fiscal year ended June 30, 2017 should be considered in assessing the results of our financial audit.



Moss, Levy & Hartzheim, LLP
Culver City, California
March 1, 2018

**MANAGEMENT'S DISCUSSION AND
ANALYSIS**

**MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017**

This section of Santa Monica-Malibu Unified School District's Measure ES Bond Building Fund annual financial and performance report presents our discussion and analysis of the Measure ES bond program during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's Measure ES bond financial statements and performance audit, which immediately follow this section.1

FINANCIAL HIGHLIGHTS

- The fund balance for the Measure ES Bond Building Fund amounted to roughly \$64.9 million in fiscal year 2015-16 to roughly \$107.3 million as of June 30, 2017.
- Revenues and other financing sources were \$61.0 million during the year ended June 30, 2017, which exceeded total expenditures and outgo of \$18.6 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The District accounts for Measure ES 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 fixed assets nor long-term liabilities.

MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited), continued
For the Fiscal Year Ended June 30, 2017

FINANCIAL ANALYSIS OF THE MEASURE ES BOND BUILDING FUND

Balance Sheet: The District's Measure ES Bond Building Fund balance as of June 30, 2017 was \$107.3 million (see Table A-1). The \$112.0 million in the cash in county treasury account represents cash held in the Los Angeles County Treasurer's Investment Pool for purposes associated only with the bond authorization approved by the voters. It has been determined that Measure ES funds cannot be used for Routine Restricted Maintenance expenditures in the General Fund.

Table A-1
Measure ES Bond Building Sub-Fund
Balance Sheet

	2017	2016	Total Percentage Change 2017-2016
Cash in county treasury	\$ 111,950,557	\$ 66,620,151	68%
Interest receivable	304,446	222,269	37%
Total assets	<u>\$ 112,255,003</u>	<u>\$ 66,842,420</u>	68%
Accounts payable	\$ 4,954,991	\$ 1,951,052	154%
Total liabilities	<u>\$ 4,954,991</u>	<u>\$ 1,951,052</u>	154%
Total Fund Balance	<u>\$ 107,300,012</u>	<u>\$ 64,891,368</u>	65%

MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited), continued
For the Fiscal Year Ended June 30, 2017

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

Fund Balance (or Changes in Fund Balance). The interest income reported represents funds earned on the cash held by the county treasurer. The total expenditures of \$18.6 million represents only Measure ES authorized expenditures.

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

	2017	2016	Total Percentage Change 2017-2016
Revenues:			
Interest income	\$ 661,462	\$ 574,753	15%
Total assets	661,462	574,753	15%
Expenditures:			
Facilities acquisition and construction*	14,681,086	4,153,512	253%
Debt service - issuance costs	535,000	532,000	1%
Other operating expenses	3,336,732	11,035,136	-70%
Total expenditures	18,552,818	15,720,648	18%
Excess deficiency of revenues over (under) expenditures	(17,891,356)	(15,145,895)	18%
Other Financing Sources and Uses			
Proceeds from debt insurance	60,000,000	60,000,000	0%
All other financing sources	300,000	300,000	0%
Total other financing sources and uses	60,300,000	60,300,000	0%
Change in fund balance	\$ 42,408,644	\$ 45,154,105	-6%

* Included \$1,400,596 expenditures as auditors propose accounts payable adjustment

**MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited), continued
For the Fiscal Year Ended June 30, 2017**

MEASURE ES BOND BUILDING FUND BUDGETARY HIGHLIGHTS

Over the course of the year as conditions change, the budget of the Measure ES 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 Facility 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 ES totaled \$385 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 scenario did not occur in the 2016-17 fiscal year.

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 ES 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 Melody Canady, Assistant Superintendent, Business Services, Santa Monica-Malibu Unified School District.

FINANCIAL SECTION

MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2017

ASSETS

Cash and investments	\$ 111,950,557
Accounts receivable	<u>304,446</u>
Total Assets	<u>112,255,003</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	<u>4,954,991</u>
Total Liabilities	<u>4,954,991</u>

FUND BALANCE

Restricted for capital projects	<u>107,300,012</u>
Total Liabilities and Fund Balance	<u>\$ 112,255,003</u>

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

MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
June 30, 2017

REVENUES

Interest income	\$ 661,462
Total revenues	<u>661,462</u>

EXPENDITURES

Facility acquisition and construction	14,681,086
Debt service - issuance costs	535,000
Other operating expenses	<u>3,336,732</u>
Total expenditures	<u>18,552,818</u>

OTHER FINANCING SOURCES (USES)

Proceeds from long-term debt	60,000,000
All other financing sources	<u>300,000</u>
Total other financing sources and uses	<u>60,300,000</u>

Net Change in Fund Balance 42,408,644

Fund balance, July 1, 2016	<u>64,891,368</u>
Fund balance, June 30, 2017	<u>\$ 107,300,012</u>

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

MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

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 6, 2012, the voters of the District authorized the issuance and sale of \$385 million in general obligation bonds (Measure ES) for repairing and replacing roofs, floors, walkways, plumbing, and electrical systems; repairing and constructing classrooms, science labs, facilities, equipment and computer systems; increasing electrical service capacity and earthquake safety; upgrading fire safety systems and handicap accessibility; removing hazardous materials from school sites; installing and replacing energy efficient heating, ventilation, air conditioning, and lighting systems; upgrading instructional technology, data, communication equipment, wireless systems, telecommunications, Internet and network connections; and upgrading and replacing computers, hardware and software systems, classroom and library technology, and teaching equipment.

A committee to the District's Governing Board and Superintendent, called the Measure ES Advisory Committee (ESAC) was established. The ESAC'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 ES election, the Board has also established the Measure ES 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 ES; 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 ES Bond Building Fund and are not intended to be a complete presentation of the District's financial position or results of operations.

**MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017**

NOTE 1— SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Accounting Policies

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

C. Basis of Accounting

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

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

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

E. Deposits and Investments

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

**MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017**

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 ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017**

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash

Cash as of June 30, 2017 is classified in the accompanying financial statements as cash in county treasury for \$111,950,557. 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 ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017

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	40%	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 Marker 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, 2017 of approximately \$111,284,115, and an amortized book value of \$111,950,557. The weighted average maturity for the Los Angeles County Investment Pool is 672 days as of June 30, 2017.

MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017

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, 2017 were as follows:

<u>Fair Market Value of Investments</u>	
	<u>Uncategorized</u>
Investment in county treasury	<u>\$ 111,950,557</u>
Total fair market value of investments	<u>\$ 111,950,557</u>

Credit Risk

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

Concentration of Credit Risk

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

**MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017**

NOTE 3— ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017 consists of interest earned on the District's investment in the county treasury for \$304,446.

NOTE 4— MEASURE ES GENERAL OBLIGATION BONDS

On November 6, 2012, the voters of the Santa Monica-Malibu Unified School District approved by more than 55% Measure ES, authorizing the issuance and sale of \$385,000,000 of general obligation bonds.

On August 13, 2014, the District issued Series A of the Election of 2012 general obligation bonds in the amount of \$30,000,000. The Series A issuance consists of current interest bonds with stated interest rates ranging from 1.00% to 3.25%, and fully maturing on August 1, 2037. As of June 30, 2017, the principal balance outstanding on the Election of 2012, Series A general obligation bonds was \$7,730,000.

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 ES general obligation bonds payable, as of June 30, 2017, are as follows:

Fiscal Years Ending June 30,	Series A		
	Principal	Interest	Total
2018	\$ -	\$ 293,675	\$ 293,675
2019	-	293,675	293,675
2020	-	293,675	293,675
2021	-	293,675	293,675
2022	-	293,675	293,675
2023-2027	-	1,468,375	1,468,375
2028-2032	-	1,468,375	1,468,375
2033-2037	6,095,000	970,563	7,065,563
2038	1,635,000	32,700	1,667,700
Total	\$ 7,730,000	\$ 5,408,388	\$ 13,138,388

MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017

NOTE 4— MEASURE ES GENERAL OBLIGATION BONDS (continued)

On July 1, 2015, the District issued Series B of the Election of 2012 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 2.00% to 5.00%, and fully maturing on July 1, 2040. As of June 30, 2017, the principal balance outstanding on the Election of 2012, Series B general obligation bonds was \$47,820,000.

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 ES general obligation bonds payable, as of June 30, 2017, are as follows:

Fiscal Years	Series B		
	Principal	Interest	Total
Ending June 30,			
2018	\$ 11,540,000	\$ 1,885,000	\$ 13,425,000
2019	-	1,596,500	1,596,500
2020	-	1,596,500	1,596,500
2021	-	1,596,500	1,596,500
2022	-	1,596,500	1,596,500
2023-2027	870,000	7,960,750	8,830,750
2028-2032	7,090,000	6,930,250	14,020,250
2033-2037	12,300,000	4,692,900	16,992,900
2038-2041	16,020,000	1,368,000	17,388,000
Total	<u>\$ 47,820,000</u>	<u>\$ 29,222,900</u>	<u>\$ 77,042,900</u>

On July 21, 2017, the District issued Series C of the Election of 2012 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 3.125% to 5.00%, and fully maturing on July 1, 2042. As of June 30, 2017, the principal balance outstanding on the Election of 2012, Series C general obligation bonds was \$60,000,000.

MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017

NOTE 4— MEASURE ES GENERAL OBLIGATION BONDS (continued)

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 ES general obligation bonds payable, as of June 30, 2017, are as follows:

Fiscal Years Ending June 30,	Series C		
	Principal	Interest	Total
2018	\$ -	\$ 1,267,435	\$ 1,267,435
2019	12,730,000	2,146,856	14,876,856
2020	13,095,000	1,630,356	14,725,356
2021	125,000	1,365,956	1,490,956
2022	-	1,363,457	1,363,457
2023-2027	-	6,817,281	6,817,281
2028-2032	4,635,000	6,391,156	11,026,156
2033-2037	9,105,000	4,626,481	13,731,481
2038-2042	15,810,000	2,161,566	17,971,566
2043	4,500,000	70,313	4,570,313
Total	\$ 60,000,000	\$ 27,840,857	\$ 87,840,857

NOTE 5— RELATED PARTIES TRANSACTION

Construction management services were provided by Telacu in the amount of \$24,360, in which Board Member Maria Leon-Vazquez's spouse works as a consultant.

NOTE 6— CONSTRUCTION COMMITMENTS

As of June 30, 2017, the Measure ES Bond program had construction commitments with respect to unfinished capital projects of approximately \$24,363,441.

MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2017

NOTE 7— MEASURE ES EXPENDITURES BY PROJECT

The following table presents the expenditure amounts by project for the fiscal year ended June 30, 2017:

<u>Project</u>	<u>Total</u>
ES Technology	\$ 3,529,819
Santa Monica/Malibu Centralized	2,332,718
Malibu Interior Light Fixture	196,783
Window, Floor, Paint & Door Project	9,495,121
Santa Monica High School	2,200,760
Cooling	195,625
Performing Art Complex Project	244,335
Lincoln Field	357,657
Total Measure ES Expenditures	<u>\$ 18,552,818</u>

OTHER INDEPENDENT AUDITOR'S REPORTS



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA
ALEXANDER C HOM, CPA
ADAM V GUISE, CPA
TRAVIS J HOLE, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES
433 N. CAMDEN DRIVE, SUITE 730
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES
5800 HANNUM AVE., SUITE E
CULVER CITY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
www.mlhcpas.com

**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**

Governing Board Members and
Measure ES 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 ES Bond Building Fund of Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Measure ES Bond Building Fund of Santa Monica-Malibu Unified School District's basic financial statements, and have issued our report thereon dated March 1, 2018.

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 ES Bond Building Fund, but not for the purpose of expressing an opinion on the effectiveness of the Measure ES 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 ES 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.

Internal Control over Financial Reporting (continued)

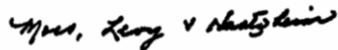
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



Moss, Levy & Hartzheim, LLP
Culver City, California
March 1, 2018



MOSS, LEVY & HARTZHEIM LLP

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PARTNERS

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INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Governing Board Members and
Measure ES 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 ES Bond Building Fund of Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the District's Measure ES 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.

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 ES for the fiscal year ended June 30, 2017. 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 ES Bonds were only used for the purposes set forth in the Measure ES ballot language and not for any other purpose, such as teacher and administrative salaries.
- The Governing Board of the District, in establishing the approved projects set forth in the ballot measure, evaluated the remodeling, new construction and renovations of items which will improve learning and to accommodate growth in the District, with no funds expended on administrator salaries.

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

Internal Control Evaluation

Procedures Performed:

Inquiries were made of management regarding internal controls to:

- Prevent fraud or waste regarding Measure ES projects, including budgetary controls and expenditures
- Prevent material misstatements in the financial statements
- Ensure adequate separation of duties exists in the fiscal services department for Measure ES funds
- 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 2016-17 financial statement balances for the Measure ES 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. Management has the necessary controls in place to keep track of expenditures separately.

Facilities Site Walk

Procedures Performed:

We performed a site walk to verify that Measure ES funds expended for capital outlay were for valid facilities acquisition and construction purposes. For fiscal year 2016-17, we toured the construction site at Santa Monica High School & Webster Elementary.

Result of Procedures Performed:

At the time of our site walk, we toured the schools and notice that both schools were having heating, ventilation and air conditioning improvements, as well as lighting fixture replacements and systems controls. Windows, floor, paint and door renovations were being upgraded and installed also.

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

Test of Expenditures

Procedures Performed:

We tested expenditures to determine whether Measure ES 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 ES ballot measure language). The expenditure test included a sample of sixty-five (65) payments, totaling \$8.388 million. Additionally, \$2.488 million dollars of accounts payable balance were tested for a total of approximately 58% of total expenditures for 2016-17.

Results of Procedures Performed:

We found the expenditures tested to be in compliance with the terms of the Measure ES ballot measure and applicable state laws and regulations without exception.

Test of Contracts and Bid Procedures

Procedures Performed:

We did test change order and contract modifications for 2016-17. Additionally, we did test bid procedures to ensure each was properly approved. 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 were executed in accordance with District internal controls and were in compliance with applicable provisions of the Public Contract Code.

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 ES, we found that there was adequate documentation of meetings held during fiscal year 2016-17. 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 ES 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.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
March 1, 2018

FINDINGS AND RESPONSES SECTION

**MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2017**

There were no findings and recommendation related to the financial and performance audits performed for the Santa Monica-Malibu Unified School District over the Measure ES Bond Building Fund for the year ended June 30, 2017. However, we recommend the District implement the following:

1. Evaluate projects on a comprehensive basis prior to issuing requests for proposals, qualifications, quotes, or services. The scope of work should not significantly change, otherwise a new request should be generated rather than issuing multiple change orders, which bypass the required detailed selection process.
2. All bids for future projects must be received at the Districts office and not received by the consultant. Segregation of duties should be paramount.

**MEASURE ES BOND BUILDING FUND
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2017**

There were no prior year findings and recommendation related to the financial and performance audit of Santa Monica-Malibu Unified School District Measure ES Bond Building Fund for the year ended June 30, 2016.