

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
COUNTY OF LOS ANGELES  
SANTA MONICA, CALIFORNIA**

**AUDIT REPORT**  
June 30, 2017

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

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June 30, 2017

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## **FINANCIAL SECTION**



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## **INDEPENDENT AUDITOR'S REPORT**

Governing Board  
Santa Monica-Malibu Unified School District  
Santa Monica, California

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District ("the District") as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District'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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Santa Monica-Malibu Education Foundation, which represent the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the Santa Monica-Malibu Education Foundation, is based solely on the report of the other auditors. 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 and the *2016-2017 Guide for Annual Audits of California K-12 Local Educational Agencies and State Compliance Reporting* published by the California Education Audit Appeals Panel. 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 opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2017, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, the Budgetary Comparison Schedule – General Fund on page 61, the Schedule of Funding Progress for Post-Employment Benefits on Page 62, the Schedules of Proportionate Share of Net Pension Liability on pages 63 and 64, and the Schedule of Pension Contributions on pages 67 and 68, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining fund financial statements, financial, and statistical information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the District. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2, U.S. Code of Federal Regulator (CFR) Part 200, Uniform Administrative Requirement, Cost Principles, and Audit Requirements of Federal Awards, and is also not a required part of the basic financial statements of the District.

The combining fund financial statements, financial, and statistical information, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017, on our consideration of the District'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 District's internal control over financial reporting and compliance.



Moss, Levy & Hartzheim, LLP  
Culver City, California  
December 8, 2017

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**INTRODUCTION**

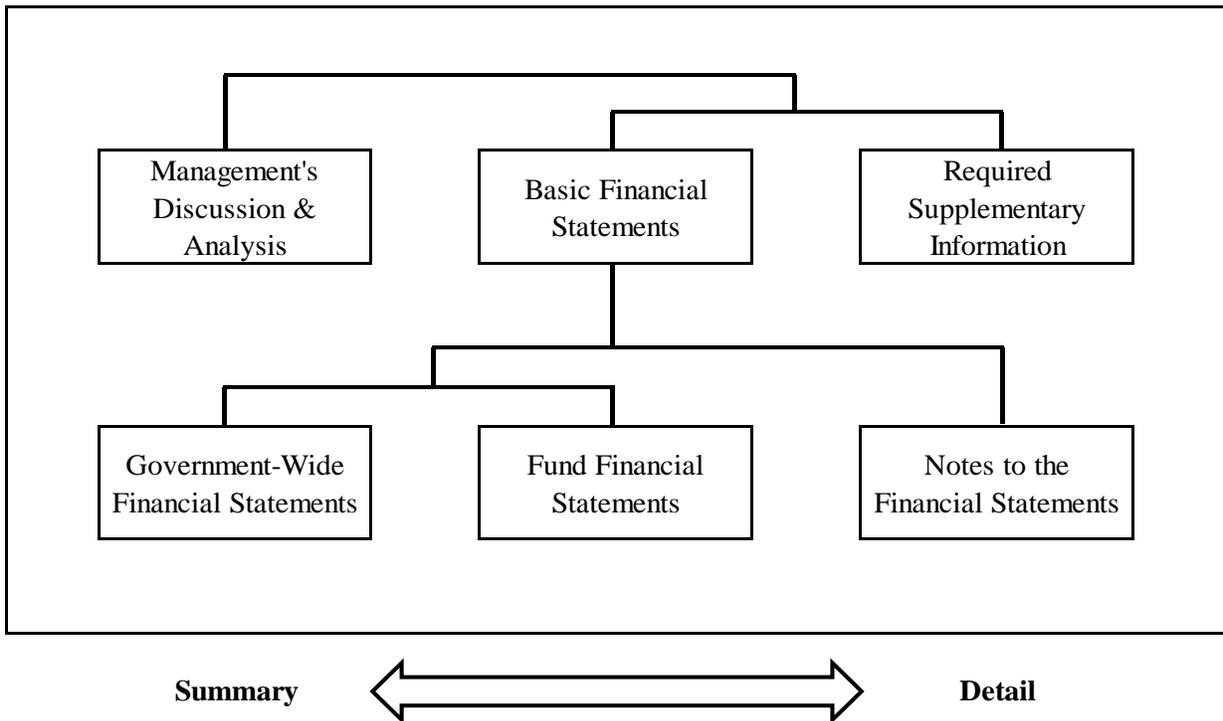
Our discussion and analysis of Santa Monica-Malibu Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. It should be read in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- Total net position for the primary government was \$42,967,182 at June 30, 2017. This was an increase of \$9,653,517 from the prior year's net position.
- Overall revenues were \$213,284,827 which exceeded expenses of \$203,631,310.

**OVERVIEW OF FINANCIAL STATEMENTS**

Components of the Financial Section



**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

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This annual report consists of three parts — Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
  
- **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
  - **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
  - **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.
  - **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

### **Government-Wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE**

**Net Position**

The District's net position was \$42,967,182 at June 30, 2017, as reflected in Table A-1 below. Of this amount, (\$106,490,232) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

**Table A-1  
Santa Monica-Malibu Unified School District's Net Position**

	<b>Governmental Activities</b>		
	<b>2017</b>	<b>2016</b>	<b>Net Change</b>
<b>ASSETS</b>			
Current and other assets	\$ 235,824,069	\$ 214,836,212	\$ 20,987,857
Capital assets	411,223,575	379,684,118	31,539,457
<b>Total Assets</b>	<b>647,047,644</b>	<b>594,520,330</b>	<b>52,527,314</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>55,548,708</b>	<b>26,860,458</b>	<b>28,688,250</b>
<b>LIABILITIES</b>			
Current liabilities	64,758,267	60,634,676	4,123,591
Long-term liabilities	585,814,746	514,889,938	70,924,808
<b>Total Liabilities</b>	<b>650,573,013</b>	<b>575,524,614</b>	<b>75,048,399</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>9,056,157</b>	<b>12,542,509</b>	<b>(3,486,352)</b>
<b>NET POSITION</b>			
Net investment in capital assets	96,504,983	114,210,812	(17,705,829)
Restricted	52,952,431	51,177,594	1,774,837
Unrestricted	(106,490,232)	(132,074,741)	25,584,509
<b>Total Net Position</b>	<b>\$ 42,967,182</b>	<b>\$ 33,313,665</b>	<b>\$ 9,653,517</b>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)**

**Changes in Net Position**

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Table A-2 takes the information from the Statement and rearranges them slightly, so you can see our total revenues, expenses, and special items for the year.

**Table A-2  
Santa Monica-Malibu Unified School District's Changes in Net Position**

	<b>Governmental Activities</b>		
	<b>2017</b>	<b>2016</b>	<b>Net Change</b>
<b>REVENUES</b>			
Program revenues			
Charges for services	\$ 7,017,115	\$ 5,626,894	\$ 1,390,221
Operating grants and contributions	33,789,799	31,830,016	1,959,783
Capital grants and contributions	2,445,054	-	2,445,054
General revenues			
Property taxes	134,845,254	124,750,867	10,094,387
Unrestricted federal and state aid	15,246,594	18,695,715	(3,449,121)
Other	19,941,011	21,918,908	(1,977,897)
<b>Total Revenues</b>	<b>213,284,827</b>	<b>202,822,400</b>	<b>10,462,427</b>
<b>EXPENSES</b>			
Instruction	103,008,781	101,565,271	1,443,510
Instruction-related services	19,226,107	18,774,304	451,803
Pupil services	18,286,810	17,778,523	508,287
General administration	9,831,300	10,007,863	(176,563)
Plant services	20,937,812	25,527,903	(4,590,091)
Ancillary and community services	2,880,909	2,821,698	59,211
Debt service	18,203,224	20,247,812	(2,044,588)
Other Outgo	11,256,367	4,649,239	6,607,128
<b>Total Expenses</b>	<b>203,631,310</b>	<b>201,372,613</b>	<b>2,258,697</b>
<b>Change in net position</b>	<b>9,653,517</b>	<b>1,449,787</b>	<b>(8,203,730)</b>
<b>Net Position - Beginning</b>	<b>33,313,665</b>	<b>31,863,878</b>	<b>1,449,787</b>
<b>Net Position - Ending</b>	<b>\$ 42,967,182</b>	<b>\$ 33,313,665</b>	<b>\$ 9,653,517</b>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)**

**Changes in Net Position (continued)**

The total cost of all our governmental activities this year was \$203,631,310 (refer to Table A-2). The amount that our taxpayers ultimately financed for these activities through taxes was \$134,845,254 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions of \$51,481,447.

**Table A-3  
Santa Monica-Malibu Unified School District's Cost of Services**

	<b>Net Cost of Services</b>	
	<b>2017</b>	<b>2016</b>
Instruction	\$ 82,909,127	\$ 85,126,658
Instruction-related services	16,413,228	16,160,049
Pupil services	13,033,917	12,492,653
General administration	9,175,881	9,320,180
Plant services	13,640,180	20,349,731
Ancillary and community services	2,585,384	2,586,167
Debt service	18,203,224	20,247,812
Transfers to other agencies	4,418,401	(2,367,547)
Total Expenses	<u>\$ 160,379,342</u>	<u>\$ 163,915,703</u>

**FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$203,203,386, which is more than last year's ending fund balance of \$181,106,136. The District's General Fund had \$5,034,838 less in operating revenues than expenditures for the year ended June 30, 2017. This increase was mainly attributed to unspent allocation across the budget including over \$1 million in special education budget and additional State funding from local control funding formula sources. The District's Building Fund had \$35,124,312 less in operating revenues than expenditures due to a significant increase in expenditures towards facilities construction during the year ended June 30, 2017. Also for the year ended June 30, 2017, the District's Bond Interest & Redemption Fund had \$2,002,065 less in operating revenues than expenditures.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**CURRENT YEAR BUDGET 2016-17**

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a quarterly basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information. For the General Fund, the final budget differs from the original budget mainly with regard to revenues from state apportionments. Updated information for local control funding formula sources from revised local property tax data and minimum state aid resulted in an increase in revenues on the final budget for the General Fund.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2016-17 the District had invested \$411,223,575 in capital assets, net of accumulated depreciation. Completion of certain construction projects resulted in a transfer of construction in progress of roughly \$5,009,981 to capitalized assets. Additionally, other construction projects commenced or continued adding slightly over \$35.4 million to construction in progress. A total of \$9,868,272 in depreciation expense was recorded in 2016-17 and allocated by function within the government-wide statement of activities.

**Table A-4  
Santa Monica-Malibu Unified School District's Capital Assets**

	<b>Governmental Activities</b>		
	<b>2017</b>	<b>2016</b>	<b>Net Change</b>
<b>CAPITAL ASSETS</b>			
Land	\$ 10,128,802	\$ 10,128,802	\$ -
Construction in progress	210,679,359	180,738,380	29,940,979
Land improvements	17,352,600	17,365,990	(13,390)
Buildings & improvements	275,064,503	264,479,486	10,585,017
Furniture & equipment	25,733,080	26,126,481	393,401
Accumulated depreciation	(127,734,769)	(119,155,021)	(8,579,748)
<b>Total Capital Assets, Net</b>	<b>\$ 411,223,575</b>	<b>\$ 379,684,118</b>	<b>\$ 31,539,457</b>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

**CAPITAL ASSET AND DEBT ADMINISTRATION (continued)**

**Long-Term Liabilities**

At year-end, the District had \$ 585,814,746 in long-term liabilities, an increase of 14 percent from last year — as shown in Table A-5. During 2016-17 the District issued Election 2012, Series C general obligation bonds as well as the 2016 Refunding general obligation bonds. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

**Table A-5  
Santa Monica-Malibu Unified School District's Long-Term Liabilities**

	<b>Governmental Activities</b>		
	<b>2017</b>	<b>2016</b>	<b>Net Change</b>
<b>LONG-TERM LIABILITIES</b>			
Total general obligation bonds	\$ 437,586,310	\$ 385,128,624	\$ 52,457,686
Total certificates of participation	13,872,124	15,050,869	(1,178,745)
Capital leases	79,635	129,915	(50,280)
Compensated absences	1,005,284	1,392,439	(387,155)
Net OPEB obligation	15,140,355	13,210,698	1,929,657
Net pension liability	146,146,001	123,013,914	23,126,087
Less: current portion of long-term debt	(28,014,963)	(23,036,521)	(4,978,442)
Total Long-term Liabilities	<u>\$ 585,814,746</u>	<u>\$ 514,889,938</u>	<u>\$ 70,918,808</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The District continues to analyze the impact of the LCFF on funding for our program offerings and services. The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The State anticipates all school districts to reach the statewide targeted base funding levels by 2020-21 but the annual amount funded to meet the target is uncertain.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (continued)**

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

The State's economy has outpaced U.S. growth since the end of the recession, but the outlook is for slower growth ahead. Personal income is expected to grow 3.1% in 2018 and 3.6% in 2019; according to the UCLA Anderson Economic Forecast, December 2017. The Legislative Analyst's Office (LAO) estimates significant increased Proposition 98 minimum guarantees in both 2017-18 and 2018-19.

The District is a Minimum State Aid district in 2016-17 and receives revenue in excess of the LCFF entitlement by \$3.9M. The District benefits as a Basic Aid district when funded above its computed revenue (LCFF) along with the fast growth in property taxes yielding a large increase in revenues. However, it is difficult to accurately project property tax growth, making long-term forecasts unreliable. The District does not receive additional funding when enrollment increases (or is higher than estimated.) The District should review its "Inter-district: transfer policy" and keep higher reserves.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2017. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

All of these factors were considered in preparing the District's budget for the 2018-19 fiscal year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the District's Business Office at (310) 450-8338 or by mail at 1651 16th Street, Santa Monica, California 90404.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**STATEMENT OF NET POSITION**

June 30, 2017

	Primary Government Governmental Activities	June 30, 2016 Discretely Presented Component Unit
<b>Assets</b>		
Cash and investments	\$ 224,335,316	\$ 10,142,101
Accounts receivable	8,373,890	157,787
Inventories, at cost	33,926	-
Prepaid expenses	107,072	17,650
Other current assets	2,973,865	-
Non depreciable:		
Land	10,128,802	-
Construction in progress	210,679,359	-
Depreciable:		
Land improvements	17,352,600	-
Buildings and improvements	275,064,503	-
Equipment	25,733,080	63,923
Less accumulated depreciation	(127,734,769)	(39,531)
<b>Total assets</b>	<b>647,047,644</b>	<b>10,341,930</b>
<b>Deferred Outflow of Resources</b>		
Deferred outflows related to net pension liability	36,664,056	-
Deferred amount on debt refunding	18,884,652	-
<b>Total Deferred Outflow of Resources</b>	<b>55,548,708</b>	<b>-</b>
<b>Liabilities</b>		
Accrued liabilities	32,079,787	2,073,689
Interest payable	4,122,621	-
Unearned revenue	540,896	-
Long-term liabilities:		
Due within one year	28,014,963	-
Due in more than a year	585,814,746	-
<b>Total liabilities</b>	<b>650,573,013</b>	<b>2,073,689</b>
<b>Deferred Inflow of Resources</b>		
Deferred inflows related to net pension liability	9,056,157	-
<b>Net Position</b>		
Net investment in capital assets	96,504,983	-
Restricted for:		
Education programs	4,759,855	6,572,364
Debt service	36,527,441	-
Child nutrition program	112,629	-
Capital projects	11,552,506	-
Permanent endowment	-	770,914
Unrestricted	(106,490,232)	924,963
<b>Total net position</b>	<b>\$ 42,967,182</b>	<b>\$ 8,268,241</b>

See notes to basic financial statements

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2017

	Expenses	Program Revenues			Net (Expense)	June 30, 2016
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position	Discretely Presented Component Unit
<b>Governmental Activities:</b>						
Instruction	\$ 103,008,781	\$ 1,258,753	\$ 16,395,847	\$ 2,445,054	\$ (82,909,127)	\$ -
Instruction-related services:						
Supervision of instruction	6,937,744	111,430	1,248,179	-	(5,578,135)	-
Instructional library, media, and technology	1,410,332	375	34,296	-	(1,375,661)	-
School site administration	10,878,031	237,656	1,180,943	-	(9,459,432)	-
Pupil services:						
Home-to-school transportation	2,211,243	1,608	4,071	-	(2,205,564)	-
Food services	3,714,585	1,224,861	1,692,029	-	(797,695)	-
All other pupil services	12,360,982	1,385	2,328,939	-	(10,030,658)	-
General administration:						
Data processing	1,195,133	-	-	-	(1,195,133)	-
All other general administration	8,636,167	150,823	504,596	-	(7,980,748)	-
Plant services	20,937,812	2,013,953	5,283,679	-	(13,640,180)	-
Ancillary services	765,800	8,567	33,797	-	(723,436)	-
Community services	2,115,109	71,677	181,484	-	(1,861,948)	-
Interest on long-term debt	18,203,224	-	-	-	(18,203,224)	-
Other outgo	1,388,095	1,936,027	4,901,939	-	5,449,871	-
Depreciation (unallocated)	9,868,272	-	-	-	(9,868,272)	-
<b>Total Governmental Activities</b>	<b>\$ 203,631,310</b>	<b>\$ 7,017,115</b>	<b>\$ 33,789,799</b>	<b>\$ 2,445,054</b>	<b>(160,379,342)</b>	
<b>Discretely Presented Component Unit</b>						
Santa Monica-Malibu Education Foundation	\$ 3,188,354	\$ 50,000	\$ 2,791,814	\$ -		(346,540)
Total	\$ 3,188,354	\$ 50,000	\$ 2,791,814	\$ -		(346,540)
<b>General revenues:</b>						
<b>Taxes and subventions:</b>						
Taxes levied for general purposes					80,913,202	-
Taxes levied for debt service					34,995,472	-
Taxes levied for other specific purposes					18,936,580	-
Federal and state aid not restricted to specific purposes					15,246,594	-
Interest and investment earnings					487,274	324,737
Miscellaneous					19,453,737	-
<b>Total general revenues</b>					<b>170,032,859</b>	<b>324,737</b>
Change in net position					9,653,517	(21,803)
Net position beginning of fiscal year					33,313,665	8,290,044
Net position, end of fiscal year					<b>\$ 42,967,182</b>	<b>\$ 8,268,241</b>

See notes to basic financial statements

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2017**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total
<b>Assets</b>					
Cash and investments	\$ 43,199,566	\$ 126,267,084	\$ 40,102,927	\$ 14,765,739	\$ 224,335,316
Accounts receivable	7,270,004	399,294	-	704,592	8,373,890
Stores inventories	16,393	-	-	17,533	33,926
Prepaid expenditures	107,072	-	-	-	107,072
Other current assets	2,973,865	-	-	-	2,973,865
<b>Total assets</b>	<b>\$ 53,566,900</b>	<b>\$ 126,666,378</b>	<b>\$ 40,102,927</b>	<b>\$ 15,487,864</b>	<b>\$ 235,824,069</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 22,338,854	8,749,478	\$ -	\$ 991,455	\$ 32,079,787
Unearned revenue	7,463	-	-	533,433	540,896
<b>Total liabilities</b>	<b>22,346,317</b>	<b>8,749,478</b>	<b>-</b>	<b>1,524,888</b>	<b>32,620,683</b>
<b>Fund balances:</b>					
<b>Nonspendable</b>					
Revolving cash	20,000	-	-	-	20,000
Store inventories	16,393	-	-	17,533	33,926
Prepaid expenditures	107,072	-	-	-	107,072
<b>Restricted</b>					
Educator effectiveness	320,735	-	-	-	320,735
Lottery - instructional materials	976,091	-	-	-	976,091
College readiness block grant	110,798	-	-	-	110,798
Ongoing and major maintenance	202,478	-	-	-	202,478
Other restricted - local revenue	2,692,559	-	-	-	2,692,559
Adult education	-	-	-	374,313	374,313
Child development	-	-	-	82,881	82,881
Nutrition	-	-	-	95,096	95,096
Capital projects	-	117,916,900	-	12,117,566	130,034,466
Debt service	-	-	40,102,927	-	40,102,927
<b>Committed</b>					
Deferred maintenance	-	-	-	667,807	667,807
<b>Assigned</b>					
Adult education	-	-	-	290,063	290,063
Child development	-	-	-	317,717	317,717
Other	22,027,673	-	-	-	22,027,673
<b>Unassigned</b>					
Unassigned	4,746,784	-	-	-	4,746,784
<b>Total fund balances</b>	<b>31,220,583</b>	<b>117,916,900</b>	<b>40,102,927</b>	<b>13,962,976</b>	<b>203,203,386</b>
<b>Total liabilities and fund balances</b>	<b>\$ 53,566,900</b>	<b>\$ 126,666,378</b>	<b>\$ 40,102,927</b>	<b>\$ 15,487,864</b>	<b>\$ 235,824,069</b>

See notes to basic financial statements

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2017**

Total fund balances - governmental funds \$ 203,203,386

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	\$ 538,958,344	
Accumulated depreciation	(127,734,769)	
	Net	411,223,575

In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements: 18,884,652

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of net position, it is recognized in the period that it is incurred. (4,122,621)

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds payable	\$ (381,290,711)	
Bond premiums	(32,711,428)	
Bond discounts	26,740	
Accreted bond interest payable	(23,610,911)	
Certificates of participation (COP)	(8,066,502)	
COP premiums	(293,652)	
COP accreted interest payable	(5,511,970)	
Capital leases	(79,635)	
Compensated absences payable	(1,005,284)	
Net OPEB obligation	(15,140,355)	
Net pension liability	(146,146,001)	
	Total	(613,829,709)

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources	\$ 36,664,056	
Deferred inflows of resources	(9,056,157)	27,607,899

Total net position (deficit), governmental activities \$ 42,967,182

See notes to basic financial statements

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2017**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total
<b>Revenues:</b>					
LCFF Sources:					
State apportionments	\$ 8,585,979	\$ -	\$ -	\$ -	\$ 8,585,979
Education protection state aid	2,141,662	-	-	-	2,141,662
Local sources	80,661,220	-	-	-	80,661,220
Federal	4,748,177	-	2,281,237	3,196,209	10,225,623
Other state	10,634,237	-	63,366	6,065,575	16,763,178
Other local	44,868,019	913,346	35,242,233	13,883,567	94,907,165
<b>Total revenues</b>	<b>151,639,294</b>	<b>913,346</b>	<b>37,586,836</b>	<b>23,145,351</b>	<b>213,284,827</b>
<b>Expenditures:</b>					
Certificated salaries	66,353,977	-	-	3,155,944	69,509,921
Classified salaries	29,292,783	438,865	-	3,948,128	33,679,776
Employee benefits	40,192,280	206,923	-	2,939,666	43,338,869
Books and supplies	5,409,377	2,842,579	-	1,681,183	9,933,139
Contracted services and other operating expenditures	14,914,638	20,325,385	746,015	1,782,638	37,768,676
Capital outlay	891,868	12,223,906	-	8,864,102	21,979,876
Other outgo	(434,179)	-	-	541,259	107,080
Debt service					
Principal	50,280	-	21,307,106	1,635,000	22,992,386
Interest	3,108	-	17,535,780	234,281	17,773,169
<b>Total expenditures</b>	<b>156,674,132</b>	<b>36,037,658</b>	<b>39,588,901</b>	<b>24,782,201</b>	<b>257,082,892</b>
Excess of revenues over (under) expenditures	(5,034,838)	(35,124,312)	(2,002,065)	(1,636,850)	(43,798,065)
<b>Other Financing Sources (Uses):</b>					
Payment to refunded bond escrow agent	-	-	(91,019,931)	-	(91,019,931)
Bond premiums	-	300,000	15,653,323	-	15,953,323
Bond discounts	-	-	(28,077)	-	(28,077)
Proceeds from sale of bonds	-	60,000,000	80,990,000	-	140,990,000
Transfers in	-	-	-	1,552,000	1,552,000
Transfers out	(1,552,000)	-	-	-	(1,552,000)
<b>Total other financing sources (uses)</b>	<b>(1,552,000)</b>	<b>60,300,000</b>	<b>5,595,315</b>	<b>1,552,000</b>	<b>65,895,315</b>
Net change in fund balances	(6,586,838)	25,175,688	3,593,250	(84,850)	22,097,250
Fund balance - beginning	37,807,421	92,741,212	36,509,677	14,047,826	181,106,136
Fund balances - ending	\$ 31,220,583	\$ 117,916,900	\$ 40,102,927	\$ 13,962,976	\$ 203,203,386

See notes to basic financial statements

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2017

Total net change in fund balances - governmental funds		\$	22,097,250
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>			
	Capital asset additions	\$	42,011,562
	Depreciation expense		<u>(9,868,272)</u>
			32,143,290
<p>In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting loss is</p>			
			(72,976)
<p>If a planned capital project is canceled and will not be completed, costs previously capitalized as Construction in Progress must be written off to expense. Costs written off for canceled projects were:</p>			
			(530,857)
<p>In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. For the fiscal year ended June 30, 2017, the District has following repayments of long-term debt:</p>			
	General obligation bonds	\$	21,307,106
	Certificates of participation		1,635,000
	Capital leases		<u>50,280</u>
			22,992,386
<p>In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt net of issue premium and discount were:</p>			
	Bond proceeds	\$	(140,990,000)
	Bond premiums		(15,953,323)
	Bond discounts		<u>28,077</u>
			(156,915,246)
<p>In government funds, amounts sent to the trustee of the escrow account are recognized as other financing uses. In the government-wide statements, the difference between the amount sent to escrow and the amount of the principal outstanding on the refunded obligations is amortized as an adjustment to interest expense over the remaining life of the refunded bonds. This balance represents the unamortized deferred losses on refunding. Amount sent to escrow was:</p>			
			91,019,931
<p>In government funds, if debt is issued at a premium, the premium is recognized as an other financing source in the period it is incurred. In the government-wide statements, the premium plus a deferred loss from debt refunding, is amortized as interest over the life of the debt. Amortization of the debt issue premium, plus any deferred loss from debt refunding, for the period is:</p>			
			573,463
See notes to basic financial statements			(Continued)

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued**  
**For the Fiscal Year Ended June 30, 2017**

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In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was:

Bond accreted interest accrual	\$	(2,560,307)	
Bond accreted interest paid		2,312,894	
COPs accreted interest accrual		(501,563)	
Bond interest accrual		(4,122,621)	
Bond interest paid		<u>3,868,079</u>	(1,003,518)

In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid).

387,155

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:

(1,929,657)

In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pensions costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:

892,296

Changes in net position of governmental activities:

\$ 9,653,517

See notes to basic financial statements

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**

**FIDUCIARY FUNDS**

June 30, 2017

	Expendable	Agency Funds		Total
	Trust	Student	Payroll	
	Retiree Benefits	Body	Clearance	
	Fund	Funds	Fund	
<b>Assets</b>				
Cash and investments	\$ 6,381,801	\$ 230,771	\$ 95,235	\$ 326,006
Accounts receivable	7,844	-	-	-
Total assets	<u>6,389,645</u>	<u>\$ 230,771</u>	<u>\$ 95,235</u>	<u>\$ 326,006</u>
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ 95,235	\$ 95,235
Due to student groups	-	230,771	-	230,771
Total liabilities	<u>-</u>	<u>\$ 230,771</u>	<u>\$ 95,235</u>	<u>\$ 326,006</u>
<b>Net Position:</b>				
Unrestricted	<u>\$ 6,389,645</u>			

See notes to basic financial statements

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS**

For the Fiscal Year Ended June 30, 2017

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	Expendable Trust <u>Retiree Benefits Fund</u>
<b>Additions:</b>	
Contributions	\$ 2,088,223
Investment earnings	<u>249,349</u>
Total additions	2,337,572
<b>Deductions:</b>	
Employee benefits	<u>1,068,101</u>
Change in net position	1,269,471
Net position - beginning	<u>5,120,174</u>
Net position - ending	<u><u>\$ 6,389,645</u></u>

See notes to basic financial statements

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Financial 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.

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

#### B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has the following discretely presented component unit:

The Santa Monica-Malibu Education Foundation (Foundation) is a legally separate, tax-exempt component unit of the District. The Foundation was established in 1982 in response to devastating federal and state education budget cuts. The Foundation was founded by a dedicated group of parents, community leaders, and local business owners to enhance and supplement the curriculum of the District. The Foundation is run by a fourteen-member Board of Directors. Although the District does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the District by the donors. Because these restricted resources held by the Foundation can be used only by, or for the benefit of, the District, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### C. Basis of Presentation

**Government-Wide Statements.** The statement of net position and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

**Fund Financial Statements.** The fund financial statements provide information about the District's funds, including its governmental and fiduciary funds. Separate statements for each fund category – governmental, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

#### Major Governmental Funds

**General Fund:** The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

**Building Fund:** This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code Section 15146*) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section 17462*) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section 41003*).

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### C. Basis of Presentation (continued)

##### Major Governmental Funds (continued)

**Bond Interest and Redemption Fund:** This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125-15262*). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

##### Non-Major Governmental Funds

**Special Revenue Funds:** Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

**Adult Education Fund:** This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (*Education Code Sections 52616[b]* and *52501.5[a]*).

**Child Development Fund:** This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the District for, or from the operation of, child development services covered under the Child Care and Development Services Act (*Education Code Section 8200 et seq.*) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (*Education Code Section 8328*).

**Cafeteria Special Revenue Fund:** This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090-38093*). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections 38091 and 38100*).

**Deferred Maintenance Fund:** This fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code Sections 17582-17587*). In addition, whenever the state funds provided pursuant to *Education Code Sections 17584 and 17585* (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the District (*Education Code Sections 17582 and 17583*).

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### C. Basis of Presentation (continued)

**Capital Project Funds:** Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

**Capital Facilities Fund:** This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620-17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970-65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

**County School Facilities Fund:** This fund is used established to receive apportionments from the State School Facilities Fund authorized by the State Allocation Board for new school facility contribution, modernization projects, and facility hardship grants as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code Section 17070.10 et seq.*).

**Special Reserve Fund for Capital Outlay Projects:** This fund exists primarily to provide for the accumulation of General Fund moneys for capital outlay purposes (*Education Code Section 42840*).

**Trust and Agency Funds:** Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

**Retiree Benefit Fund:** This fund exists to account separately for amounts held in trust from salary reduction agreements, other irrevocable contributions for employees' retirement benefit payments, or both.

**Warrant/Pass-Through Fund:** The Warrant/Pass-Through Fund is an agency fund that exists primarily to account separately for amounts collected from employees for federal taxes, state taxes, transfers to credit unions, and other contributions. It is also used to account for those receipts for transfer to agencies which the LEA is acting simply as a "cash conduit."

**Student Body Fund:** The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections 48930-48938*).

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **D. Basis of Accounting - Measurement Focus**

##### **Government-Wide and Fiduciary Financial Statements**

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

##### **Governmental Funds**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

##### **Revenues — Exchange and Non-Exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become 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. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **D. Basis of Accounting — Measurement Focus (continued)**

##### **Unearned Revenue**

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

##### **Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position**

##### **Cash and Cash Equivalents**

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. Cash equivalents also include cash with county treasury balances.

##### **Investments**

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County and State investment pools are determined by the program sponsor.

##### **Inventories**

Inventories are valued at average cost. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (continued)**

**Capital Assets**

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government wide statement of net position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	25 - 50 years
Furniture and Equipment	5 - 15 years
Vehicles	8 years

**Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

**Compensated Absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (continued)**

##### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

##### **Premiums and Discounts**

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

##### **Deferred Outflows/Deferred Inflows of Resources**

In addition to assets, the District reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

##### **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans (the Plans) of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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**NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (continued)**

**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 classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

*Restricted* - 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.

*Committed* - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

*Assigned* - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

*Unassigned* - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### F. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

#### G. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

#### H. Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

#### I. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### J. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 75	" Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provision of this statement is effective for fiscal years beginning after June 15, 2017.
Statement No. 81	"Irrevocable Spilt-Interest Agreements"	The provision of this statement is effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provision of this statement is effective for fiscal years beginning after June 15, 2017.
Statement No. 83	"Certain Asset Retirement Obligations"	The provision of this statement is effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provision of this statement is effective for fiscal years beginning after December 15, 2018.
Statement No. 85	"Omnibus 2017"	The provision of this statement is effective for fiscal years beginning after June 15, 2017.
Statement No. 86	"Certain Debt Extinguishment Issues"	The provision of this statement is effective for fiscal years beginning after June 15, 2017.
Statement No. 87	"Leases"	The provision of this statement is effective for fiscal years beginning after December 15, 2019.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

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**NOTE 2— CASH AND INVESTMENTS**

**A. Summary of Cash and Investments**

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Investment in county treasury	\$ 223,743,345	\$ 2,254,589
Cash on hand and in banks	571,971	230,771
Cash in revolving fund	20,000	-
CalPERS CERBT	-	4,222,447
	<hr/>	<hr/>
Total Cash and Investments	<u>\$ 224,335,316</u>	<u>\$ 6,707,807</u>

**B. 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, obligations with first priority security; collateralized mortgage obligations; and the County Investment Pool.

Investment in County Treasury — The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Los Angeles County Treasurer's pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District's investment in the pool is 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.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

**C. 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. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

<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 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

**D. 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 a pooled investment with the County Treasury with a fair value of approximately \$224,657,766 and an amortized book value of \$225,997,934 for all governmental funds and fiduciary funds. The average weighted maturity for this pool is 672 days. The District also maintains an investment with CalPERS — California Employers' Retiree Benefit Trust (CERBT) Strategy 1 with a fair value of \$4,222,447.

**E. 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 statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2017, the pooled investments in the County Treasury and CalPERS CERBT were not rated.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

**F. Custodial Credit Risk — Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2017, the District's bank balance was not exposed to custodial credit risk.

**G. 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 and CalPERS CERBT 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:

	<b><u>Fair Market Value of Investments</u></b>
	<b><u>Uncategorized</u></b>
Investment in county treasury	\$ 224,657,766
CalPERS CERBT	4,222,447
<b>Total fair market value of investments</b>	<b><u>\$ 228,880,213</u></b>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 3— ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2017 consisted of the following:

	<b>General Fund</b>	<b>Building Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Activities</b>	<b>Total Fiduciary</b>
Federal Government					
Categorical aid	\$ 2,976,653	\$ -	\$ 218,530	\$ 3,195,183	\$ -
State Government					
Categorical aid	692,862	-	161,759	854,621	-
Lottery	439,196	-	-	439,196	-
Local Government					
Other local sources	3,161,293	399,294	324,303	3,884,890	7,844
<b>Total accounts receivable</b>	<u>\$ 7,270,004</u>	<u>\$ 399,294</u>	<u>\$ 704,592</u>	<u>\$ 8,373,890</u>	<u>\$ 7,844</u>

**NOTE 4— CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 10,128,802	\$ -	\$ -	\$ -	\$ 10,128,802
Construction in progress	180,738,380	35,481,817	(530,857)	(5,009,981)	210,679,359
Total capital assets, not being depreciated	<u>190,867,182</u>	<u>35,481,817</u>	<u>(530,857)</u>	<u>(5,009,981)</u>	<u>220,808,161</u>
Capital assets being depreciated:					
Land improvements	17,365,990	-	(13,390)	-	17,352,600
Buildings and improvements	264,479,486	5,622,933	-	4,962,084	275,064,503
Furniture and equipment	26,126,481	906,812	(1,348,110)	47,897	25,733,080
Total capital assets being depreciated	<u>307,971,957</u>	<u>6,529,745</u>	<u>(1,361,500)</u>	<u>5,009,981</u>	<u>318,150,183</u>
Accumulated depreciation for:					
Land improvements	(12,177,797)	(407,778)	-	-	(12,585,575)
Buildings and improvements	(92,412,751)	(7,985,399)	-	-	(100,398,150)
Furniture and equipment	(14,564,473)	(1,475,095)	1,288,524	-	(14,751,044)
Total accumulated depreciation	<u>(119,155,021)</u>	<u>(9,868,272)</u>	<u>1,288,524</u>	<u>-</u>	<u>(127,734,769)</u>
Total capital assets, being depreciated, net	<u>188,816,936</u>	<u>(3,338,527)</u>	<u>(72,976)</u>	<u>5,009,981</u>	<u>190,415,414</u>
<b>Governmental activity capital assets, net</b>	<u>\$379,684,118</u>	<u>\$32,143,290</u>	<u>\$ (603,833)</u>	<u>\$ -</u>	<u>\$411,223,575</u>
Depreciation unallocated	<u>\$ 9,868,272</u>				
Total depreciation expense	<u>\$ 9,868,272</u>				

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 5— INTERFUND TRANSACTIONS**

**Transfers**

Interfund transfers for the fiscal year ended June 30, 2017 consisted of the following:

<b>Interfund Transfers Out</b>	<b>Interfund Transfers In</b>	
	<b>Non-Major Governmental Funds</b>	<b>Total</b>
General Fund	\$ 1,552,000	\$ 1,552,000
<b>Total interfund transfers</b>	<b>\$ 1,552,000</b>	<b>\$ 1,552,000</b>

From the General Fund to the Child Development Fund to cover deficit spending	\$ 322,000
From the General Fund to the Cafeteria Fund for operational costs	630,000
From the General Fund to the Deferred Maintenance Fund for maintenance costs	600,000
<b>Total interfund transfers</b>	<b>\$ 1,552,000</b>

**NOTE 6 – ACCRUED LIABILITIES**

Accrued liabilities at June 30, 2017 consisted of the following:

	<b>General Fund</b>	<b>Building Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Activities</b>	<b>Total Fiduciary</b>
Payroll	\$ 14,616,095	\$ 52,664	\$ 734,361	\$ 15,403,120	\$ 95,235
Construction	-	8,696,762	165,389	8,862,151	-
Vendors payable	2,682,321	-	91,042	2,773,363	-
Due to grantor governments	5,032,510	-	-	5,032,510	-
Other liabilities	7,928	52	663	8,643	-
<b>Totals accrual liabilities</b>	<b>\$ 22,338,854</b>	<b>\$ 8,749,478</b>	<b>\$ 991,455</b>	<b>\$ 32,079,787</b>	<b>\$ 95,235</b>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 7— UNEARNED REVENUE**

Unearned revenue at June 30, 2017 consisted of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Activities</u>
Federal categorical sources	\$ 7,463	\$ -	\$ 7,463
State categorical sources	-	126,448	126,448
Local sources	-	406,985	406,985
<b>Total unearned revenue</b>	<b>\$ 7,463</b>	<b>\$ 533,433</b>	<b>\$ 540,896</b>

**NOTE 8— LONG-TERM DEBT**

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>	<u>Due within One Year</u>
<b>Governmental Activities</b>					
General obligation bonds:					
Principal	\$ 339,013,144	\$ 140,990,000	\$ (98,712,433)	\$ 381,290,711	\$ 21,180,096
Unamortized premium	19,765,430	15,953,323	(3,007,325)	32,711,428	1,746,107
Unamortized discount	-	(28,077)	1,337	(26,740)	(1,783)
Accreted interest	26,350,050	2,560,307	(5,299,446)	23,610,911	3,034,904
Total general obligation bonds	<u>385,128,624</u>	<u>159,475,553</u>	<u>(107,017,867)</u>	<u>437,586,310</u>	<u>25,959,324</u>
Certificates of participation payable:					
Principal	9,701,502	-	(1,635,000)	8,066,502	1,695,000
Unamortized premium	338,960	-	(45,308)	293,652	45,308
Accreted interest	5,010,407	501,563	-	5,511,970	-
Total certificates of participation payable	<u>15,050,869</u>	<u>501,563</u>	<u>(1,680,308)</u>	<u>13,872,124</u>	<u>1,740,308</u>
Capital leases	129,915	-	(50,280)	79,635	51,510
Compensated absences	1,392,439	-	(387,155)	1,005,284	263,821
Net OPEB obligation	13,210,698	4,018,487	(2,088,830)	15,140,355	-
Net pension liability	123,013,914	26,715,605	(3,583,518)	146,146,001	-
<b>Totals</b>	<b>\$ 537,926,459</b>	<b>\$ 190,711,208</b>	<b>\$ (114,807,958)</b>	<b>\$ 613,829,709</b>	<b>\$ 28,014,963</b>

Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.

Payments on certificates of participation are made in the Special Reserve Fund for Capital Outlay Projects.

Payments for capital lease obligations are made in the General Fund.

Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 8— LONG-TERM DEBT (continued)**

**A. Bonded Debt**

Payments for bonds associated with general obligation bonds are made in the Bond Interest and Redemption Fund. A summary of bonded debt is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 1, 2016	Additions	Deductions	Outstanding June 30, 2017
1998 Refunding Bonds	6/18/1998	8/1/2028	3.75%-5.25%	\$ 68,145,000	\$ 13,645,000	\$ -	\$ (4,825,000)	\$ 8,820,000
Election 1998, Series 1999	5/26/1999	8/1/2023	3.20%-5.38%	38,000,034	15,942,817	-	(1,552,106)	14,390,711
Election 1998, Series 1999 Accreted Interest					24,067,555	1,856,250	(2,312,894)	23,610,911
2006 Refunding Bonds	2/23/2006	8/1/2025	3.50%-4.15%	3,285,000	2,335,000	-	(2,335,000)	-
Election 2006, Series A	10/2/2007	8/1/2032	4.00%-5.50%	60,000,000	1,650,000	-	(825,000)	825,000
Election 2006, Series B	7/23/2009	8/1/2019	1.50%-5.00%	11,875,000	5,390,000	-	(1,055,000)	4,335,000
Election 2006, Series C	7/14/2010	7/1/2023	3.00%-5.00%	10,690,000	8,935,000	-	(5,380,000)	3,555,000
Election 2006, Series C-1	7/14/2010	7/1/2035	5.80%-6.63%	54,310,000	54,310,000	-	(54,310,000)	-
2013 Refunding Bonds	1/8/2013	8/1/2032	2.00%-5.00%	45,425,000	44,760,000	-	(235,000)	44,525,000
Election 2006, Series D	3/19/2013	7/1/2037	0.17%-5.00%	82,995,327	76,400,327	-	(16,015,327)	60,385,000
Election 2006, Series D Accreted Interest					2,282,495	704,057	(2,986,552)	-
Election 2012, Series A	7/29/2014	7/1/2037	1.00%-3.70%	30,000,000	7,730,000	-	-	7,730,000
Election 2012, Series B	7/1/2015	7/1/2040	1.00%-3.70%	60,000,000	60,000,000	-	(12,180,000)	47,820,000
2015 Refunding Bonds	11/10/2015	8/1/2034	3.25%-5.00%	47,915,000	47,915,000	-	-	47,915,000
2016 Series A Refunding Bonds	10/11/2016	7/1/2035	1.00%-4.00%	28,190,000	-	28,190,000	-	28,190,000
2016 Series B Refunding Bonds	10/11/2016	7/1/2032	3.00%	660,000	-	660,000	-	660,000
2016 Series C Refunding Bonds	10/11/2016	7/1/2035	2.00%-4.00%	52,140,000	-	52,140,000	-	52,140,000
Election 2012, Series C	6/21/2017	7/1/2042	3.125%-5.00%	60,000,000	-	60,000,000	-	60,000,000
General obligation bonds					365,363,194	143,550,307	(104,011,879)	404,901,622
Unamortized premium					19,765,430	15,953,323	(3,007,325)	32,711,428
Unamortized discount					-	(28,077)	1,337	(26,740)
<b>Total general obligation bonds</b>					<b>\$ 385,128,624</b>	<b>\$ 159,475,553</b>	<b>\$ (107,017,867)</b>	<b>\$ 437,586,310</b>

**Series 1998 Refunding Bonds**

On June 18, 1998, the District issued \$68,145,000 of General Obligation Refunding Bonds Series 1998, with interest rates ranging from 3.75% to 5.25%. The bonds were issued to refund and defease all of the 1991A Bonds and 1993 Bonds maturing after August 1, 1998. 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, 1999, principal on the bonds is payable annually each August 1, commencing August 1, 1999 through the final maturity date of August 1, 2018. The principal balance outstanding on June 30, 2017 amounted to \$8,820,000.

**Election 1998**

In an election held November 3, 1998, the voters authorized the District to issue and sale \$42,000,000 of principal amount of general obligation bonds. These bonds were issued for the purpose of financing the rehabilitation, construction, and renovation of school facilities to improve learning conditions, removing asbestos, making earthquake safety improvements and providing handicapped access, as well as paying the costs of issuance incurred in connection with the issuance of the bonds. There is one issuance outstanding under this election.

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 8— LONG-TERM DEBT (continued)

#### A. Bonded Debt (continued)

##### **Election 1998 (continued)**

Series 1999, which was issued on May 26, 1999 for \$38,000,034 with interest rates ranging from 3.20% to 4.50%. The original issuance consisted of \$15,825,000 in current interest serial bonds and \$22,175,034 in capital appreciation serial bonds. Interest on the current interest bonds accrues from its dated date and is payable semi-annually each February 1 and August 1, commencing February 1, 2000, principal on the bonds is payable annually each August 1, commencing August 1, 2000 through the final maturity date of August 1, 2011. The capital appreciation bonds accrue interest from its dated date, compounded semi-annually on February 1 and August 1 of each year, principal on the bonds is payable annually each August 1, commencing August 1, 2012 through the final maturity date of August 1, 2023. The principal balance outstanding and accreted interest on June 30, 2017 amounted to \$14,390,711 and \$23,610,911 respectively.

##### **2006 General Obligation Refunding Bonds**

On February 23, 2006, the District issued \$3,285,000 of 2006 General Obligation Refunding Bonds, with interest rates ranging from 3.50% to 4.00%. The bonds were issued to refund all or a portion of the District's outstanding General Obligation Bonds, Election of 1998, Series 2001 and pay costs of issuance of the bonds. The original issuance consisted of \$605,000 in current interest serial bonds and \$2,680,000 in current interest term bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing August 1, 2006, principal on the bonds is payable annually each August 1, commencing August 1, 2006 through the final maturity date of August 1, 2025. On October 11, 2016, the District issued 2016 Series A to advance refund the entire remaining balance of 2006 General Obligation Refunding Bonds, a partial of Election 2006 Series C Bonds, and a partial of Election 2006 Series D Bonds. The advance refunding resulted in a legal defeasance of the bonds. An irrevocable trust was established with funds sufficient to fund payments on the bonds until the redemption date. The difference between the debt service of the original bonds and the refunding bonds is \$10,283,406 and an economic gain (difference between the present values of the old and new debt) of \$5,185,372. Because the transaction qualifies as a legal defeasance the obligations for the defeased bonds have been removed from the District's financial statements. The principal balance outstanding on June 30, 2017 amounted to \$0.

##### **Election 2006**

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, 2017 amounted to \$825,000.

Series B, which was issued on July 23, 2009 for \$11,875,000 with interest rates ranging from 1.50% to 5.00%. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semiannually each February 1 and August 1, commencing February 1, 2010, principal on the bonds is payable annually each August 1, commencing August 1, 2010 through the final maturity date of August 1, 2019. The principal balance outstanding on June 30, 2017 amounted to \$4,335,000.

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 8— LONG-TERM DEBT (continued)

#### A. Bonded Debt (continued)

##### **Election 2006 (continued)**

Series C, which was issued on July 14, 2010 for \$10,690,000 with interest rates ranging from 3.00% to 5.00%. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semiannually each January 1 and July 1, commencing January 1, 2011, principal on the bonds is payable annually each July 1, commencing July 1, 2011 through the final maturity date of July 1, 2023. On October 11, 2016, the District issued 2016 Series A to advance refund the entire remaining balance of 2006 General Obligation Refunding Bonds, a partial of Election 2006 Series C Bonds, and a partial of Election 2006 Series D Bonds. The advance refunding resulted in a legal defeasance of the bonds. An irrevocable trust was established with funds sufficient to fund payments on the bonds until the redemption date. The difference between the debt service of the original bonds and the refunding bonds is \$10,283,406 and an economic gain (difference between the present values of the old and new debt) of \$5,185,372. Because the transaction qualifies as a legal defeasance the obligations for the defeased bonds have been removed from the District's financial statements. The principal balance outstanding on June 30, 2017 amounted to \$3,555,000.

Series C-1 (Build America Bonds - Direct Payment to District - Federally Taxable), which was issued on July 14, 2010 for \$54,310,000 with interest rates ranging from 5.796% to 6.634%. The bonds are designated "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009. Pursuant to the Recovery Act, the District expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the bonds on or about each interest payment date. The original issuance consisted entirely of current interest term bonds. Interest on the bonds is payable semi-annually each January 1 and July 1, commencing January 1, 2011, principal on the bonds is payable annually each July 1, commencing July 1, 2025 through the final maturity date of July 1, 2035. On October 11, 2016, the District issued 2016 Series C to advance refund the entire remaining balance of Election 2006 Series C-1 Bonds. The advance refunding resulted in a legal defeasance of the bonds. An irrevocable trust was established with funds sufficient to fund payments on the bonds until the redemption date. The difference between the debt service of the original bonds and the refunding bonds is \$5,774,572 and an economic gain (difference between the present values of the old and new debt) of \$4,380,357. Because the transaction qualifies as a legal defeasance the obligations for the defeased bonds have been removed from the District's financial statements. As of June 30, 2017, the principal balance outstanding on June 20, 2017 amounted to \$0.

Series D, which was issued on March 19, 2013 for \$82,995,327 with interest rates ranging from 0.17% to 5.00%. The original issuance consisted of \$42,780,000 in current interest serial bonds, \$24,200,000 in current interest term bonds and \$16,015,327 in capital appreciation serial bonds. Interest on the current interest bonds is payable semi-annually each January 1 and July 1, commencing July 1, 2013, principal on the bonds is payable annually each July 1, commencing July 1, 2013 through the final maturity date of July 1, 2037. On October 11, 2016, the District issued 2016 Series A to advance refund the entire remaining balance of 2006 General Obligation Refunding Bonds, a partial of Election 2006 Series C Bonds, and a partial of Election 2006 Series D Bonds. The advance refunding resulted in a legal defeasance of the bonds. An irrevocable trust was established with funds sufficient to fund payments on the bonds until the redemption date. The difference between the debt service of the original bonds and the refunding bonds is \$10,283,406 and an economic gain (difference between the present values of the old and new debt) of \$5,185,372. Because the transaction qualifies as a legal defeasance the obligations for the defeased bonds have been removed from the District's financial statements. The principal balance outstanding on June 30, 2017 amounted to \$60,385,000.

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 8 — LONG-TERM DEBT (continued)

#### A. Bonded Debt (continued)

##### **2013 General Obligation Refunding Bonds**

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. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semiannually each February 1 and August 1, commencing August 1, 2032, principal on the bonds is payable annually each August 1, commencing August 1, 2013 through the final maturity date of August 1, 2037. The principal balance outstanding on June 30, 2017 amounted to \$44,525,000.

##### **Election 2012**

On November 6, 2012, the voter's in the District approved Measure ES, a bond proposition whereby the District is authorized to borrow \$385 million.

Series A, on July 29, 2014, the District issued \$30,000,000 of Election 2012, Series A General Obligation Bonds, with interest rates ranging from 2.00% to 5.00%. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semi-annually each January 1 and July 1, commencing January 1, 2015. Principal on the bonds is payable on July 1 consisting of seven separate payments through the final maturity date of July 1, 2037. As of June 30, 2017, the full principal balance of \$7,730,000 remained outstanding.

Series B, on July 1, 2015, the District issued \$60,000,000 of Election 2012, Series B General Obligation Bonds, with interest rates ranging from 1.00% to 3.70%. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semi-annually each January 1 and July 1, commencing January 1, 2016. Principal on the bonds is payable on July 1 through the final maturity date of July 1, 2040. As of June 30, 2017, the full principal balance of \$47,820,000 remained outstanding.

Series C, on June 21, 2017, the District issued \$60,000,000 of Election 2012, Series C General Obligation Bonds, with interest rates ranging from 3.125% to 5.00%. The original issuance consisted \$46,995,000 of current interest serial bonds and \$13,005,000 term bonds. Interest on the bonds is payable semi-annually each January 1 and July 1, commencing January 1, 2018. Principal on the bonds is payable on July 1 through the final maturity date of July 1, 2042. As of June 30, 2017, the full principal balance of \$60,000,000 remained outstanding.

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 8— LONG-TERM DEBT (continued)

#### A. Bonded Debt (continued)

##### **2015 General Obligation Refunding Bonds**

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, 2017 amounted to \$47,915,000.

Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amount on refunding on the statement of net position and are amortized as an expense over the life of the bond. As of June 30, 2017, the principal balance on the defeased debt was \$48,125,000.

##### **2016 General Obligation Refunding Bonds**

On October 11, 2016, the District issued \$28,190,000, \$660,000, and \$52,140,000 of 2016 General Obligation Refunding Bonds Series A, Series B, and Series C respectively, with interest rates ranging from 1.00% to 5.00%. The bonds were issued to advance refund the District's outstanding 2006 General Obligation Refunding Bonds, Election 2006, Series C, Election 2006, Series C-1, and Election 2006, Series D and pay costs of issuance of the bonds. Interest on the bonds is payable semi-annually each July 1 and January 1, commencing January 1, 2017, principal on the bonds is payable annually each July 1, commencing July 1, 2017 through the final maturity date of July 1, 2035. The principal balance outstanding on June 30, 2017 for Series A, B, and C amounted to \$28,190,000, \$660,000 and \$52,140,000 respectively.

Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amount on refunding on the statement of net position and are amortized as an expense over the life of the bond. As of June 30, 2017, the principal balance on the 2006 General Obligation Refunding Bonds, Election 2006, Series C, Election 2006, Series C-1, and Election 2006, Series D defeased debts were \$0, \$4,955,000, \$54,310,000, \$16,015,327 respectively.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 8— LONG-TERM DEBT (continued)**

**A. Bonded Debt (continued)**

**Debt Service Requirements to Maturity — Bonds** The bonds mature through 2043 as follows:

Fiscal Years Ending June 30,	General Obligation Bonds		
	Principal	Interest	Total
2018	\$ 21,180,096	\$ 13,043,651	\$ 34,223,747
2019	23,121,117	13,669,801	36,790,918
2020	20,244,265	14,516,872	34,761,137
2021	7,888,576	17,372,918	25,261,494
2022	8,497,008	17,192,667	25,689,675
2023-2027	49,624,649	65,284,313	114,908,962
2028-2032	85,410,000	42,135,711	127,545,711
2033-2037	113,665,000	22,476,732	136,141,732
2038-2042	47,160,000	3,836,166	50,996,166
2043	4,500,000	70,313	4,570,313
<b>Total</b>	<b>\$ 381,290,711</b>	<b>\$ 209,599,144</b>	<b>\$ 590,889,855</b>

**B. Certificates of Participation (COPs)**

A summary of the District's certificate of participation are as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Certificates Outstanding July 1, 2016	Additions	Deductions	Certificates Outstanding June 30, 2017
2001 Series C	11/15/2001	5/1/2015	3.5%-5.4%	15,206,501	\$ 4,466,502	\$ -	\$ -	\$ 4,466,502
2002 Series C Accreted Interest					5,010,407	501,563	-	5,511,970
2010 Series B	12/1/2010	2/1/2024	2.0%-5.0%	8,015,000	5,235,000	-	(1,635,000)	3,600,000
					14,711,909	501,563	(1,635,000)	13,578,472
					338,960	-	(45,308)	293,652
				<b>Total certificates of participation</b>	<b>\$ 15,050,869</b>	<b>\$ 501,563</b>	<b>\$ (1,680,308)</b>	<b>\$ 13,872,124</b>

**2001 Series C**

On November 15, 2001, the District and the Los Angeles County Schools Regionalized Business Services Corporation entered a sublease in which the Corporation leased to the District certain real property and building and improvements situated thereon. The 2001 Series C Certificates of Participation were executed and delivered to finance payments relating to acquisition of certain interests in real property, fund a reserve fund and pay costs of execution and delivery of the certificates. Series C Certificates consisted of \$10,740,000 of current interest serial certificates and \$4,466,501 of capital appreciation serial certificates for a total issuance of \$15,206,501.

The certificates have interest rates ranging from 3.50% to 5.40%. Interest on the current interest certificates is payable semi-annually each May 1 and November 1, commencing May 1, 2002, principal on the certificates is payable annually each May 1, commencing May 1, 2002 through the final maturity date of May 1, 2018. Interest on the capital appreciation certificates accretes from the dated date, compounded semi-annually on each May 1 and November 1, commencing May 1, 2002, principal and interest payments are payable semi-annually each May 1 and November 1, commencing November 1, 2018 through the final maturity date of May 1, 2025. A portion of the outstanding certificates were refunded with proceeds from the 2010 Refunding Certificates. The outstanding principal and accreted interest balance at June 30, 2017 amounted to \$4,466,502 and \$5,511,970 respectively.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 8— LONG-TERM DEBT (continued)**

**B. Certificates of Participation (COPs) (continued)**

**2010 Refunding, Series B (Tax-Exempt)**

On December 1, 2010, the District and the California School Boards Association Finance Corporation entered a sublease in which the Corporation leased to the District certain real property and building and improvements situated thereon. The 2010 Refunding Certificates of Participation, Series B were executed and delivered to refund a portion of the District's outstanding Certificates of Participation, 2001 Series C, finance the construction, renovation, and modernization of school sites and facilities, and pay the costs related to the execution and delivery of the Certificates. Series B Certificates consisted of \$8,015,000 in current interest serial certificates. The certificates have interest rates ranging from 2.00% to 5.00%. Interest on the certificates is payable semi-annually each May 1 and November 1, commencing May 1, 2011, principal on the certificates is payable annually each May 1, commencing May 1, 2014 through the final maturity date of May 1, 2024. The principal balance outstanding at June 30, 2017 amounted to \$3,600,000.

**Debt Service Requirements to Maturity – COPs**

The certificates mature through 2025 as follows:

<b>Fiscal Years Ending June 30,</b>	<b>Certificates of Participation</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 1,695,000	\$ 168,881	\$ 1,863,881
2019	919,183	949,948	1,869,131
2020	892,929	974,802	1,867,731
2021	1,038,227	1,272,704	2,310,931
2022	1,006,861	1,306,670	2,313,531
2023-2025	2,514,302	4,058,761	6,573,063
<b>Total</b>	<b>\$ 8,066,502</b>	<b>\$ 8,731,766</b>	<b>\$ 16,798,268</b>

**C. Capital Leases**

The District entered into two capital leases with options to purchase for bus fleets. Payments for capital lease obligations are made in the General Fund. Future minimum lease payments are as follows:

<b>Fiscal Years Ending June 30,</b>	<b>Lease Payment</b>
2018	\$ 53,388
2019	28,798
Total minimum lease payments	82,186
Less amount representing interest	(2,551)
Present value of minimum lease payments	<b>\$ 79,635</b>

**D. Compensated Absences**

Total unpaid employee compensated absences as of June 30, 2017 amounted to \$1,005,284. This amount is included as part of long-term liabilities in the government-wide financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 8— LONG-TERM DEBT (continued)**

**E. Other Postemployment Benefits (OPEB)**

The District follows GASB Statement No, 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The ending OPEB balance at June 30, 2017 was \$15,140,355. See Note 10 for additional information regarding the net OPEB Obligation and the postemployment benefit plan.

**F. Pension Liability**

The District's beginning net pension liability was \$123,013,914 and increased by \$23,132,087 during the fiscal year ended June 30, 2017. The ending net pension liability at June 30, 2017 was \$146,146,001. See Note 11 for additional information regarding the net pension liability.

**NOTE 9— FUND BALANCES**

Fund balances were composed of the following elements at June 30, 2017:

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	\$ 20,000	\$ -	\$ -	\$ -	\$ 20,000
Stores inventories	16,393	-	-	17,533	33,926
Prepaid expenditures	107,072	-	-	-	107,072
Total Non-spendable	<u>143,465</u>	<u>-</u>	<u>-</u>	<u>17,533</u>	<u>160,998</u>
Restricted					
Educational programs	4,302,661	-	-	374,313	4,676,974
Capital projects	-	117,916,900	-	12,117,566	130,034,466
Debt service	-	-	40,102,927	-	40,102,927
All others	-	-	-	177,977	177,977
Total Restricted	<u>4,302,661</u>	<u>117,916,900</u>	<u>40,102,927</u>	<u>12,669,856</u>	<u>174,992,344</u>
Committed					
Others commitments	-	-	-	667,807	667,807
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>667,807</u>	<u>667,807</u>
Assigned					
Reserve for FY 19-21 deficit spending	4,646,608	-	-	-	4,646,608
Reserve up to two months expenses	14,231,066	-	-	-	14,231,066
Other assignments	3,149,999	-	-	607,780	3,757,779
Total Assigned	<u>22,027,673</u>	<u>-</u>	<u>-</u>	<u>607,780</u>	<u>22,635,453</u>
Unassigned					
Reserve for economic uncertainties	4,746,784	-	-	-	4,746,784
Total Unassigned	<u>4,746,784</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,746,784</u>
Total	<u>\$ 31,220,583</u>	<u>\$ 117,916,900</u>	<u>\$ 40,102,927</u>	<u>\$ 13,962,976</u>	<u>\$ 203,203,386</u>

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than three (3) percent of General Fund expenditures and other financing uses.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 10— POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

**A. Plan Description and Contribution Information**

The District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental, and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 (certificated)/ age 50 (classified) with at least 10 years of service. The District provides medical benefits at the same level they are receiving at the time of retirement for a period of up to 5 years or to age 65, whichever occurs first. In addition, all retirees over the age of 65 receive a lifetime monthly supplement of \$125 per month. Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	383
Active plan members	<u>1,363</u>
Total*	<u>1,746</u>
Number of participating employers	1

\* As of July 1, 2015 actuarial study

**B. Funding Policy**

The contribution requirements of Plan members and the District are established and may be amended by the District and District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. For the fiscal year 2017, the District contributed \$2,088,830 to the Plan, of which \$800,000 was consider prefunding to the trust.

After the latest valuation report, in fiscal year 15-16, the District has established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

**C. Annual OPEB Cost and Net OPEB Obligation**

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 10— POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)**

**C. Annual OPEB Cost and Net OPEB Obligation (continued)**

The following table shows the components of the District's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 4,254,125
Interest on net OPEB Obligation	528,428
Adjustment to annual required contribution	(764,066)
Annual OPEB cost (expense)	<u>4,018,487</u>
Contributions made	<u>(2,088,830)</u>
Increase (decrease) in net OPEB obligation	1,929,657
Net OPEB obligation, beginning of fiscal year	<u>13,210,698</u>
Net OPEB obligation, end of fiscal year	<u><u>\$ 15,140,355</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2017 and the preceding two fiscal years were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2017	\$ 4,018,487	52%	\$ 15,140,355
2016	\$ 4,069,513	40%	\$ 13,210,698
2015	\$ 2,587,991	43%	\$ 10,341,922

**D. Funded Status and Funding Progress**

The funded status of the plan as of the most recent actuarial evaluation consists of the following:

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2015	\$ -	\$ 36,397,922	\$ 36,397,922	0%	\$ 96,835,810	38%

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 10— POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)**

**D. Funded Status and Funding Progress (continued)**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**E. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. A summary of the most recent actuarial study is as follows:

Valuation Date	July 1, 2015
Actuarial Cost Method	Projected Unit Cost
Amortization Method	Level Dollar, Open Period
Remaining Amortization Period	30 Years
Actuarial Assumptions:	
Investment rate of return	4.00%
Discount rate	4.00%
Health care trend rate	
Medial	8.00%
Dental	4.00%
Inflation rate	4.00%

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 11— PENSION PLANS**

**State Teachers’ Retirement System (CalSTRS)**

**A. General Information about the Pension Plan**

*Plan Descriptions* – All qualified California full-time and part-time public school teachers from pre-kindergarten through community college and certain other employees of the public school system are eligible to participate in the CalSTRS Pension Plans, multiple-employer, cost-sharing defined benefit plans administered by the California State Teacher’s Retirement System (CalSTRS). Benefit provisions under the Plans are established by the Teachers’ Retirement Law (California Education Code Section 22000 et seq), as enacted and amended by the California Legislature. The benefit terms of the plans may be amended through legislation CalSTRS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalSTRS website.

*Benefits Provided* – The CALSTRS Defined Benefit Program has two benefit formulas:

CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform services that could be creditable to CalSTRS

CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform services that could be creditable to CalSTRS

The Defined Benefit Program provides retirement benefits based on members’ final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and on survivors/beneficiaries upon death of eligible members.

After earning five years of credited service, members become 100 percent vested in retirement benefits.

After five years of credited service, a member (prior to age 60 if under Coverage A, no age limit if under Coverage B, as defined in Education Code Sections 24001 and 24101, respectively) is eligible for disability benefits of up to 50.0 percent of final compensation plus 10.0 percent of final compensation for each eligible child, up to a maximum addition of 40.0 percent. The member must have a disability that will exceed a period of 12 or more months to qualify for benefit.

Any compensation for service in excess of one year in a school year due to overtime or working additional assignments is credited to the Defined Benefit Supplement Program so long as it is under the creditable compensation limit. Other compensation, such as allowances, bonuses, cash in-lieu of fringe benefits, limited–period compensation or compensation determined to have been paid to enhance a benefit, are not creditable to any CalSTRS benefit program.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<b>CalSTRS</b>	
	Before <u>January 1, 2013</u>	On or After <u>January 1, 2013</u>
Hire Date		
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50-63	55-65
Monthly benefits, as a % of eligible compensation	2.0% to 2.4%	2.00%
Required employee contribution rates (Average)	10.250%	9.205%
Required employer contribution rates	12.580%	12.580%
Required state contribution rates	8.883%	8.883%

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### NOTE 11— PENSION PLANS (continued)

#### State Teachers' Retirement System (CalSTRS) (continued)

##### A. General Information about the Pension Plan (Continued)

Specific details for the retirement, disability or death benefit calculations for each of the pension plans are available in the CalSTRS Comprehensive Annual Financial Report (CAFR). The CalSTRS' CAFR is available online at <http://www.calstrs.com/comprehensive-annual-financial-report>.

**Contributions** – Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

For the fiscal year ended June 30, 2017, the contributions recognized as part of pension expense was as follows:

Contribution – employer	\$ 6,814,032
Contribution – state	\$ 5,169,974

##### B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2017, the District reported net pension liability for its proportionate shares of the net pension liability in the amount of \$100,480,053.

District's proportionate share of the net pension liability	\$ 100,480,053
State's proportionate share of the net pension liability associated with the District	61,767,308
Total	<u>\$ 162,247,361</u>

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the District's proportion was 0.12423%, which decreased by 0.00758%, its proportion measured as of June 30, 2015.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 11— PENSION PLANS (continued)**

**State Teachers’ Retirement System (CalSTRS) (continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)**

For the fiscal year ended June 30, 2017, the District recognized pension expense of \$11,251,434. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 2,451,623
Changes of assumptions	-	-
Changes in proportions	3,208,431	4,803,717
Net difference between projected and actual earning on pension plan investments	7,989,524	-
Differences between District contributions and proportionate share of contributions	3,664,272	-
District contributions subsequent to the measurement date	<u>8,529,324</u>	<u>-</u>
<b>Total</b>	<u>\$ 23,391,551</u>	<u>\$ 7,255,340</u>

\$8,529,324 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Fiscal Year Ended June 30</u>	<u>Amount</u>
2018	\$ 179,098
2019	179,097
2020	4,648,208
2021	3,000,585
2022	4,367
Thereafter	<u>(404,468)</u>
<b>Total</b>	<u>7,606,887</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 11— PENSION PLANS (continued)**

**State Teachers’ Retirement System (CalSTRS) (continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)**

*Actuarial Assumptions* –The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	<u>CalSTRS</u>
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.60%
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2% simple for DB (Annually) Not applicable for DBS/CBB

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 Experience Analysis for more information.

The long-term expected rate of return on pension plan investments was determined using a building- block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary’s (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

	<u>CalSTRS</u>	
<u>Asset Class</u>	<u>Strategic Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Absolute Return	9%	2.90%
Inflations Sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%

\*10 year geometric average

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 11— PENSION PLANS (continued)**

**State Teachers’ Retirement System (CalSTRS) (continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)**

*Discount Rate* – The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the CalSTRS fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the District’s proportionate share of the net pension liability, calculated using the discount rate, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

1% Decrease		6.60%
Net Pension Liability	\$	144,613,458
Current Discount Rate		7.60%
Net Pension Liability	\$	100,480,053
1% Increase		8.60%
Net Pension Liability	\$	63,825,413

*Pension Plan Fiduciary Net Position* —Detailed information about pension plan's fiduciary net position is available in the separately issued CalSTRS financial reports.

**C. Payable to the Pension Plan**

At June 30, 2017, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2017.

**D. On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$5,169,974 (7.12589 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 11— PENSION PLANS (continued)**

**California Public Employees’ Retirement System (CalPERS)**

**A. General Information About the Pension Plan**

Plan Description - The District contributes to the School Employer Pool under the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Plan membership consists of non-teaching and non-certificated employees of public schools (K-12), community college districts, offices of education, charter and private schools (elective) in the State of California. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees’ Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS’ annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

**Benefits Provided**—The CalPERS Defined Benefit Program has two benefit formulas:

CalPERS 2% at 55: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalPERS.

CalPERS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalPERS.

The Defined Benefit Program provides retirement benefits based on members' final compensation, age, and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members.

After earning five years of credited service, members become 100 percent vested in retirement benefits.

A family benefit is available if an active member dies and has at least one year of credited service.

Members' accumulated contributions are refundable with interest upon separation from CalPERS. The board determines the credited interest rate each fiscal year. For the fiscal year ended June 30, 2017, the rate of interest credited to members' accounts was 1 percent.

The member’s benefit is reduced dollar for dollar, regardless of age, for the first 180 days after retirement if the member performs activities in the public schools that could be creditable to CalPERS, unless the governing body of the school district takes specified actions with respect to a member who is above normal retirement age.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<b>CalPERS</b>	
	Before January 1, 2013	On or After January 1, 2013
Hire Date		
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly For Life
Retirement Age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.17 - 2.5%	1.0 - 2.5%
Required employee contribution rates (Average)	7.000%	6.500%
Required employer contribution rates	13.888%	13.888%

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 11— PENSION PLANS (continued)**

**California Public Employees’ Retirement System (CalPERS) (Continued)**

**A. General Information About the Pension Plan (Continued)**

Specific details for retirement, disability or death benefit calculations for each of the pension plans are available in the CalPERS’ Comprehensive Annual Financial Report (CAFR). The CalPERS’ CAFR is available online at <https://www.calpers.ca.gov/page/forms-publications>.

Contributions – Section 20814 (c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employees be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Local Government is required to contribute the difference between the actuarially determined rate of employees.

For the fiscal year ended June 30, 2017, the contributions recognized as part of pension expense was as follows:

Contribution – employer	\$ 3,288,625
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**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2017, the District reported net pension liability for its proportionate shares of the net pension liability in the amount of \$45,665,948.

The District’s net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the District’s proportion was .23122%, which decreased by .00131% from its proportion measured as of June 30, 2015.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 11— PENSION PLANS (continued)**

**California Public Employees’ Retirement System (CalPERS) (Continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

For the fiscal year ended June 30, 2017, the District recognized pension expense of \$5,637,641. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,964,073	\$ -
Changes of assumptions	-	1,371,990
Changes in proportions	140,474	407,619
Net difference between projected and actual earning on pension plan investments	7,085,887	-
Differences between District contributions and proportionate share of contributions	-	21,208
District contributions subsequent to the measurement date	4,082,071	-
<b>Total</b>	<u>\$ 13,272,505</u>	<u>\$ 1,800,817</u>

\$4,082,071 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Fiscal Year Ended June 30</u>	<u>Amount</u>
2018	\$ 937,142
2019	1,193,632
2020	3,409,488
2021	1,849,355
<b>Total</b>	<u>\$ 7,389,617</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 11— PENSION PLANS (continued)**

**California Public Employees’ Retirement System (CalPERS) (Continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

*Actuarial Assumptions* – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	<u>CalPERS</u>
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.60%
Investment Rate of Return	7.50%
Consumer Price Inflation	2.75%
Wage Growth	Varies
Post-retirement Benefit Increases	2% until PPPA floor on purchasing power applies, 2.75% thereafter

**Discount Rate** – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plan in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS’ website under the GASB No. 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed February 2018. Any changes to the discount rate will require Board action and proper stockholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal years. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectation’s as well as the expected pension fund cash flows. Using historical returns of all the funds’ asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 11— PENSION PLANS (continued)**

**California Public Employees’ Retirement System (CalPERS) (Continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates are net of administrative expenses.

Asset Class	CalPERS		
	Strategic Allocation	Real Return Years 1-10**	Real Return Years 11+***
Global Equity	51%	5.25%	5.71%
Global Fixed Income	20%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure & Forestland	2%	4.50%	5.09%
Cash/Liquidity	1%	-0.55%	-1.05%

\*10 year geometric average

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the DiscountRate* – The following presents the District’s proportionate share of the net pension liability, calculated using the discount rate, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

1% Decrease		6.65%
Net Pension Liability	\$	68,133,848
Current Discount Rate		7.65%
Net Pension Liability	\$	45,665,948
1% Increase		8.65%
Net Pension Liability	\$	26,956,999

*Pension Plan Fiduciary Net Position* —Detailed information about pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**C. Payable to the Pension Plan**

At June 30, 2017, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2017.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 12— COMMITMENTS AND CONTINGENCIES**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

**B. Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2017.

**C. Construction Commitments**

As of June 30, 2017, the District had commitments with respect to unfinished capital projects as follows:

	<u>Construction Commitment</u>
<b>Capital Projects</b>	
Measure BB	\$ 18,044,875
Measure ES	24,363,441
<b>Total</b>	<u>\$ 42,408,317</u>

**NOTE 13— PARTICIPATION IN JOINT POWERS AUTHORITIES**

The District is a member of three joint powers authorities (JPAs). The first is the Alliance of Schools for Cooperative Insurance Programs (ASCIP) to provide property and liability insurance coverage, the next is the Schools Excess Liability Fund (SELF) to provide excess property and liability insurance coverage, and the final is the Schools Linked for Insurance Management (SLIM) to provide workers' compensation insurance coverage. The relationship is such that the JPAs are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these financial statements. Audited financial statements are available from the respective entities.

**NOTE 14— DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

**Refunded Debt**

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District's long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2017, the deferred amount on refunding was \$18,884,652.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 15 — SUBSEQUENT EVENT**

On September 28, 2017, the District bought property in an amount of \$4,993,421 located at 1515 Maple Street, Santa Monica.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**BUDGETARY COMPARISON SCHEDULE**

**GENERAL FUND**

For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
LCFF Sources:				
State apportionments	\$ 11,949,878	\$ 8,585,843	\$ 8,585,979	\$ 136
Education protection state aid	2,151,600	2,130,414	2,141,662	11,248
Local sources	73,143,874	80,433,330	80,661,220	227,890
Federal	4,489,318	4,986,815	4,748,177	(238,638)
Other state	5,389,294	10,346,337	10,634,237	287,900
Other local	42,708,131	44,545,239	44,868,019	322,780
<b>Total revenues</b>	<b>139,832,095</b>	<b>151,027,978</b>	<b>151,639,294</b>	<b>611,316</b>
<b>Expenditures:</b>				
Certificated salaries	65,995,828	66,706,380	66,353,977	352,403
Classified salaries	29,341,776	29,292,783	29,292,783	-
Employee benefits	35,242,409	40,192,281	40,192,280	1
Books and supplies	4,794,632	7,483,055	5,409,377	2,073,678
Contracted services and other operating expenditures	14,384,084	16,968,097	14,914,638	2,053,459
Capital outlay	655,500	892,232	891,868	364
Other outgo	(531,505)	(442,535)	(434,179)	(8,356)
Debt service				
Principal	50,281	50,281	50,280	1
Interest	3,108	3,108	3,108	-
<b>Total expenditures</b>	<b>149,936,113</b>	<b>161,145,682</b>	<b>156,674,132</b>	<b>4,471,550</b>
Excess of revenues over (under) expenditures	(10,104,018)	(10,117,704)	(5,034,838)	5,082,866
<b>Other Financing Sources (Uses):</b>				
Transfers out	(543,263)	(1,560,355)	(1,552,000)	8,355
<b>Total other financing sources (uses)</b>	<b>(543,263)</b>	<b>(1,560,355)</b>	<b>(1,552,000)</b>	<b>8,355</b>
Net change in fund balance	(10,647,281)	(11,678,059)	(6,586,838)	5,091,221
Fund balance - beginning	37,807,421	37,807,421	37,807,421	-
<b>Fund balance - ending</b>	<b>\$ 27,160,140</b>	<b>\$ 26,129,362</b>	<b>\$ 31,220,583</b>	<b>\$ 5,091,221</b>

See notes to required supplementary information

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FUNDING PROGRESS  
FOR POST-EMPLOYMENT BENEFITS  
For the Fiscal Year Ended June 30, 2017**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Valuation of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
July 1, 2015	\$ -	\$ 36,397,922	\$ 36,397,922	0%	\$ 96,835,810	38%
July 1, 2013	\$ -	\$ 25,587,443	\$ 25,587,443	0%	\$ 91,118,069	28%
July 1, 2011	\$ -	\$ 22,091,051	\$ 22,091,051	0%	\$ 71,650,000	31%

See notes to required supplementary information

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY - CALSTRS**  
**Last 10 Fiscal Years\***  
**For the Fiscal Year Ended June 30, 2017**

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The following table provides required supplementary information regarding the District's CALSTRS Pension Plan.

	<b>June 30, 2017</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>
District's proportion of the net pension liability	0.124%	0.132%	0.126%
District's proportionate share of the net pension liability	\$ 100,480,053	\$ 88,739,307	\$ 73,375,330
State's proportionate share of the net pension liability associated with the District	61,767,308	46,933,185	44,307,192
Total	<u>\$ 162,247,361</u>	<u>\$ 135,672,492</u>	<u>\$ 117,682,522</u>
District's covered- employee payroll	\$ 63,504,492	\$ 60,268,419	\$ 57,309,309
District's proportionate share of the net pension liability as percentage of covered-employee payroll	158.23%	147.24%	128.03%
Plan's total pension liability	\$ 269,994,690,000	\$ 259,146,248,000	\$ 248,910,844,000
Plan's fiduciary net position	\$ 189,113,486,995	\$ 191,822,335,995	\$ 190,474,016,000
Plan fiduciary net position as a percentage of the total pension liability	70.04%	74.02%	76.52%

\* This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available

Notes to Schedule:

- 1) Benefit Changes: In 2015,2016, and 2017 there were no changes to benefits
- 2) Changes in Assumptions: In 2015,2016, and 2017 there were no changes in assumptions

See notes to required supplementary information

## SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

### SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY - CALPERS Last 10 Fiscal Years\* For the Fiscal Year Ended June 30, 2017

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The following table provides required supplementary information regarding the District's CALPERS Pension Plan.

	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.23100%	0.23300%	0.23100%
District's proportionate share of the net pension liability	\$ 45,665,948	\$ 34,274,607	\$ 26,174,060
District's covered- employee payroll	\$ 27,759,137	\$ 25,758,704	\$ 24,305,768
District's proportionate share of the net pension liability as percentage of covered-employee payroll	164.51%	133.06%	107.69%
Plan's total pension liability	\$ 75,663,026,434	\$ 71,651,164,353	\$ 68,292,799,349
Plan's fiduciary net position	\$ 55,912,964,588	\$ 56,911,065,643	\$ 59,940,364,500
Plan fiduciary net position as a percentage of the total pension liability	73.90%	79.43%	87.77%

\* This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively.  
Years will be added to this schedule in future fiscal years until 10 years of information is available

Notes to Schedule:

1) Benefit Changes: In 2015 & 2016 there were no changes to benefits

2) Changes in Assumptions: In 2015 there were no changes in assumptions.

In 2016 the discount rate was changed from 7.5% to 7.65% to correct for an adjustment to exclude administrative expense.

See notes to required supplementary information

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF PENSION CONTRIBUTIONS - CALSTRS**

Last 10 Fiscal Years\*

For the Fiscal Year Ended June 30, 2017

The following table provides required supplementary information regarding the District's CALSTRS Pension Plan.

	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 8,529,324	\$ 6,814,032	\$ 5,351,837
Contribution in relation to the actuarially determined contributions	<u>(8,529,324)</u>	<u>(6,814,032)</u>	<u>(5,351,837)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered- employee payroll	\$ 67,800,668	\$ 63,504,492	\$ 60,268,419
Contributions as a percentage of covered-employee payroll	12.58%	10.73%	8.88%

\* This is a 10 year schedule. However, the information in this schedule is not required to be presented

**Notes to Schedule:**

Valuation Date:	6/30/2015
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age
Asset valuation method	Expected value with 33% adjustment to market value
Amortization method	The unfunded actuarial accrued liability is amortized over an open 30 year period as a level percentage of payroll
Discount rate	7.60%
Amortization growth rate	3.75%
Price inflation	3.00%
Salary increases	3.75%
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2010 using Scale AA with a 2 year setback for males and a 4 year setback for females.

See notes to required supplementary information

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF PENSION CONTRIBUTIONS - CALPERS**

Last 10 Fiscal Years\*

For the Fiscal Year Ended June 30, 2017

The following table provides required supplementary information regarding the District's CALPERS Pension Plan.

	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 4,082,071	\$ 3,288,625	\$ 3,032,060
Contribution in relation to the actuarially determined contributions	<u>(4,082,071)</u>	<u>(3,288,625)</u>	<u>(3,032,060)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered- employee payroll	\$ 29,392,792	\$ 27,759,137	\$ 25,758,704
Contributions as a percentage of covered-employee payroll	13.89%	11.85%	11.77%

\* This is a 10 year schedule. However, the information in this schedule is not required to be presented

**Notes to Schedule:**

Valuation Date	6/30/2014
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age
Asset valuation method	5-year smoothed market
Amortization method	The unfunded actuarial accrued liability is amortized over an open 17 year period as a level percentage of payroll
Discount rate	7.75%
Amortization growth rate	3.75%
Price inflation	3.25%
Salary increases	3.75% plus merit component based on employee classification and years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2010 using Scale AA with a 2 year setback for males and a 4 year setback for females
Valuation Date	6/30/2015
Discount Rate	7.65%

See notes to required supplementary information

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

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### NOTE 1- PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

#### **Schedule of Funding Progress**

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

#### **Schedule of the District's Proportionate Share of the Net Pension Liability**

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10- year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered-employee payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

#### **Schedule of District Contributions**

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10- year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered-employee payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered-employee payroll.

### NOTE 2- EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2017, the District incurred no excess of expenditures over appropriations of in the General Fund as presented in the Budgetary Comparison Schedule by major object code:

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## **SUPPLEMENTARY INFORMATION**

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**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NONMAJOR GOVERNMENTAL FUNDS**

**COMBINING BALANCE SHEET**

June 30, 2017

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Assets</b>				
Cash and investments	\$ 678,173	\$ 1,118,245	\$ 190,369	\$ 707,611
Accounts receivable	27,258	416,580	48,650	490
Stores inventories	-	-	17,533	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 705,431</u>	<u>\$ 1,534,825</u>	<u>\$ 256,552</u>	<u>\$ 708,101</u>
 <b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 41,055	\$ 600,794	\$ 143,923	\$ 40,294
Unearned revenue	-	533,433	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>41,055</u>	<u>1,134,227</u>	<u>143,923</u>	<u>40,294</u>
 Fund balances:				
Nonspendable				
Store inventories	-	-	17,533	-
Restricted				
Adult education	374,313	-	-	-
Child development	-	82,881	-	-
Nutrition	-	-	95,096	-
Capital projects	-	-	-	-
Committed				
Deferred maintenance	-	-	-	667,807
Assigned				
Adult education	290,063	-	-	-
Child development	-	317,717	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>664,376</u>	<u>400,598</u>	<u>112,629</u>	<u>667,807</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund balances	<u>\$ 705,431</u>	<u>\$ 1,534,825</u>	<u>\$ 256,552</u>	<u>\$ 708,101</u>

Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund For Capital Outlay Projects	Total Nonmajor Governmental Funds
\$ 2,146,639	\$ -	\$ 9,924,702	\$ 14,765,739
169,600	-	42,014	704,592
-	-	-	17,533
<u>\$ 2,316,239</u>	<u>\$ -</u>	<u>\$ 9,966,716</u>	<u>\$ 15,487,864</u>
\$ 58,505	\$ -	\$ 106,884	\$ 991,455
-	-	-	533,433
<u>58,505</u>	<u>-</u>	<u>106,884</u>	<u>1,524,888</u>
-	-	-	17,533
-	-	-	374,313
-	-	-	82,881
-	-	-	95,096
2,257,734	-	9,859,832	12,117,566
-	-	-	667,807
-	-	-	290,063
-	-	-	317,717
<u>2,257,734</u>	<u>-</u>	<u>9,859,832</u>	<u>13,962,976</u>
<u>\$ 2,316,239</u>	<u>\$ -</u>	<u>\$ 9,966,716</u>	<u>\$ 15,487,864</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NONMAJOR GOVERNMENTAL FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

For the Fiscal Year Ended June 30, 2017

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
<b>Revenues:</b>				
Federal	\$ 46,280	\$ 1,855,078	\$ 1,294,851	\$ -
Other state	701,643	2,840,089	78,789	-
Other local	33,642	3,684,427	1,260,197	251,407
Total revenues	<u>781,565</u>	<u>8,379,594</u>	<u>2,633,837</u>	<u>251,407</u>
<b>Expenditures:</b>				
Certificated salaries	225,937	2,930,007	-	-
Classified salaries	178,604	2,307,967	1,461,557	-
Employee benefits	141,992	2,236,382	561,292	-
Books and supplies	94,114	113,021	1,474,048	-
Contracted services and other operating expenditures	98,842	665,785	(306,672)	368,295
Capital outlay	-	-	-	27,501
Other outgo	37,600	346,700	156,959	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>777,089</u>	<u>8,599,862</u>	<u>3,347,184</u>	<u>395,796</u>
Excess of revenues over (under) expenditures	<u>4,476</u>	<u>(220,268)</u>	<u>(713,347)</u>	<u>(144,389)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	322,000	630,000	600,000
Total other financing sources (uses)	<u>-</u>	<u>322,000</u>	<u>630,000</u>	<u>600,000</u>
Net change in fund balances	4,476	101,732	(83,347)	455,611
Fund balance - beginning	<u>659,900</u>	<u>298,866</u>	<u>195,976</u>	<u>212,196</u>
Fund balance - ending	<u>\$ 664,376</u>	<u>\$ 400,598</u>	<u>\$ 112,629</u>	<u>\$ 667,807</u>

Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund For Capital Outlay Projects	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 3,196,209
-	2,445,054	-	6,065,575
<u>1,634,477</u>	<u>-</u>	<u>7,019,417</u>	<u>13,883,567</u>
<u>1,634,477</u>	<u>2,445,054</u>	<u>7,019,417</u>	<u>23,145,351</u>
-	-	-	3,155,944
-	-	-	3,948,128
-	-	-	2,939,666
-	-	-	1,681,183
613,422	-	342,966	1,782,638
-	2,445,054	6,391,547	8,864,102
-	-	-	541,259
-	-	1,635,000	1,635,000
-	-	234,281	234,281
<u>613,422</u>	<u>2,445,054</u>	<u>8,603,794</u>	<u>24,782,201</u>
<u>1,021,055</u>	<u>-</u>	<u>(1,584,377)</u>	<u>(1,636,850)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,552,000</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,552,000</u>
1,021,055	-	(1,584,377)	(84,850)
<u>1,236,679</u>	<u>-</u>	<u>11,444,209</u>	<u>14,047,826</u>
<u>\$ 2,257,734</u>	<u>\$ -</u>	<u>\$ 9,859,832</u>	<u>\$ 13,962,976</u>

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## ORGANIZATION

June 30, 2017

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The Santa Monica-Malibu Unified School District (the "District") was established in 1875. The District's boundaries encompass all of the City of Santa Monica and part of the Los Angeles County from the Ventura County line on the west: the Malibu area to approximately the top of the Santa Monica Mountains on the north. The boundaries exclude those portions of the north section that are included in the Las Virgenes Unified School District and those portions of Pacific Palisades that are included in the Los Angeles Unified School District. There were no changes in the boundaries of the District during the current fiscal year. The District is currently operating ten elementary schools, two middle schools, two high schools, one continuation school, one alternative school, one adult education center, and fifteen child care and development centers.

### BOARD OF EDUCATION

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Laurie Lieberman	President	December, 2018
Richard Tahvildaran-Jesswein	Vice President	December, 2018
Oscar de la Torre	Member	December, 2018
Craig Foster	Member	December, 2018
Jon Kean	Member	December, 2020
Maria Leon-Vazquez	Member	December, 2020
Ralph Mechur	Member	December, 2020

### SUPERINTENDENT

Ben Drati

### ADMINISTRATION

Jan Maez, Associate Superintendent, Business Fiscal Services,  
Chief Financial Officer

Terry Deloria, Assistant Superintendent of Educational Services

Mark Kelly, Assistant Superintendent of Human Resources

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**For Fiscal Year Ended June 30, 2017**

	<b>Second Period Report</b>	<b>Revised Second Period Report</b>	<b>Annual Report</b>
<b>SCHOOL DISTRICT</b>			
TK/K through Third			
Regular ADA	3,004.74	3,005.63	3,007.67
Extended Year Special Education	5.91	5.91	5.91
Special Education - Nonpublic Schools	0.62	0.59	0.63
Extended Year Special Education - Nonpublic Scho	-	-	-
Total TK/K through Third	<u>3,011.27</u>	<u>3,012.13</u>	<u>3,014.21</u>
Fourth through Sixth			
Regular ADA	2,422.12	2,421.98	2,423.43
Extended Year Special Education	4.42	4.42	4.42
Special Education - Nonpublic Schools	3.83	3.71	3.91
Extended Year Special Education - Nonpublic Scho	0.19	0.19	0.19
Total Fourth through Sixth	<u>2,430.56</u>	<u>2,430.30</u>	<u>2,431.95</u>
Seventh and Eighth			
Regular ADA	1,699.15	1,698.78	1,697.79
Extended Year Special Education	2.66	2.66	2.66
Special Education - Nonpublic Schools	0.96	0.92	1.18
Extended Year Special Education - Nonpublic Scho	-	-	-
Total Seventh and Eighth	<u>1,702.77</u>	<u>1,702.36</u>	<u>1,701.63</u>
Ninth through Twelfth			
Regular ADA	3,305.02	3,308.43	3,287.50
Extended Year Special Education	4.05	4.05	4.05
Special Education - Nonpublic Schools	16.49	17.05	17.19
Extended Year Special Education - Nonpublic Scho	2.17	2.17	2.17
Total Ninth through Twelfth	<u>3,327.73</u>	<u>3,331.70</u>	<u>3,310.91</u>
<b>TOTAL SCHOOL DISTRICT</b>	<u><b>10,472.33</b></u>	<u><b>10,476.49</b></u>	<u><b>10,458.70</b></u>

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

There were no audit findings which resulted in necessary revisions to attendance.

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME**

For Fiscal Year Ended June 30, 2017

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<u>Grades</u>	<u>Ed Code 46207 Minutes Requirement</u>	<u>2016-17 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	42,560	180	In Compliance
Grade 1	50,400	53,705	180	In Compliance
Grade 2	50,400	53,705	180	In Compliance
Grade 3	50,400	54,520	180	In Compliance
Grade 4	54,000	54,605	180	In Compliance
Grade 5	54,000	54,605	180	In Compliance
Grade 6	54,000	59,060	180	In Compliance
Grade 7	54,000	59,060	180	In Compliance
Grade 8	54,000	59,060	180	In Compliance
Grade 9	64,800	65,026	180	In Compliance
Grade 10	64,800	65,026	180	In Compliance
Grade 11	64,800	65,026	180	In Compliance
Grade 12	64,800	65,026	180	In Compliance

Districts must maintain their instructional minutes as defined in Education Code Section 46207.

The District has received incentive funding for increasing instructional time as provided by the Incentive for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206. The District met or exceeded its targeted funding.

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**

For Fiscal Year Ended June 30, 2017

	(Budget)			
	2018	2017	2016	2015
General Fund - Budgetary Basis				
Revenues And Other Financing Sources	\$ 153,228,949	\$ 151,639,294	\$ 147,277,469	\$ 141,004,005
Expenditures And Other Financing Uses	155,371,152	158,226,132	144,944,517	132,806,951
Net Change in Fund Balance	\$ (2,142,203)	\$ (6,586,838)	\$ 2,332,952	\$ 8,197,054
Ending Fund Balance	\$ 29,078,380	\$ 31,220,583	\$ 37,807,421	\$ 35,474,469
Available Reserves*	\$ 4,661,135	\$ 4,746,784	\$ 4,348,336	\$ 21,492,632
Available Reserves As A Percentage of Outgo	3.00%	3.00%	3.00%	16.18%
Long-term Debt	\$ 585,814,746	\$ 613,829,709	\$ 537,926,459	\$ 475,298,861
Average Daily Attendance At P-2	10,244	10,476	10,705	10,785

The General Fund fund balance has decreased by \$4,253,886 over the past two fiscal years. The fiscal year 2017-18 budget projects a decrease of \$2,142,203. For a District this size, the State recommends available reserves of at least three percent of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three fiscal years but anticipates incurring an operating deficit during the 2017-18 fiscal year. Total long-term obligations have increased by \$138,530,848 over the past two fiscal years.

Average daily attendance (ADA) has decreased by 309 over the past two fiscal years. A decrease of 232 ADA is anticipated during the 2017-18 fiscal year.

\*Available reserves consist of all unassigned fund balance within the General fund.

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>U. S. DEPARTMENT OF EDUCATION:</b>			
<i>Passed through California Department of Education:</i>			
Title I, Part A			
Title I, Part A, Basic School Support [1]	84.010	14416	\$ 1,208,514
Title I, Part G, Advanced Placement Test Fee Reimbursement Program	84.330	14831	14,934
Adult Education			
Adult Education: Basic Education & ESL	84.002A	14508	23,616
Adult Education: Adult Secondary Education	84.002A	13978	9,833
Adult Education: English Literacy and Civics Education	84.002A	14109	12,831
Subtotal Adult Education			46,280
Title II, Part A, Teacher Quality [1]	84.367	14341	412,824
Title III			
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	149,889
Title III, Immigrant Education Program	84.365	15146	5,104
Subtotal Title III			154,993
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Private School ISPs	84.027	10115	68,317
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	2,041,606
Part B, Preschool Grants	84.173	13430	69,076
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	192,189
Subtotal Special Education Cluster			2,371,188
IDEA Early Intervention Grants	84.181	23761	59,099
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131	84.048	14893	59,557
<b>Total U. S. Department of Education</b>			4,327,389
<b>U. S. DEPARTMENT OF AGRICULTURE:</b>			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program Basic	10.553	13390	801
School Breakfast Program Needy	10.553	13526	174,036
National School Lunch Program	10.555	13391	922,375
USDA Commodities	10.555	*	197,639
Subtotal Child Nutrition Cluster			1,294,851
Child and Adult Food Programs	10.578	13393	219,090
<b>Total U. S. Department of Agriculture</b>			1,513,941
<b>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
<i>Passed through California Department of Health Services:</i>			
Medicaid			
Medi-Cal Billing Option	93.778	10013	239,091
Medi-Cal Administrative Activities	93.778	10060	227,977
Subtotal Medicaid			467,068
<i>Passed through California Department of Education:</i>			
Head Start [2]	93.600	10016	1,631,788
Head Start Training and Technical Review [2]	93.600	10016	4,200
<b>Total U. S. Department of Health &amp; Human Services</b>			2,103,056
<b>Total Federal Expenditures</b>			\$ 7,944,386

[1] - Major Program

[2] - In-Kind Contribution - \$866,187

\* - Pass-Through Entity Identifying Number not available or not applicable

See accompanying note to supplementary information

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**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF UNAUDITED ACTUALS WITH  
AUDITED FINANCIAL STATEMENTS**

June 30, 2017

	General Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
June 30, 2017, unaudited actual fund balances	\$ 31,220,583	\$ 664,376	\$ 400,598	\$ 112,629
Understatement of accounts payable	-	-	-	-
June 30, 2017, audited financial statements fund balances	<u>\$ 31,220,583</u>	<u>\$ 664,376</u>	<u>\$ 400,598</u>	<u>\$ 112,629</u>

	Special Reserve Fund for Capital Outlay	Bond Interest and Redemption Fund
June 30, 2017, unaudited actual fund balances/net position	<u>\$ 9,859,832</u>	<u>\$ 40,102,927</u>
June 30, 2017, audited financial statements fund balances/net position	<u>\$ 9,859,832</u>	<u>\$ 40,102,927</u>

This schedule provides the information necessary to reconcile the fund balances/net position of all funds on the unaudited actual to the audited financial statements.

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Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund
\$ 667,807	\$ 119,317,496	\$ 2,257,734	\$ -
<u>-</u>	<u>(1,400,596)</u>	<u>-</u>	<u>-</u>
<u>\$ 667,807</u>	<u>\$ 117,916,900</u>	<u>\$ 2,257,734</u>	<u>\$ -</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**NOTE TO THE SUPPLEMENTARY INFORMATION  
For Fiscal Year Ended June 30, 2017**

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**NOTE 1 – PURPOSE OF SCHEDULES**

**Organization Structure**

This schedule provides information about the District’s boundaries and schools operated, members of the governing board, and members of the administration.

**Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionment of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels in different programs.

**Schedule of Instructional Time**

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections 46200 through 46208*.

**Schedule of Financial Trends and Analysis**

This schedule discloses the District’s financial trends by displaying the past fiscal years’ data along with current year budget information. These financial trend disclosures are used to evaluate the District’s ability to continue as an ongoing concern for a reasonable period of time.

**Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Santa Monica-Malibu Unified School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2017 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2017.

The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

	CFDA Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and, Changes in Fund Balance		\$ 10,225,623
Build America Bonds	*	<u>(2,281,237)</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$ 7,944,386</u>

\* - CFDA Number not available or not applicable

**Reconciliation of Unaudited Actuals with Audited Financial Statements**

This schedule provides information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.



MOSS, LEVY & HARTZHEIM LLP

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**INDEPENDENT AUDITOR'S 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  
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 governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District (the "District"), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 8, 2017. Our report includes a reference to other auditors who audited the financial statements of the Santa Monica-Malibu Education Foundation, as described in our report on Santa Monica-Malibu Unified School District's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Santa Monica-Malibu Education Foundation were not audited in accordance with Government Auditing Standards and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with this entity.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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.

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 the District's financial statements are free from 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that were reported to management of Santa Monica-Malibu Unified School District in a separate letter dated December 8, 2017.

## 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Moss, Levy & Hartzheim, LLP  
Culver City, CA  
December 8, 2017



MOSS, LEVY & HARTZHEIM LLP

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Santa Monica-Malibu Unified School District
Santa Monica, California

Report on State Compliance

We have audited the Santa Monica-Malibu Unified School District's (the "District") compliance with the types of compliance requirements described in the 2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of the District's state programs identified below for the fiscal year ended June 30, 2017.

Management's Responsibility for State Compliance

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and the 2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, published by the Education Audit Appeals Panel. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

Table with 2 columns: Description, Procedures Performed. Includes sub-section LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOL: with rows for Attendance accounting, Attendance reporting, Teacher certification and misassignments, Kindergarten continuance, Independent study, Continuation education.

Description	Procedures Performed
Instructional time	Yes
Instructional materials	Yes
Ratios of administrative employees to teachers	Yes
Classroom teacher salaries	Yes
Early retirement incentive	Not Applicable
Gann limit calculation	Yes
School accountability report card	Yes
Juvenile court schools	Not Applicable
Middle or early college high schools	Yes
K-3 grade span adjustment	Yes
Transportation maintenance of effort	Yes
Mental Health Expenditures	Yes
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS:</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After school education and safety program	Not Applicable
Proper expenditures of education protection account funds	Yes
Unduplicated local control funding pupil counts	Yes
Local control and accountability plan	Yes
Independent study-course based	Not Applicable
Immunizations	Yes

We did not perform testing of independent study or continuation education because the average daily attendance claimed is below the materiality threshold required for testing.

### Opinion on State Compliance

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the fiscal year ended June 30, 2017.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, not to provide an opinion of all the effectiveness of the entity's internal control or on compliance outside of the items tested as noted above. This report is an integral part of an audit performed in accordance with *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

*Moss, Levy & Hartzheim*  
Moss, Levy & Hartzheim, LLP  
Culver City, California  
December 8, 2017

The term "not applicable" is used above to mean either the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.



MOSS, LEVY & HARTZHEIM LLP

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY UNIFORM GUIDANCE**

Governing Board  
Santa Monica-Malibu Unified School District  
Santa Monica, California

**Report on Compliance for Each Major Federal Program**

We have audited the Santa Monica-Malibu Unified School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the fiscal year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, contracts, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each major federal program for the fiscal year ended June 30, 2017.

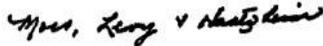
## Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion of the effectiveness of the District's internal control over compliance.

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

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

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 the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Moss, Levy & Hartzheim, LLP  
Culver City, CA  
December 8, 2017

## **FINDINGS AND RECOMMENDATIONS SECTION**

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**June 30, 2017**

---

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued Unmodified

Internal control over financial reporting:

Material weaknesses identified \_\_\_\_\_ Yes  X  No

Significant deficiencies identified not considered to be material weaknesses \_\_\_\_\_ Yes  X  None reported

Noncompliance material to financial statements noted \_\_\_\_\_ Yes  X  No

**Federal Awards**

Internal control over major programs:

Material weaknesses identified \_\_\_\_\_ Yes  X  No

Significant deficiencies identified not considered to be material weaknesses \_\_\_\_\_ Yes  X  None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, 2 CFR 200.516 (a) \_\_\_\_\_ Yes  X  No

Identification of major programs

<u>CFDA Number (s)</u>	<u>Name of Federal Program/Cluster</u>
84.010 _____	Title I, Part A, Basic School Support _____
84.366 _____	Title II, Part A, Teacher Quality _____

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee: \_\_\_\_\_  X  Yes \_\_\_\_\_ No

**State Awards**

Any audit findings disclosed that are required to be reported in accordance with Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting \_\_\_\_\_ Yes  X  No

Type of auditor’s report issued on compliance for state programs: Unmodified

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**

**June 30, 2017**

---

**Section II – Financial Statement Findings**

None reported.

**Section III – Federal Award Findings and Questioned Costs**

None reported.

**Section IV – State Award Findings and Questioned Costs**

None reported.

# SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

## SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2017

---

### **Section II – Financial Statement Findings**

There were no financial statement findings in the prior year.

### **Section III – Federal Award Findings and Questioned Costs**

There were no federal award findings in the prior year.

### **Section IV – State Award Findings and Questioned Costs**

#### **FINDING #2016-1 – INSTRUCTIONAL TIME (40000)**

**State Program:** Instructional Time Program.

**Criteria:** Pursuant to *California Education Code (Ed Code) Sections 46200 through 46208*, a school district that has either met or does not meet Local Control Funding Formula (LCFF) targets must meet or exceed the required number of days, which is 180 instructional days, beginning in 2015-16. In accordance with the *Ed Code Sections 46141 and 46142*, the minimum school day in a regular high school is 240 minutes and can be below 240 if averaged over two consecutive schooldays, but no less than 180 minutes.

**Condition:** At the District's request, additional audit procedures over instructional time and optional courses offered by the District at Santa Monica High School were reviewed. Santa Monica High School's fall semester final schedule included an optional class period (Period 7) on December 18, 2015. This optional class period did not serve valid instructional offerings to be eligible to be included in annual instruction time. As a result of omitting the optional class period, this day of instruction fell below the required 180-minute absolute minimum requirement; therefore, this day cannot be included in total schooldays to meet the annual instructional day requirement of 180 days. This was the only school site within the District that was deemed to be out of compliance.

**Cause:** Management Oversight.

**Current fiscal year results:** Implemented.



MOSS, LEVY & HARTZHEIM LLP

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Governing Board  
Santa Monica-Malibu Unified School District  
Santa Monica, California

In planning and performing our audit of the financial statements of Santa Monica-Malibu Unified School District, for the year ended June 30, 2017, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 8, 2017 on the government-wide financial statements of the District.

**2016-2017 Observation and Recommendation**

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.
3. Human resources department to obtain and retain personnel file documents as noted on internal checklists, such as W-4's and payrate and benefit changes.
4. Human resources department to monitor the change register report on a frequent, periodic basis, preferably every pay period.
5. To clean HRS system for jobs classifications and codes, in order for payroll department to avoid issuing one time pays checks.

Moss, Levy & Hartzheim, LLP  
Culver City, CA  
December 8, 2017