

NEW ISSUE-BOOK-ENTRY ONLY

Rating:
 Moody's
 Insured: "Aaa"
 Underlying: "Aa3"
 See "MISCELLANEOUS - Rating" herein.

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

\$3,285,000
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
(THE COUNTY OF LOS ANGELES, CALIFORNIA)
2006 GENERAL OBLIGATION REFUNDING BONDS
(Bank Qualified)

Dated: Date of Delivery**Due: August 1, as shown below**

This cover page is not a summary of this issue. It is only a reference to the information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are issued by the Santa Monica-Malibu Unified School District (the "District"). Proceeds of the Bonds will be applied: (i) to refund all or a portion of the District's outstanding General Obligation Bonds, Election of 1998, Series-2001 and (ii) to pay costs of issuance of the Bonds. The Board of Supervisors of the County of Los Angeles is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein.

Interest on the Bonds is payable on each February 1 and August 1 until maturity, commencing August 1, 2006. Principal of the Bonds is payable on August 1 in each of the years and in the amounts set forth below. Payments of principal of and interest on the Bonds will be made by the Paying Agent, initially U.S. Bank National Association, to The Depository Trust Company, New York, New York ("DTC"), for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS - Payment" herein.

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co., as nominee of DTC. Purchasers will not receive certificates representing their interests in the Bonds. See "THE BONDS - Form and Registration" herein.

The Bonds are subject to redemption prior to maturity. See "THE BONDS - Redemption" herein.

The Bonds are legal investments for commercial banks in California to the extent that the Bonds, in the informed opinion of such banks, are prudent for the investment of funds of depositors, and are eligible securities for deposits of public money in California. See "OTHER LEGAL MATTERS - Legality for Investment in the State of California" herein.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC. See "BOND INSURANCE" herein.

PFSA.

MATURITY SCHEDULE

Maturity (Aug. 1)	Principal Amount	Interest Rate	Price or Yield ⁽¹⁾	CUSIP ⁽²⁾	Maturity (Aug. 1)	Principal Amount	Interest Rate	Price or Yield ⁽¹⁾	CUSIP ⁽²⁾
2006	\$ 25,000	3.500%	3.150%	802498 GD 1	2014	\$195,000	4.000%	3.670%	802498 GM 1
2013	185,000	4.000	3.600	802498 GL 3	2015	200,000	4.000	3.730	802498 GN 9
\$130,000, 3.500% Term Bond Maturing August 1, 2010, Yield 3.400% - CUSIP ⁽²⁾ 802498 GH 2 \$215,000, 3.500% Term Bond Maturing August 1, 2012, Yield 3.550% - CUSIP ⁽²⁾ 802498 GK 5 \$890,000, 3.800% Term Bond Maturing August 1, 2019, Yield 3.850% - CUSIP ⁽²⁾ 802498 GS 8 \$765,000, 4.000% Term Bond Maturing August 1, 2022, Yield 4.050% - CUSIP ⁽²⁾ 802498 GV 1 \$680,000, 4.000% Term Bond Maturing August 1, 2025, Yield 4.150% - CUSIP ⁽²⁾ 802498 GY 5									

⁽¹⁾ As certified by the Underwriter.

⁽²⁾ Copyright 2005, American Bankers Association. CUSIP data provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc.

The Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to approval of their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery through DTC in New York, New York, on or about March 7, 2006.

Official Statement dated February 23, 2006.

PiperJaffray.

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds by the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 in reliance upon an exemption under Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein other than that furnished by the District, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and APPENDIX G: "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax-exempt status of the interest on the Bonds.

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

District Board of Education

Julia Brownley
President

Kathy Wisnicki
Vice President

Emily Bloomfield
Member

Oscar de la Torre
Member

José Escarce
Member

Maria Leon-Vazquez
Member

Shane McLoud
Member

District Administration

Dr. John E. Deasy
Superintendent of Schools

Winston A. Braham
*Assistant Superintendent Fiscal, Business Services and
Chief Financial Officer*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Paying Agent

U.S. Bank National Association
Los Angeles, California

(This page has been left blank intentionally.)

TABLE OF CONTENTS

	Page
INTRODUCTION.....	I
The District.....	I
THE BONDS	2
Authority for Issuance; Purpose	2
Form and Registration.....	2
Payment.....	2
Redemption	3
Unclaimed Moneys	5
PLAN OF REFUNDING.....	6
Application and Investment of Bond Proceeds	6
Estimated Sources and Uses of Funds	6
Annual Debt Service.....	7
SECURITY AND SOURCE OF PAYMENT FOR THE BONDS.....	7
General	7
Assessed Valuation of Property Within the District.....	8
Tax Levies, Collections and Delinquencies	8
Direct and Overlapping Debt	10
BOND INSURANCE.....	12
Bond Insurance Policy	12
Financial Security Assurance Inc.	12
TAX MATTERS.....	12
OTHER LEGAL MATTERS	14
Legal Opinion.....	14
Legality for Investment in the State of California	14
No Litigation	14
Bank Qualified	14
MISCELLANEOUS.....	15
Rating	15
Continuing Disclosure	15
Professionals Involved in the Offering	15
Underwriting	15
Additional Information	16

APPENDICES

APPENDIX A: DISTRICT FINANCIAL AND OPERATING INFORMATION.....	A-1
APPENDIX B: EXCERPTS FROM FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2005	B-1
APPENDIX C: PROPOSED FORM OF FINAL OPINION OF BOND COUNSEL.....	C-1
APPENDIX D: FORM OF CONTINUING DISCLOSURE AGREEMENT	D-1
APPENDIX E: COUNTY OF LOS ANGELES DESCRIPTION OF INVESTMENT POOL.....	E-1
APPENDIX F: BOOK-ENTRY ONLY SYSTEM.....	F-1
APPENDIX G: SPECIMEN MUNICIPAL BOND INSURANCE POLICY	G-1

(This page has been left blank intentionally.)

\$3,285,000
SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
(COUNTY OF LOS ANGELES, CALIFORNIA)
2006 GENERAL OBLIGATION REFUNDING BONDS

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish information in connection with the sale of \$3,285,000 aggregate principal amount of Santa Monica-Malibu Unified School District 2006 General Obligation Refunding Bonds (the "Bonds"), as described more fully herein.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The District has no obligation to update the information in this Official Statement, except as required by the Continuing Disclosure Agreement to be executed by the District. See "MISCELLANEOUS – Continuing Disclosure" herein.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the Underwriter or owners of any of the Bonds.

Quotations from and summaries and explanations of the Bonds, the Paying Agent Agreement providing for issuance and payment of the Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof. Copies of documents referred to herein and information concerning the Bonds are available from the District at Santa Monica - Malibu Unified School District, 1651-16th Street, Santa Monica, CA 90404, Attention: Superintendent. The District may impose a charge for copying, mailing and handling.

The District

The Santa Monica-Malibu Unified School District (the "District") was established in 1875 and includes the communities of Santa Monica and Malibu, as well as a portion of unincorporated Los Angeles County. The District is located in west Los Angeles County. The District is currently operating ten elementary schools, two middle schools, two high schools, one continuation high school, one alternative school, an adult education program and child care and development centers.

As of July 1, 2005, the District employed approximately 1,340 employees, including 798 certificated (credentialed teaching) staff, 542 classified (non-teaching) staff, including short-term and part-time employees. The District has budgeted general fund expenditures of approximately \$107.8 million in Fiscal Year 2005-06. Total assessed valuation of taxable property in the District in Fiscal Year 2005-06 is approximately \$26.8 billion. The District operates under the jurisdiction of the County of Los Angeles Superintendent of Schools.

The District is governed by a seven-member Board of Education, each member of which is elected to a four-year term, and elections are held every two years. The management and policies of the District are administered by the Superintendent, who is appointed by the Board and responsible for day-to-day District operations as well as the supervision of the District's other personnel. Dr. John E. Deasy serves as the District's superintendent.

For additional information about the District's operations and finances, see APPENDIX A: "DISTRICT FINANCIAL AND OPERATING INFORMATION."

THE BONDS

Authority for Issuance; Purpose

The Bonds are issued pursuant to the Constitution and laws of the State of California (the "State"), including the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, and applicable provisions of the Education Code of the State. The Bonds are authorized by resolutions adopted by the Board of Education of the District on August 18, 2005 and February 2, 2006, and issued pursuant to that certain Third-Party Paying Agent Agreement dated as of March 1, 2006 (the "Paying Agent Agreement"), between the District and U.S. Bank National Association, as initial Paying Agent (the "Paying Agent"). The Government Code permits the issuance of bonds payable from *ad valorem* taxes without a vote of the electors solely in order to refund other outstanding bonds which were originally approved by such a vote, provided that the total debt service to maturity on the refunding bonds not exceed the total debt service to maturity on the bonds being refunded.

The bonds to be refunded constitute all or a portion of the District's outstanding General Obligation Bonds, Election of 1998, Series 2001 (the "Prior Bonds"). The Prior Bonds were authorized to be issued at an election held on November 3, 1998, by more than two-thirds of the votes cast by eligible voters within the District. This measure authorized the District to issue bonds in an aggregate principal amount not to exceed \$42,000,000 to finance the acquisition and improvement of real property for school purposes. The District issued the first series of authorized bonds, in an aggregate principal amount of \$38,000,034, on June 17, 1999 (the "Series 1999 Bonds"). The second series, in an aggregate principal amount of \$3,995,000, was issued on June 12, 2001 (the "Series 2001 Bonds"). Of the Series 2001 Bonds, an aggregate of \$3,640,000 remains outstanding. Proceeds of the Bonds will be applied (i) to refund the Prior Bonds, and (ii) to pay costs of issuance of the Bonds. See "PLAN OF REFUNDING" herein.

Form and Registration

The Bonds will be issued in fully registered book-entry form only, in denominations of \$5,000 principal amount each or any integral multiple thereof. The Bonds will initially be registered in the name of Cade & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of Bonds under the DTC system must be made by or through a DTC participant, and ownership interests in Bonds and any transfer thereof will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Bonds, beneficial owners will not receive physical certificates representing their ownership interests. See APPENDIX F: "BOOK-ENTRY ONLY SYSTEM."

Payment

The Bonds shall be dated the date of their delivery, and shall bear interest at the rates set forth on the cover page hereof, payable by check or draft on February 1 and August 1 of each year to maturity (or prior redemption), commencing on August 1, 2006 (each, an "Interest Payment Date"), computed using a year of 360 days, consisting of twelve 30-day months. Bonds authenticated and registered on any date prior to the close of business on July 15, 2006, shall bear interest from the date of delivery. Bonds authenticated during the period between the 15th day of the calendar month immediately preceding an Interest Payment Date (the "Record Date") and the close of business on that Interest Payment Date shall bear interest from that Interest Payment Date. Any other Bond shall bear interest from the Interest Payment Date immediately preceding the date of its authentication. If, at the time of authentication of any Bond, interest is then in default on outstanding Bonds, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Payment of interest on any Bond on each Interest Payment Date (or on the following business day, if the Interest Payment Date does not fall on a business day) shall be made to the person appearing on the registration books of the Paying Agent as the registered owner thereof (the "Owner") as of the preceding Record Date, such interest to be paid by check or draft mailed to such Owner at such Owner's address as it appears on such registration books or at such other address as the Owner may have filed with the Paying Agent for that purpose on or before the Record Date. The Owner of an aggregate principal amount of \$1,000,000 or more of Bonds may request in writing

to the Paying Agent to be paid interest by wire transfer to the bank and account number on file with the Paying Agent as of the applicable Record Date.

Principal shall be payable at maturity, or upon redemption prior to maturity, upon surrender of Bonds at the principal office of the Paying Agent. The interest, principal and premiums, if any, on the Bonds shall be payable in lawful money of the United States of America from moneys on deposit in the interest and sinking fund of the District (the "Interest and Sinking Fund") within the County of Los Angeles treasury, consisting of *ad valorem* taxes collected and held by the Treasurer and Tax Collector of the County (the "County Treasurer"), together with any excess proceeds not needed for refunding purposes received upon issuance of the Bonds. So long as all outstanding Bonds are held in book-entry form and registered in the name of a securities depository or its nominee, all payments of principal of, premium, if any, and interest on the Bonds and all notices with respect to such Bonds shall be made and given, respectively, to such securities depository or its nominee and not to beneficial owners. So long as the Bonds are held by Cede & Co., as nominee of DTC, payment shall be made by wire transfer. See APPENDIX F: "BOOK-ENTRY ONLY SYSTEM."

Redemption

Optional Redemption. The Bonds maturing on or before August 1, 2016 are not subject to redemption prior to their respective stated maturity dates. Bonds maturing on and after August 1, 2017, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 2016, at a redemption price equal to the principal amount of the Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 2010 are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, on August 1 of each year on and after August 1, 2007, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium, as set forth below:

Redemption Dates (August 1)	Principal Amount Redeemed
2007	\$30,000
2008	30,000
2009	35,000
2010*	35,000
* Final Maturity	

The Bonds maturing on August 1, 2012 are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, on August 1 of each year on and after August 1, 2011, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium, as set forth below:

Redemption Dates (August 1)	Principal Amount Redeemed
2011	\$ 35,000
2012*	180,000
* Final Maturity	

The Bonds maturing on August 1, 2019 are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, on August 1 of each year on and after August 1, 2016, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium, as set forth below:

Redemption Dates (August 1)	Principal Amount Redeemed
2016	\$210,000
2017	220,000
2018	225,000
2019*	235,000
<hr/>	
* Final Maturity	

The Bonds maturing on August 1, 2022 are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, on August 1 of each year on and after August 1, 2020, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium, as set forth below:

Redemption Dates (August 1)	Principal Amount Redeemed
2020	\$245,000
2021	255,000
2022*	265,000
<hr/>	
* Final Maturity	

The Bonds maturing on August 1, 2025 are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, on August 1 of each year on and after August 1, 2023, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium, as set forth below:

Redemption Dates (August 1)	Principal Amount Redeemed
2023	\$275,000
2024	285,000
2025*	120,000
<hr/>	
* Final Maturity	

Selection of Bonds for Redemption. If less than all of the Bonds are called for redemption, Bonds shall be redeemed in inverse order of maturities (or as otherwise directed by the District). Whenever less than all of the Outstanding Bonds of any one maturity are designated for redemption, the Paying Agent shall select the Outstanding Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Bond shall be deemed to consist of individual Bonds of \$5,000 denominations each, which may be separately redeemed.

Notice of Redemption. Notice of redemption of any Bond will be given by the Paying Agent not less than 30 nor more than 60 days prior to the redemption date (i) by first class mail to the respective Owners of Bonds designated for redemption at their addresses appearing on the bond registration books; (ii) by secured mail to all organizations registered with the Securities and Exchange Commission as securities depositories; (iii) to at least two information services of national recognition which disseminate redemption information with respect to municipal securities; and (iv) as may be further required in accordance with the Continuing Disclosure Agreement of the District. See APPENDIX D: "FORM OF CONTINUING DISCLOSURE AGREEMENT."

Each notice of redemption will contain the following information: (i) the date of such notice; (ii) the name of the Bonds and the date of issue of the Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity of the Bonds to be redeemed; (vi) (if less than all of the then outstanding Bonds are to be called for redemption) the distinctive serial numbers of the Bonds of each maturity to be redeemed; (vii) (in the case of Bonds redeemed in part only) the respective portions of the principal amount of the Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Bonds to be redeemed; (ix) a statement that such Bonds must be

surrendered by the Owners at the principal corporate trust office of the Paying Agent; and (x) notice that further interest on such Bonds will not accrue after the designated redemption date. The actual receipt by the Owner of any Bond or by any securities depository or information service of notice of redemption shall not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, shall not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the date fixed for redemption.

Effect of Notice of Redemption. When notice of redemption has been given substantially as provided for in the Paying Agent Agreement, and when the redemption price of the Bonds called for redemption is set aside for the purpose as described in the Paying Agent Agreement, the Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Bonds at the place specified in the notice of redemption, such Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Bonds so called for redemption after such redemption date shall look for the payment of such Bonds and the redemption premium thereon, if any, only to moneys on deposit for the purpose in the Interest and Sinking Fund or the escrow fund established for such purpose. All Bonds redeemed shall be cancelled forthwith by the Paying Agent and shall not be reissued.

Rescission of Notice of Redemption. The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Bonds so called for redemption. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Bonds called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

Defeasance of Bonds. The District may pay and discharge any or all of the Bonds by depositing in trust with the Paying Agent or an escrow agent at or before maturity, money or non-callable direct obligations of the United States Treasury or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Interest and Sinking Fund, be fully sufficient in the opinion of a Certified Public Accountant licensed to practice in the State to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If at any time the District pays or causes to be paid or there is otherwise paid to the Owners of any or all outstanding Bonds all of the principal, interest and premium, if any, represented by such Bonds when due, or as described above, or as otherwise provided by law, then such Owners will cease to be entitled to the obligation of the County to levy and collect taxes to pay the Bonds and such obligation and all agreements and covenants of the District to such Owners under the Paying Agent Agreement will thereupon be satisfied and discharged and will terminate, except only that the District will remain liable for payment of all principal, interest and premium, if any, represented by the Bonds, but only out of moneys on deposit in the Interest and Sinking Fund or otherwise held in trust for such payment, provided, that the unclaimed moneys provisions described below will apply in all events.

Unclaimed Moneys

Any money held in any fund created pursuant to the Paying Agent Agreement, or by the Paying Agent in trust, for the payment of the principal of, redemption premium, if any, or interest on the Bonds and remaining unclaimed for one year after the principal of all of the Bonds has become due and payable (whether by maturity or upon prior redemption) shall be transferred to the Interest and Sinking Fund of the District for payment of any outstanding bonds of the District payable from said fund; or, if no such bonds of the District are at such time outstanding, said moneys shall be transferred to the general fund of the District as provided and permitted by law.

PLAN OF REFUNDING

Application and Investment of Bond Proceeds

A portion of the proceeds from the sale of the Bonds will be deposited in the Escrow Fund to be created and maintained by U.S. Bank-National Association, acting as Escrow Agent under that certain Escrow Agreement between the District and the Escrow Agent, dated as of March 1, 2006. Moneys in the Escrow Fund will be invested in non-callable direct obligations of the United States Treasury or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America. An independent Certified Public Accountant, Causey Demgen & Moore Inc., acting as Verification Agent with respect to the Escrow Fund, will certify in writing that moneys deposited and invested in the Escrow Fund, together with earnings thereon, will be sufficient for: (i) the payment of the principal and interest on the Prior Bonds on each scheduled payment date through and including August 1, 2011, and (ii) the redemption price of all then outstanding Prior Bonds on such date.

A portion of the proceeds of the Bonds will be retained by the Paying Agent in a Costs of Issuance Account and used to pay costs associated with the issuance of the Bonds and the refunding of the Prior Bonds. Any proceeds of sale of the Bonds not needed to fund the Escrow Fund or to pay costs of issuance of the Bonds will be deposited by the Paying Agent in the County treasury to the credit of the Interest and Sinking Fund, to be used only for payment of principal of and interest on outstanding bonds of the District.

Amounts deposited by the Paying Agent into the Interest and Sinking Fund, as well as proceeds of taxes held therein for payment of the Bonds, will be invested at the County Treasurer's discretion pursuant to law and the investment policy of the County. See APPENDIX E: "COUNTY OF LOS ANGELES DESCRIPTION OF INVESTMENT POOL."

Estimated Sources and Uses of Funds

The net proceeds of the Bonds are expected to be applied as follows:

Santa Monica-Malibu Unified School District 2006 General Obligation Refunding Bonds Estimated Sources and Uses of Funds

Sources of Funds

Par Amount of Bonds	\$3,285,000.00
Less Net Original Issue Discount	(9,206.60)
Total Sources	<u>\$3,275,793.40</u>

Uses of Funds

Deposit to Escrow Fund	\$3,170,196.51
Costs of Issuance ⁽¹⁾	105,596.89
Total Uses	<u>\$3,275,793.40</u>

⁽¹⁾ Includes bond counsel fees, disclosure counsel fees, underwriter's discount, municipal bond insurance premium, rating agency fees, paying agent and escrow agent fees and expenses, printing fees, and other miscellaneous expenses.

Annual Debt Service

Upon issuance of the Bonds and defeasance of the Prior Bonds, annual debt service obligations for all outstanding bonds of the District, including any Series 2001 Bonds which are not being refunded, will be as follows:

**Santa Monica-Malibu Unified School District
General Obligation Bonds
Annual Debt Service**

Bond Year (ending August 1)	Bonds to Remain Outstanding ⁽¹⁾	2006 General Obligation Refunding Bonds			Total Annual Debt Service
		Annual Debt Service	Principal	Interest	
2006	\$ 5,948,950.00	\$ 25,000.00	\$ 51,108.00	\$ 76,108.00	\$ 6,025,058.00
2007	7,668,457.50	30,000.00	126,895.00	156,895.00	7,825,352.50
2008	7,858,420.00	30,000.00	125,845.00	155,845.00	8,014,265.00
2009	8,051,460.00	35,000.00	124,795.00	159,795.00	8,211,255.00
2010	8,248,610.00	35,000.00	123,570.00	158,570.00	8,407,180.00
2011	8,455,297.50	35,000.00	122,345.00	157,345.00	8,612,642.50
2012	8,523,875.00	180,000.00	121,120.00	301,120.00	8,824,995.00
2013	8,734,387.50	185,000.00	114,820.00	299,820.00	9,034,207.50
2014	8,953,875.00	195,000.00	107,420.00	302,420.00	9,256,295.00
2015	9,176,550.00	200,000.00	99,620.00	299,620.00	9,476,170.00
2016	9,406,362.50	210,000.00	91,620.00	301,620.00	9,707,982.50
2017	9,643,050.00	220,000.00	83,640.00	303,640.00	9,946,690.00
2018	9,882,562.50	225,000.00	75,280.00	300,280.00	10,182,842.50
2019	7,210,000.00	235,000.00	66,730.00	301,730.00	7,511,730.00
2020	7,215,000.00	245,000.00	57,800.00	302,800.00	7,517,800.00
2021	7,280,000.00	255,000.00	48,000.00	303,000.00	7,583,000.00
2022	7,300,000.00	265,000.00	37,800.00	302,800.00	7,602,800.00
2023	6,340,000.00	275,000.00	27,200.00	302,200.00	6,642,200.00
2024		285,000.00	16,200.00	301,200.00	301,200.00
2025		120,000.00	4,800.00	124,800.00	124,800.00
Total	\$145,896,857.50	\$3,285,000.00	\$1,626,608.00	\$4,911,608.00	\$150,808,465.50

⁽¹⁾ Includes 1998 Refunding Bonds, Series 1999 Bonds and Series 2001 Bonds that remain outstanding.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

In order to provide sufficient funds for repayment of principal and interest when due on the Bonds, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District. When collected, the tax revenues will be deposited by the County in the District's Interest and Sinking Fund, which is required to be maintained by the County and to be used solely for the payment of bonds of the District and interest thereon when due.

The scheduled payment of principal and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Financial Security Assurance Inc. See "BOND INSURANCE" herein.

Assessed Valuation of Property Within the District

For assessment and tax collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. All other property is "unsecured", and is assessed on the "unsecured roll." Shown in the following table is the assessed valuation of property in the District in the last several fiscal years, provided by California Municipal Statistics, Inc. California law requires that the assessment roll be finalized by August 20 of each year.

Santa Monica-Malibu Unified School District Summary of Assessed Valuation

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2001-02	\$18,434,075,427	\$ 592,975	\$ 1,006,199,379	\$ 19,440,867,781
2002-03	20,108,836,742	592,976	905,248,720	21,014,678,438
2003-04	21,741,433,807	3,203,832	1,011,045,386	22,755,683,025
2004-05	23,462,698,381	3,403,330	808,470,570	24,274,572,281
2005-06	25,908,944,657	757,950	840,949,168	26,750,651,775

Source: California Municipal Statistics, Inc.

The District may issue bonds in an amount up to 2.5% of the assessed valuation of taxable property within its boundaries. The District's gross bonding capacity is estimated at \$669-million, and its net bonding capacity is \$541 million (taking into account current outstanding debt before issuance of the Bonds). Refunding bonds, including the Bonds, may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District's bonding capacity.

Taxation of State-Assessed Utility Property. A portion of property tax revenue of the District is derived from utility property subject to assessment by the State Board of Equalization ("SBE"). State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed collectively as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other state-assessed property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Ongoing changes in the structure of California's electric utility industry and in the way in which components of the industry are owned and regulated, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets or the State's methods of assessing utility property and allocating tax revenues to local taxing agencies, including the District.

Tax Levies, Collections and Delinquencies

The annual property tax rate is limited to 1% of the full cash value, plus the amount necessary to pay all obligations legally payable from *ad valorem* taxes in the current year. As required by State Law, the District utilizes the services of the County for the assessment and collection of taxes for District purposes. District taxes are collected at the same time and on the same tax rolls as are County, city and other special district taxes.

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1. Assessments may be adjusted during the course of the year when real property changes ownership or

new construction is completed. Assessments may also be appealed by taxpayers. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year.

Property taxes on the secured roll are due in two equal installments, on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. A penalty of ten percent attaches immediately to all delinquent payments. If the taxes have not been paid by June 30, the tax is deemed to be in default. Secured roll property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If the taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale at a public auction by the County Treasurer.

Property taxes on the unsecured roll are due as of the lien date of January 1 and become delinquent if unpaid on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. To collect unpaid taxes, the County Treasurer may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the County, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The County Treasurer may also bring a civil suit against the taxpayer for payment.

The following table shows real property tax collections and delinquencies in the District for Fiscal Year 2004-05.

**Santa Monica-Malibu Unified School District
2004-05 Secured Tax Charges and Delinquencies**

<u>Secured Tax Charge⁽¹⁾</u>	<u>Amount Delinquent as of June 30</u>	<u>Percentage Delinquent as of June 30</u>
\$37,374,930.02	\$878,929.29	2.35%

⁽¹⁾ 1% General Fund apportionment. Excludes redevelopment agency impositions.
Source: California Municipal Statistics, Inc.

Summary of Property Tax Rates. The following table shows *ad valorem* property tax rates for the last several years in a typical tax rate area of the District, Tax Rate Area 8604.

**Santa Monica-Malibu Unified School District
Summary of Ad Valorem Tax Rates
Tax Rate Area 8604**

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
County General Rate	1.000000	1.000000	1.000000	1.000000	1.000000
Los Angeles County	.001128	.001033	.000992	.000923	.000795
City of Santa Monica	.003666	.023414	.016821	.011499	.015351
Santa Monica-Malibu Unified School District	.032937	.032191	.028586	.028929	.026116
Santa Monica Community College District	.008245	.023075	.025770	.029112	.045683
Los Angeles County Flood Control District	.001073	.000881	.000462	.000245	.000049
Metropolitan Water District	.007700	.006700	.006100	.005800	.005200
Total	<u>1.054749</u>	<u>1.087294</u>	<u>1.078731</u>	<u>1.076508</u>	<u>1.093194</u>

Source: California Municipal Statistics, Inc.

Largest Taxpayers. Listed below are the 20 largest taxpayers in the District, ranked by aggregate assessed value of taxable property, as shown on the 2005-06 secured tax roll. Together they account for 10.58% of the total assessed value.

**Santa Monica-Malibu Unified School District
Largest 2005-06 Local Secured Taxpayers**

<u>Property Owner</u>	<u>Land Use</u>	<u>2004-05 Assessed Valuation</u>	<u>% of Total⁽¹⁾</u>
1. CA Colorado Center LP	Office Building	\$ 434,600,000	1.68%
2. Water Garden Realty Holding LLC	Office Building	393,706,045	1.52
3. Douglas Emmett Realty Fund	Office Building	351,852,602	1.36
4. SC Enterprises SMBP LLC	Office Building	183,643,000	0.71
5. Macerich Santa Monica LLC	Shopping Center	139,494,543	0.54
6. Maguire Properties	Office Building	135,943,238	0.52
7. New Santa Monica Beach Hotel LLC	Hotel	127,816,528	0.49
8. Rand Corp.	Office Building	126,087,008	0.49
9. U.S. Property Fund III GMBH and Co. KG	Office Building	111,175,563	0.43
10. CLPF Arboretum LP	Office Building	96,900,000	0.37
11. Ocean Avenue LLC	Hotel	91,377,793	0.35
12. Kilroy Realty LP	Office Building	75,079,254	0.29
13. Equity Office Properties Trust	Office Building	73,129,203	0.28
14. 1299 Ocean LLC	Office Building	61,661,513	0.24
15. Duesenberg Investment Co.	Shopping Center	60,212,326	0.23
16. ASN Santa Monica LLC	Hotel	59,444,517	0.23
17. Ocean Avenue Associates LLC	Hotel	56,953,302	0.22
18. HRL Laboratories LLC	Industrial	55,182,000	0.21
19. Arden Realty LP	Office Building	54,334,885	0.21
20. Neptunes Walk LLC	Hotel	52,797,312	0.20
		<u>\$2,741,390,632</u>	<u>10.58%</u>

⁽¹⁾ 2005-06 Local Secured Assessed Valuation: \$25,908,944,657
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics, Inc. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of January 1, 2006, and whose territory overlaps the District in whole or in part. The second column shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

The table generally includes long term obligations sold in the public credit markets by the public agencies listed. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

**Santa Monica-Malibu Unified School District
Direct and Overlapping Bonded Debt**

2005-06 Assessed Valuation: \$26,750,651,775
 Redevelopment Incremental Valuation: 4,682,959,897
 Adjusted Assessed Valuation: \$22,067,691,878

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 1/1/06</u>
Los Angeles County	2.991%	\$ 484,692
Los Angeles County Flood Control District	3.078	4,369,221
Metropolitan Water District	1.510	6,332,789
Los Angeles Community College District	0.010	69,471
Santa Monica Community College District	100.	202,914,894
Santa Monica-Malibu Unified School District	100.	<u>88,140,634</u> (1)
City of Santa Monica	99.994	23,428,594
Los Angeles County Regional Park and Open Space Assessment District	2.991	9,741,986
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$335,481,681

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County General Fund Obligations	2.991%	\$ 38,717,375
Los Angeles County Pension Obligations	2.991	31,408,413
Los Angeles County Superintendent of Schools Certificates of Participation	2.991	651,577
Santa Monica Community College District Certificates of Participation	100.	64,925,000
Santa Monica-Malibu Unified School District Certificates of Participation	100.	<u>20,926,500</u>
City of Santa Monica General Fund Obligations	99.994	79,555,226
Los Angeles County Sanitation District No. 27 Authority	100.	<u>770,754</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$236,954,846
Less: Los Angeles County Certificates of Participation (100% self-supporting from leasehold revenues on properties in Marin Del Rey)		<u>1,173,370</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$235,781,476

GROSS COMBINED TOTAL DEBT \$572,436,527 (2)
NET COMBINED TOTAL DEBT \$571,263,157

- (1) Excludes refunding general obligation bonds to be sold.
 (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratio to 2005-06 Assessed Valuation:
 Direct Debt (\$88,140,634).....0.33%
 Total Direct and Overlapping Tax and Assessment Debt.....1.25%

Ratio to Adjusted Assessed Valuation:
 Combined Direct Debt (\$109,066,535).....0.49%
 Gross Combined Total Debt.....2.59%
 Net Combined Total Debt.....2.59%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/05: \$0

The information in the following section is provided by Financial Security Assurance Inc. for use in securities disclosure documents. The District makes no representation regarding the accuracy or completeness thereof, or of any information in the documents incorporated by reference in the following section.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2005, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,451,658,000 and its total net unearned premium reserve was approximately \$1,773,571,000 in accordance with statutory accounting principles. At September 30, 2005, Financial Security's consolidated shareholder's equity was approximately \$2,867,978,000 and its total net unearned premium reserve was approximately \$1,448,209,000 in accordance with generally accepted accounting principles.

The financial statements of Financial Security included in, or as exhibits to, the Current Report on Form 8K filed on November 22, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes,

although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of final opinion of Bond Counsel is set forth in APPENDIX C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Certain requirements and procedures contained or referred to in the Paying Agent Agreement, the Tax Certificate of the District dated the date of issuance of the Bonds, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or

clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues, may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

OTHER LEGAL MATTERS

Legal Opinion

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is set forth in APPENDIX C: "PROPOSED FORM OF FINAL OPINION OF BOND COUNSEL." Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Legality for Investment in the State of California

Under the provisions of the Financial Code of the State, the Bonds are legal investments for commercial banks in the State to the extent that the Bonds, in the informed opinion of the bank, are prudent for the investment funds of its depositors, and under provisions of the Government Code of the State are eligible securities for deposits of public moneys in the State.

No Litigation

The District is not aware of any litigation pending or threatened against the District concerning the political existence of the District, the validity of the Bonds, the District's ability to receive State aid, *ad valorem* taxes and other revenues, or contesting the District's ability to issue and retire the Bonds, and the District will deliver a certificate to that effect at the time of original delivery of the Bonds.

The District is periodically subject to legal proceedings and claims which arise in the ordinary course of business. The aggregate amount of the uninsured liabilities of the District with respect to these actions will not, in the opinion of the District, materially affect the financial position or operations of the District.

Bank Qualified

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank-qualified" investments.

MISCELLANEOUS

Rating

The Bonds have received the rating of "Aaa" by Moody's Investors Service ("Moody's"), based upon the issuance by Financial Security Assurance Inc. of a municipal bond insurance policy with respect to the Bonds at the time of delivery of the Bonds. In addition, Moody's has assigned an underlying rating of "Aa3" to the Bonds. The rating issued reflects only the views of the rating agency, and any explanation of the significance of such rating should be obtained from the rating agency.

Generally, a rating agency bases its rating on the information and materials furnished to it, and on investigations, studies, and assumptions of its own. The District has provided certain information to the rating agency which is not included in this Official Statement. There is no assurance that a rating assigned will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely by a rating agency if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds. The District undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2005-06 Fiscal Year (which is due no later than April 1, 2007), and to provide notice of the occurrence of certain enumerated events, if material. The notices of material events will be filed by the District with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities Rulemaking Board, and with the State information repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX D: "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The District has not failed to comply in all material respects with any previous undertakings with regard to the Rule to file annual reports or notices of material events.

Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and as Disclosure Counsel with respect to the Bonds. Bond Counsel and Disclosure Counsel will receive compensation from the District contingent upon the sale and delivery of the Bonds.

Underwriting

The Bonds are being purchased by Piper Jaffray & Co. (the "Underwriter") pursuant to the terms of a bond purchase contract between the District and the Underwriter dated February 23, 2006, at a price of \$3,242,943.40. Pursuant to the purchase contract, the obligation of the Underwriter to purchase the Bonds is subject to certain terms and conditions to be satisfied by the District.

The Underwriter has certified the reoffering prices or yields set forth on the cover hereof. The District takes no responsibility for the accuracy or fairness of these prices or yields. Based on these prices, the Underwriter's compensation is \$32,850.00. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriter.

Additional Information

Quotations from and summaries and explanations of the Bonds, the Paying Agent Agreement providing for issuance and payment of the Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

• • •

All data contained herein have been taken or constructed from the District's records and other sources, as indicated. This Official Statement and its distribution have been duly authorized and approved by the District.

**SANTA MONICA-MALIBU UNIFIED SCHOOL
DISTRICT**

By: /s/ Winston A. Braham
Assistant Superintendent Fiscal, Business Services

APPENDIX A

DISTRICT FINANCIAL AND OPERATING INFORMATION

The information in this appendix concerning the operations of the District, the District's finances, and State funding of education, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the General Fund of the District or from State revenues. The Bonds are payable from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and Constitutional requirements, and required to be levied by the County on property within the District in an amount sufficient for the timely payment of principal and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" in the Official Statement.

FINANCIAL AND DEMOGRAPHIC INFORMATION

General

The Santa Monica-Malibu Unified School District (the "District") was established in 1875 and includes the communities of Santa Monica and Malibu, as well as a portion of unincorporated Los Angeles County. The District is located in west Los Angeles County. The District is currently operating ten elementary schools, two middle schools, two high schools, one continuation school, one alternative school, an adult education program and child care and development centers.

As of July 1, 2005, the District employed approximately 1,340 employees, including 798 certificated (credentialed teaching) staff and 542 classified (non-teaching) staff, including short-term and part-time employees. The District has budgeted general fund expenditures of approximately \$107.8 million in Fiscal Year 2005-06. Total assessed valuation of taxable property in the District in Fiscal Year 2005-06 was approximately \$26.8 billion. The District operates under the jurisdiction of the County of Los Angeles Superintendent of Schools.

The District is governed by a seven-member Board of Education, each member of which is elected to a four-year term, and elections are held every two years. The management and policies of the District are administered by the Superintendent, who is appointed by the Board and responsible for day-to-day District operations as well as the supervision of the District's other key personnel. Dr. John E. Deasy serves as the District's superintendent.

State Funding of Education; State Budget Process

General. As is true for all school districts in California, District operating income consists primarily of two components: a State portion funded from the State's general fund and a locally generated portion derived from the District's share of the 1% local *ad valorem* property tax authorized by the State Constitution. School districts may be eligible for other special categorical funding, including for State and federal programs. The District receives approximately 41.0% of its general fund revenues from State funds, budgeted at \$43.7 million in Fiscal Year 2005-06. As a result, decreases in State revenues, or in State legislative appropriations made to fund education, may significantly affect District operations.

According to the State Constitution, the Governor is required to propose a budget to the California Legislature no later than January 10 of each year, and a final budget must be adopted by a two-thirds vote of each house of the Legislature no later than June 15, although this deadline is routinely breached. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. On May 29, 2002, the State Court of Appeal held in *White v. Davis* (also referred to as *Jarvis v. Connell*) that the State Controller cannot disburse State funds after the beginning of the fiscal year until the adoption of the budget bill or an emergency appropriation, unless the expenditure is (i) authorized by a continuing appropriation found in statute, or (ii) mandated by the Constitution (such as appropriations for salaries of elected state officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The court specifically held that the State Constitution does not mandate or otherwise provide for appropriations for school districts without an adopted

budget. Nevertheless, the Controller believes that statutory implementation of the constitutional school funding formula provides for a continuing appropriation of State funding for schools, and has indicated that payment of such amounts would continue during a budget impasse. Special and categorical funds would not be appropriated until a budget or emergency appropriation is adopted. The Controller has posted guidance as to what can and cannot be paid during a budget impasse at its website: www.sco.ca.gov. Should the Legislature fail to pass the budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues. The District is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the *White* decision, the District might find it necessary to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year or to draw on its unrestricted reserves. The District does not expect the *White* decision to have any long-term effect on its operating budgets.

State income tax and other receipts can fluctuate significantly from year to year, depending on economic conditions in the State and the nation. Because funding for education is closely related to overall State income, as described in this section, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. A brief description of the adopted State budget for 2005-06 is included below; however, the District cannot predict how State income or State education funding will vary over the entire term to maturity of the Bonds, and the District takes no responsibility for informing owners of the Bonds as to any such annual fluctuations. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information contained in the websites referred to herein is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Aggregate State Education Funding. Under Proposition 98, a constitutional and statutory amendment adopted by the State's voters in 1988 and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution), a minimum level of funding is guaranteed to school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs for kindergarten through community college.

The guaranteed funding amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures, as the various factors change. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow. On average, about 40% of State general fund tax proceeds are currently spent on the State's share of Proposition 98 funding.

The Proposition 98 guaranteed amount may be suspended for one year at a time by enactment of an urgency statute. In subsequent years in which State general fund revenues are growing faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount.

If the guaranteed amount is calculated at year-end to be higher than the amount actually appropriated, the difference becomes an additional education funding obligation, referred to as "settle up." Existing settle-up obligations total approximately \$1 billion. Under current law, these will be repaid to schools and colleges, or to the education budget, at \$150 million per year beginning in 2006-07.

If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base. The State has avoided increases in the base through various mechanisms: On several occasions, the State treated excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels, rather than increases in the base. In March 2003, the Legislature permanently deferred

year-end apportionments of Proposition 98 funds from June 30 to July 2, to reduce the ending fiscal year's base and thus future years' guaranteed amounts.

Recent State Budget Difficulties and Initiative Responses. Since early 2001, structural imbalances in State revenues versus expenditures have created significant financial challenges. The three main traditional sources of State tax revenues, personal income taxes, sales and use taxes, and corporate taxes, suffered disproportionately in the most recent economic downturn, revealing inherent weakness in the State's reliance thereon. Meanwhile, large portions of the State's budget are relatively fixed, causing a perennial shortfall and an accumulated deficit in the tens of billions of dollars. Two measures intended to address the existing cumulative budget deficit and to implement structural reform were approved at the March 2, 2004 statewide primary election. The California Economic Recovery Bond Act (Proposition 57) authorized the issuance of up to \$15 billion of bonds to finance the State negative general fund reserve balance as of June 30, 2004 and other general fund obligations undertaken prior to June 30, 2004. The Balanced Budget Amendment (Proposition 58) requires the State to adopt and maintain a balanced budget and establish a reserve, and restricts future long-term deficit-related borrowing. The State has issued \$ 10.896 billion of the authorized bonds.

2005-06 Governor's Budget. The Governor signed the State 2005-06 Fiscal Year budget on July 11, 2005, although subsequent legislation may affect final budget totals. The following information relating to the funding of education is adapted from the budget summary prepared by the State Treasurer: The budget includes Proposition 98 funding for grades K-12 of approximately \$49.2 billion, or \$740,886 less than the Proposition 98 guaranteed amount. The budget provides approximately \$16.8 million in one-time funds to meet prior years' Proposition 98 settle-up obligations, which will be supplemented beginning in 2006-07 by annual payments of \$150 million per year until the estimated \$1.3 billion of such obligations is repaid. The budget provided both statutory and discretionary growth and cost-of-living adjustments to revenue limits (\$1.6 billion) and most categorical programs (\$295 million), and approximately \$194 million for special education. The budget provides approximately \$328 million in additional revenue limit funding to restore approximately half of the general purpose reduction school districts previously experienced. The budget provides an aggregate total of \$348.4 million to promote academic performance, consisting of \$228.7 million to assist low-performing schools, \$53 million to assist schools sanctioned by accountability programs, \$30 million for a school reform program, \$7.5 million in funding deferred from 2004-05 for underperforming schools, and \$29.2 million in federal Title I School Improvement Funds. In addition, in connection with the settlement of a class action lawsuit, *Williams v. State of California*, brought against the State on behalf of students in the most poorly funded schools, the 2005-06 budget provides \$183.5 million, primarily for facility improvements to the neediest schools. Future years' budgets will have to continue to address further settlement terms that call for over \$800 million in facilities improvements and additional programmatic support.

Proposition 1A. Beginning in 1992-93, the State has satisfied a portion of its Proposition 98 obligations by shifting part of the 1% local *ad valorem* property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (ERAF) in each county. In response to a statewide ballot initiative sponsored by affected local agencies, the Legislature proposed an amendment to the State Constitution, which the State's voters approved as "Proposition 1A" at the November 2004 election.

Proposition 1A is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. Beginning in Fiscal Year 2008-09, the State will be able to divert up to eight percent of local property tax revenues for State purposes (including, but not limited to, funding) only if: (i) the Governor declares such action to be necessary due to a State fiscal emergency; (ii) two-thirds of both houses of the Legislature approve the action; (iii) the amount diverted is required by statute to be repaid within three years; (iv) the State does not owe any repayment for past property tax or Vehicle License Fee diversions to local agencies; and (v) such property tax diversions do not occur in more than two of any ten consecutive fiscal years. Because ERAF shifts will be capped and limited in frequency, school and college districts that receive Proposition 98 funding from the State will be more directly dependent upon the State's general fund.

Allocation of State Funding to Districts. Under Education Code Section 42238 and following, each school district is determined to have a target funding level: a "base revenue limit" per student multiplied by the district's student enrollment measured in units of average daily attendance ("A.D.A.").

The base revenue limit is calculated from the district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district is the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State "equalization aid" or colloquially as "backfill." To the extent local tax revenues increase due to growth in local property assessed valuation, the additional revenue is offset by a decline in the State's contribution.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues, without necessarily permitting the district to make adjustments in operating costs.

The District's base revenue limit per A.D.A. is budgeted to be \$5,319.84 for 2005-06, compared to an estimated \$4,992 for 2004-05. The District's recent A.D.A. history for kindergarten through grade 12 (K-12), including special education, is set forth in the table below:

**Santa Monica-Malibu Unified School District
Total K-12 Second Period (P-2)
Average Daily Attendance**

<u>Fiscal Year</u>	<u>Average Daily Attendance</u>
2001-02	12,086
2002-03	12,160
2003-04	12,186
2004-05 ⁽¹⁾	11,886
2005-06 ⁽²⁾	11,890

⁽¹⁾ Estimated actuals.

⁽²⁾ Funding level.

In its adopted budget, the District estimates that it will receive \$65.1 million in aggregate revenue limit income in 2005-06, or approximately 61.1% of its total general fund revenues. This amount represents an increase of approximately 4.0% from the estimated \$62.6 million that the District received in 2004-05. State funds for special (categorical) programs are budgeted at \$16.0 million, including the State lottery fund portion. Lottery funds may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's total State lottery revenue is budgeted at approximately \$1.7 million, or about 1.6% of general fund revenue in 2005-06.

The District adopted its own 2005-06 budget prior to the adoption of the State budget. Certain adjustments may have to be made throughout the year based on actual State funding and actual attendance. The District cannot make any predictions regarding the disposition of additional pending budget legislation or its effect on school finance, or whether the State will make additional cuts or enhancements to education funding during Fiscal Year 2005-06. In addition, the District's budgeted A.D.A. is an estimate used for planning purposes only, and does not represent a prediction as to the actual attendance or the District's actual funding level for 2005-06.

Local Sources of Education Funding

The principal component of local revenues is a school district's property tax revenues, i.e., each district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in equalization aid. The more local property taxes a district receives, the less State equalization aid it is entitled to; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State equalization aid, and receives only its special categorical aid, which is deemed to include the "basic aid" of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts are known colloquially as "basic aid districts." Districts that receive some equalization aid are commonly referred to as "revenue limit districts."

The District is not a "basic aid district." For Fiscal Year 2005-06, local property tax revenues account for approximately 57.4% of the District's aggregate revenue limit income, and are budgeted to be \$37.4 million, or 35.1% of total general fund revenue. Property tax levy and collection procedures are discussed in the front portion of this Official Statement; see "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Tax Levies, Collections and Delinquencies". For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" herein.

District Expenditures

The largest part of each school district's general fund budget is used to pay salaries and benefits of certificated (credentialed teaching) and classified (non-instructional) employees. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits.

In its 2005-06 budget, the District projects that it will expend \$94.6 million in salaries and benefits, or approximately 88.7% of its general fund expenditures. This amount represents an increase of approximately 4.3% from the \$90.7 million the District estimated it expended in 2004-05.

The District is required by State law and regulation to maintain various reserves. The District is generally required to maintain a reserve for economic uncertainties in the amount of 3% of its total general fund expenditures, based on total student attendance. Legislation enacted in connection with the 2003-04 State budget negotiations has granted school districts greater flexibility in the funding and use of these and certain other reserved funds. The District uses a portion of amounts in the Special Reserve Fund for other than capital outlay to use and calculate the 3% reserve requirement. The balance in the Special Reserve Fund was \$5.8 million at the end of Fiscal Year 2004-05. The undesignated general fund reserve for economic uncertainties was \$2.6 million or 2.5% of its total

expenditures. For Fiscal Year 2005-06, the District has budgeted available reserves of approximately \$1.8 million, or 1.7% of its total budgeted expenditures.

As a condition to receiving State modernization or construction funds, school districts are generally required to fund a restricted maintenance reserve account in the general fund each year for 20 years of at least 3% of its general fund budget.

Labor Relations. District employees are represented by various labor organizations as shown in the table below.

**Santa Monica-Malibu Unified School District
Labor Organizations**

<u>Labor Organization</u>	<u>FTE Employees Represented</u>	<u>Contract Expiration</u>
Santa Monica- Malibu Classroom Teachers Association	798	June 30, 2006
Service Employees International Union	542	June 30, 2007

Retirement Programs. The District participates in the State Teachers' Retirement System ("STRS") for all full-time and some part-time certificated employees. Each school district is required by statute to contribute 8.25% of eligible employees' salaries to STRS on a monthly basis. Employees are required to contribute 8% of eligible salary. The State is required to contribute as well. The District's employer contribution to STRS was approximately \$4.3 million for Fiscal Year 2004-05 and is budgeted at \$5.3 million in Fiscal Year 2005-06.

The District also participates in the California Public Employees' Retirement System ("CalPERS") for all full-time and some part-time classified employees. For many years, school districts were not required to contribute to CalPERS due to favorable investment of CalPERS funds, but beginning in 2002-03, the District was required to contribute toward CalPERS, at a State-determined percentage of CalPERS-eligible salaries. In the current budget year, the total contribution is budgeted at \$1.635 million, compared to a Fiscal Year 2004-05 expense of an estimated \$1.634.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. STRS and CalPERS liabilities are more fully described in APPENDIX B: "EXCERPTS FROM FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2005," Note 11.

Accrued Vacation and other Obligations: The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2005, amounted to \$779,080. Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. The District's policy is to record sick leave as an operating expenditure in the period taken, since such benefits do not vest nor is payment probable. See APPENDIX B: "EXCERPTS FROM FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2005," Note 9 and Note 10.

Summary of District Revenues and Expenditures

The table on the following page summarizes the District's general fund revenue, expenditures and fund balances from Fiscal Years 2001-02 through 2005-06. See "SCHOOL DISTRICT BUDGET PROCEDURES AND REQUIREMENTS - District Budget Process and County Review" herein for a general description of the annual budget process for California school districts. Excerpts of the District's audited financial statements for the year ending June 30, 2005, are reproduced in APPENDIX B.

**Santa Monica-Malibu Unified School District
General Fund
Revenues, Expenditures and Fund Balances
2001-02 through 2005-06**

	2001-02 Actual ⁽¹⁾	2002-03 Actual ⁽¹⁾	2003-04 Actual ⁽¹⁾	2004-05 Actual ⁽¹⁾	2005-06 Budgeted ⁽²⁾
REVENUES					
Revenue Limit Sources:					
State	\$25,696,764	\$25,312,713	\$21,613,796	\$27,293,665	\$27,732,054
Property Taxes	33,471,283	35,990,281	39,312,148	35,155,552	37,365,411
Total Revenue Limit	59,168,047	61,302,994	60,925,944	62,449,217	65,097,465
Federal Revenue	3,847,673	4,881,852	4,721,344	4,869,075	4,574,810
Other State Revenue	17,988,151	16,167,665	15,410,643	16,063,413	15,988,750
Other Local Revenue	13,407,352	13,954,157	20,205,212	22,320,833	20,914,478
Tuition	-	-	1,527	-	-
Total Revenues	94,411,223	96,306,668	101,264,670	105,702,538	106,575,503
EXPENDITURES/DISBURSEMENTS					
Certificated Salaries	49,940,106	51,066,466	51,534,200	51,608,298	53,361,453
Classified Salaries	18,096,616	18,697,281	17,401,130	17,736,380	19,052,842
Employee Benefits	16,256,207	16,933,582	19,670,064	20,447,477	22,140,789
Books and Supplies	4,736,013	3,506,245	3,438,894	3,208,964	3,678,861
Services/Other Operating Expenditures	9,633,479	9,411,262	10,000,204	9,776,676	9,790,914
Other Outgo	(374,164)	(288,818)	(488,348)	(514,689)	8,318
Capital Outlay	932,680	188,421	43,399	1,102,218	20,200
Debt service – principal	-	152,388	116,204	58,484	-
Debt service – interest	-	30,515	21,876	10,822	-
Transfers of Indirect/Direct Support Costs	-	-	-	-	(244,853)
Total Expenditures	99,220,937	99,697,342	101,737,623	102,442,630	107,808,524
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,809,714)	(3,390,674)	(472,953)	3,259,908	(1,233,021)
OTHER FINANCING SOURCES (USES)					
Transfers in	20,000	151,921	64,919	620,000	720,000
Transfers out	-	(1,196,076)	(1,018,817)	(2,571,924)	(575,000)
Other sources	-	15,252	-	-	-
Total	20,000	(1,028,903)	(953,898)	(1,951,924)	145,000
EXCESS OF REVENUE, OTHER SOURCES OVER/(UNDER) EXPENDITURES, OTHER USES	(4,789,714)	(4,419,577)	(1,426,851)	1,307,984	(1,088,021)
Fund Balance, beginning of year	12,959,489	8,169,775	6,097,595 ⁽³⁾	4,670,744	3,993,771
Fund Balance, end of year	\$ 8,169,775	\$ 3,750,198	\$ 4,670,744	\$ 5,978,728	\$ 2,905,750

⁽¹⁾ Audited Financial Statements for each year.

⁽²⁾ Adopted Budget as of June 24, 2005.

⁽³⁾ Includes Prior Period Adjustment of \$2,347,397.

The following information is displayed using the reporting model required by Governmental Accounting Standards Board ("GASB") Procedure No. 34, which resulted, among other things, in a change in the financial statements of the District to reflect expenditures by function rather than by object.

**Santa Monica-Malibu Unified School District
General Fund
Audited Revenues, Expenditures and Fund Balances
Fiscal Year 2002-03 through 2004-05**

	2002-03 Actual ⁽¹⁾	2003-04 Actual ⁽¹⁾	2004-05 Actual ⁽¹⁾
REVENUES			
Charges for services	\$ 7,916,011	\$ 3,120,212	\$ 4,278,535
Operating grants and contributions	22,742,643	23,820,327	25,056,379
Capital grants and contributions	6,237,217	-	-
Property Taxes	47,610,567	57,108,108	53,836,578
Federal and state aid not restricted to specific purposes	28,942,198	27,164,946	32,975,579
Interest and investment earnings	650,326	600,713	732,117
Miscellaneous	9,075,807	10,944,606	11,187,453
Total Revenues	\$123,174,769	\$122,758,912	\$128,066,641
EXPENDITURES			
Instruction	\$ 70,000,337	\$ 72,116,810	\$ 70,497,006
Instruction-related Services	12,705,619	13,570,684	14,041,500
Pupil Services	8,814,006	9,484,458	9,695,103
Ancillary services	757,455	684,616	6,340,309
Community services	351,510	387,430	9,414,291
General Administration	7,974,134	6,871,286	815,542
Plant Services	9,553,344	8,878,657	413,137
Other outgo	498,988	1,153,230	352
Debt service - interest	4,550,820	4,359,469	4,680,462
Depreciation (unallocated)	3,283,566	4,359,166	5,398,697
Total Expenses and Transfers	\$118,489,779	\$121,865,806	\$121,296,399
CHANGE IN NET ASSETS	\$ 4,684,990	\$ 893,106	\$ 6,770,242

⁽¹⁾ Audited Financial Statements for each year.

District Debt Structure

General Obligation Bonds. In November, 1990, the voters of the District approved a bond proposition authorizing the issuance of \$75.0 million for the purpose of acquiring and constructing school facilities. The District issued all of the authorized bonds in two series, Series 1991-A (the "1991-A Bonds") and Series 1993 (the "1993 Bonds"). In 1998, the District issued \$68.145 million of general obligation refunding bonds (the "1998 Refunding Bonds") to refund and defease the outstanding 1991-A Bonds and 1993 Bonds. Approximately \$50.3 million of the 1998 Refunding Bonds remain outstanding.

In November, 1998, the voters of the District approved a bond proposition authorizing the issuance of \$42 million for the purpose of acquiring and constructing school facilities. The District has issued all of the authorized bonds, of which approximately \$37.845 remain outstanding. The District anticipates refunding a portion of said bonds with a portion of the proceeds of the Bonds.

<u>Series Name</u>	<u>Issuance Date</u>	<u>Original Principal Amount</u>	<u>Outstanding as of January 1, 2006</u>
1998 Refunding Bonds	June 18, 1998	\$ 68,145,000	\$50,295,000
Series 1999 Bonds	June 17, 1999	38,000,034	34,205,034
Series 2001 Bonds	June 12, 2001	3,995,000	3,640,000
TOTAL – Original Principal Amount		\$110,140,034	\$88,140,034

All such bonds are payable from a special *ad valorem* property tax which the County is required to levy in an amount sufficient to pay such obligations. The District's general fund is not pledged to repayment of these bonds.

Certificates of Participation. On November 29, 2001, the District executed and delivered certificates of participation in the amount of \$19,961,501 to finance certain capital expenditures of the District. Each certificate represents a direct, undivided fractional interest of the owner thereof in lease payments to be made by the District to the Los Angeles County Schools Regionalized Business Services Corporation (the "Corporation") pursuant to a lease agreement between the District and the Corporation. At June 30, 2005, the principal balance outstanding was \$18,786,501. The certificates mature through 2025. The lease obligation is a general fund obligation of the District.

Capital Leases. The District leases equipment, under lease-purchase agreements, valued at \$16,126,3 and which are payable from the general fund of the District. As of June 30, 2005, the schedule of lease payments was as follows:

<u>Year Ending June 30,</u>	<u>Capital Lease Payments</u>
2006	\$ 71,867
2007	31,622
2008	1,536
Total	105,022
Less amount representing interest	(7,246)
Present value of net minimum lease payments	97,806

Parcel Tax

The District receives revenue from two parcel taxes. On November 7, 2000, the voters of the District approved Measure Y, a qualified special tax authorizing the District to levy, for ten years beginning July 1, 2001, an annual tax of \$98 per assessor's parcel, subject to an annual inflation adjustment. The Measure Y tax is currently \$111 per parcel per year. On June 3, 2003, the voters of the District approved Measure S, a qualified special tax authorizing the District to levy, for six years beginning July 1, 2003, an annual tax of \$225 per assessor's parcel, subject to an exemption for resident property owners 65 and over. In Fiscal Year 2004-05, the District estimates it received \$3.5 million from the parcel taxes and, in 2005-06, has budgeted for receipt of \$3.6 million. The District

has used revenue collected from the parcel tax to restore programs and replace funds lost or reduced due to state budget cuts.

Insurance, Risk Pooling and Joint Powers Arrangements

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 included in APPENDIX B; however, fund transactions between the entities and the District are included in these statements. See APPENDIX B: "EXCERPTS FROM FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2005," Note 14. The District does not directly bear liability for the losses of other members of these JPAs; however in the event of numerous large local losses, any of the JPAs' self-insured retention funds could be exhausted, and member districts such as the District could be required to make further contributions to cover member claims.

Charter Schools

There are currently no charter schools operating within the District. Charter schools would receive revenues from the State and from the District for each student enrolled, and thus effectively reduce revenues available for students enrolled in District schools. The District is required to accommodate charter school students originating in the District in facilities comparable to those provided to regular District students. The District cannot predict if any charter schools may be formed in the future.

SCHOOL DISTRICT BUDGET PROCEDURES AND REQUIREMENTS

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with the definitions, instructions and procedures of the California School Accounting Manual, as required by the State Education Code. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

Roy J. Blair, Certified Public Accountant serves as independent auditor to the District and excerpts of his report for Fiscal Year Ended June 30, 2005 are attached hereto as APPENDIX B. The District considers its audited financial statements to be public information, and accordingly no consent has been sought or obtained from the auditor in connection with the inclusion of such statements in this Official Statement. The auditor has made no representation in connection with inclusion of the audit excerpts herein that there has been no material change in the financial condition of the District since the audit was concluded. The District is required by law to file its audit report for each fiscal year with the County Superintendent and State officials by each December 15, and to review the report and any recommended changes following a public meeting to be conducted no later than January 31 of the following year.

District Budget Process and County Review

State law requires school districts to maintain a balanced budget in each fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

Under current law, a school district governing board must adopt and file with the county superintendent of schools a tentative budget by July 1 in each fiscal year. The District is under the jurisdiction of the County of Los Angeles Superintendent of Schools.

The County Superintendent must review and approve or disapprove the budget no later than August 15. The County Superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon,

adopt the revised budget and file it with the County Superintendent no later than September 8. Pursuant to State law, the County Superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

Subsequent to approval, the County Superintendent will monitor each district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If the County Superintendent determines that a district cannot meet its current or subsequent year obligations, the County Superintendent will notify the district's governing board of the determination and may then do either or both of the following: (a) assign a fiscal advisor to enable the district to meet those obligations or (b) if a study and recommendations are made and a district fails to take appropriate action to meet its financial obligations, the County Superintendent will so notify the State Superintendent of Public Instruction, and then may do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the district's budget and operations; (ii) develop and impose, after also consulting with the district's board, revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the County Superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

A State law adopted in 1991 ("A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that *will meet* its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed *unable to meet* its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that *may not meet* its financial obligations for the current fiscal year or two subsequent fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the County Superintendent. The District has never received a negative or qualified certification.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Limitations on Revenues

Article XIII A of the California Constitution. Article XIII A of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIII A limits the maximum ad valorem tax on real property to one percent of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the one-percent limitation does not apply to ad valorem taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. The tax for payment of the District's bonds approved at the 1991 election falls within the exception for bonds approved by two-thirds vote. The tax for payment of the District's bonds approved at the 2002 election falls within the exception for bonds approved by 55% vote.

Section 2 of Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the Fiscal Year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or to reflect a reduction in the consumer price index

or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any ad valorem property tax except the 1% base tax levied by each County and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the District.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

State law permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restored value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

Article XIII C and Article XIII D of the California Constitution. On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIII C establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies such as school districts from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIII C also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a duty on the county treasurer-tax collector to levy a property tax sufficient to pay debt service on school bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the Bonds or to otherwise interfere with performance of the duty of the District and the County with respect to such taxes. Legislation adopted in 1997 provides that Article XIII C shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution. Voter approved special taxes, including the District's parcel tax approved in 2001, that are not pledged to the payment of bonds, may be subject to reduction or repeal by voter initiative under the provisions of Article XIII C.

Article XIII D deals with assessments and property-related fees and charges. Article XIII D explicitly provides that nothing in Article XIII C or XIII D shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District. Developer fees imposed by the District are restricted as to use and are neither pledged nor available to pay the Bonds.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

Expenditures and Appropriations

Article XIII B of the California Constitution. In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and local governments are subject to an annual "appropriations limit" or "Gann Limit" imposed by Article XIII B of the State Constitution, which effectively limits the amount of such revenues that government entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds.

Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Each school district is required to establish an appropriations limit each year. In the event that a school district's revenues exceed its spending limit, the district may increase its appropriations limit to equal its spending by taking appropriations limit from the State.

Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years. If the State's aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, 50% of the excess is transferred to fund the State's contribution to school and college districts.

Future initiatives. Articles XIII A, XIII B, XIII C, and XIII D, and Propositions 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

(This page has been left blank intentionally.)

APPENDIX B

**EXCERPTS FROM FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

(This page has been left blank intentionally.)

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

**ANNUAL FINANCIAL REPORT
JUNE 30, 2005**

**ROY J. BLAIR
CERTIFIED PUBLIC ACCOUNTANT**

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

OF LOS ANGELES COUNTY

SANTA MONICA, CALIFORNIA

JUNE 30, 2005

BOARD OF EDUCATION

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Emily Bloomfield	President	2006
Julia Brownley	Vice President	2006
Oscar de la Torre	Member	2006
Jose Escarce	Member	2008
Maris Leon-Vazquez	Member	2008
Shane McLeod	Member	2006
Kathy Wisnichi	Member	2008

ADMINISTRATION

Dr. John E. Densy	Superintendent & Secretary of the Board
Dr. Michael Matthews	Assistant Superintendent, Human Resources
Winston A. Brahan	Assistant Superintendent, Fiscal, Business & Chief Financial Officer
Dr. Linda Kaminiski	Assistant Superintendent, Special Education

ORGANIZATION

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

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2005**

SECTION 1 – FINANCIAL SECTION

Independent Auditors' Report on Financial Statements	1.1
Management's Discussion and Analysis	1.2
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	1.11
Statement of Activities	1.12
Financial Statements	
Balance Sheet - Governmental Funds	1.13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	1.14
Statement of Revenues, Expenditures and Changes in Fund Balance	1.15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	1.16
Major Funds	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non GAAP) and Actual	
General	1.17
Bond Interest & Redemption Fund	1.18
Fiduciary Funds	
Statement of Net Assets	1.19
Statement of Changes in Fiduciary Net Assets	1.20
Notes to Financial Statements	1.21

SECTION 2 - COMBINING FINANCIAL STATEMENTS

Non Major Special Revenues Funds	
Combining Balance Sheet	2.2
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	2.4
Non Major Debt Service Fund	
Balance Sheet	2.9
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	2.10
Non Major Capital Projects Funds	
Combining Balance Sheet	2.12
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	2.14
Fiduciary Funds	
Agency Funds – Student Body Funds	
Combining Statement of Net Assets	2.18

SECTION 3 - SUPPLEMENTARY INFORMATION

Schedule of Average Daily Attendance	3.1
Schedule of Instructional Time	3.2
Schedule of Financial Trends and Analysis	3.3
Schedule of Expenditures of Federal Awards	3.4
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	3.5
General Fund Selected Financial Information	3.6
Capital Fund Selected Financial Information	3.7
Note to Supplementary Information	3.8

SECTION 4 - INDEPENDENT AUDITORS' REPORTS

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	4.1
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	4.2
Report on State Compliance	4.4

SECTION 5 - FINDINGS AND RECOMMENDATIONS

Summary of Auditors' Results	5.1
Financial Statement Findings	5.2
Federal Award Findings and Questioned Costs	5.3
State Award Findings and Questioned Costs	5.4
Summary Schedule of Prior Year Audit Findings	5.5

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2005**

**SECTION 1
INDEPENDENT AUDITORS' REPORT
COMBINED FINANCIAL STATEMENTS
& FOOTNOTES**

ROY J. BLAIR

CERTIFIED PUBLIC ACCOUNTANT

8976 Foothill Boulevard, B-J Suite 283, Rancho Cucamonga, California 91730
Phone (909) 481-3334 Fax (909) 948-2417 E-Mail: RoyBlair@Workday.AxNet

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

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

I have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Santa Monica-Malibu Unified School District's management. My responsibility is to express opinions on these financial statements based on my audit.

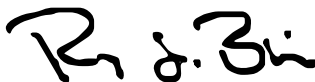
I conducted my audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; Standards and Procedures for Audits of California K-12 Local Educational Agencies, prescribed by the State Comptroller, and GASB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District, as of June 30, 2005, thereof for the year there ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have issued my report dated December 15, 2005 on my consideration of Santa Monica-Malibu Unified School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

The accompanying required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 1.3 through 1.10 and 1.17 and 1.18 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express an opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santa Monica-Malibu Unified School District's basic financial statements. The accompanying supplementary information listed in the table of contents including the Schedule of Federal Expenditures of Federal Awards are prepared for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



December 15, 2005

This page left blank intentionally

**SANTA MONICA-MALIBU UNITED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Santa Monica-Malibu's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of the analysis is to look at the District's financial performance as a whole; readers should also review the auditor's letter, notes to the basic financial statements and the basic government-wide financial statements to enhance their understanding of the District's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Subsequent reports, however, will include the comparative information.

Santa Monica-Malibu Unified School District serves approximately 12,400 students in grades K-12. There are ten elementary schools, two middle school two high schools, one continuation school, one alternative school and twenty two child care and development centers throughout the District. Approximately 860 certificated and 680 noncertificated and classified employees provide for the needs of the District's students. Santa Monica-Malibu Unified School District is located in the City of Santa Monica, California.

USING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

- This comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Santa Monica-Malibu Unified School District activities, and then proceed to provide an increasingly detailed look at specific financial activities.
- The "Statement of Net Assets" and "Statement of Activities" provide information about the activities of the whole school district, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. "Fund Financial Statement" provides the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's major funds with all special revenue funds and other government funds presented in total in two columns.
- The major funds for Santa Monica-Malibu Unified School District are the General Fund, and the Bond Interest & Redemption Fund.
- The Management Discussion and Analysis has been provided to assist our citizens, taxpayers and investors in reviewing the District's finances.

FINANCIAL HIGHLIGHTS

The Statement of Revenues, Expenditures, and Changes in Fund Balances (Governmental Funds Statement) reflects revenues and expenditures for all District funds before making adjustments in accordance with GASB 34. The Statement of Activities is based on the Governmental Funds Statement, but includes GASB 34 adjustments for the recognition of capital outlay as expenditures over the life of the assets instead of recognizing the entire cost of the assets as expenditures in the year the assets are acquired. Other adjustments include the recognition of indirect expenses, such as indirect expense, on an accrual basis instead of recognizing the expenditures when payable.

- The School District's Government-wide Statement of Net Assets shows Total Net Assets of \$78,716,241, the result of assets of \$215,399,856 less liabilities of \$136,683,615.
- The State Revenue Limit accounted for \$62,449,217 in general fund revenue or 59% of all general fund revenue.
- As reflected in the Statement of Activities program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$29,334,914 or 25% of total revenues of \$128,066,641.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

- The District had \$121,196,399 in expenses related to governmental activities; only \$29,334,914 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily state revenue limit sources and property taxes) of \$91,731,727 were adequate to provide the remaining \$91,961,485 required for these programs. This resulted in a positive change in Total Net Assets of \$6,770,242.

REPORTING THE DISTRICT AS A WHOLE

Statement of Net Assets and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" "The Statement of Net Assets" and "The Statement of Activities" report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private-sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. However, the Santa Monica-Malibu Unified School District's goal is to provide services to our students, not to generate profits as commercial entities do. The reader will need to consider other non-financial factors as well as factors such as property tax base, current property tax laws, student enrollment growth, and facility conditions in arriving at their conclusions regarding the overall health of the District.

In the "Statement of Net Assets" and the "Statement of Activities," the District could report everything in two types of activities: Governmental Activities or the Business-Type Activities. The Santa Monica-Malibu Unified School District reports its financial transactions in the Governmental Activities.

- Governmental Activities - Most of the School District's programs and services are reported here, including instruction, pupil services including transportation and food services, administration, plant services, facilities acquisition and construction, interest on the long-term debt and other services.
- Business-Type Activities - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. Central School District does not have any of these types of activities at this time.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions.

Governmental funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting. Governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements. Governmental funds include most of the major funds of the District.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District uses an agency fund to account for resources held for student activities and groups. These funds include Associated Student Body funds.

The Santa Monica-Malibu Unified School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The Santa Monica-Malibu Unified School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

THE SCHOOL DISTRICT AS A WHOLE

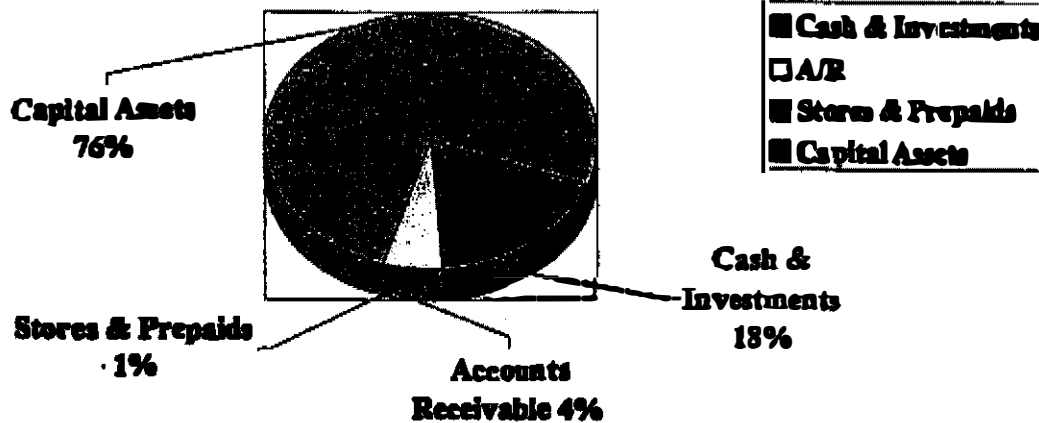
The difference between assets and liabilities (net assets), as reported in the Statement of Net Assets and Statement of Activities, transparently measure the District's financial health, or financial position. Over time, the increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenditures indicates the District's operating results. However, the District's goal is to provide the best services possible to its students, not to generate profits as expected by commercial entities. Therefore, other non-financial factors must be considered to assess the effectiveness of the District in obtaining its goals.

The District's total net assets for governmental activities were \$78,716,241 at June 30, 2005. The table below provides a summary of the District's net assets for the fiscal years 2004-2005 and 2003-2004.

	Change in Net Assets Governmental Activities		
	2004-05	2003-04	Change
ASSETS			
Current and other assets	\$ 52,322,119	\$ 48,274,906	\$ (4,047,213)
Capital assets - net of accumulated depreciation	163,077,737	166,935,685	3,857,948
Total Assets	<u>\$ 215,399,856</u>	<u>\$ 215,230,591</u>	<u>\$ (169,265)</u>
LIABILITIES			
Current and other liabilities	21,154,089	21,377,189	(223,100)
Long-term liabilities	115,529,526	121,907,403	(6,377,877)
Total Liabilities	<u>136,683,615</u>	<u>143,284,592</u>	<u>(6,600,977)</u>
NET ASSETS			
Invested in capital assets net of related debt	91,983,422	49,572,886	2,410,536
Reserved for debt service and other	18,790,007	10,346,763	8,443,244
Unreserved	7,942,812	12,026,350	(4,083,538)
Total Net Assets	<u>\$ 78,716,241</u>	<u>\$ 71,945,999</u>	<u>\$ 6,770,242</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

As shown in the following chart, over 76% of the District's assets are invested in capital assets, such as land and buildings. The District also maintains liquid assets (cash and investments) of \$39,728,418, or 18%.



The Statement of Activities show that revenues exceeded expenditures, resulting in an increase in net assets of \$6,770,242 for the year ending June 30, 2005 as compared to \$893,106 for the year ended June 30, 2004.

	Change in Statement of Activities		
	Governmental Activities		
	2004-05	2003-04	Change
REVENUES			
Charges for services	\$ 4,278,535	\$ 3,120,212	\$ (1,158,323)
Operating grants and contributions	25,056,379	23,820,327	(1,236,052)
Property taxes	53,836,578	57,108,108	3,271,530
Federal and state aid not restricted to specific purposes	32,975,579	27,164,946	(5,810,633)
Interest and investment earnings	732,117	600,713	(131,404)
Miscellaneous	11,187,453	10,944,606	(242,847)
Total Revenues	<u>\$ 128,066,641</u>	<u>\$ 122,758,912</u>	<u>\$ (5,307,729)</u>
EXPENSES			
Instruction	70,497,006	72,116,810	1,619,804
Instruction related services	14,041,900	13,570,884	(470,816)
Pupil services	9,695,103	9,484,458	(210,645)
Ancillary services	6,340,309	684,616	(5,655,693)
Community services	9,414,291	387,430	(9,026,861)
General administration	815,542	6,871,286	6,055,744
Plant services	413,137	8,878,657	8,465,520
Other outgo	352	1,153,230	1,152,878
Debt service - interest	4,680,462	4,359,469	(320,993)
Depreciation (unallocated)	5,398,697	4,359,166	(1,039,531)
Total Expenses and transfers	<u>121,296,399</u>	<u>121,865,806</u>	<u>569,407</u>
CHANGE IN NET ASSETS	<u>6,770,242</u>	<u>893,106</u>	<u>(5,877,136)</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

The following shows the differences between the Governmental Funds Statement and the Statement of Activities:

	Governmental Statement as June 30, 2005		
	Activities	Funds	Difference
Revenues	\$ 127,947,108	\$ 127,947,108	
Expenditures	(121,296,399)	(125,421,489)	\$ 4,125,090
Other revenues (used) and transfers in (out)	119,533	119,533	
Change in net assets/fund balance	\$ 6,770,242	\$ 2,645,152	\$ 4,125,090

GOVERNMENTAL ACTIVITIES

The "Statement of Activities" shows the cost of program services and the charges for services and goods offering those services. Charges for services, operating grants and contributions, and capital grants and contributions made up 22% of revenues for governmental activities. General Revenues not restricted to specific programs made up 78% of the total revenues available.

Instruction and instruction related activities made up 70% of expenses in 2004-2005 and 2003-2004. Pupil services including home-to-school transportation and food services made up approximately 8%. Administration including debt processing remains at 5.5%. Transportation increased from 7.2% to 7.8%. Debt service increased from 3.6%. Depreciation went from 3.6% to 4.5% in 2004-2005. All other expenses were 1.5% of the total governmental activities expenses.

The table below shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and restricted State entitlements.

	Cost of governmental activities			
	2004-2005		2003-2004	
	Total	Net	Total	Net
EXPENSES				
Instruction	\$ 70,497,006	\$(51,834,973)	\$ 72,116,810	\$(35,399,217)
Instruction related services	14,041,500	(10,897,759)	13,570,684	(11,294,845)
Pupil services	9,695,103	(4,344,204)	9,484,428	(4,186,343)
General administration	6,340,309	(3,213,073)	6,871,286	(6,779,851)
Plant services	9,414,291	(8,737,432)	8,878,657	(8,678,300)
Auxiliary services	815,542	(693,631)	684,616	376,198
Community services	413,137	(173,888)	387,430	(91,877)
Other outgo	352	12,634	1,153,230	(152,397)
Debt service - interest	4,680,462	(4,680,462)	4,359,469	(4,359,469)
Depreciation (undepreciated)	5,398,697	(5,398,697)	4,359,166	(4,359,166)
Total Expenses and transfers	<u>\$ 121,296,399</u>	<u>\$(91,961,485)</u>	<u>\$ 121,865,806</u>	<u>\$(24,925,267)</u>

GENERAL FUND BUDGET INFORMATION

The District's budget is prepared in accordance with California law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted funds is the General Fund.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

The District begins the budget process in January of each year. By law, the Governing Board must adopt a Final Budget by June 30. Time is allocated during the Board meeting for public input and Board direction. A proposed Final Budget is presented in June, which reflects the latest known financial information, included in the Governor's May Review of the state budget. This Budget is presented for adoption and forwarded to the County the following day. During the course of the fiscal year, the School District revises its budget as it deals with changes in revenues and expenditures. These reports include revisions based on state budget adoption that are normally presented in August, adjustments to actual in September, First Interim which is normally presented in December, and Second Interim which is normally presented in March.

For the General Fund, actual revenues were \$105,702,538 with original budget estimated at \$102,417,505. The difference of \$3,221,419 was due to combination of factors including adjustments to revenues due to decreased ADA, year-budget increases and adjustments for programs based on the actual allocations, and carryovers and the corresponding adjustments to district expenditures.

There are several reasons for expenditure budget revisions. Most notable are any negotiated salary increases approved by the Board of Education for District employees. The original budget does not presume negotiated salary increases. Also, any changes in the number of staff and/or staff utilization of health and welfare benefits that vary from the original projections, along with projection changes for the workers' compensation retrospective premiums would also require budget revisions.

The implementation of new instructional programs can also affect budget projections. New academically focused programs will impact expenditures in personnel, instructional materials, outside services and supplies.

SOLVENCY

The District has maintained sufficient unrestricted reserves for a district its size. It does meet the state-recommended minimum Reserve for Economic Uncertainties of 3% of General Fund expenditures, transfers out, and other financing uses. In 2004-05, expenditures, transfers out, and other financing uses totaled for the General fund equaled \$105,014,554. The 3% reserve requirement is \$3,150,432. The District continues to have the balance in the Special Reserve Fund, for other than Capital Outlay available to use and calculate in the 3% reserve requirement. The balance in this fund is \$4,829,084. The undesignated general fund reserve for economic uncertainties was \$2,631,642, representing 2.5% of the reserve requirement.

ENROLLMENT

The Santa Monica-Malibu Unified School District was originally organized as a political unit of the State of California on December 6, 1875, under the name of Santa Monica School District. On July 1 1953, the name was changed to the Santa Monica Unified School District. On July 1, 1970, the Santa Monica Community College District was separated from the Santa Monica Unified School District and on December 17, 1979, the name was changed to Santa Monica-Malibu Unified School District. The District's boundaries encompass all of the City of Santa Monica and part of Los Angeles County from the Ventura County line on the west; the Malibu area to approximately the top of the Santa Monica Mountains on the north. The boundaries exclude those portions of the north section that are included in the Las Virgenes Unified School District and those portions of the Pacific Palisades that are included in the Los Angeles Unified School District. There were no boundary changes during the fiscal year. For the year ending June 2005, the Santa Monica-Malibu Unified School District served approximately 805 pupils in Kindergarten, 5402 pupils in grades 1-6; 2115 pupils in grades 7-8; and 4,130 pupils in grades 9-12. The District operates ten elementary schools, two middle schools, two high schools, one continuation high school, one alternative school and twenty-two child care and development centers.

**SANTAMONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

The number of students enrolled establishes the basis of State revenue, staffing needs, and planning for facility needs. Therefore, enrollment is the most important projection a district can make. For the purpose of predicting enrollment and comparing historical enrollment data, the measurement data used is California Basic Education Data Survey (CBEDS) Day, which occurs the first week in October. Although the October CBEDS is the first solid indicator of the District's enrollment for the year, the best source of State revenue is based on the student's Average Daily Attendance (ADA) in class. There are three reporting periods for ADA, P-1 ending on December 15; P-2 ends April 15; and Annual ending June 30. The District is funded on the ADA it reports for the P-2 reporting period.

Annual enrollment decreased from 12,700 in 2003-04 to 12,452 in 2004-05.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2004-2005, the District had a net \$163,077,737 invested in land, buildings, equipment, and construction in progress. Assets of \$1,520,746 were capitalized in 2004-05. Depreciation expense was \$4,398,697. The net decrease in capital assets was \$3,877,951 (2.3%). The table below shows the Grand asset balances at June 30, 2005 & June 30, 2004.

	District Total		% Change 2004 to 2005
	June 30, 2005	June 30, 2004	
Land	\$ 6,988,760	\$ 6,588,760	
Work-in-process	450,843	30,434,255	-98.5%
Land improvements	1,428,443	1,489,639	-4.1%
Buildings and improvements	151,607,122	126,565,904	21.4%
Furniture, equipment, and other capital assets	1,002,569	1,877,927	-46.6%
Total Capital Assets and accumulated depreciation	\$ 163,077,737	\$ 166,935,685	-2.3%

Long-term Liabilities

At June 30, 2005, the Santa Monica-Malibu Unified School District had \$113,957,327 in long-term liabilities outstanding. This reflects a decrease of \$7,990,076 (7.0%) from June 30, 2004. The table below summarizes those liabilities:

	District Total		% Change 2004 to 2005
	June 30, 2005	June 30, 2004	
General Obligation Bonds	\$ 92,210,035	\$ 95,990,035	-3.5%
Certificates of participation	18,786,501	21,271,504	-11.7%
Capital Leases	97,779	161,263	-39.4%
Accumulated vacation - net	779,080	713,986	9.1%
Early Retirement benefits	460,000	2,077,990	-77.9%
Post-employment benefits	1,623,932	1,732,628	-6.5%
Total long-term debt	\$ 113,957,327	\$ 121,907,403	-6.5%

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

FOR THE FUTURE

The Santa Monica-Malibu Unified School District student enrollment has experienced slow and declining enrollment in previous years. The enrollment continues to decline. Out-of-district permits have declined by 250. Enrollment has declined in 2005-06 by 354 from 2004-05 (CREDRs).

As the District prepares for 2005-2006 and beyond, the fiscal impact of the State of California's fiscal crisis is improving. Santa Monica-Malibu Unified School District received 74% of its General Fund revenues from the State of California in 2004-2005. The District is, therefore, highly dependent on state revenues. Federal funding is expected to remain fairly constant. Local revenues increased slightly from previous years but are dependent on the health of the local economy. Santa Monica-Malibu Unified School District will continue to make every effort to succeed in meeting one of the priority goals of the Board of Trustees: to remain fiscally solvent. With careful planning and monitoring of our finances, Santa Monica-Malibu Unified School District is confident that we can continue to provide a quality education for our students and meet the challenges of the future.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Assistant Superintendent of Fiscal and Business Services
1651 16th Street
Santa Monica, CA 90404

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 8,872
Investments	39,719,546
Accounts Receivable	11,955,718
Due from Other Funds	590,982
Stores inventory	43,681
Prepaid items	3,320
Capital assets - land (non depreciable)	7,039,603
Capital assets - other net of accumulated depreciation	156,038,134
Total Assets	<u>\$ 215,399,856</u>
 LIABILITIES	
Accounts payable	16,091,666
Due to other agencies	1,385,814
Deferred revenues	3,676,609
Accrued interest	1,572,199
Long-term debt due within one year	6,000,110
Long-term debt due after one year	107,957,217
Total Liabilities	<u>136,683,615</u>
 NET ASSETS	
Invested in capital assets net of related debt	51,983,422
Restricted for debt service	8,019,645
Restricted for capital projects	5,062,003
Restricted for other purposes	5,700,359
Unrestricted	7,942,812
Total Net Assets	<u>\$ 78,716,241</u>

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

GOVERNMENTAL ACTIVITIES	Expenses	Program revenues		Net (Expenses) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities
Instruction	\$ 70,497,006	\$ 1,178,695	\$ 17,483,338	\$ (51,834,973)
Instruction related services	14,041,500	347,230	2,796,911	(10,897,759)
Pupil services	9,695,103	2,345,210	3,005,689	(4,344,204)
General administration	6,340,309	299,929	827,307	(5,213,073)
Plant services	9,414,291	34,126	642,733	(8,737,432)
Auxiliary services	815,542	24,541	97,370	(693,631)
Community services	413,137	48,161	191,088	(173,888)
Other outgo	352	643	12,343	12,634
Debt service - interest	4,680,462			(4,680,462)
Depreciation (walk forward)	3,398,697			(3,398,697)
Total Governmental Activities	121,296,399	4,278,535	25,036,379	(91,961,485)
GENERAL REVENUES				
Property taxes levied for				
General purposes				35,155,555
Debt service				7,430,063
Other specific purposes				11,250,960
Federal and state aid not restricted to specific purposes				32,975,579
Interest and investment earnings				732,117
Miscellaneous				11,187,453
Total general revenue				98,731,727
CHANGE IN NET ASSETS				6,770,242
NET ASSETS, Beginning of year				71,945,999
NET ASSETS, End of year				\$ 78,716,241

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General</u>	<u>Bond Interest & Redemption</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash	\$ 20,000		\$ (11,125)	\$ 8,872
Investments	14,293,571	\$ 6,400,360	19,023,615	39,719,546
Accounts receivable	9,931,037		2,024,681	11,955,718
Due from other funds	489,601		101,381	590,982
Stores	22,766		20,915	43,681
Prepaid expenditures	240		3,080	3,320
Total Assets	<u>\$ 24,757,215</u>	<u>\$ 6,400,360</u>	<u>\$ 21,164,544</u>	<u>\$ 52,322,119</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	14,926,084		1,165,382	16,091,666
Due to other funds	896,213		489,601	1,385,814
Deferred revenues	2,956,190		720,419	3,676,609
Total Liabilities	<u>18,778,487</u>		<u>2,375,602</u>	<u>21,154,089</u>
FUND BALANCES				
Reserved	3,347,086	6,400,360	5,150,254	14,897,700
Unreserved				
Designated	2,631,642			2,631,642
Undesignated			13,638,688	13,638,688
Total Fund Balance	<u>5,978,728</u>	<u>6,400,360</u>	<u>18,788,942</u>	<u>31,168,030</u>
Total Liabilities and Fund Balance	<u>\$ 24,757,215</u>	<u>\$ 6,400,360</u>	<u>\$ 21,164,544</u>	<u>\$ 52,322,119</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2005**

Total Fund Balances - Governmental Funds \$ 31,168,030

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used for governmental activities are not financial resources and therefore are not

Cost of capital assets	\$ 219,532,601	
Less: accumulated depreciation	<u>(96,454,864)</u>	168,077,737

Governmental funds do not report a liability for accrued interest until due and payable. (1,572,199)

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of post-employment benefits

General Obligation Bonds	\$ 92,210,035	
Certificates of Participation	18,786,501	
Capital Leases	97,779	
Early Retirement Incentive	460,000	
Post-employment benefits	1,623,932	
Accumulated vacation - net	<u>779,080</u>	(113,957,327)

Total Net Assets - Governmental Activities \$ 78,216,241

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>Bond Interest & Redemption</u>	<u>Other Governmental Funds</u>	<u>Total</u>
REVENUES				
Revenue Limit Sources				
State apportionment	\$ 27,293,665		\$ 583,413	\$ 27,877,078
Local sources	35,155,552			35,155,552
Total Revenue Limit Sources	<u>62,449,217</u>		<u>583,413</u>	<u>63,032,630</u>
Federal revenues	4,869,075		2,553,057	7,422,131
Other state revenues	16,063,413	\$ 29,146	2,789,560	18,882,119
Other local revenues	22,320,833	7,493,674	8,795,720	38,610,227
Total Revenues	<u>103,702,538</u>	<u>7,522,820</u>	<u>14,721,750</u>	<u>127,947,108</u>
EXPENDITURES				
Current Expenditures				
Certificated Salaries	51,608,298		2,782,713	54,391,011
Classified salaries	17,736,380		3,113,740	20,850,120
Employee benefits	20,447,477		1,595,574	22,043,051
Books and Supplies	3,208,964		2,040,220	5,249,184
Services and operating expenditures	9,776,676		1,095,076	10,871,752
Other outgo	(514,689)		521,052	6,363
Capital outlay	110,218		1,285,806	1,396,024
Debt service - principal	58,484	3,740,000	2,490,000	6,288,484
Debt service - interest	10,822	3,475,941	838,737	4,325,500
Total Expenditures	<u>102,442,630</u>	<u>7,215,941</u>	<u>15,762,918</u>	<u>125,421,489</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,259,908</u>	<u>306,879</u>	<u>(1,041,168)</u>	<u>2,525,619</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	620,000		6,659,743	7,279,743
Operating transfers out	(2,571,924)		(4,707,819)	(7,279,743)
Other sources			119,533	119,533
Total Other Financing Sources (Uses)	<u>(1,951,924)</u>		<u>2,071,457</u>	<u>119,533</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>1,307,984</u>	<u>306,879</u>	<u>1,030,289</u>	<u>2,645,152</u>
FUND BALANCE, Beginning of year	<u>4,670,744</u>	<u>6,093,481</u>	<u>17,758,653</u>	<u>28,522,878</u>
FUND BALANCE, End of year	<u>\$ 5,978,728</u>	<u>\$ 6,400,360</u>	<u>\$ 18,788,942</u>	<u>\$ 31,168,030</u>

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

Total net change in Fund Balances - Governmental Funds **\$ 2,645,152**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of these assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	\$ 1,520,749	
Depreciation expense	<u>(5,398,697)</u>	(3,877,948)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however interest expense is recognized as the interest accrues, regardless of when it is due.

Accrued interest - June 30, 2005	\$ (1,572,199)	
Accrued interest - June 30, 2004	<u>1,625,161</u>	52,962

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 3,740,000

Repayment of COP principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,485,000

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 63,484

In the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amounts earned versus the amount used.

Compensated absences	\$ (65,094)	
Post-employment benefits	108,696	
Early retirement benefits	<u>1,617,990</u>	<u>1,661,592</u>

Total change in Net Assets - Governmental Activities **\$ 6,770,242**

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP) AND ACTUAL
GENERAL FUND
JUNE 30, 2005**

	General Fund			Variance with Final Budget Favorable (Unfavorable)
	Budget Amounts		Actual	
	Original	Final		
REVENUES				
<i>Revenue Limit Sources</i>				
State apportionment	\$ 24,072,246	\$ 25,883,985	\$ 27,293,665	\$ 1,409,680
Local sources	38,401,617	36,721,068	35,155,552	(1,565,516)
Total Revenue Limit Sources	62,473,863	62,605,053	62,449,217	(155,836)
Federal revenues	4,544,748	5,198,624	4,869,075	(329,549)
Other state revenues	15,007,891	15,723,943	16,063,413	339,470
Other local revenues	20,391,003	22,749,797	22,320,833	(428,964)
Total Revenues	102,417,505	106,277,417	105,702,538	(574,879)
EXPENDITURES				
<i>Current Expenditures</i>				
Certificated Salaries	51,220,084	52,578,374	51,608,298	970,076
Uncertificated salaries	17,786,349	18,518,066	17,736,380	781,686
Employer benefits	20,349,383	20,447,479	20,447,477	2
Books and Supplies	3,531,349	3,208,965	3,208,964	1
Services and operating expenditures	10,305,320	10,949,327	9,776,676	1,172,651
Other outgo	(577,190)	(546,117)	(514,689)	(31,428)
Capital outlay		2,018,298	110,218	1,908,080
Debt service - principal			58,484	(58,484)
Debt service - interest			10,822	(10,822)
Total Expenditures	102,611,295	107,174,392	102,442,630	4,731,762
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(193,790)	(896,975)	3,259,908	4,156,883
OTHER FINANCING SOURCES (USES)				
Operating transfers in	620,000	620,000	620,000	
Operating transfers out	(400,000)	(400,000)	(2,571,924)	(2,171,924)
Total Other Financing Sources (Uses)	220,000	220,000	(1,951,924)	(2,171,924)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	26,210	(676,975)	1,307,984	1,984,959
FUND BALANCE, Beginning of year	3,750,198	4,670,744	4,670,744	
FUND BALANCE, End of year	\$ 3,776,408	\$ 3,993,769	\$ 5,978,728	\$ 1,984,959

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP) AND ACTUAL
BOND INTEREST & REDEMPTION
JUNE 30, 2005**

	<u>Bond Interest & Redemption</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Budget Amounts</u>		Actual	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Other state revenues			\$ 29,146	\$ 29,146
Other local revenues	\$ 6,893,400	\$ 6,893,400	7,493,674	600,274
Total Revenues	<u>6,893,400</u>	<u>6,893,400</u>	<u>7,522,820</u>	<u>629,420</u>
EXPENDITURES				
Debt service - principal	3,740,000	3,740,000	3,740,000	
Debt service - interest	3,744,164	3,744,164	3,475,941	268,223
Total Expenditures	<u>7,484,164</u>	<u>7,484,164</u>	<u>7,215,941</u>	<u>268,223</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(590,764)	(590,764)	3,259,908	897,643
FUND BALANCE, Beginning of year	6,093,481	6,093,481	6,093,481	
FUND BALANCE, End of year	<u>\$ 5,502,717</u>	<u>\$ 5,502,717</u>	<u>\$ 9,353,389</u>	<u>\$ 897,643</u>

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005**

	<u>Trust Funds</u>	<u>Agency Funds</u>		<u>Total Fiduciary Funds</u>
	<u>Retiree Benefits</u>	<u>Warrant Pass-thru</u>	<u>Student Bodies</u>	
ASSETS				
Cash			\$ 541,920	\$ 541,920
Investments	\$ 36,218	\$ 473,449		509,667
Accounts Receivable	289		11,300	11,589
Due from Other Funds	794,832			794,832
Stores inventory			41,276	41,276
Prepaid items			66,260	66,260
Total Assets	<u>\$ 831,339</u>	<u>\$ 473,449</u>	<u>\$ 660,756</u>	<u>\$ 1,965,544</u>
LIABILITIES				
Accounts payable			62,291	62,291
Due to other agencies		473,449		473,449
Due to student groups			598,465	598,465
Total Liabilities		<u>473,449</u>	<u>660,756</u>	<u>1,134,205</u>
NET ASSETS				
Reserve				
For debt service	831,339			831,339
Total Net Assets	<u>\$ 831,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 831,339</u>

The accompanying notes are an integral part of these financial statements.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS – TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Retiree Benefits
ADDITIONS	
Interest and investment earnings	\$ 823
Total Additions	823
 DEDUCTIONS	
Total Deductions	-
 CHANGE IN NET ASSETS	823
NET ASSETS, Beginning of year	830,516
NET ASSETS, End of year	\$ 831,339

The accompanying notes are an integral part of these financial statements.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE#1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Santa Monica-Malibu Unified School District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Santa Monica-Malibu Unified School District accounts for their financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

A. Financial Reporting Entity

The Santa Monica-Malibu Unified School District and the Los Angeles County Regionalized Business Services Corporation have a financial and operational relationship that meets the reporting entity definition criteria of GASB Statement No. 14, The Financial Reporting Entity, for inclusion of the corporation as a component unit of the district. Accordingly, the financial activities of the corporation have been included in the financial statements of the district. The following are those aspects of the relationship between the district and the corporation that satisfy GASB Statement No. 14 criteria.

Accountability.

1. The corporation's Board of Directors were appointed by the district's Board of Education.
2. The district is able to impose its will upon the corporation, based on the following:
 - All major financing arrangements, contracts, and other transactions of the corporation must have the consent of the district.
 - The district exercises significant influence over operations of the corporation, as it is anticipated that the district will be the sole source of all facilities owned by the corporation. Likewise it is anticipated that the district's lease payments will be the sole revenue source of the corporation.
3. The corporation provides specific financial benefits or imposes specific financial burdens on the district based upon the following:
 - Any deficits incurred by the corporation will be reflected in the lease payments of the district.
 - Any surpluses of the corporation revert to the district at the end of the lease period.
 - The district has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the corporation.

Scope of Public Service:

The corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State on November 1, 2001. The corporation was formed for the sole purpose of providing financial assistance to the district for construction and acquisition of major capital facilities. Upon completion, the district intends to occupy all corporation facilities under a lease-purchase agreement effective through May 2025. At the end of the lease term, title of all corporation property will pass to the district for additional consideration.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Financial Presentation

For financial presentation purposes, the corporation's financial activity has been blended, or combined, with the financial data of the district. The financial statements present the corporation's financial activity within the COP's Debt Service Fund and the COP's Building fund. Capital assets acquired or constructed by the corporation and Certificates of participation issued by the Corporation are included in the statement of net assets.

Fund Accounting

The accounts of the Santa Monica-Malibu Unified School District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, fund balance (or retained earnings), revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Santa Monica-Malibu Unified School District accounts are organized into fund types and account groups as follows:

Governmental Fund Types

General Fund (Major Governmental Fund) is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains the following special revenue funds:

- **Adult fund** used to account for revenues and expenditures committed to adult education programs maintained by the District.
- **Child Development fund** is used to account for revenues and expenditures committed to child development programs maintained by the District.
- **Cafeteria fund** is used to account for revenues and expenditures committed to operate the District's food service operation.
- **Deferred Maintenance fund** is used to account for specific revenue sources and expenditures made for the purpose of major repair or replacement of District real property.
- **Special Reserve (Non-capital) fund** is used to provide for the accumulation of general fund resources for general operating purposes.
- **Foundation fund** is used to account for resources received from gifts or bequests under which both earnings and principal may be used for purposes that support the District's programs.

Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs. The District maintains the following debt service funds:

- **Bond Interest & Redemption fund (Major Governmental Fund)** is used to account for taxes and revenues collected and repayment of bonds issued by the District.
- **COP's Debt Service funds (1 & 2)** are used to account for revenues collected and repayment of certificates of participation issued by the District.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains the following capital project funds:

- **Building fund** is used to account for proceeds from the sale of bonds and related expenditures.
- **Capital Facilities fund** is used to account for fees levied, revenues, and expenditures related to the approval for development of properties that affect the school facilities.
- **State School Building fund** is used to account for state apportionment, revenues and expenditures as provided by Education Code 17000-17039.
- **Special Reserve (Capital) fund** is used to provide for the accumulation of general fund resources for major repair or replacement of District real property.
- **COP's Building fund** is used to account for proceeds from the sale of certificates of participation and related expenditures.

Fiduciary Fund Types

Trust Funds are used to account for the assets of others for which the District acts as trustee. The District maintains the following trust funds:

- **Retiree Benefit fund** is used to account for health and welfare benefits paid on behalf of retiree's.

Agency Funds are used to account for the assets of others for which the District acts as agent. The District maintains the following agency fund:

- **Student body funds** are used to account for revenues and expenditures to promote the general welfare, morals, and educational expectations of the student body.
- **Warrant/Pass-through fund** is used to account separately for the collection of federal and state taxes, credit union, insurance contributions, and other receipts from employees.

B. Basis of Accounting – Measurement Focus

Basis of accounting refers to when revenues and expenditures or equities are recognized in the accounts and reported in the financial statements. **Basis of accounting** relates to the timing of ~~account~~ entry made, ~~type~~ type of the measurement focus applied.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB 34 introduces an integrated approach, which includes government-wide statements with a reconciliation that clearly lines the two levels of financial reporting. Major funds are now the focus of the fund statements to highlight the more significant components of the governmental activities. Some of the significant changes in the statement include a Management Discussion and Analysis (MD&A) section providing an analysis of the district's overall financial position and results of operations and financial statements prepared using full accrual accounting for all of the district's activities.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Government-wide financial statements (i.e., the statements of net assets and the statement of activities) report information on all of the non-fiduciary activities of the district. As a general rule, the effect of financing activity has been eliminated from these statements. Governmental activity has been reported separately from business-type activities. Both governmental and business-type activities in the general fund provide the fiscal statement and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and programs are recognized when incurred, regardless of the timing of related cash flows.

The statements of activities demonstrate the degree to which the district expenses of given function or segment are offset by program revenues. Direct expenses are those that are directly identifiable within a specific function or segment. Program revenues include charges for services, fees, or directly benefit from goods, services, or privileges provided by a given function or segment. In addition, program revenues include grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Transfers and other items not properly included among program revenues are reported instead as general revenues.

Read financial statements are also provided in the report for all governmental funds and fiduciary funds of the District. Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. The District reports the General fund, County School Facilities fund, and the Special Reserve (Capital) fund as major governmental funds.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Certain property taxes are recognized as revenues when collected because of the funding through for California state apportionment. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Net assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increase or decrease net assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net assets.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered). Principal and interest on long-term debt is recognized when due.

Revenues - Exchanges transactions result from transactions in which each party gives and receives items of equal value, and is recorded on 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 not available because available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days after the fiscal year end.

Revenues - Non-exchange transactions result from transactions in which the District receives value without directly giving equal value in return including property taxes, grant revenues, ad valorem, and donations. Revenues from property taxes is recognized in the fiscal year in which measure is levied. Revenues from certain grants, ad valorem, and donations is recognized in the fiscal year in which all eligibility requirements have been met and fulfilled. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenues from non-exchange transactions must also be available before recognized.

SANTA MONICA MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Under the modified accrual basis, state apportionments, interest, certain grants, and other local sources are considered both measurable and available (fiscal year) and

Expenses/Expenditures are recognized at the time they are incurred. The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term debt, which has not matured, are recognized when paid in governmental funds. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

C. Budgets and Budgetary Accounting

The Governing Board adopts an operating budget no later than July 1 in accordance with state law. The Governing Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. It is this final revised budget that is presented in these financial statements. The District employee budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account. No budgets were prepared for the COP's Debt Service or the COP's Building fund.

D. Encumbrances

The Santa Monica-Malibu Unified School District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances were liquidated at June 30 since they do not constitute expenditures or liabilities.

E. Contingent Liabilities

Accumulated unpaid employee vacation benefits are recognized as long-term liabilities of the District. The amount of the liability expected to be paid from current resources is recognized at year-end in the governmental fund that will pay the benefit. The non-current portion of the liability is recognized in the general long-term debt account group.

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 when sick leave is used since 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.

F. Property Tax

Secured property taxes stand as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Los Angeles bills and collects the taxes for the District. The District recognizes tax revenues when received.

G. Investments

Investments held at June 30, 2005, with original maturities greater than one year are noted at fair value. Fair value is determined based on quoted market prices at year-end. All investments not required to be reported at fair value are reported at cost or amortized cost.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

H. Stores - Inventory of Supplies

Inventory is valued at lower of cost or market utilizing the weighted average method. Inventory in the applicable Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are withdrawn from the stores inventory for consumption. Reported inventories are equally offset by a fund balance reserve that indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

I. Prepaid

Prepaid expenditures or expenses represent payments made to vendors for services that will benefit periods beyond June 30, 2005.

J. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Years</u>	<u>Years</u>	
Land Improvements	20	Cafeteria Equipment	15
Buildings	50	Musical Equipment	10
Building Improvements	20/30	Printing Equipment	10
Portable Classrooms	25	Audio/Visual Equipment	10
Autos/Trucks/Buses	8	Furniture/Other Equipment	5/20
Industrial Equipment	15/20	Data Processing Equipment	5/7
Grounds Equipment	15	Photocopiers/Computers	5

K. Interfund Balances

Receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables" in the fund financial statements. These amounts are eliminated in the governmental activities column of the statement of net assets.

L. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities column of net assets.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

M. Bond Balance, Reserve and Designation

Reservations of the ending fund balance indicate the portions of fund balance not appropriate for expenditures or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets is verified in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported unrestricted when there are no limitations imposed on their use either through legislation or restriction imposed by sources.

O. Use of Revenues

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain assumptions and judgments. The estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE #1 - CASH AND INVESTMENTS

A. Cash in Banks

Cash balances in banks at June 30, 2004 are insured up to \$100,000 by the Federal Deposit Insurance Corporation. To facilitate the processing of claims, a revocable-type of trust bank account was established. All claims ending are handled by the District's administrator who writes and issues checks in settlement of claims against the District. The District periodically reimburses this trust account.

B. Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains separately all of its cash in the Los Angeles County Treasury as part of the common investment pool which consisted of \$15,352,640,042 in deposits as of June 30, 2004. The fair market value of this pool as provided by the pool sponsor was \$15,315,987,650 as of that date. Interest earned by these pools is deposited in the participating funds. The District is authorized 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, brokers acceptance, commercial paper, certificates of deposit, repurchase or reverse repurchase agreements, medium term corporate notes, sheets of municipal interest issued by diversified municipal companies, securities of participation, obligations with first priority security, and collateralized mortgage obligations.

The District has adopted Governmental Accounting Standards Board Statement 31 (GASB 31), which requires investments of governmental agencies to be reported at fair value. However, investment pools, such as a state or county cessary, may report the value of short-term investments with remaining maturities of less than 90 days at amortized cost. The majority of the County Treasury investments have a remaining maturity of less than 90 days. GASB 31 does not apply if cost/value differences are immaterial. The District has chosen to reflect investments in the County Treasury at cost.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

The District's cash, cash equivalents, and investments at June 30, 2005 have been categorized to indicate the level of risk assumed by the District. Cash in County deposits cannot be categorized.

	Category			Carrying Amount	Fair Value
	1	2	3		
Cash on hand and in bank	\$ 530,791			\$ 530,791	\$ 530,791
Cash in revolving fund	20,000			20,000	20,000
Total Deposits	<u>\$ 550,791</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 550,791</u>	<u>\$ 550,791</u>
Investment pool					
Uncategorized - Deposits with county Governmental Funds				\$ 36,931,620	\$ 36,843,474
Agency & Trust Funds				509,667	508,451
Categorized					
Wells Fargo 100% Money Market	\$ 2,787,926			2,787,926	2,787,926
Total Deposits	<u>\$ 2,787,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,229,213</u>	<u>\$ 40,139,851</u>

The categories are as follows:

Category 1: Insured or collateralized with securities held by the District or its agent in the District's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or its agent in the District's name.

Category 3: Uncollateralized. This includes any bank balances that is collateralized with securities held by the pledging financial institution's trust department or its agent but not in the District's name.

NOTE #6 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2005, consist of the following:

	General Fund	Non-Major Funds	Governmental Funds	Proprietary Funds	Total
State Revenue Limit	\$ 3,084,041	\$ 21,405	\$ 3,105,447		
Federal Government	1,548,379	735,468	2,283,844		
State Government	1,974,223	86,127	2,060,350		
Local Sources - Other	994,604	1,037,988	2,032,592	\$ 11,300	
Local Sources - Interest	119,535	117,265	232,800		289
Other Sources	51,767	26,430	78,197		
Earned Salary Advances	2,162,488		2,162,488		
Total	<u>\$ 9,931,037</u>	<u>\$ 2,024,681</u>	<u>\$ 11,955,718</u>	<u>\$ 11,589</u>	

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE #4 - INTERFUND ACTIVITIES

Interfund Activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are noted as part of the reconciliation to the government-wide financial statements.

A. Interfund Receivables/Payables (Due To/Due From)

Individual fund interfund receivable and payable balances at June 30, 2005 are as follows.

Funds	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 489,601	\$ 896,213
Adult		375,393
Child Development	101,381	
Cafeteria		114,208
Retiree Benefits	794,832	
Total	<u>\$ 1,385,814</u>	<u>\$ 1,385,814</u>

B. Operating Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the year ended June 30, 2005 are as follows:

The General fund transferred to the Deferred Maintenance fund for local match.	\$ 400,000
The General fund transferred to the Special Reserve (non-capital) fund.	1,764,000
The General fund transferred to the COP's Debt Service fund #2.	407,924
The Cafeteria fund transferred to the General fund.	20,000
The Building fund transferred to the General fund.	400,000
The State School Building fund transferred to the Building fund.	1,027,819
The Special Reserve (capital) fund transferred to the General fund.	200,000
The Special Reserve (capital) fund transferred to the COP's Debt Service fund #1.	60,000
The Special Reserve (capital) fund transferred to the Special Reserve (non-capital) fund.	3,000,000
Total	<u>\$ 7,279,743</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE #5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2005 is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Balance End of year
Capital Assets, not being depreciated				
Land	\$ 6,588,760	-	-	\$ 6,588,760
Construction in process	30,434,255	\$ 557,457	\$ (30,540,869)	450,843
Total assets not being depreciated	<u>37,023,015</u>	<u>557,457</u>	<u>(30,540,869)</u>	<u>7,039,603</u>
Capital Assets, being depreciated				
Site improvements	10,418,357	167,396	135,524	10,721,277
Buildings and portables	161,924,762	448,571	29,675,594	192,048,927
Equipment - other than technology	3,702,198	85,933	155,750	3,943,881
Technology and software-technology	2,521,967	187,280	425,584	3,134,831
Buses and other vehicles	2,497,148	74,109	72,825	2,644,082
Total assets being depreciated	<u>181,064,432</u>	<u>963,289</u>	<u>30,469,277</u>	<u>212,492,998</u>
Capital Assets, depreciation				
Site improvements	8,942,980	351,575	(1,721)	9,292,834
Buildings and portables	34,088,210	4,351,874	1,721	38,441,805
Equipment - other than technology	3,518,944	55,897	-	3,574,841
Equipment - technology	2,223,293	296,212	(41,461)	2,477,044
Buses and other vehicles	2,358,332	343,139	(33,131)	2,668,340
Total accumulated depreciation	<u>51,131,759</u>	<u>5,398,697</u>	<u>(75,992)</u>	<u>56,454,864</u>
Governmental Activities - capital assets net	<u>\$ 166,955,688</u>	<u>\$ (3,877,951)</u>	<u>\$ -</u>	<u>\$ 163,077,737</u>

NOTE #6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2005, consist of the following:

	General Fund	Non-Major Funds	Total Governmental Funds	Fiduciary Funds
State Revenue Limit	\$ 137,675		\$ 137,675	
Federal Government	96,598		96,598	
State Government	168,000	\$ 15,306	183,306	
Accrued payroll	12,553,322	577,671	13,130,993	
Vendors	1,959,446	241,792	2,201,238	\$ 62,291
Capital outlay and retention		329,357	329,357	
Other accounts payable	11,043	1,456	12,499	
Total	<u>\$ 14,926,084</u>	<u>\$ 1,165,582</u>	<u>\$ 16,091,666</u>	<u>\$ 62,291</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE#7- DEFERRED REVENUE

Deferred revenue at June 30, 2005, consists of the following:

	General Fund	Non-Major Funds	Total Governmental Funds
Federal Government	\$ 572,249		\$ 572,249
State Government	132,135	\$ 720,419	852,554
Local Sources	2,251,806		2,251,806
Total	<u>\$ 2,956,190</u>	<u>\$ 720,419</u>	<u>3,676,609</u>

NOTE#8 - LONG-TERM LIABILITIES

A. Long-Term Liability Summary

A schedule of changes in long-term liabilities for the year ended June 30, 2005, is shown below.

	Balance Beginning of Year	Additions and Adjustments	Deductions	Balance End of Year	Due Within One Year
General Obligation Bond	\$ 95,950,039		\$ 3,740,000	\$ 92,210,039	\$ 4,070,000
Certificates of Participation	21,271,901		2,483,000	18,788,901	475,000
Capital Leases	161,263		63,484	97,779	65,937
Early Retirement Incentives	2,077,990	\$ (1,617,990)		460,000	230,000
Post-employment Benefits	1,732,628	(108,696)		1,623,932	380,093
Accumulated vacation	713,986	63,094		779,080	779,080
Total Long-term liabilities	<u>\$121,907,403</u>	<u>\$ (1,661,592)</u>	<u>\$ 6,283,484</u>	<u>\$113,957,327</u>	<u>\$ 6,000,110</u>

B. General Obligation Bonds

During the June 1998 election, the voters provided the District with the ability to issue \$75,000,000 of Taxable General Obligation Bonds. In August 1998 the Series 1998 bonds were issued for \$68,145,000 with interest rates ranging from 3.75 percent to 5.75 percent. The series 1998 bonds were issued to refund the total outstanding principal amount of prior bond issues pursuant to the 1990 authorization. The bonds mature at various dates with the final maturity of August 1, 2018. Series 1999A of these bonds were issued for \$22,175,035 in June 1999, with interest rates ranging from 5.15 percent to 5.50 percent. The bonds mature at various dates with the final maturity of August 1, 2023. Series 2001 of these bonds were issued for \$3,995,000 in June 2001 with interest rates ranging from 4.00 percent to 5.75 percent. The bonds mature at various dates with the final maturity of August 1, 2015.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Bonds issued and outstanding at June 30, 2005 are as follows:

Issue Date	Maturity Date	Interest Rate	Bonds Outstanding			
			Original Issue	June 30, 2004	Redeemed	June 30, 2005
08/98	08/01/18	5.65-5.70%	\$ 68,145,000	\$ 55,815,000	\$ 2,710,000	\$ 53,105,000
6/1/99	08/01/11	3.20-4.90%	15,825,000	14,110,000	930,000	13,180,000
6/1/99	08/01/23	5.15-5.50%	22,175,035	22,175,035		22,175,035
6/1/01	08/01/25	4.00-5.75%	3,995,000	3,850,000	100,000	3,750,000
Total			<u>\$ 110,140,035</u>	<u>\$ 95,950,035</u>	<u>\$ 3,740,000</u>	<u>\$ 92,210,035</u>

The future debt service requirements areas follows:

Year Ending June 30	Interest to		Total
	Principal	Maturity	
2006	\$ 4,070,000	\$ 3,320,203	\$ 7,390,203
2007	4,410,000	3,148,826	7,558,826
2008	4,770,000	2,959,087	7,729,087
2009	5,160,000	2,738,087	7,898,087
2010	5,595,000	2,485,682	8,080,682
2011 - 2015	31,602,218	16,722,676	48,324,894
2016 - 2020	29,101,161	22,193,763	51,294,924
2021 - 2025	7,211,656	12,656,289	19,867,945
2026	290,000	8,338	298,338
	<u>\$ 92,210,035</u>	<u>\$ 66,232,951</u>	<u>\$ 158,442,986</u>

C. Certificates of Participation

The District has executed and delivered Certificates of Participation (COP's) to finance the acquisition of equipment, real property and improvements. The District has entered into agreements to sell and lease back the qualifying assets. Upon expiration of the lease period, title passes to the District. District ~~repay~~ payments comprise the revenue stream underlying the Certificates of Participation issued.

Beginning March 1, 1997 the District entered into agreements under the Los Angeles County Regionalized Business Services Corporation to acquire various capital ~~assets~~ Certificates were issued for \$3,015,000. The debt bears interest rates ranging from 4.00 percent to 4.75 percent. The first debt payment is due February 15, 2017. On November 7, 2001 the District entered into an agreement with the Los Angeles County Regionalized Business Services Corporation to acquire interest free real property. Certificates (Sedes B and C) were issued for \$19,961,501. The debt bears interest rates ranging from 3.50 percent to 5.75 percent. The final debt payment is due May 1, 2025. The 1997 Issue was redeemed in full.

COP's issued and outstanding at June 30, 2005 are as follows:

Issue Date	Maturity Date	Interest Rate	Certificates of Participation Outstanding			
			Original Issue	June 30, 2004	Redeemed	June 30, 2005
3/1/97	2/15/17	4.00-4.75%	\$ 3,015,000	\$ 2,270,000	\$ 2,270,000	
11/1/01	5/1/25	3.50-5.75%	19,961,501	19,001,501	215,000	\$ 18,786,501
Total			<u>\$ 22,976,501</u>	<u>\$ 21,271,501</u>	<u>\$ 2,485,000</u>	<u>\$ 18,786,501</u>

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

The future debt service requirements are as follows:

<u>Year Ending June 30</u>	Interest to		Total
	<u>Principal</u>	<u>Maturity</u>	
2006	\$ 475,000	\$ 672,494	\$ 1,147,494
2007	495,000	654,500	1,149,500
2008	510,000	635,500	1,145,500
2009	580,000	615,453	1,145,453
2010	555,000	594,325	1,149,325
2011 - 2015	4,890,000	2,439,028	7,329,028
2016 - 2020	6,542,112	2,813,201	9,355,313
2021 - 2025	4,789,390	6,791,330	11,580,720
	<u>\$ 18,786,501</u>	<u>\$ 15,215,830</u>	<u>\$ 34,002,332</u>

D. Capital Leases

The District leases equipment valued at \$161,263 under agreements, which provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Balance, Beginning of year	\$ 161,263
Payments	(63,484)
Balance, End of year	<u>\$ 97,779</u>

<u>Year Ending June 30</u>	Lease Payment
	2006
2007	31,622
2008	1,536
Total	105,025
Less amount representing interest	(7,246)
Present value of net minimum lease payments	<u>\$ 97,779</u>

E. Early Retirement Incentives

STRS Golden Handshake

The District has adopted an early retirement incentives program, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have had five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District. A total of 29 employees retired in exchange for the additional two years of service credit. The District has elected to pay the early retirement incentive cost of \$1,291,391 in the current year.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

District Sponsored 45% Plan

The District had adopted an early retirement incentive plan whereby eligible employees may elect early retirement and have sixty-five percent of their current salaries paid to them over a three to five year period. A total of 48 employees have retired under the plan. Current year expenditures for the District Sponsored early retirement plan amounted to \$114,599. The District made the final payment in the current year.

Service Recognition Program

The District has adopted an early retirement incentive plan whereby eligible employees may elect early retirement and receive an incentive equal to \$1,000 for each year of service paid to them over a three year period. Eligible employees must be 55 years or older on or before June 30, 2004 and have 28 or more years of service. A total of 21 employees have retired under the plan. Two annual payments of \$330,000 remain and the District has an unfunded future liability of \$460,000.

F. Post-employment Benefits

The District provides post-employment dental and health care benefits, in accordance with District employment contracts, to all employees who retire from the District. Currently, 106 employees meet those requirements. The District contributes 100% of the amount of premiums incurred by retirees and their dependents prior to age 65. Expenditures for post-employment benefits are recognized on a pay-as-you-go basis, as retirees' claims/premiums are paid. During the year, net expenditures of \$377,525 were recognized for retirees' health care benefits. The ~~unfunded~~ liability of post-employment benefits at June 30, 2005 is \$1,823,932.

G. Accumulated Unpaid Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2005, amounted to \$779,080.

NOTE#9- FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Bond Interest & Redemption Fund	Non-Major Funds	Total Governmental Funds	Trust Fund
Reserved					
Restricted Investments	\$ 20,000		\$ 2,788,016	\$ 2,808,016	
Stores Inventory	22,766		20,915	43,681	
Prepays	240		3,080	3,320	
Restricted programs	3,304,080	\$ 6,400,360	2,338,333	12,042,773	\$ 831,339
Total Reserved	<u>3,347,086</u>	<u>6,400,360</u>	<u>5,150,344</u>	<u>14,897,790</u>	<u>831,339</u>
Unreserved					
Designated for economic uncertainties -	2,631,642			2,631,642	
Undesignated			13,638,688	13,638,688	
Total Unreserved	<u>2,631,642</u>		<u>13,638,688</u>	<u>16,270,330</u>	
Total	<u>\$ 5,978,728</u>	<u>\$ 6,400,360</u>	<u>\$ 18,789,032</u>	<u>\$ 31,168,120</u>	<u>\$ 831,339</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE #10- COMMITMENTS AND CONTINGENCIES

A. Litigation

The District is involved in various litigation. In the opinion of management (and legal counsel), the disposition of all litigation pending will not have a material effect on the District's financial statements.

C. Sick Leave

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees, therefore, are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized in the District's financial statements.

C. State and Federal Appropriations, Awards and Grants

The District has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, in the opinion of

NOTE #11 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. ~~Certificated employees are members of the State Teachers' Retirement System (STRS) and Classified employees are members of the Public Employees' Retirement System (PERS).~~

A. STRS

Plan Description

The District contributes to the California State Teachers' Retirement System (STRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. State statutes, as legislatively amended, within the State Teachers' Retirement Law, establish benefit provisions. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal 2004-05 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal year ending June 30, 2005, 2004, and 2003 were \$4,364,374, 4,393,677, and \$4,318,571, respectively, and equal 100 percent of the required contributions for each year.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

B. PERS

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. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. State statutes, as legislatively amended, within the Public Employees' Retirement Law, establish benefit provisions. 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, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the retirement costs adopted by the CalPERS Board of Administration. The required employer contribution rate is a percent of annual payroll applied at approximately 9.95 percent, and 2.8 % for 2004-05. There was no required employer contribution rate for fiscal 2001-2002. The contribution requirements of the plan members are established by State statute. District's contributions to CalPERS for the fiscal year ending June 30, 2005, 2004, and 2003, were \$1,777,730, 1,808,806, and \$493,072, respectively, and equal 100 percent of the required contributions for each year.

NOTE #12 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District did not prepare a budget for the COP's Debt Service #3 or the COP's Building funds. The District ended the year with a deficit fund balance in the Child Development fund of \$218,285.

NOTE #13 - RISK MANAGEMENT

The District's risk management activities are recorded in the General Fund through its participation in the public entity risk pools (JPA's) for the workers' compensation programs and excess property and liability coverage. Refer to Note #14 for additional information regarding the JPA's. For insured programs, there have been no significant reductions in insurance coverage. Self-insured entities have not extended insurance coverage for the current year or the prior year.

NOTE #14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District pays an annual premium to each entity for its health, dental, vision, workers' compensation, and property liability coverage. The relationships between the District, the pools and the JPA's are such that they are not separate 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 statements. Audited financial statements are available from the respective entities. The District's share of year-end assets, liabilities or fund equity has not been calculated. None of the JPA's had long-term debt outstanding at June 30, 2005. The District is a member of the following public entity risk pools:

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

A. <u>Entity</u>	Schools Excess Liability Fund (SELF)	Alliance for Schools for Cooperative Insurance Programs (ASCIP)	Schools Linked for Insurance Management (SLIM)	Los Angeles Regionalized Insurance Services Authority (LARISA)
B. <u>Purpose</u>	Provides for self- funded excess liability coverage	Arranges for and provides property and liability coverage	Arranges for and provides workers' compensation coverage	Arranges for and provides medical and dental benefits
C. <u>Participants</u>	Various school districts and other LEAs	School districts and County Superintendent in Los Angeles & Orange counties	School districts and County Superintendent in Los Angeles county	School districts and County Superintendent in Los Angeles county
D. <u>Governing Board</u>	Representatives from member Districts	Representatives from member districts	Representatives from member districts	Representatives from member districts
E. <u>Condensed Audited Financial Information Follows</u>	(SELF)	(ASCIP)	(SLIM)	(LARISA)
	June 30, 2004*	June 30, 2005	June 30, 2005	June 30, 2005
Assets	\$ 173,648,016	\$ 108,715,729	\$ 41,634,450	\$ 15,979,842
Liabilities	147,852,240	78,635,152	46,262,623	13,997,679
Fund Equity/(Deficit)	\$ 25,795,776	\$ 30,080,577	\$ (4,634,173)	\$ 1,982,163
Revenues	74,589,111	57,803,605	28,593,749	2,298,166
Other income	1,317,721	2,866,790	818,558	50,341
Operating expenses	(81,308,286)	(33,712,349)	(23,362,062)	(1,890,960)
Net Increase/(Decrease) in Fund Equity/(Deficit)	(5,401,734)	6,958,046	6,050,245	457,547

*Latest Information

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2005

SECTION 2
COMBINING FINANCIAL STATEMENTS

This page left blank intentionally

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NON MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005**

	<u>Adult</u>	<u>Child Development</u>	<u>Cafeteria</u>	<u>Deferred Maintenance</u>
ASSETS				
Cash			\$ (11,128)	
Investments	\$ 510,591	\$ 78,211	115,195	\$ 4,567,961
Accounts receivable	78,959	875,734	366,580	35,905
Due from other funds		101,381		
Stores			20,915	
Prepaid expenditures		3,080		
Total Assets	<u><u>\$ 589,550</u></u>	<u><u>\$ 1,058,406</u></u>	<u><u>\$ 491,562</u></u>	<u><u>\$ 4,603,866</u></u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	43,410	595,361	206,817	45,308
Due to other funds	375,393		114,208	
Deferred revenues	39,089	681,330		
Total Liabilities	<u><u>457,892</u></u>	<u><u>1,276,691</u></u>	<u><u>321,025</u></u>	<u><u>45,308</u></u>
FUND BALANCES				
Reserved	9,250	3,080	20,915	2,279,279
Unreserved				
Undesignated	126,408	(221,365)	149,622	2,279,279
Total Fund Balance	<u><u>131,658</u></u>	<u><u>(218,285)</u></u>	<u><u>170,537</u></u>	<u><u>4,558,558</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 589,550</u></u>	<u><u>\$ 1,058,406</u></u>	<u><u>\$ 491,562</u></u>	<u><u>\$ 4,603,866</u></u>

<u>Special Reserve (Non Capital)</u>	<u>Foundation</u>	<u>Total Non-Major Special Revenue</u>
\$ 5,804,929	\$ 2,194	\$ (11,128)
20,555	93,000	10,568,090
		1,393,774
		101,381
		20,915
		3,080
<u>\$ 5,825,084</u>	<u>\$ 97,194</u>	<u>\$ 12,076,112</u>
	44,443	891,931
		114,208
		681,230
	<u>44,443</u>	<u>1,687,469</u>
	52,749	2,356,023
<u>5,825,084</u>		<u>8,032,620</u>
<u>5,825,084</u>	<u>52,749</u>	<u>10,388,643</u>
<u>\$ 5,825,084</u>	<u>\$ 97,194</u>	<u>\$ 12,076,112</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Actual</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
State apportionment	\$ 587,758	\$ 583,413	\$ (4,345)
Federal revenues	248,079	248,079	
Other state revenues	51,520	31,021	(20,499)
Other local revenues	57,287	65,292	8,005
Total Revenues	<u>944,644</u>	<u>927,805</u>	<u>(16,839)</u>
EXPENDITURES			
Current Expenditures			
Certificated Salaries	457,459	410,316	47,143
Classified salaries	194,846	181,342	13,504
Employee benefits	147,956	121,735	26,221
Books and Supplies	75,481	59,840	15,641
Services and operating expenditures	31,403	17,981	13,422
Other outgo	35,294	28,595	6,699
Capital outlay			
Total Expenditures	<u>942,439</u>	<u>819,809</u>	<u>122,630</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,205</u>	<u>107,996</u>	<u>105,791</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in			
Operating transfers out			
Total Other Financing Sources/(Uses)			
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>2,205</u>	<u>107,996</u>	<u>105,791</u>
FUND BALANCE, Beginning of year	<u>23,662</u>	<u>23,662</u>	
FUND BALANCE, End of year	<u>\$ 25,867</u>	<u>\$ 131,658</u>	<u>\$ 105,791</u>

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

Child Development			Cafeteria		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
1,222,830	1,393,631	170,801	921,913	911,347	(10,566)
2,396,237	2,212,045	(184,192)	50,391	57,325	6,934
<u>3,193,127</u>	<u>2,322,590</u>	<u>(870,537)</u>	<u>2,421,770</u>	<u>2,350,684</u>	<u>(71,086)</u>
<u>6,812,194</u>	<u>5,928,266</u>	<u>(883,928)</u>	<u>3,394,074</u>	<u>3,319,356</u>	<u>(74,718)</u>
2,223,988	2,146,027	77,961			
1,732,947	1,614,568	118,379	1,298,654	1,275,882	22,772
1,071,811	999,861	111,950	477,511	448,098	29,413
577,299	540,437	36,862	1,326,825	1,246,514	80,311
311,857	234,810	77,047	96,680	75,303	21,177
373,128	320,761	52,367	174,404	171,696	2,708
521,564	428,627	92,937			
<u>6,812,194</u>	<u>6,245,091</u>	<u>567,103</u>	<u>3,374,074</u>	<u>3,217,693</u>	<u>156,381</u>
	(316,825)	(316,825)	20,000	101,663	81,663
			(20,000)	(20,000)	
			(20,000)	(20,000)	
	(316,825)	(316,825)		81,663	81,663
98,540	98,540		88,874	88,874	
<u>\$ 98,540</u>	<u>\$ (218,285)</u>	<u>\$ (316,825)</u>	<u>\$ 88,874</u>	<u>\$ 170,537</u>	<u>\$ 81,663</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Deferred Maintenance</u>		<u>Variance Favorable (Unfavorable)</u>
	<u>Budget</u>	<u>Actual</u>	
REVENUES			
State apportionment			
Federal revenues			
Other state revenues	\$ 400,000	\$ 489,169	\$ 89,169
Other local revenues	75,000	96,833	21,833
Total Revenues	<u>475,000</u>	<u>586,002</u>	<u>111,002</u>
EXPENDITURES			
Current expenditures			
— Certified Salaries			
Classified salaries			
Employee benefits			
Books and Supplies			
Services and operating expenditures	483,956	146,688	337,268
Other outgo			
Capital outlay		387,261	(387,261)
Total Expenditures	<u>483,956</u>	<u>533,949</u>	<u>(49,993)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(8,956)</u>	<u>52,053</u>	<u>61,009</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	400,000	400,000	
Operating transfers out			
Total Other Financing Sources/(Uses)	<u>400,000</u>	<u>400,000</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>391,044</u>	<u>452,053</u>	<u>61,009</u>
FUNDBALANCE, Beginning of year	<u>4,106,505</u>	<u>4,106,505</u>	
FUND BALANCE, End of year	<u>\$ 4,497,549</u>	<u>\$ 4,558,558</u>	<u>\$ 61,009</u>

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

Special Reserve (Non-capital)		
Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ 35,926	\$ 35,926
	35,926	35,926
	35,926	35,926
	4,764,000	4,764,000
	4,764,000	4,764,000
	4,799,926	4,799,926
1,025,158	1,025,158	
<u>\$ 1,025,158</u>	<u>\$ 5,825,084</u>	<u>\$ 4,799,926</u>

Foundation		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 448,870	\$ 440,748	\$ (8,122)
448,870	440,748	(8,122)
227,714	216,370	1,354
13,753	13,203	550
62,082	55,971	6,111
78,434	34,431	44,003
145,190	138,878	6,312
8,000	8,000	
335,183	476,853	58,330
(86,313)	(36,105)	90,208
(86,313)	(36,105)	90,208
88,854	88,854	
<u>\$ 2,541</u>	<u>\$ 52,749</u>	<u>\$ 90,208</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Total Non-Major Special Revenues</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
State apportionment	\$ 987,758	\$ 583,413	\$ (4,345)
Federal revenues	2,392,822	2,553,057	160,235
Other state revenues	2,898,148	2,789,560	(108,588)
Other local revenues	6,196,054	5,312,073	(883,981)
Total Revenues	<u>12,074,782</u>	<u>11,238,103</u>	<u>(836,679)</u>
EXPENDITURES			
Current Expenditures			
— Certificated Salaries	2,908,771	2,782,713	126,058
Classified salaries	3,240,200	3,084,995	155,205
Employee benefits	1,759,360	1,585,665	173,695
Books and Supplies	2,058,039	1,881,222	176,817
Services and operating expenditures	1,069,086	613,860	455,226
Other outgo	982,826	521,052	461,774
Capital outlay	529,564	823,888	(294,324)
Total Expenditures	<u>12,147,846</u>	<u>11,293,395</u>	<u>854,451</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(73,064)</u>	<u>(52,292)</u>	<u>17,772</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	400,000	5,164,000	4,764,000
Operating transfers out	(20,000)	(20,000)	
Total Other Financing Sources (Uses)	<u>380,000</u>	<u>5,144,000</u>	<u>4,764,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>306,936</u>	<u>5,088,708</u>	<u>4,781,772</u>
FUND BALANCE, Beginning of year	<u>5,431,593</u>	<u>5,431,593</u>	
FUND BALANCE, End of year	<u>\$ 5,738,529</u>	<u>\$ 10,520,301</u>	<u>\$ 4,781,772</u>

This page left blank intentionally

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

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NON MAJOR DEBT SERVICE FUND
BALANCE SHEET
JUNE 30, 2005**

	<u>COPS Debt Service #1</u>	<u>COPS Debt Service #2</u>	<u>Total Non-Major Debt Service</u>
ASSETS			
Investments	\$ 1,047	\$ 1,618,230	\$ 1,619,277
Accounts receivable	8		8
Total Assets	<u>\$ 1,055</u>	<u>\$ 1,618,230</u>	<u>\$ 1,619,285</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Total Liabilities			
FUND BALANCES			
Reserved	1,055	1,618,230	1,619,285
Total Fund Balance	<u>1,055</u>	<u>1,618,230</u>	<u>1,619,285</u>
Total Liabilities and Fund Balance	<u>\$ 1,055</u>	<u>\$ 1,618,230</u>	<u>\$ 1,619,285</u>

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

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NON MAJOR DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	COP's Debt Service #1		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other local revenues	\$ -	\$ 15	\$ 15
Total Revenues		<u>15</u>	<u>15</u>
EXPENDITURES			
Debt service - principal			
Debt service - interest	60,000	59,987	13
Total Expenditures	<u>60,000</u>	<u>59,987</u>	<u>13</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(60,000)</u>	<u>(59,972)</u>	<u>28</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	60,000	60,000	
Total Other Financing Sources (Uses)	<u>60,000</u>	<u>60,000</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES		28	28
FUND BALANCE, Beginning of year	1,027	1,027	
FUND BALANCE, End of year	<u>\$ 1,027</u>	<u>\$ 1,055</u>	<u>\$ 28</u>

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

COPIs Debt Service #2			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ 919,550	\$ 919,550	\$ -	\$ 919,565	\$ 919,565
	919,550	919,550		919,565	919,565
	215,000	(215,000)		215,000	(215,000)
	680,962	(680,962)	60,000	740,949	(680,949)
	895,962	(895,962)	60,000	955,949	(895,949)
	23,588	23,588	(60,000)	(36,384)	23,616
	407,924	407,924	60,000	467,924	407,924
	407,924	407,924	60,000	467,924	407,924
	431,512	431,512		431,540	431,540
1,186,718	1,186,718		1,187,745	1,187,745	
\$ 1,186,718	\$ 1,618,230	\$ 431,512	\$ 1,187,745	\$ 1,619,285	\$ 431,540

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005**

	<u>Building</u>	<u>Capital Facilities</u>	<u>State School Building</u>	<u>Special Reserve (Capital)</u>
ASSETS				
Investments	\$ 4,055,983	\$ 513,292	\$ -	\$ 588,686
Accounts receivable	34,244	505,552		12,144
Total Assets	<u>\$ 4,090,227</u>	<u>\$ 1,018,844</u>	<u>\$ -</u>	<u>\$ 600,830</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	197,920			32,321
Total Liabilities	<u>197,920</u>			<u>32,321</u>
FUND BALANCES				
Reserved				
Unreserved				
Undesignated	3,892,307	1,018,844		568,509
Total Fund Balance	<u>3,892,307</u>	<u>1,018,844</u>		<u>568,509</u>
Total Liabilities and Fund Balance	<u>\$ 4,090,227</u>	<u>\$ 1,018,844</u>	<u>\$ -</u>	<u>\$ 600,830</u>

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

<u>COPS Building</u>	<u>Non-Major Capital Project</u>
\$ 1,169,696	\$ 6,327,657
	551,940
<u>\$ 1,169,696</u>	<u>\$ 6,879,597</u>
	<u>230,241</u>
	<u>230,241</u>
1,169,696	1,169,696
<u>1,169,696</u>	<u>3,479,660</u>
<u>\$ 1,169,696</u>	<u>6,649,356</u>
	<u>\$ 6,879,597</u>

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NON MAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Building</u>		Variance
	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
REVENUES			
Other local revenues	\$ 70,000	\$ 101,904	\$ 31,904
Total Revenues	<u>70,000</u>	<u>101,904</u>	<u>31,904</u>
EXPENDITURES			
Current Expenditures			
— Classified salaries	29,387	28,745	642
Employee benefits	18,673	9,909	8,764
Books and Supplies	15,000	3,538	11,462
Services and operating expenditures	69,450	54,358	15,092
Capital outlay	164,513	164,513	
Debt service - principal			
Debt service - interest			
Total Expenditures	<u>297,023</u>	<u>261,063</u>	<u>35,960</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(227,023)</u>	<u>(159,159)</u>	<u>67,864</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	1,027,820	1,027,819	(1)
Operating transfers out	(400,000)	(400,000)	
Other sources			
Total Other Financing Sources/(Uses)	<u>627,820</u>	<u>627,819</u>	<u>(1)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	400,797	468,660	67,863
FUND BALANCE, Beginning of year	3,423,647	3,423,647	
FUND BALANCE, End of year	<u>\$ 3,824,444</u>	<u>\$ 3,892,307</u>	<u>\$ 67,863</u>

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

Capital Facilities			State School Building		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 833,000	\$ 1,258,485	\$ 425,485	\$ -	\$ -	\$ -
<u>833,000</u>	<u>1,258,485</u>	<u>425,485</u>			
407,924	407,924		4,410	4,536	(126)
2,275,000	2,275,000		55,693	55,693	
97,788	97,788				
<u>2,780,712</u>	<u>2,780,712</u>		<u>60,103</u>	<u>60,229</u>	<u>(126)</u>
<u>(1,947,712)</u>	<u>(1,522,227)</u>	<u>425,485</u>	<u>(60,103)</u>	<u>(60,229)</u>	<u>(126)</u>
			(1,027,820)	(1,027,819)	1
			<u>(1,027,820)</u>	<u>(1,027,819)</u>	<u>1</u>
(1,947,712)	(1,522,227)	425,485	(1,087,925)	(1,088,048)	(125)
2,541,071	2,541,071		1,088,048	1,088,048	
<u>\$ 593,359</u>	<u>\$ 1,018,844</u>	<u>\$ 425,485</u>	<u>\$ 125</u>	<u>\$ -</u>	<u>\$ (125)</u>

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

**NON MAJOR CAPITAL PROJECTS FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Special Reserve (Capital)</u>		Variance Favorable (Unfavorable)
	<u>Budget</u>	<u>Actual</u>	
REVENUES			
Other local revenues	\$ 1,179,205	\$ 1,187,500	\$ 8,295
Total Revenues	<u>1,179,205</u>	<u>1,187,500</u>	<u>8,295</u>
EXPENDITURES			
Current Expenditures			
Classified salaries			
Employee benefits			
Books and Supplies	155,461	155,460	1
Services and operating expenditures	22,000	14,398	7,602
Capital outlay	371,539	241,712	129,827
Debt service - principal			
Debt service - interest			
Total Expenditures	<u>549,000</u>	<u>411,570</u>	<u>137,430</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>60,205</u>	<u>775,930</u>	<u>145,725</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in			
Operating transfers out	(3,260,000)	(3,260,000)	
Other sources	119,533	119,533	
Total Other Financing Sources/(Uses)	<u>(3,140,467)</u>	<u>(3,140,467)</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(2,510,262)</u>	<u>(2,364,537)</u>	<u>145,725</u>
FUND BALANCE, Beginning of year	2,933,046	2,933,046	
FUND BALANCE, End of year	<u>\$ 422,784</u>	<u>\$ 568,509</u>	<u>\$ 145,725</u>

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

<u>COPs Building</u>			<u>Total Non-Major Capital Projects</u>		
<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ -	\$ 16,193	\$ 16,193	\$ 2,082,205	\$ 2,564,082	\$ 481,877
	16,193	16,193	2,082,205	2,564,082	481,877
			29,387	28,745	642
			18,673	9,909	8,764
			170,461	158,998	11,463
			503,784	481,216	22,568
			591,745	461,918	129,827
			2,275,000	2,275,000	
			97,788	97,788	
			3,686,838	3,513,574	173,264
	16,193	16,193	(1,604,633)	(949,492)	655,141
			1,027,820	1,027,819	(1)
			(4,687,820)	(4,687,819)	1
			119,533	119,533	
			(3,540,467)	(3,540,467)	
	16,193	16,193	(5,145,100)	(4,489,999)	655,141
1,153,503	1,153,503		11,139,315	11,139,315	
\$ 1,153,503	\$ 1,169,696	\$ 16,193	\$ 5,994,215	\$ 6,649,356	\$ 655,141

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
 TRUST FUNDS - STUDENT BODY FUNDS
 COMBINING STATEMENT OF NET ASSETS
 JUNE 30, 2005**

	<u>Adams Middle School</u>	<u>Lincoln Middle School</u>	<u>Malibu High</u>	<u>Santa Monica High</u>	<u>Total Student Body Funds</u>
ASSETS					
Cash	\$ 69,430	\$ 154,083	\$ 92,469	\$ 225,938	\$ 541,920
Accounts Receivable				11,300	11,300
Stores inventory		34,142	7,134		41,276
Prepaid items		23,174	6,000	37,086	66,260
Total Assets	<u>\$ 69,430</u>	<u>\$ 211,399</u>	<u>\$ 105,603</u>	<u>\$ 274,324</u>	<u>\$ 660,756</u>
LIABILITIES					
Accounts payable	<u>3,345</u>	<u>25,607</u>	<u>9,006</u>	<u>22,333</u>	<u>62,291</u>
Other liabilities - Due to student groups					
Beginning balance	57,869	161,410	65,322	262,216	546,813
Additions	90,067	237,919	315,095	1,148,131	1,791,212
Deductions	<u>(83,847)</u>	<u>(213,537)</u>	<u>(283,820)</u>	<u>(1,158,356)</u>	<u>(1,739,560)</u>
Ending balance	<u>64,089</u>	<u>185,792</u>	<u>96,597</u>	<u>251,991</u>	<u>598,469</u>
Total Liabilities	<u>69,430</u>	<u>211,399</u>	<u>105,603</u>	<u>274,324</u>	<u>660,756</u>
NET ASSETS					
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2005**

**SECTION 3
SUPPLEMENTARY INFORMATION**

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE YEAR ENDED JUNE 30, 2005**

A comparison of the average daily attendance (ADA) for the current and prior school year is shown in the following summary.

	Annual ADA	Second Period ADA		Increase/ (Decrease)
		Amended 2004-05	2003-04	
ELEMENTARY				
Kindergarten	768	773	812	(39)
Grades 1st through 3rd	2,419	2,420	2,476	(56)
Grades 4th through 6th	2,541	2,546	2,656	(110)
Grades 7th through 8th	1,941	1,950	1,997	(47)
Home and Hospital	2	2	2	
Special Education (includes non-public)	290	289	261	28
Extended year	24	24	9	15
Total Elementary	7,985	8,004	8,213	(209)
SECONDARY				
High School				
Grades 9th through 12th	3,684	3,707	3,679	28
Continuation Education	87	86	99	(13)
Home and Hospital	4	3	5	(2)
Special Education (includes non-public)	158	160	162	(2)
Extended year	22	21	28	(7)
Total High School	3,955	3,977	3,973	4
Adult				
Concurrently enrolled	2	2	1	1
Nonconcurrently enrolled	255	252	342	(90)
Total Adult	257	254	343	(89)
Total Secondary	4,212	4,231	4,316	(85)
Total Average Daily Attendance	12,197	12,235	12,529	(294)
SUMMER SCHOOL/INTERSESSION - ANNUAL PUPIL HOURS OF ATTENDANCE				
Elementary supplementary instructional hours	67,061	63,050	61,403	1,647
High School supplementary instructional hours	84,268	84,143	204,500	(120,355)
	151,329	147,193	265,903	(118)

See accompanying notes to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2005**

The district has received incentive funding for increasing instructional time as provided by the incentives for Longer Instructional Day. 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 46206.

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>1982-83 Actual Minutes</u>	<u>2004-05 Actual Minutes</u>	<u>No. of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	36,000	38,670	180	In Compliance
Grades 1 - 3	50,400	53,100	53,211	180	In Compliance
Grades 4 - 5	54,000	54,480	54,510	180	In Compliance
Grades 6 - 8	54,000	54,480	61,080	180	In Compliance
Grades 9 - 12	64,800	64,800	64,890	180	In Compliance

See accompanying notes to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

	(Budget) 2006 ¹	2005	2004	2003
GENERAL FUND				
Revenues	\$ 106,575,503	\$ 105,702,538	\$ 101,264,670	\$ 96,306,668
Other sources and transfers in	720,000	620,000	220,000	167,173
Total Revenues and Other Sources	107,295,503	106,322,538	101,484,670	96,473,841
Expenditures	107,808,524	102,442,630	101,737,623	99,697,342
Other uses and transfers out	575,000	2,571,924	1,173,898	1,196,076
Total Expenditures and Other Uses	108,383,524	105,014,554	102,911,521	100,893,418
INCREASE (DECREASE) IN FUND BALANCE	(1,088,021)	1,307,984	(1,426,851)	(4,419,577)
ENDING FUND BALANCE	\$ 4,890,707	\$ 5,978,728	\$ 4,670,744	\$ 6,097,395
AVAILABLE RESERVES²	\$ 4,843,054	\$ 8,456,726	\$ 3,788,235	\$ 2,435,311
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	4.47%	8.05%	3.68%	2.41%
LONG-TERM DEBT	\$ 108,432,199	\$ 113,957,327	\$ 121,907,403	\$ 125,956,493
AVERAGE DAILY ATTENDANCE ATP-2¹	12,120	11,981	12,186	12,161

The general fund balance has decreased by \$118,867 (2.05%) over the past two years. The fiscal year 2005-2006 budget projects a decrease of \$1,088,021. From District this size, the State requires an available reserve of at least 3.00% of total general fund expenditures, transfers out, and other uses (total outgo). The 2004-05 available reserve of 8.05% is above this requirement.

The District has incurred operating deficits in two of the past three years, and anticipates incurring an operating surplus during the 2005-2006 fiscal year. Total long-term debt has decreased by \$11,999,166 over the past two years.

Average daily attendance has decreased by 180 over the past two years. An increase of 139 ADA is anticipated during fiscal year 2005-2006.

¹ Budget 2006 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the general fund and special reserve (non-capital) fund.

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

FEDERAL PROGRAM	Catalog Number	Resource Number	Total Entitlement	Program Expenditures
U. S. DEPARTMENT OF AGRICULTURE				
Passed through California Department of Education				
Basic Breakfast Program [2]	10.553	5310	[1]	\$ 213
Especially Needy Breakfast Program [2]	10.553	5310	[1]	138,501
National School Lunch Program [2]	10.555	5310	[1]	776,196
Child Care Food Program (CCFP) [2]	10.558	5320	[1]	218,360
Less: Unavailable Entitlements				(3,563)
Subtotal				<u>1,129,707</u>
U.S. DEPARTMENT OF EDUCATION				
Passed through Los Angeles County Superintendent of Schools				
Individuals with Disabilities - Local Assistance [2]	84.027	3310	2,093,297	2,093,597
Individuals with Disabilities - Preschool [2]	84.173	3315	89,435	89,436
Individuals with Disabilities - Preschool Local [2]	84.027A	3320	128,349	128,349
Individuals with Disabilities - Local Staff Development [2]	84.027	3340	7,422	7,422
Individuals with Disabilities - Preschool Staff Development [2]	84.173A	3345	1,311	-
Individuals with Disabilities - Low Incidence [2]	84.027A	3360	3,288	3,288
Individuals with Disabilities - Early Intervention	84.181	3385	36,009	36,009
Passed through California Department of Education				
Adult Education	84.002	3919-3926	248,079	248,079
NCLB Title I - Part A Basic Grant Low-Income and Neglected	84.010	3010	1,408,418	1,142,545
NCLB: Title II, Part A, Teacher Quality [2]	84.367	4035	406,022	215,473
NCLB: Title II, Part D, Enhancing Education Through Technology	84.318	4045	29,908	25,699
NCLB: Title III, Immigrant Education Program	84.365	4201	57,657	38,885
NCLB: Title III, Limited English Proficiency (LEP)	84.365	4203	168,584	149,525
NCLB: Title IV, Part A, Drug-Free Schools	84.186	3710	55,763	55,763
NCLB: Title V, Part A, Innovative Education Strategies	84.298	4110	157,914	157,914
Department of Rehab. Workability II, Transition Partnership	84.158	3410	131,377	131,377
Vocational Programs: Voc & Appl Tech Secondary II C	84.048	3550	52,795	52,795
Smaller Learning Communities	84-215L	5811	275,621	206,783
California English Language Development	84-369	0000	430	430
California Statewide Performance Testing	84.UNK	0000	8,125	8,125
Subtotal				<u>4,791,494</u>
U. S. DEPARTMENT OF HEALTH & HUMAN SERVICES				
Passed through California Department of Education				
Child Development: Federal Child Care, Center-based [2]	93.596	5025	146,060	146,060
Child Development: Quality Improvement Activities	93.575	5035	3,851	3,851
Child Development: School-Age Child Care Resource	93.575	5080	4,408	4,408
Child Development: Infant/Toddler Child Care Resource	93.575	5095	3,798	3,798
Direct payments				
Headstart	93.600	5210		1,017,154
Medicaid Administrative Activities	93.UNK	0000	187,388	187,388
Special ED - Medicaid Billing	93.778	5640	627,789	138,272
Subtotal				<u>1,500,931</u>
Total Federal Programs				<u>7,421,132</u>

[1] Entitlement not applicable. Maximum program revenues based upon level of service, ADA or other criteria.
[2] Major Federal Program

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
 RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
 REPORT WITH AUDITED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005**

Summarized below are differences noted between the Annual Financial and Budget Report (SACS-2000) and the audited financial statements

FUNDBALANCE	Child
(SACS Form), June 30, 2005	<u>Development</u>
Adjustments	\$ 88,771
Increase in:	
Accounts payable	(15,306)
Deferred revenue	(262,355)
Decrease in:	
Accounts receivable	(29,395)
Audited Financial Statement, June 30, 2005	<u>\$ (218,285)</u>

See accompanying notes to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
GENERAL FUND SELECTED FINANCIAL INFORMATION
TWO-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005**

	Actual Results for the Years					
	2004-05		2003-04		2002-03	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
State and local revenue included in revenue limit	\$ 62,449,217	59.07	\$ 60,925,944	60.17	\$ 61,302,994	63.65
Federal revenue	4,869,075	4.61	4,665,230	4.61	4,881,852	5.07
Other state revenue	16,063,413	15.20	15,466,757	15.27	16,167,069	16.79
Interest	358,568	0.34	273,236	0.27	112,614	0.12
Other local revenue and tuition	21,962,265	20.78	19,933,903	19.68	13,841,543	14.37
Total Revenues	105,782,538	100.00	101,264,670	100.00	96,306,668	100.00
EXPENDITURES						
Salaries and Benefits						
—Certificated salaries	51,608,298	48.83	51,534,200	50.89	51,066,466	53.02
Classified salaries	17,736,380	16.78	17,401,130	17.18	18,697,281	19.41
Employee benefits	20,447,477	19.34	19,670,064	19.42	16,933,582	17.58
Total Salaries and Benefit	89,792,155	84.94	88,605,394	87.49	86,697,329	90.01
Books and supplies	3,208,964	3.04	3,438,894	3.40	3,508,289	3.64
Contracts and operating expenses	9,776,676	9.25	10,000,204	9.88	9,411,262	9.77
Other outgoing	(514,689)	(0.49)	(488,348)	(0.48)	(288,818)	(0.30)
Capital outlay	110,218	0.10	43,399	0.04	188,421	0.20
Debt service	69,306	0.07	138,080	0.14	182,903	0.19
Total Expenditures	102,442,680	96.91	101,737,623	100.47	99,697,342	103.51
EXCESS OF REVENUES OVER EXPENDITURES	3,299,908	3.09	(472,953)	(0.47)	(3,390,674)	(3.51)
OTHER FINANCING SOURCES (USES)						
Transfers in	620,000	0.59	220,000	0.22	151,921	0.16
Transfers out	(2,571,924)	(2.43)	(1,173,898)	(1.16)	(1,196,076)	(1.24)
Other sources	-	-	-	-	15,252	0.02
Total Other Financing Uses	(1,951,924)	(1.84)	(953,898)	(0.94)	(1,028,903)	(1.06)
INCREASE IN FUND BALANCE	1,307,984	1.25	(1,426,851)	(1.41)	(4,419,577)	(4.57)
FUND BALANCE, Beginning	4,670,744		6,097,595		10,517,172	
FUND BALANCE, Ending	\$ 5,978,728	5.66	\$ 4,670,744	4.61	\$ 6,097,595	6.33

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
CAFETERIA ACCOUNT SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005**

	Actual Results for the Years					
	2004-05		2003-04		2002-03	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
REVENUES						
Federal - NSLP and Breakfast Program	\$ 911,347	27.5	\$ 910,784	27.5	\$ 842,029	27.0
State meal program	57,325	1.7	72,290	2.2	55,449	1.8
Food sales	2,345,805	70.7	2,212,740	66.8	1,933,621	62.1
Other	4,879	0.1	114,673	3.5	282,220	9.1
Total Revenue	3,319,356	100.0	3,310,487	100.0	3,113,319	100.0
EXPENDITURES						
Salaries and benefits	1,723,980	51.9	1,690,146	51.1	1,689,021	54.3
Food and supplies	1,246,514	37.6	1,261,251	38.1	1,138,349	36.6
Services	75,503	2.3	143,640	4.3	96,541	3.1
Direct/indirect costs	171,696	5.2	178,977	5.4	130,907	4.2
Debt service		0.0	28,900	0.9	28,900	0.9
Total Expenditures	3,217,693	97.0	3,302,914	99.8	3,083,318	99.1
EXCESS REVENUE OVER EXPENDITURE	101,663	3.1	7,573	0.2	30,001	1.0
Transfers out	(20,000)	(0.6)	(20,000)	(0.6)	(20,000)	(0.6)
INCREASE IN FUND BALANCE	81,663	2.5	(12,427)	(0.4)	10,001	0.3
FUND BALANCE, Beginning	88,874		101,301		91,300	
FUND BALANCE, Ending	\$ 170,537	5.1	\$ 88,874	2.7	\$ 101,301	3.3

.....

	MEALS SERVED/CLAIMED					
	2004-05		2003-04		2002-03	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	318,610	49.2	310,572	47.6	291,238	47.6
Free	260,400	40.2	269,030	41.1	249,372	40.7
Reduced price	68,474	10.6	74,366	11.4	71,893	11.7
Total Lunches	647,484	100.0	653,968	100.1	612,503	100.0
BREAKFAST - Basic						
Paid	104	39.8	2,823	28.6	7,731	14.6
Free	144	55.2	6,040	61.3	40,391	76.5
Reduced price	13	5.0	298	10.1	4,686	8.9
Total Breakfast	261	100.0	9,861	100.0	52,808	100.0
BREAKFAST - Needy						
Paid	17,927	16.1	14,021	14.1	7,934	16.3
Free	82,524	71.9	72,032	72.3	33,205	68.1
Reduced price	11,169	10.0	13,532	13.6	7,590	15.6
Total Breakfast	111,620	100.0	99,585	100.0	48,729	100.0

See accompanying note to supplementary information.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2005**

NOTE #1 - PURPOSE OF SCHEDULES

A. 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 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.

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. 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 46801 through 46206.

C. Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern.

D. Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. To comply with Circular A-133, this schedule was prepared for the District.

E. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds reported on the SACCS 2000 to the audited financial statements.

F. General Fund Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the general fund for the past two years.

G. Cafeteria Account Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the cafeteria account for the past two years.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2005**

**SECTION 4
INDEPENDENT AUDITORS' REPORTS**

ROY J. BLAIR

CERTIFIED PUBLIC ACCOUNTANT

8976 Rockhill Boulevard, B-3 Suite 211, Escondido, California 92030
Phone (909) 481-3334 Fax (909) 948-3417 E-Mail RoyBlair@JAB.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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

I have audited the basic financial statements of Santa Monica-Malibu Unified School District as of and for the year ended June 30, 2005, and have issued my report thereon dated December 15, 2005. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Santa Monica-Malibu Unified School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, encompassing 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 my audit and, accordingly, I do not express such an opinion. The results of my tests did not lead to instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Santa Monica-Malibu Unified School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters involving for my opinion on relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, would adversely affect Santa Monica-Malibu Unified School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs for years 2005-1 through 2005-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe some of the reportable conditions described above is a material weakness.

This report is intended for the information of the Governing Board, Management, the California State Controller's Office, Department of Finance, Department of Education, Federal awarding agencies, and pass-through entities, and is not intended to be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

RJB

December 15, 2005

ROY J. BLAIR

CERTIFIED PUBLIC ACCOUNTANT

8976 Football Boulevard, B-3 Suite 283, Rancho Cucamonga, California 91730
Phone (909) 481-5334 Fax (909) 948-2417 E-Mail RoyBlair@Adelphia.Net

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

I have audited the compliance of Santa Monica-Malibu Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Santa Monica-Malibu Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Santa Monica-Malibu Unified School District's management. My responsibility is to express an opinion on Santa Monica-Malibu Unified School District's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that I 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 Santa Monica-Malibu Unified School District's compliance with those requirements and performing other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Santa Monica-Malibu Unified School District's compliance with those requirements.

In my opinion, Santa Monica-Malibu Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control over Compliance

The management of Santa Monica-Malibu Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Santa Monica-Malibu Unified School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all instances in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended for the information of the Governing Board, Management, the California State Controller's Office, Department of Finance, Department of Education, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

R. J. Bu

December 15, 2005

ROY J. BLAIR

CERTIFIED PUBLIC ACCOUNTANT

1976 Pechelli Boulevard, B-3 Suite 213, Rancho Cotate, California 91730
 Phone (909) 481-3334 Fax (909) 948-2417 E-Mail Roy.Blair@ArlisPhila.Net

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

I have audited the general purpose financial statements of the Santa Monica-Malibu Unified School District, as of and for the year ended June 30, 2005 and have issued my report thereon dated December 15, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Governance Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, I selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting		
Attendance reporting	8	Yes
Kindergarten continuation	3	Yes
Independent study	22	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers/programs	6	Not applicable
Instructional Time & Staff Development Reform	7	Yes
Incentives for Longer Instructional Day		
School districts	4	Yes
County offices of education	3	Not applicable
Community Day Schools	9	Not applicable
Class Size Reduction Program		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not applicable
District/Charter school with one school serving K-3	4	Not applicable
State Instructional Materials		
General requirements	12	Yes
Grades K - 8	1	Yes
Grades 9 - 12	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Yes
GANN Limit Calculation	1	Yes

	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
School Construction funds		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Not applicable
Proposition 20 Lottery Funds (Cardenas Textbook Act 2000)	2	Yes
State Lottery Funds (Calif State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-Safe) Program	3	Yes
School Accountability Report Card	3	Yes

Based on my audit, I found that, for the items tested, the Santa Monica-Malibu Unified School District complied with the state laws and regulations referred to above, except as described in the Findings and Recommendations section of this report. Further, based on my examination, for items not tested, nothing came to my attention to indicate that the Santa Monica-Malibu Unified School District had not complied with the state laws and regulations.

R. J. Bl.

December 15, 2005

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2005**

**SECTION 5
SCHEDULES OF FINDINGS AND QUESTIONED COSTS**

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2005**

FINANCIAL STATEMENTS

Type of auditor's report issued: **Unqualified**
 Internal control over financial reporting:
 Material weakness identified? **No**
 Reporting conditions identified not considered to be a material weakness? **Yes**
 Non-compliance material to financial statements noted? **No**

FEDERAL AWARDS

Internal control over major programs:
 Material weakness identified? **No**
 Reporting conditions identified not considered to be a material weakness? **No**
 Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a) **No**

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553-10.559	National School Lunch & Breakfast Programs
10.558	Child Care Food Program (CCFP)
84.027-84.173	Individuals with Disabilities
84.367	NCLB: Title II, Part A, Teacher Quality
93.596	Child Development: Federal Child Care, Center-based

Dollar threshold used to distinguish between Type A and Type B programs: **\$ 300,000**
 Auditor qualified as low-risk auditor? **Yes**

STATE AWARDS

Internal control over state programs:
 Material weakness identified? **No**
 Reporting conditions identified not considered to be a material weakness? **Yes**
 Type of auditor's report issued on compliance for state programs: **Unqualified**

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

The following findings represent reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with generally accepted government audit standards. The District is required to respond to the following findings. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
10000	Accountance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous

INVENTORY OF CAPITALIZED ASSETS

2005-1 Finding (20000, 30000)

The implementation of GASB 34 requires that the District's listing of capitalized assets be timely and complete in adequate time to prepare the financial statements. The District discovered some differences subsequent to closing the accounting records. These omissions are due in part to incorrect account coding. The recording of the capitalized assets is a time consuming process that now requires adequate training and time. In addition no physical inventory was conducted to verify the existence and location of the assets.

Impact

This process is significant in that GASB 34 requirements make this process mandatory in order for the District financial statements to be fairly stated. The subsequent process of reconciling purchases noted the omission of depreciable assets.

Recommendation

I recommend that the District's management review its procedures relating to the process of recording and accounting for capitalized assets. I further recommend that responsible personnel obtain additional education in the proper implementation of this process. An annual inventory should be scheduled and conducted.

District Response

Accounting procedures will be reviewed to ensure compliance with GASB 34 rules and regulations relative to capital outlay and facilities expenditures. The District has ordered fixed asset software because the old software is no longer supported. The District will make modifications to procedures by obtaining further training to affected personnel. An annual inventory will be conducted.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

DEFICIT FUND BALANCE

2005-2 Findings (30000)

The District ended the year with a deficit fund balance of \$218,285 in the Child Development fund. The Child Development fund balance was adjusted to recognize the deferred portion of funds advanced by the state for child development programs.

Impact

The failure to properly account for all amounts received and not earned by the state resulted in the encroachment of unrestricted programs not to be recognized in a timely manner.

Recommendation

The calculation of revenues for child development programs should be provided prior to closing. The accounting records of the District should be adjusted to reflect the correct information in sufficient detail to allow the oversight of expenditure control by responsible personnel.

District Response

Meetings will be held with programs administrators and accounting personnel on the importance of accounting for and budgeting state programs. The District will review the accounting process for child development programs and institute procedures to correct reporting errors.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

There were no findings representing reportable conditions, material weaknesses, and instances of non-compliance including questioned costs that are required to be reported by OMB Circular A-133.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

The following findings represent reportable conditions, material weaknesses, and instances of noncompliance related to State Awards, Compliance, and Questioned Costs.

Attendance Reporting

2005-03 Finding (10000, 30000)

My audit of the District the Second Period and Annual Reports of School District Attendance reports discovered that the attendance data summarized by the computer system did not include all the effects of a number of days affected by extreme weather that occurred during the year. The District applied for and obtained two waivers from the state to modify attendance reported. These waivers however were not granted until after the original reports were forwarded to the state. In addition, the computer did not to prepare the reports had to be modified to adjust for the days affected and allowed by the waivers.

Results

Due to the effects of the above error on the Period 2 and Annual attendance summaries, the corresponding state attendance reports were misstated. The effect on the Average Daily Attendance (ADA) is well under one and no adjustment is necessary.

Impact

The restatement in the ADA above will not decrease state apportionment funding in the current year because of declining enrollment and the method the state uses to calculate state apportionment.

Recommendation

Based on the finding the Second Period and Annual Reports of School District Attendance reports should be revised to reflect the understatement of Average Daily Attendance (ADA) caused by the errors found.

District Response

The District knew but was unable to obtain the required waiver from the state until subsequent to report submission dates. The Second Period and Annual Reports of School District Attendance reports have been revised.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

2003-04 Findings (10000, 30000)

My audit of attendance procedures for one of the sites noted several errors. The errors were that data originally recorded by the teacher on the daily attendance sheet was not being transferred correctly to the computer detail. The computer detail is the document that the District uses to report attendance to the state. In my audit sample of attendance recording for the site affected I selected 3 of the 7 class attendance rosters. I noted 25 errors affecting absences for the four week period tested. The instances noted include days where the student was marked absent on the computer detail but not on the daily attendance sheet and where the student was marked absent on the daily attendance sheet but not on the computer detail.

Results

The testing above reflected a net error of .026%. This rate was applied to all months at this site. The net result was an overstatement of .57 ADA at Second Period (P2) and .85 ADA at the Annual Period (P3).

Impact

The restatement in the ADA above will not decrease state apportionment funding in the current year because of declining enrollment and the method the state uses to calculate state apportionment.

Recommendation

The District should include the results of the testing above to recalculate the ADA for this site and include in the computation of the Second Period and Annual Reports of School District Attendance. In addition the procedures at the site should be reviewed and corrections made to insure accuracy in the future.

District Response

Procedures are being implemented to verify the accuracy and timeliness of entry to the system. The Second Period and Annual Reports of School District Attendance reports have been revised.

**SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

There were no findings reported in the prior year's schedule of audit findings and questioned costs.

APPENDIX C

PROPOSED FORM OF FINAL OPINION OF BOND COUNSEL

[Delivery date]

**Board of Trustees
Santa Monica-Malibu Unified School District
Santa Monica, California**

**Santa Monica-Malibu Unified School District
2006 General Obligation Refunding Bonds
(Final Opinion)**

Ladies and Gentlemen:

We have acted as bond counsel to the Santa Monica-Malibu Unified School District (the "District"), which is located in the County of Los Angeles, California (the "County"), in connection with the issuance of \$3,285,000 aggregate principal amount of bonds designated as "Santa Monica-Malibu Unified School District 2006 General Obligation Refunding Bonds" (the "Bonds"), as authorized by resolutions of the Board of Trustees of the District adopted on August 18, 2005 and February 2, 2006 (the "Resolutions"), and in accordance with the terms of a Third-Party Paying Agent Agreement dated as of March 1, 2006 (the "Paying Agent Agreement"), by and between the District and U.S. Bank National Association, as paying agent (the "Paying Agent"). The Bonds are issued to refund a portion of the outstanding Santa Monica-Malibu Unified School District General Obligation Bonds, Election of 1998, Series 2001.

In such connection, we have reviewed the Resolutions, the Paying Agent Agreement, the Tax Certificate of the District dated the date hereof (the "Tax Certificate"), certificates of the District, the Paying Agent, the County, and others, and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Resolutions, the Paying Agent Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions, the Paying Agent Agreement, and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolutions, the Paying Agent Agreement, and the Tax Certificate, and their enforceability, may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance,

moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against school districts and counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, waiver or severability provisions contained in the documents mentioned in the preceding sentence. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

- 1. The Bonds constitute valid and binding obligations of the District.**
- 2. The Resolutions have been duly and legally adopted and constitutes a valid and binding obligation of the District.**
- 3. The Paying Agent Agreement has been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the other parties thereto, constitutes a valid and binding obligation of the District. Assuming due authorization, execution and delivery of the Paying Agent Agreement and authentication of the Bonds by the Paying Agent, the Bonds are entitled to the benefits of the Paying Agent Agreement.**
- 4. The Board of Supervisors of the County has power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Bonds and the interest thereon.**
- 5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.**

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Santa Monica-Malibu Unified School District (the "District") and U.S. Bank National Association, as dissemination agent, in connection with the issuance of \$3,285,000 aggregate principal amount of Santa Monica-Malibu Unified School District 2006 General Obligation Refunding Bonds (the "Bonds"). The Bonds are being issued as authorized by a resolution adopted by the Board of Education of the District on August 18, 2005, as amended by Resolution No. 05-01, adopted on February 2, 2006, and in accordance with the terms of a Third-Party Paying Agent Agreement, dated as of March 1, 2006 (the "Third-Party Paying Agent Agreement"), by and between the District and U.S. Bank National Association, as paying agent (the "Paying Agent"). The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(d)(2).

SECTION 2. Definitions. In addition to the definitions set forth in the Third-Party Paying Agent Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Superintendent of the District or his or her designee, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the District (which may be the District) and which has filed with the District a written acceptance of such designation.

"Holder" shall mean the person in whose name any Bond shall be registered.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth at <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" shall mean any public or private repository or entity designated by the State of California as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission, as set forth at <http://www.sec.gov/info/municipal/nrmsir.htm>. As of the date of this Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2005-06 Fiscal Year (which is due not later than April 1, 2006), provide to each Repository copies of an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than thirty (30) days (nor more than sixty (60) days) prior to said date the Dissemination Agent shall give notice to the District that the Annual Report shall be required to be filed in accordance with the terms of this Disclosure Agreement. Not later than fifteen (15) business days prior to said date, the District shall provide to the Dissemination Agent (if other than the District) the Annual Report in a format suitable for reporting to the Repositories. If the District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the District shall send a notice to each Repository in substantially the form attached as Exhibit A with a copy to the Dissemination Agent. The Dissemination Agent shall not be required to file a Notice of Repositories of Failure to File an Annual Report.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the District), file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

I. Audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a

format similar to the financial statements contained in the final Official Statement relating to the Bonds, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Material financial information and operating data with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District's audited financial statements):

- (a) enrollment of the District for the last completed fiscal year;
- (b) assessed valuations, tax levy and delinquencies for real property located in the District for last completed fiscal year;
- (c) outstanding District indebtedness; and
- (d) summary financial information on revenues, expenditures and fund balances for the District's general fund reflecting adopted budget for the current fiscal year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Repositories. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- 1. principal and interest payment delinquencies.
- 2. non-payment related defaults.
- 3. modifications to rights of Bondholders.
- 4. optional, contingent or unscheduled bond calls.
- 5. defeasances.
- 6. rating changes.
- 7. adverse tax opinions or events affecting the tax-exempt status of the Bonds.
- 8. unscheduled draws on the debt service reserves reflecting financial difficulties.
- 9. unscheduled draws on the credit enhancements reflecting financial difficulties.
- 10. substitution of the credit or liquidity providers or their failure to perform.
- 11. release, substitution, or sale of property securing repayment of the Bonds.

(b) The Dissemination Agent shall, promptly upon obtaining actual knowledge at his or her address listed in Section 13 hereof of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) above or otherwise, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with the Repositories, or provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the Repositories and instruct the Dissemination Agent to report the occurrence pursuant to section (f).

(e) If in response to a request under subsection (b), the District determines that the Listed Event would not be material under applicable federal securities laws, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection, or under subsection (d), any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolutions. The Dissemination Agent may conclusively rely on the District's determination of materiality pursuant to Section 5(d).

SECTION 6. Electronic Filing. Submission of Annual Reports and notices of Listed Events to DisclosureUSA.org or another "Central Post Office" designated and accepted by the S.E.C. shall constitute compliance with any requirement of filing such reports and notices with each National Repository and any State Repository hereunder.

SECTION 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign upon fifteen (15) days written notice to the District. Upon such resignation, the District shall act as its own Dissemination Agent until it appoints a successor. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate and shall not be responsible to verify the accuracy, completeness or materiality of any continuing disclosure information provided by the District. The District shall compensate the Dissemination Agent for its fees and expenses hereunder as agreed by the parties. Any entity succeeding to all or substantially all of the Dissemination Agent without the execution or filing of any paper or further act.

SECTION 9. Amendment Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Third-Party Paying Agent Agreement for amendments thereto with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds; and

(d) No duties of the Dissemination Agent hereunder shall be amended without its written consent thereto.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(d), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11 Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Dissemination Agent may (and, at the request of any Underwriter or the Holders of at least 25% of aggregate principal amount of the Bonds then Outstanding, shall), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in Superior Court of the State of California in and for the County of Los Angeles or in U.S. District Court in or nearest to the County. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Third-Party Paying Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Disclosure Certificate.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate. The Dissemination Agent acts hereunder solely for the benefit of the District; this Disclosure Certificate shall confer no duties on the Dissemination Agent to the Participating Underwriters, the Holders and the Beneficial Owners. The District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment on the Bonds. The Dissemination Agent shall have no liability for the failure to report any event or any financial information as to which the District has not provided an information report in format suitable for filing with the Repositories. The Dissemination Agent shall not be required to monitor or enforce the District's duty to comply with its continuing disclosure requirements hereunder.

SECTION 13. Notices Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

To the District:	Santa Monica-Malibu Unified School District 1651 16 th Street Santa Monica, California 90404 Attn: Superintendent
To the Dissemination Agent:	U.S. Bank National Association 550 South Hope Street, Suite 500 Los Angeles, California 90071 Attn: Corporate Trust Services

SECTION 14. Beneficiaries This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____

**SANTA MONICA MALIBU UNIFIED SCHOOL
DISTRICT**

By: _____
**Winston A. Braham, Assistant Superintendent Fiscal,
Business Services & Chief Financial Officer**

U.S. BANK NATIONAL ASSOCIATION

By: _____
Authorized Officer

CONTINUING DISCLOSURE EXHIBIT A

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District: SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
Name of Bond Issue: SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT 2006
GENERAL OBLIGATION REFUNDING BONDS
Date of Issuance: March __, 2006

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated the Date of Issuance. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

By _____ **[to be signed only if filed]**

(This page has been left blank intentionally.)

APPENDIX E

COUNTY OF LOS ANGELES DESCRIPTION OF INVESTMENT POOL

(This page has been left blank intentionally.)

THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS

The Treasurer and Tax Collector (the Treasurer) of Los Angeles County has the delegated authority to invest funds on deposit in the County Treasury (the Treasury Pool). As of December 31, 2005, investments in the Treasury Pool were held for local agencies including school districts, community college districts, special districts and discretionary depositors such as cities and independent districts in the following amounts:

<u>Local Agency</u>	<u>Invested Funds (in billions)</u>
County of Los Angeles and Special Districts	\$ 7.470
Schools and Community Colleges	7.862
Independent Public Agencies	<u>1.301</u>
Total	\$ 16.633

Of these entities, the involuntary participants accounted for approximately 92.18%, and all discretionary participants accounted for 7.82% of the total treasury pool.

Decisions on the investment of funds in the Treasury Pool are made by the County Investment Officer in accordance with established policy, with certain transactions requiring the Treasurer's prior approval. In Los Angeles County, investment decisions are governed by Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5 of the California Government Code, which governs legal investments by local agencies in the State of California, and by a more restrictive Investment Policy developed by the Treasurer and adopted by the Los Angeles County Board of Supervisors on an annual basis. The Investment Policy adopted on March 15, 2005, reaffirmed the following criteria and order of priority for selecting investments:

1. Safety of Principal
2. Liquidity
3. Return on Investment

The Treasurer prepares a monthly Report of Investments (the Investment Report) summarizing the status of the Treasury Pool, including the current market value of all investments. This report is submitted monthly to the Board of Supervisors for formal action to approve it. According to the Investment Report dated January 26, 2006, the December 31, 2005 book value of the Treasury Pool was approximately \$16.633 billion and the corresponding market value was approximately \$16.609 billion.

An internal controls system for monitoring cash accounting and investment practices is in place. The Treasurer's Compliance Auditor, who operates independently from the Investment Officer, reconciles cash and investments to fund balances daily. The Compliance Auditor's staff also reviews each investment trade for accuracy and compliance with the Board adopted Investment Policy. The County Auditor-Controller's Office performs similar cash and investment reconciliations on a quarterly basis and regularly reviews investment transactions for conformance with the approved policies. Additionally, the County's outside independent auditor annually accounts for all investments.

The Treasury Pool is highly liquid. As of December 31, 2005 approximately 59.83% of the pool investments mature within 60 days, with an average of 106.88 days to maturity for the entire portfolio. The following table identifies the types of securities held by the Pool as of December 31, 2005.

<u>Type of Investment</u>	<u>% of Pool</u>
U.S. Government and Agency Obligations	33.98
Certificates of Deposit	21.38
Commercial Paper	37.35
Bankers Acceptances	0.00
Municipal Obligations	0.24
Corporate Notes & Deposit Notes	5.70
Asset Backed Instruments	0.00
Repurchase Agreements	1.32
Other	0.03

Effective January 1, 1996, Section 27131 of the Government Code requires all counties investing surplus funds to establish a County Treasury Oversight Committee. On January 16, 1996, the Board of Supervisors approved the establishment of the County Treasury Oversight Committee and subsequently confirmed the five Committee members nominated by the Treasurer in accordance with that Section. The Committee, which meets quarterly, is required to review and monitor for compliance the investment policies prepared by the Treasurer.

APPENDIX F
BOOK-ENTRY ONLY SYSTEM

The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial owners either (a) payments of interest or principal with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to

whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer or the paying agent or bond trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent or bond trustee, or the issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer or the paying agent or bond trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the issuer or the paying agent or bond trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

APPENDIX G
SPECIMEN MUNICIPAL BOND INSURANCE POLICY

(This page has been left blank intentionally.)



**FINANCIAL
SECURITY
ASSURANCE.**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N-

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby **UNCONDITIONALLY AND IRREVOCABLY** agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appropriate coupon to the Bond or right to receipt of payment of principal or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify: (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security) to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 16 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Counter signature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 626-0100



**ENDORSEMENT NO. 1 TO
MUNICIPAL BOND
INSURANCE POLICY
(California Insurance
Guaranty Association)**

ISSUER:

Policy No.:

BONDS:

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 4.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
35 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 560NY (CA 1/91)

