

**SAUSALITO MARIN CITY SCHOOL DISTRICT
COUNTY OF MARIN
SAUSALITO, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2013

SAUSALITO MARIN CITY SCHOOL DISTRICT

JUNE 30, 2013

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SAUSALITO MARIN CITY SCHOOL DISTRICT

JUNE 30, 2013

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sausalito Marin City School District
Sausalito, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sausalito Marin City School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Sausalito Marin City School District, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 and the budgetary comparison information on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sausalito Marin City School District's basic financial statements. The accompanying combining fund financial statements and supplementary schedules listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013 on our consideration of Sausalito Marin City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sausalito Marin City School District's internal control over financial reporting and compliance.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 13, 2013

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

This section of Sausalito Marin City School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 through 3, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities, presented on pages 16 and 17, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 18 through 24, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statement provides financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's overall financial status declined during fiscal year 2012-13, as total net position decreased 6.5%.
- On the Statement of Activities, total current year expenses exceeded total current year revenues by \$539,069.
- Capital assets, net of depreciation, increased \$200,592 due to the addition of \$1,048,363 of new capital assets and the current year recognition of \$847,771 of depreciation expense.
- Total long-term liabilities increased \$3,139,396 due primarily to the current year issuance of \$3,675,000 of certificates of participation.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balances, total current year revenues and other financing sources exceeded total current year expenditures and other financing uses by \$2,731,866 due primarily to the receipt of proceeds from the current year issuance of certificates of participation that remain unspent at June 30, 2013.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 5% of total general fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2012-13, General Fund expenditures and other financing uses totaled \$5,968,514. At June 30, 2013, the District has available reserves of \$1,555,347 in the General Fund, which represents a reserve of 26.1%.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and Management's Discussion and Analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, government-wide and funds.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
 - ❖ Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
 - ❖ Short and long-term financial information about the activities of the District that operate like businesses are provided in the proprietary fund statements.
 - ❖ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

Reporting the District as a Whole

The District as a whole is reported in the government-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Position. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health (net position) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net position of the District over time are indicators of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as the condition of school buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

In the Statement of Net Position and the Statement of Activities, we divide the District into two kinds of activities:

Governmental Activities:

The basic services provided by the District, such as regular and special education, administration, and special education transportation are included here, and are primarily financed by property taxes and state formula aid. Non-basic services, such as child nutrition are also included here, but are financed by a combination of local revenues and state and federal programs.

Business-type Activities:

The District does not provide any services that should be included in this category.

Reporting the District's Most Significant Funds

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law and bond covenants. However, the District establishes many other funds as needed to control and manage money for specific purposes.

Governmental Funds:

The major governmental funds of Sausalito Marin City School District are the General Fund, Bond Interest and Redemption Fund, Corporation Debt Service Fund, Capital Projects - Special Reserve Fund, and Corporation Acquisition Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

Proprietary Funds:

Services for which the District charges a fee are generally reported in proprietary funds on a full accrual basis. These include both Enterprise funds and Internal Service funds. Enterprise funds are considered business-type activities and are also reported under a full accrual method. This is the same basis as business-type activities; therefore no reconciling entries are required. Internal service funds are reported with the Governmental Funds. The District has no funds of this type.

Fiduciary Funds:

The District is the trustee, or fiduciary, for its student activity fund. All of the District's fiduciary activities are reported in a separate fiduciary statement. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's total net position decreased from \$8,332,497 at June 30, 2012, down to \$7,793,428 at June 30, 2013, a decrease of 6.5%.

<u>Comparative Statement of Net Position</u>		
	Governmental Activities	
	2012	2013
<u>Assets</u>		
Deposits and Investments	\$ 3,529,414	\$ 6,949,300
Current Receivables	411,265	529,820
Long-term Receivable	547,734	72,734
Prepaid Expenses	0	168,345
Capital Assets, net	22,161,980	22,362,572
Total Assets	26,650,393	30,082,771
<u>Liabilities</u>		
Current	1,463,704	2,252,891
Long-term *	16,854,192	20,036,452
Total Liabilities *	18,317,896	22,289,343
<u>Net Position</u>		
Investment in Capital Assets		
- Net of Related Debt	5,925,963	5,842,896
Restricted for Capital Projects	548,323	73,324
Restricted for Debt Service	(52,901)	(290,965)
Restricted for Educational Programs	255,067	199,318
Restricted for Other Purposes	1,040	9,797
Unrestricted *	1,655,005	1,959,058
Total Net Position *	\$ 8,332,497	\$ 7,793,428
* The prior year balances have been adjusted to reflect the restatement described in Note 20.		
Table includes financial data of the combined governmental funds		

The deficit balance presented above for Restricted for Debt Service represents the difference between the obligation for accumulated accreted interest on the District's outstanding capital appreciation bonds and the accrued interest on the District's long-term liabilities and amounts available in the Bond Interest and Redemption Fund. The deficit will be eliminated by future property tax collections.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

The District's total current year expenses exceeded total current year revenues by \$539,069.

	<u>Comparative Statement of Change in Net Position</u>	
	Governmental Activities	
	2012	2013
<u>Program Revenues</u>		
Operating Grants & Contributions	\$ 1,582,135	\$ 1,610,105
<u>General Revenues</u>		
Taxes Levied	4,217,184	4,209,238
Federal & State Aid	738,167	763,878
Interest & Investment Earnings	61,238	(7,477)
Transfers from Other Agencies	20,259	59,410
Miscellaneous	192,007	238,752
Total Revenues	6,810,990	6,873,906
<u>Expenses</u>		
Instruction	2,875,031	3,340,541
Instruction-Related Services	834,991	850,399
Pupil Services	415,760	460,283
General Administration	752,940	787,167
Plant Services	653,972	619,797
Ancillary Services	4,521	3,930
Interest on Long-Term Debt	783,793	799,976
Other Outgo	578,482	550,882
Total Expenses	6,899,490	7,412,975
Change in Net Position	\$ (88,500)	\$ (539,069)

Table includes financial data of the combined governmental funds

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

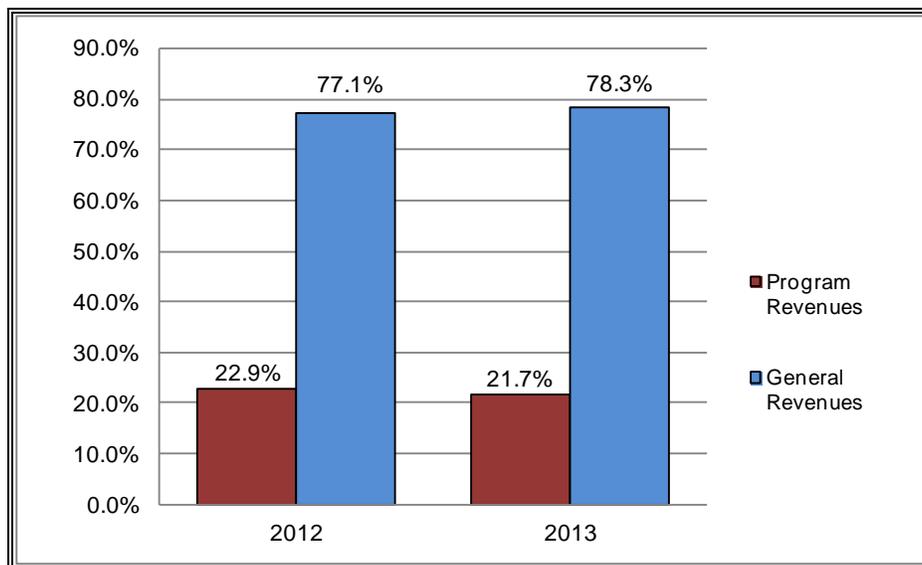
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	2012	2013	2012	2013
Instruction	\$ 2,875,031	\$ 3,340,541	\$ 1,909,413	\$ 2,354,398
Instruction-Related Services	834,991	850,399	552,293	618,995
Pupil Services	415,760	460,283	295,975	250,485
General Administration	752,940	787,167	723,287	758,067
Plant Services	653,972	619,797	653,972	614,899
Ancillary Services	4,521	3,930	4,521	3,930
Interest on Long-Term Debt	783,793	799,976	783,793	799,976
Other Outgo	578,482	550,882	394,101	402,120
Totals	\$ 6,899,490	\$ 7,412,975	\$ 5,317,355	\$ 5,802,870

Table includes financial data of the combined governmental funds

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$5,802,870 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



In 2012-13, program revenues financed 21.7% of the total cost of providing the services listed above, while the remaining 78.3% was financed by the general revenues of the District.

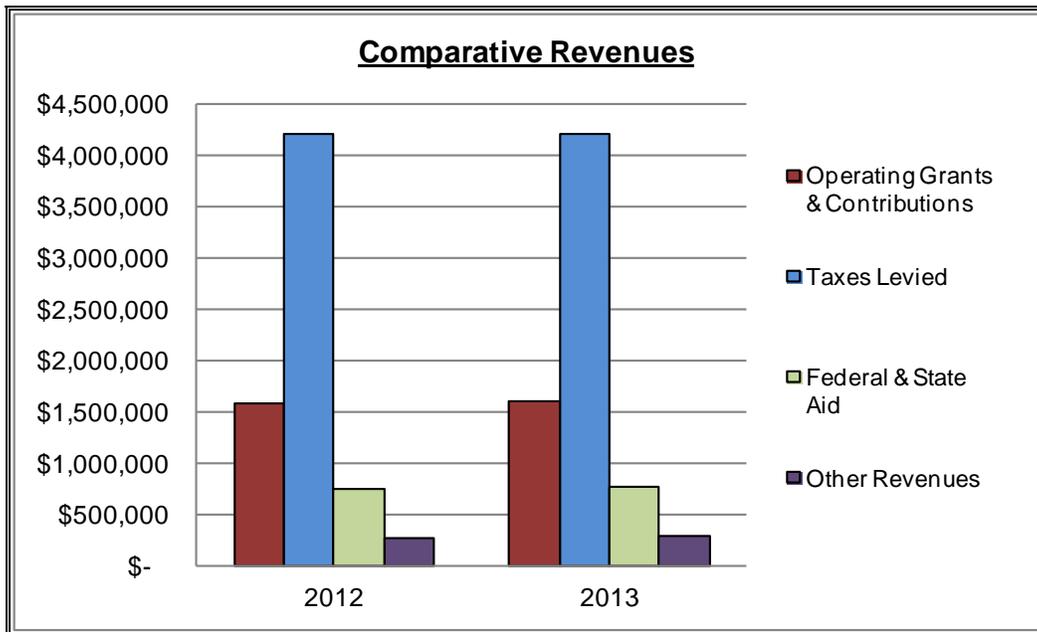
**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(PREPARED BY DISTRICT MANAGEMENT)**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Schedule of Revenues For Governmental Functions</u>				
	FYE 2012 Amount	Percent of Total	FYE 2013 Amount	Percent of Total
<u>Program Revenues</u>				
Operating Grants & Contributions	\$ 1,582,135	23.23%	\$ 1,610,105	23.42%
<u>General Revenues</u>				
Taxes Levied	4,217,184	61.92%	4,209,238	61.24%
Federal & State Aid	738,167	10.84%	763,878	11.11%
Other Revenues	273,504	4.02%	290,685	4.23%
Total Revenues	\$ 6,810,990	100.00%	\$ 6,873,906	100.00%

Table includes financial data of the combined governmental funds



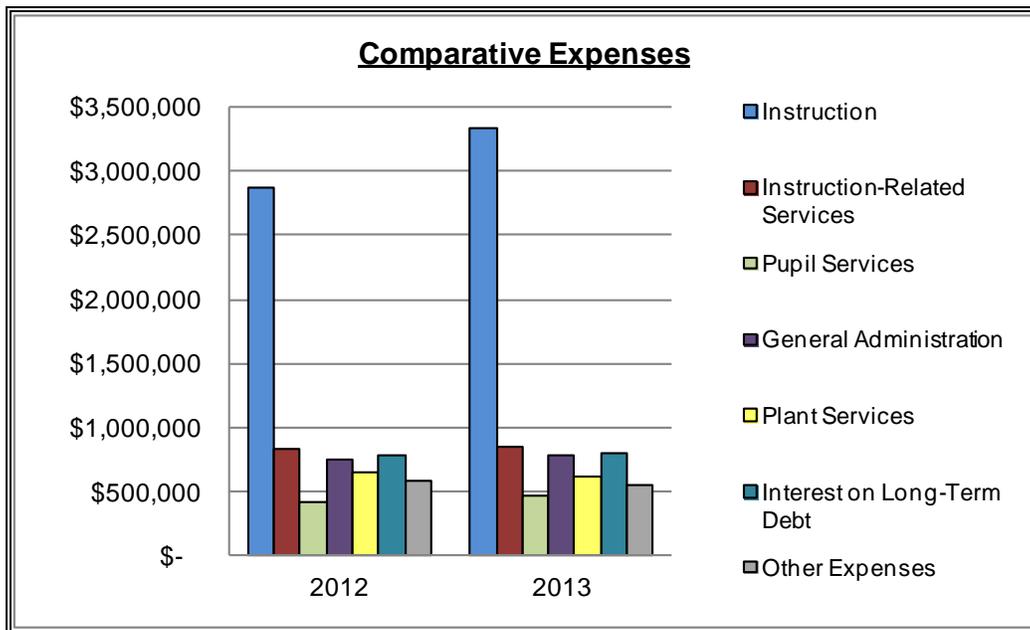
**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(PREPARED BY DISTRICT MANAGEMENT)**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Schedule of Expenses For Governmental Functions</u>				
	<u>FYE 2012 Amount</u>	<u>Percent of Total</u>	<u>FYE 2013 Amount</u>	<u>Percent of Total</u>
<u>Expenses</u>				
Instruction	\$ 2,875,031	41.67%	\$ 3,340,541	45.06%
Instruction-Related Services	834,991	12.10%	850,399	11.47%
Pupil Services	415,760	6.03%	460,283	6.21%
General Administration	752,940	10.91%	787,167	10.62%
Plant Services	653,972	9.48%	619,797	8.36%
Interest on Long-Term Debt	783,793	11.36%	799,976	10.79%
Other Expenses	583,003	8.45%	554,812	7.48%
Total Expenses	\$ 6,899,490	100.00%	\$ 7,412,975	100.00%

Table includes financial data of the combined governmental funds



**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Comparative Schedule of Capital Assets</u>		
	Governmental Activities	
	2012	2013
Land	\$ 948,870	\$ 948,870
Sites and Improvements	2,022,186	2,022,186
Buildings and Improvements	24,046,205	24,046,205
Furniture and Equipment	422,235	422,235
Work-in-Progress	13,903	1,062,266
Subtotals	27,453,399	28,501,762
Less: Accumulated Depreciation	(5,291,419)	(6,139,190)
Capital Assets, net	<u>\$ 22,161,980</u>	<u>\$ 22,362,572</u>

Capital assets, net of depreciation, increased \$200,592 due to the addition of \$1,048,363 of new capital assets and the current year recognition of \$847,771 of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	Governmental Activities	
	2012	2013
Compensated Absences	\$ 17,236	\$ 9,412
General Obligation Bonds	15,701,400	15,656,262
Certificates of Participation	820,000	4,055,000
Capital Leases	1,091,148	1,065,390
Early Retirement Incentives	50,652	33,768
Totals *	<u>\$ 17,680,436</u>	<u>\$ 20,819,832</u>

** The prior year balance has been adjusted to reflect the restatement described in Note 20.*

Total long-term liabilities increased \$3,139,396 due primarily to the current year issuance of \$3,675,000 of certificates of participation.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONCLUDED)

GOVERNMENTAL ACTIVITIES (CONCLUDED)

The general obligation bonds are financed by the local taxpayers and represent 75.2% of the District's total long-term liabilities. The 2006 certificates of participation are financed by the proceeds from the Martin Luther King Jr. Site Lease/Purchase agreement with the City of Sausalito and represent 1.8% of the total long-term liabilities. The 2013 certificates of participation and capital leases are financed by the General Fund and represent 22.8% of the total long-term liabilities. The obligations for compensated absences and early retirement incentives are also financed by the General Fund, and make up the remaining portion of the long-term liabilities.

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

<u>Comparative Schedule of Fund Balances</u>			
	Fund Balances June 30, 2012	Fund Balances June 30, 2013	Increase (Decrease)
General	\$ 1,720,402	\$ 1,755,665	\$ 35,263
Bond Interest & Redemption	571,830	589,041	17,211
Corporation Debt Service	323,513	328,259	4,746
Capital Projects - Special Reserve	106,570	185,479	78,909
Corporation Acquisition	57	2,452,145	2,452,088
Deferred Maintenance	181,780	271,314	89,534
Cafeteria	0	8,797	8,797
Debt Service	600,418	645,735	45,317
Building	246	246	0
County School Facilities	589	590	1
Totals	<u>\$ 3,505,405</u>	<u>\$ 6,237,271</u>	<u>\$ 2,731,866</u>

The combined fund balances of all District funds increased \$2,731,866. The Corporation Acquisition Fund increased \$2,452,088 due to certificates of participation proceeds received in the current year but unspent at June 30, 2013.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim to reflect the most current financial information available at that point in time. The original and final budgets for fiscal year 2012-13 are presented alongside the actual results on page 49.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

(PREPARED BY DISTRICT MANAGEMENT)

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The new Local Control Funding Formula (LCFF) has currently been approved by legislators but the full financial implications are still being clarified. LCFF in its current form has financial implications to the District that will vary depending upon Willow Creek Academy's enrollment due to the increased in-lieu property tax contribution that may be required. The District will have to make additional cuts to ongoing expenditures and make some hard decisions about the direction of its educational programs, facilities, staffing, etc. The District's first steps toward dealing with the budget deficit is the closure of one school campus (Bayside Elementary) in fiscal year 2013-14 and consolidating all District students onto one campus, Bayside/MLK Academy, as well as reducing personnel at the District Office.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the District Office, Sausalito Marin City School District, 200 Phillips Drive, Marin City, California 94965.

BASIC FINANCIAL STATEMENTS

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 6,949,300
Receivables (Note 4)	529,820
Long-Term Receivable (Note 5)	72,734
Prepaid Expenses (Note 11)	168,345
Capital Assets: (Note 7)	
Land	948,870
Sites and Improvements	2,022,186
Buildings and Improvements	24,046,205
Furniture and Equipment	422,235
Work-in-Progress	1,062,266
Less: Accumulated Depreciation	(6,139,190)
Total Assets	30,082,771
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	1,469,511
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences (Note 11)	9,412
General Obligation Bonds	
Current Interest	350,000
Certificates of Participation	380,000
Capital Leases	27,084
Early Retirement Incentives	16,884
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 8)	
Current Interest	10,210,000
Capital Appreciation	5,096,262
Certificates of Participation (Note 9)	3,675,000
Capital Leases (Note 10)	1,038,306
Early Retirement Incentives (Note 11)	16,884
Total Liabilities	22,289,343
<u>Net Position</u>	
Investment in Capital Assets, Net of Related Debt	5,842,896
Restricted:	
For Capital Projects	73,324
For Debt Service	(290,965)
For Educational Programs	199,318
For Other Purposes	9,797
Unrestricted	1,959,058
Total Net Position	\$ 7,793,428

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities</u>					
Instruction	\$ 3,340,541		\$ 986,143		\$ (2,354,398)
Instruction-Related Services:					
Supervision of Instruction	109,536		53,347		(56,189)
Instructional Library and Technology	54,458				(54,458)
School Site Administration	686,405		178,057		(508,348)
Pupil Services:					
Home-to-School Transportation	96,005		12		(95,993)
Food Services	187,307		83,021		(104,286)
Other Pupil Services	176,971		126,765		(50,206)
General Administration:					
Data Processing Services	31,063		5,137		(25,926)
Other General Administration	756,104		23,963		(732,141)
Plant Services	619,797		4,898		(614,899)
Ancillary Services	3,930				(3,930)
Interest on Long-Term Debt	799,976				(799,976)
Other Outgo	550,882		148,762		(402,120)
Total Governmental Activities	\$ 7,412,975	\$ 0	\$ 1,610,105	\$ 0	(5,802,870)
<u>General Revenues</u>					
Taxes Levied for General Purposes					3,417,948
Taxes Levied for Debt Service					791,158
Taxes Levied for Specific Purposes					132
Federal and State Aid - Unrestricted					763,878
Interest and Investment Earnings					(7,477)
Transfers from Other Agencies					59,410
Miscellaneous					238,752
Total General Revenues					5,263,801
Change in Net Position					(539,069)
Net Position - July 1, 2012 (As Restated - Note 20)					8,332,497
Net Position - June 30, 2013					\$ 7,793,428

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**SAUSALITO MARIN CITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Corporation Debt Service</u>
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 1,678,841	\$ 589,041	\$ 328,259
Receivables (Note 4)	499,236		
Long-Term Receivable (Note 5)			
Due from Other Funds (Note 6)	120,746		
Total Assets	<u>\$ 2,298,823</u>	<u>\$ 589,041</u>	<u>\$ 328,259</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 543,158		
Due to Other Funds (Note 6)			
Deferred Revenue (Note 11)			
Total Liabilities	<u>543,158</u>		
Fund Balances: (Note 13)			
Nonspendable	1,000		
Restricted	199,318	\$ 589,041	\$ 328,259
Assigned			
Unassigned	1,555,347		
Total Fund Balances	<u>1,755,665</u>	<u>589,041</u>	<u>328,259</u>
Total Liabilities and Fund Balances	<u>\$ 2,298,823</u>	<u>\$ 589,041</u>	<u>\$ 328,259</u>

Capital Projects - Special Reserve	Corporation Acquisition	Non-Major Governmental Funds	Total Governmental Funds
\$ (97,258)	\$ 3,500,508	\$ 949,909	\$ 6,949,300
72,734		30,584	529,820
1,048,363			72,734
<u>\$ 1,023,839</u>	<u>\$ 3,500,508</u>	<u>\$ 980,493</u>	<u>\$ 8,720,963</u>
\$ 690,992		\$ 7,699	\$ 1,241,849
74,634	\$ 1,048,363	46,112	1,169,109
72,734			72,734
<u>838,360</u>	<u>1,048,363</u>	<u>53,811</u>	<u>2,483,692</u>
		40	1,040
	2,452,145	655,328	4,224,091
185,479		271,314	456,793
<u>185,479</u>	<u>2,452,145</u>	<u>926,682</u>	<u>1,555,347</u>
<u>\$ 1,023,839</u>	<u>\$ 3,500,508</u>	<u>\$ 980,493</u>	<u>\$ 8,720,963</u>

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balances - Governmental Funds \$ 6,237,271

Amounts reported for governmental activities in the statement of net position are different from amounts reported in governmental funds due to the following:

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

Capital Assets	\$ 28,501,762	
Accumulated Depreciation	(6,139,190)	
Net		22,362,572

Unamortized costs: In governmental funds, debt issuance costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issuance costs are amortized over the life of the debt. Unamortized debt issuance costs included in prepaid expenses on the statement of net position are: 168,345

Deferred recognition of earned but unavailable revenues: In governmental funds, revenue is recognized only to the extent that it is "available," meaning it will be collected soon enough after the end of the period to finance expenditures of that period. Receivables for revenues that are earned but unavailable are deferred until the period in which the revenues become available. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenues that were deferred as a liability in governmental funds, but are recognized in the government-wide statements is: 72,734

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

Compensated Absences	\$ 9,412	
General Obligation Bonds	15,656,262	
Certificates of Participation	4,055,000	
Capital Leases	1,065,390	
Early Retirement Incentives	33,768	
Total		(20,819,832)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was: (227,662)

Total Net Position - Governmental Activities \$ 7,793,428

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Corporation Debt Service</u>
<u>Revenues</u>			
Revenue Limit Sources:			
State Apportionment	\$ 201,487		
Local Taxes	3,417,947		
Total Revenue Limit Sources	3,619,434		
Federal Revenue	345,295		
State Revenue	888,629	\$ 3,885	
Local Revenue	1,150,419	787,715	\$ 39
Total Revenues	6,003,777	791,600	39
<u>Expenditures</u>			
Instruction	2,665,795		
Supervision of Instruction	109,536		
Instructional Library and Technology	49,106		
School Site Administration	648,057		
Home-To-School Transportation	96,005		
Food Services			
Other Pupil Services	176,971		
Data Processing Services	28,987		
Other General Administration	728,731		
Plant Services	542,141		
Facilities Acquisition and Construction	16,170		
Ancillary Services	3,930		
Debt Service:			
Principal Retirement	25,758	325,000	440,000
Interest and Issuance Costs	4,249	449,389	211,258
Other Outgo	548,969		
Total Expenditures	5,644,405	774,389	651,258
Excess of Revenues Over (Under) Expenditures	359,372	17,211	(651,219)
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In			480,998
Operating Transfers Out	(324,109)		(33)
Other Sources			175,000
Total Other Financing Sources (Uses)	(324,109)	0	655,965
Net Change in Fund Balances	35,263	17,211	4,746
Fund Balances - July 1, 2012	1,720,402	571,830	323,513
Fund Balances - June 30, 2013	\$ 1,755,665	\$ 589,041	\$ 328,259

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Capital Projects - Special Reserve</u>	<u>Corporation Acquisition</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
			\$ 201,487
			3,417,947
			3,619,434
		\$ 77,700	422,995
		10,248	902,762
\$ 475,363	\$ 418	(10,239)	2,403,715
<u>475,363</u>	<u>418</u>	<u>77,709</u>	<u>7,348,906</u>
			2,665,795
			109,536
			49,106
			648,057
			96,005
		157,420	157,420
			176,971
			28,987
			728,731
		10,705	552,846
1,053,863			1,070,033
			3,930
			790,758
			664,896
			548,969
<u>1,053,863</u>	<u>0</u>	<u>168,125</u>	<u>8,292,040</u>
<u>(578,500)</u>	<u>418</u>	<u>(90,416)</u>	<u>(943,134)</u>
1,194,174	33	234,065	1,909,270
(536,765)	(1,048,363)		(1,909,270)
	3,500,000		3,675,000
<u>657,409</u>	<u>2,451,670</u>	<u>234,065</u>	<u>3,675,000</u>
78,909	2,452,088	143,649	2,731,866
<u>106,570</u>	<u>57</u>	<u>783,033</u>	<u>3,505,405</u>
<u>\$ 185,479</u>	<u>\$ 2,452,145</u>	<u>\$ 926,682</u>	<u>\$ 6,237,271</u>

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Net Change in Fund Balances - Governmental Funds \$ 2,731,866

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds due to the following:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Capital Outlay Expenditures	\$ 1,048,363	
Depreciation Expense	<u>(847,771)</u>	
Net		200,592

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premiums or discounts, were: (3,675,000)

Earned but unavailable revenues: In governmental funds, revenues are recognized only to the extent that they are "available," meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In government-wide statements, revenue is recognized when earned regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period, but related to a prior period is: (475,000)

Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:

Cost of Issuance	\$ 170,258	
Cost of Issuance Amortized	<u>(1,913)</u>	
Net		168,345

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

General Obligation Bonds	\$ 325,000	
Certificates of Participation	440,000	
Capital Leases	<u>25,758</u>	
Total		790,758

Compensated absences and early retirement incentives: In governmental funds, compensated absences and early retirement incentives are measured by the amounts paid during the period. In the statement of activities, compensated absences and early retirement incentives are measured by the amounts earned. The difference between amounts paid and amounts earned was: 24,708

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized as an expenditure in the period that it becomes due. In the government-wide statements, it is recognized in the period incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from a prior period, was: (305,338)

Change in Net Position of Governmental Activities \$ (539,069)

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 1,119	\$ 1,119
<u>Liabilities</u>		
Due to Student Groups	1,119	1,119
<u>Net Position</u>		
Total Net Position	\$ 0	\$ 0

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Sausalito Marin City School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a five member Board of Trustees elected by registered voters of the District, which comprises an area in Marin County. The District serves students in kindergarten through grade eight.

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

The financial reporting entity consists of the following:

- The primary government
- Organizations for which the primary government is financially accountable
- Other organizations for which the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, the organization should be included as a component unit.

Component Units are legally separate organizations for which elected officials of the primary government (District) are financially accountable. The District is financially accountable for the Sausalito School District Financing Corporation (the "Corporation") and therefore the Corporation meets the reporting entity definition. 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 the financial reporting entity criteria:

- The Board of Directors for the Corporation is appointed by the District's Board.
- The Corporation has no employees or members. The District's Business Manager shall serve as the Chief Financial Officer and the District's Superintendent shall serve as the Chief Executive Officer of the Corporation. These individuals receive no additional compensation for work performed in these capacities.
- The District exercises significant influence over operations of the Corporation as the District will always be the sole lessee of all facilities owned by the Corporation. 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.
- All major financing arrangements, contracts, and financial transactions of the Corporation must have the consent of the District.
- The property, assets, profits, and net revenues of the Corporation are irrevocably dedicated to the District, subject to the indebtedness of the Corporation.
- The District has assumed a "moral obligation" and potentially a legal obligation for any debt incurred by the Corporation.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Concluded)

For financial presentation purposes, the Corporation's financial activity has been blended, or combined, with the financial data of the District. The financial activity of the Corporation is included in the Corporation Debt Service Fund and Corporation Acquisition Fund, and the certificates of participation issued by the Corporation are reported as a liability in the Statement of Net Position.

The Corporation is a nonprofit, public benefit corporation, incorporated under the laws of the State of California and recorded by the Secretary of State in 1996. The Corporation was formed for the sole purpose of providing financial assistance to the Sausalito Marin City School District by acquiring, constructing, remodeling, rehabilitating, equipping, improving and financing various public facilities, land and equipment and by leasing certain facilities, land and equipment for the use, benefit and enjoyment of the public served by the District.

Governmental Accounting Standards Board Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, provides further guidance, stating that a legally separate organization should be reported as a component unit if specific criteria are met. The District has determined that there are no organizations, for which the District is not financially accountable, which should be reported within its financial reporting entity under GASB 39.

B. Implementation of New Accounting Pronouncements

In June of 2011, the Governmental Accounting Standard Board issued Statement No. 63 (GASB 63) *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, with required implementation for the District during the year ended June 30, 2013. The objective of GASB 63 is to identify net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. There was no effect on beginning net position/fund balance as a result of implementing GASB 63.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District and its component units. The effect of interfund activity within the governmental activities has been removed from these statements. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Concluded)

Government-wide Financial Statements (Concluded):

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state apportionments, the California Department of Education has defined available as collectible within one year.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Concluded)

Revenues - Exchange and Non-exchange Transactions (Concluded):

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

On an accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds, 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 its assets, liabilities, fund equity 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 District maintains the following governmental fund types:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted, committed, or assigned to expenditure for specified purposes other than debt service or capital projects. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Debt Service Funds - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The District's funds are organized into major, non-major, and fiduciary funds as follows:

Major Governmental Funds:

General Fund is the general operating fund of the District. For financial reporting purposes the financial activities and balances of the Special Revenue - Special Reserve Fund have been combined with the General Fund.

Bond Interest & Redemption Fund is used to account for District taxes received and expended to pay bond interest and redeem bond principal and related costs.

Corporation Debt Service Fund is used to account for the payment of interest and redemption of principal on the outstanding certificates of participation issued by the Sausalito Marin City School District Financing Corporation.

Capital Projects - Special Reserve Fund is used to account for proceeds from real property sales and capital outlays for District property.

Corporation Acquisition Fund is used to account for proceeds from the sale of certificates of participation that will be used to finance the renovation, construction, and modernization of the District's school facilities.

Non-major Governmental Funds:

Deferred Maintenance Fund is used for the purpose of major repairs or replacement of District property.

Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeteria program.

Debt Service Fund is used to account for payments made to the sinking fund, which is required by the lease purchase agreement that was entered into with California School Board Association Finance Corporation, for purposes of financing capital improvements at the District's two schools.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Concluded)

Non-major Governmental Funds (Concluded):

Building Fund is used to account for acquisition of major governmental facilities financed from bond proceeds.

County School Facilities Fund is used to account for state apportionments (Education Code Sections 17009.5 and 17070.10-17076.10).

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the student body account at Martin Luther King Jr. Academy, which is used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. By state law, the District's Governing Board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements.

These budgets are revised by the District's Governing Board and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented for the General Fund as required supplementary information on page 49.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account (See Note 3).

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Encumbrances

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and Equity

1. Deposits and Investments

The District is authorized to maintain cash in banks and revolving funds that are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC).

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations.

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

2. Prepaid Expenses

Prepaid expenses represent the unamortized debt issue costs associated with the certificates of participation issued since the implementation of GASB 34. These debt issue costs will be amortized annually over the life of the debt. Reported prepaid expenses are equally offset by a reserve, which indicates that the amounts are not available for appropriation.

3. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the estimated useful lives in the following table:

<u>Asset Class</u>	<u>Years</u>
Sites and Improvements	14-36
Buildings and Improvements	10-40
Furniture and Equipment	5-20

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and Equity (Continued)

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. The deferred revenue balance at June 30, 2013, represents the remaining payment to be received from the City of Sausalito that will not be collected within the availability period (see Note 5).

5. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements. Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

6. Long-term Liabilities

In the government-wide financial statements, long-term obligations are reported as liabilities in the Statement of Net Position. Premiums and discounts as well as issuance costs are deferred and amortized over the life of the obligation. The liability is reported net of applicable premiums, discounts or issuance costs. In the fund financial statements, governmental funds recognize premiums and discounts as well as issuance costs, during the period the debt is issued. The face amount of the debt issued, premiums, discounts, or issuance costs is reported as other financing sources or uses.

7. Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The allowable classifications in the governmental fund financial statements are as follows:

Nonspendable Fund Balance consist of funds that are inherently nonspendable, due to their form (e.g. inventories and prepaid amounts), or that are legally or contractually required to be maintained intact.

Restricted Fund Balance consists of funds that have limitations on use that are externally enforceable by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance consists of funds that are set aside for a specific purpose by the district's highest level of decision making authority, the Governing Board. The Governing Board may commit fund balance by taking formal action, such as majority vote or resolution. The same formal action must be taken by the Governing Board to remove or change limitations placed on the funds.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and Equity (Continued)

7. Fund Balance (Concluded)

Assigned Fund Balance consists of funds that are set aside with the intent to be used for a specific purpose by the District. The Governing Board has delegated authority to the Superintendent and/or their designee to identify intended uses of assigned funds.

Unassigned Fund Balance consists of positive net resources of the General Fund in excess of what can properly be classified in the previous four categories. The Board is committed to maintain a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's minimum fund balance policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts equal to at least 10% of the General Fund operating expenditures and other financing uses.

The District considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

8. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The County of Marin is responsible for assessing, collecting and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date.

Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

I. Assets, Liabilities and Equity (Concluded)

8. Revenue Limit/Property Tax (Concluded)

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the applicable attendance period ADA to derive the District's total entitlement. The District is considered a "basic aid school district" because property taxes exceed the computed revenue limit, therefore the District does not receive state aid for their revenue limit.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, consist of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash in Bank		\$ 1,119
Cash in Revolving Fund	\$ 1,040	
Cash with Fiscal Agent	4,536,251	
County Pool Investments	<u>2,412,009</u>	
Total Deposits and Investments	<u>\$ 6,949,300</u>	<u>\$ 1,119</u>

Cash in Bank and in Revolving Fund

Cash in bank consists of all cash maintained in the commercial bank account owned by the District, exclusive of amounts held in revolving funds. Cash in revolving fund consists of all cash maintained in commercial bank accounts that are used as revolving funds.

Cash with Fiscal Agent

Cash with Fiscal Agent consists of \$328,259, \$3,500,508, and \$645,735, held by US Bank as trustee, for future payment of interest and redemption of principal for certificates of participation, for the MLK Classroom Construction Project, and for the future pay-off of a capital lease, respectively. Cash with fiscal agent also consists of \$61,749 of earned construction retention funds, held in an escrow account by Bank of America that will be released to the contractor at the completion of the MLK classroom project.

County Pool Investments

County pool investments consist of District cash held by the Marin County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio).

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

General Authorization

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the following schedule:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, as the length of the maturity of an investment increases, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury that purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Segmented Time Distribution

Information about the sensitivity of the fair value of the District's investment to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 2,412,009	\$ 2,411,803	\$ 2,086,930	\$ 325,079

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 2,412,009	\$ 2,411,803			\$ 2,412,009

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. However, the District does not hold any investments in any one issuer, at year-end, that represents five percent or more of the total investments held by the District.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, the District does not have a bank balance that is exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2013, the District does not have any investments that are held by counterparties.

Derivative Investments

The District does not directly invest in any derivative investments. Information related to the use of derivative investments by the Marin County Treasury was not available.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in the General Fund were as follows:

<u>General Fund</u>	<u>Excess Expenditures</u>
Capital Outlay	\$ 749
Debt Service: Principal Retirement	9,242
Debt Service: Interest and Fiscal Charges	1,365

The District incurred unanticipated expenditures in the expenditure classifications above for which the budget was not revised.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013 consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 112,471	\$ 28,632	\$ 141,103
State Government	196,982	1,952	198,934
Local Governments	183,443		183,443
Miscellaneous	6,340		6,340
Totals	\$ 499,236	\$ 30,584	\$ 529,820

NOTE 5 - LONG-TERM RECEIVABLE

During fiscal year 1996-97, the City of Sausalito entered into a site lease/purchase agreement with the Sausalito Marin City School District for the purchase of Martin Luther King Jr. school site. Under the terms of the agreement, the City of Sausalito is required to make 17 annual lease payments to the District, with an interest rate of 7.46% factored into the annual payment amount. The lease does not include a prepayment option. As a result, the City of Sausalito is required to pay the full amount of each annual payment, even if the city were to decide to prepay the entire lease balance. Proceeds from the lease agreement are used to make the debt service payments on the outstanding 2006 certificates of participation, which are discussed in Note 10. The remaining payment to be received under this agreement is \$72,734 during fiscal year 2013-14.

NOTE 6 - INTERFUND ACTIVITIES

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements occur 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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 6 - INTERFUND ACTIVITIES (CONTINUED)

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2013 are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 120,746	
Capital Projects - Special Reserve	1,048,363	\$ 74,634
Corporation Acquisition		1,048,363
Cafeteria		46,112
Totals	<u>\$ 1,169,109</u>	<u>\$ 1,169,109</u>

All interfund receivables and payables are scheduled to be paid within one year.

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 324,109
Corporation Debt Service	\$ 480,998	33
Capital Projects - Special Reserve	1,194,174	536,765
Corporation Acquisition	33	1,048,363
Deferred Maintenance	95,102	
Cafeteria	83,196	
Debt Service	55,767	
Totals	<u>\$ 1,909,270</u>	<u>\$ 1,909,270</u>

Transfer \$90,000 from General Fund to Capital Projects - Special Reserve Fund for architect fees.

Transfer \$44 from General Fund to Capital Projects - Special Reserve Fund to cover negative interest in fund.

Transfer \$95,102 from General Fund to Deferred Maintenance Fund of contribution for future deferred maintenance projects.

Transfer \$83,196 from General Fund to Cafeteria Fund to support the cafeteria program.

Transfer \$55,767 from General Fund to Capital Projects - Special Reserve Fund for capital lease sinking fund payment.

Transfer \$33 from Corporation Debt Service Fund to Corporation Acquisition Fund excess interest earnings from the certificates of participation reserve account, which will be used to finance future construction projects.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 6 - INTERFUND ACTIVITIES (CONCLUDED)

B. Interfund Transfers (Concluded)

Transfer \$480,998 from Capital Projects - Special Reserve Fund to Corporation Debt Service Fund for debt service payment on outstanding 2006 certificates of participation.

Transfer \$55,767 from Capital Projects - Special Reserve Fund to Debt Service Fund for capital lease sinking fund payment.

Transfer \$1,048,363 from Corporation Acquisition Fund to Capital Projects - Special Reserve Fund to reimburse fund for expenditures incurred for MLK classroom project.

NOTE 7 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2013, is shown below:

	<u>Balances</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2013</u>
Land	\$ 948,870			\$ 948,870
Sites and Improvements	2,022,186			2,022,186
Buildings and Improvements	24,046,205			24,046,205
Furniture and Equipment	422,235			422,235
Work-in-Progress	13,903	\$ 1,048,363		1,062,266
Totals at Historical Cost	<u>27,453,399</u>	<u>1,048,363</u>	<u>\$ 0</u>	<u>28,501,762</u>
Less Accumulated Depreciation for:				
Sites and Improvements	1,204,114	53,479		1,257,593
Buildings and Improvements	3,988,246	762,306		4,750,552
Furniture and Equipment	99,059	31,986		131,045
Total Accumulated Depreciation	<u>5,291,419</u>	<u>847,771</u>	<u>0</u>	<u>6,139,190</u>
Governmental Activities				
Capital Assets, net	<u>\$ 22,161,980</u>	<u>\$ 200,592</u>	<u>\$ 0</u>	<u>\$ 22,362,572</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	\$ 691,630
Instructional Library, Media, and Technology	5,352
School Site Administration	38,348
Food Services	29,887
Data Processing Services	2,076
Other General Administration	24,989
Plant Services	<u>55,489</u>
Total Depreciation Expense	<u>\$ 847,771</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 8 - GENERAL OBLIGATION BONDS

The outstanding general obligation debt of the District as of June 30, 2013 was as follows:

A. Current Interest Bonds

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2012	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2013
8/18/05	3.65-5.50	8/1/30	\$ 7,640,000	\$ 6,530,000		\$ 230,000	\$ 6,300,000
9/7/06	3.25-4.125	8/1/22	1,680,000	1,245,000		95,000	1,150,000
9/7/06	3.85-4.375	8/1/28	3,110,000	3,110,000			3,110,000
Totals			<u>\$ 12,430,000</u>	<u>\$ 10,885,000</u>	<u>\$ 0</u>	<u>\$ 325,000</u>	<u>\$ 10,560,000</u>

The annual requirements to amortize the current interest bonds, as of June 30, 2013, are as follows:

Year Ended June 30	Principal	Interest	Totals
2014	\$ 350,000	\$ 432,809	\$ 782,809
2015	385,000	414,626	799,626
2016	425,000	397,167	822,167
2017	455,000	380,798	835,798
2018	490,000	362,991	852,991
2019-2023	3,065,000	1,479,541	4,544,541
2024-2028	3,550,000	798,645	4,348,645
2029-2033	1,840,000	102,711	1,942,711
Totals	<u>\$ 10,560,000</u>	<u>\$ 4,369,288</u>	<u>\$ 14,929,288</u>

B. Capital Appreciation Bonds

Date of Issue	Accretion Rate %	Date of Maturity	Amount of Original Issue	Outstanding July 1, 2012	Issued Current Year	Accreted Interest Current Year	Outstanding June 30, 2013
9/7/06	7.586	8/1/33	\$ 309,991	\$ 478,051		\$ 36,952	\$ 515,003
9/7/06	5.523	8/1/42	3,159,933	4,338,349		242,910	4,581,259
Totals			<u>\$ 3,469,924</u>	<u>\$ 4,816,400</u>	<u>\$ 0</u>	<u>\$ 279,862</u>	<u>\$ 5,096,262</u>

The outstanding obligation for the Series 2006A capital appreciation bonds at June 30, 2013, is as follows:

Year Ended June 30	Accretion Rate	Original Issue (Principal)	Accreted Interest	Totals
2014-2018		\$ 0	\$ 0	\$ 0
2019-2023		0	0	0
2024-2028	7.586%	172,333	113,971	286,304
2029-2033	7.586%	118,765	78,545	197,310
2034-2038	7.586%	18,893	12,496	31,389
Totals		<u>\$ 309,991</u>	<u>\$ 205,012</u>	<u>\$ 515,003</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 8 - GENERAL OBLIGATION BONDS (CONCLUDED)

B. Capital Appreciation Bonds (Concluded)

The annual requirements to amortize the Series 2006A capital appreciation bonds at June 30, 2013, are as follows:

Year Ended June 30	Principal	Interest	Totals
2014-2018	\$ 0	\$ 0	\$ 0
2019-2023	0	0	0
2024-2028	172,333	527,667	700,000
2029-2033	118,765	581,235	700,000
2034-2038	18,893	121,107	140,000
Totals	\$ 309,991	\$ 1,230,009	\$ 1,540,000

The outstanding obligation for Series 2006B capital appreciation bonds at June 30, 2013, is as follows:

Year Ended June 30	Accretion Rate	Original Issue (Principal)	Accreted Interest	Totals
2014-2018		\$ 0	\$ 0	\$ 0
2019-2023		0	0	0
2024-2028		0	0	0
2029-2033	5.523%	778,788	350,291	1,129,079
2034-2038	5.523%	1,275,448	573,714	1,849,162
2039-2043	5.523%	1,105,697	497,321	1,603,018
Totals		\$ 3,159,933	\$ 1,421,326	\$ 4,581,259

The annual requirements to amortize the Series 2006B capital appreciation bonds at June 30, 2013, are as follows:

Year Ended June 30	Principal	Interest	Totals
2014-2018	\$ 0	\$ 0	\$ 0
2019-2023	0	0	0
2024-2028	0	0	0
2029-2033	778,788	2,221,212	3,000,000
2034-2038	1,275,448	4,894,552	6,170,000
2039-2043	1,105,697	5,899,303	7,005,000
Totals	\$ 3,159,933	\$ 13,015,067	\$ 16,175,000

NOTE 9 - CERTIFICATES OF PARTICIPATION

In August 2006, the Sausalito School District Financing Corporation issued certificates of participation (COPS) in the amount of \$3,235,000 to refund the outstanding 1996 Refunding COPS and to provide financing for the renovation, construction, and modernization of certain District facilities. At June 30, 2013, the principal balance outstanding was \$380,000.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 9 - CERTIFICATES OF PARTICIPATION (CONCLUDED)

On February 12, 2013, the Sausalito School District Financing Corporation issued certificates of participation in the principal amount of \$3,675,000 to provide financing for the MLK Jr. Academy Classroom Construction Project. At June 30, 2013, the principal balance outstanding was \$3,675,000.

The annual requirements to amortize the certificates of participation as of June 30, 2013 are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 380,000	\$ 143,935	\$ 523,935
2015	95,000	102,215	197,215
2016	95,000	101,669	196,669
2017	95,000	100,980	195,980
2018	95,000	100,125	195,125
2019-2023	490,000	480,065	970,065
2024-2028	545,000	420,180	965,180
2029-2033	630,000	334,125	964,125
2034-2038	750,000	220,412	970,412
2039-2043	880,000	79,100	959,100
Totals	<u>\$ 4,055,000</u>	<u>\$ 2,082,806</u>	<u>\$ 6,137,806</u>

NOTE 10 - CAPITAL LEASES

- A. On December 1, 2002, the District entered into a \$1,000,000 lease agreement to finance the remodel of its existing school facilities and the update of its technology systems. The agreement requires the District to make fifteen (15) annual payments of \$55,766 to a sinking fund maintained by US Bank. The sum of the annual payments plus interest earned on the sinking fund balance are expected to be sufficient to make a single \$1,000,000 lease payment on December 19, 2017 and pay-off the entire lease balance at that time. The lease does not include a prepayment option. The agreement provides for title to pass upon expiration of the lease period. Future required sinking fund payments as of June 30, 2013 are as follows:

Year Ended <u>June 30</u>	<u>Sinking Fund Payments</u>
2014	\$ 55,766
2015	55,766
2016	55,766
2017	55,766
2018	55,766
Total sinking fund payments remaining	<u>\$ 278,830</u>
Lease payment due December 19, 2017	<u>\$ 1,000,000</u>

At June 30, 2013, the Debt Service Fund has a fund balance of \$645,735.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 10 - CAPITAL LEASES (CONCLUDED)

B. The District entered into lease agreements to finance the acquisition of energy management equipment and the purchase of computer equipment valued at \$156,600 and \$29,752, respectively. The agreements provide for title to pass upon expiration of the lease periods.

Future minimum lease payments under these agreements are as follows:

Year Ended <u>June 30</u>	<u>Lease Payments</u>
2014	\$ 30,007
2015	19,399
2016	<u>19,399</u>
Total payments	68,805
Less amounts representing interest	<u>(3,415)</u>
Present value of net minimum lease payments	<u>\$ 65,390</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for the leased assets.

NOTE 11 - EARLY RETIREMENT INCENTIVES

In addition to the pension benefits described in Note 15, the District offered an early retirement incentive benefit program through the Public Agency Retirement System (PARS) in fiscal year 2009-10. The PARS program was offered to all certificated employees with at least 30 years of teaching experience and 10 years of service with the District. The future payments are as follows:

Year Ended <u>June 30</u>	<u>PARS</u>
2014	\$ 16,884
2015	<u>16,884</u>
Total	<u>\$ 33,768</u>

NOTE 12 - LONG-TERM LIABILITIES

The changes in long-term liabilities for the year ended June 30, 2013, is shown below:

	<u>Balances July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2013</u>	<u>Due within One Year</u>
Compensated Absences	\$ 17,236	\$ 9,412	\$ 17,236	\$ 9,412	\$ 9,412
General Obligation Bonds:					
Current Interest	10,885,000		325,000	10,560,000	350,000
Capital Appreciation	4,816,400	279,862		5,096,262	
Certificates of Participation	820,000	3,675,000	440,000	4,055,000	380,000
Capital Leases	1,091,148		25,758	1,065,390	27,084
Early Retirement Incentives	50,652		16,884	33,768	16,884
Totals *	<u>\$ 17,680,436</u>	<u>\$ 3,964,274</u>	<u>\$ 824,878</u>	<u>\$ 20,819,832</u>	<u>\$ 783,380</u>

* The prior year balance has been adjusted to reflect the restatement described in Note 20.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 13 - FUND BALANCES

The District's fund balances at June 30, 2013 consisted of the following:

	<u>General Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Corporation Debt Service Fund</u>	<u>Capital Projects- Special Reserve Fund</u>	<u>Corporation Acquisition Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Nonspendable	\$ 1,000					\$ 40	\$ 1,040
Restricted	199,318	\$ 589,041	\$ 328,259		\$ 2,452,145	655,328	4,224,091
Assigned				\$ 185,479		271,314	456,793
Unassigned:							
Economic Uncertainties	588,841						588,841
Other	966,506						966,506
Total Fund Balances	<u>\$ 1,755,665</u>	<u>\$ 589,041</u>	<u>\$ 328,259</u>	<u>\$ 185,479</u>	<u>\$ 2,452,145</u>	<u>\$ 926,682</u>	<u>\$ 6,237,271</u>

NOTE 14 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (CalSTRS) for K-12 Education. This payment consists of state general fund contributions to CalSTRS of \$62,720 (5.175512% of salaries subject to CalSTRS).

NOTE 15 - 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 (CalSTRS) and classified employees are members of the Public Employees' Retirement System (CalPERS).

A. State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from the STRS, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy

Active plan members are required to contribute 8.0% 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 the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-13 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$116,109, \$90,718, and \$99,979, respectively, and equal 100% of the required contributions for each year.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

B. California Public Employees' Retirement System (CalPERS)

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. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0% 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 the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-13 was 11.417%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$106,529, \$106,309, and \$106,473, respectively, and equal 100% of the required contributions for each year.

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and participating employee vest immediately. The District contributes 6.2% of an employee's gross earnings and employees were required to contribute 4.2% of their gross earnings from July 2012 through December 2012 and 6.2% from January 2013 through June 2013.

NOTE 16 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012-13, the District participated in one joint powers authority (JPA) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage for each of the past three years.

NOTE 17 - JOINT VENTURES

The District participates in two joint ventures under joint powers agreements with Marin School Insurance Authority (MSIA) for workers' compensation and property and liability insurance, and Marin Pupils Transportation Agency (MPTA) for pupil transportation services for special education children. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 17 - JOINT VENTURES (CONCLUDED)

The JPAs arrange for and/or provide coverage or transportation services for its members. The JPAs are governed by a board consisting of a representative from each member district. Each board controls the operations of their JPAs, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage or service requested and shares surpluses and deficits proportionately to their participation in the JPAs. The District is charged by the MPTA based upon actual cost of pupil transportation. The JPAs are audited on an annual basis. Financial information can be obtained by contacting each JPA's management.

NOTE 18 - CHARTER SCHOOL

In accordance with Education Code Section 47605, the District approved a charter school agreement with Willow Creek Academy Charter School, which was renewed for an additional five years for the period July 1, 2009 through June 30, 2014.

Under the terms of the agreement, the charter school is responsible for managing, budgeting, and accounting for its activities in accordance with accounting principles generally accepted in the United States of America. Therefore, the financial activities of the charter school are not included in the District's financial reports; however, the financial transactions between the charter school and the District are included.

NOTE 19 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, 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, it is believed that any required reimbursements will not be material.

B. Litigation

The District is subject to various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

C. Construction Commitments

As of June 30, 2013, the District has the following commitments with respect to unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
MLK New Classrooms Construction Project	\$ 755,620	August 2013

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 20 - RESTATEMENT OF NET POSITION

The beginning government-wide net position balance has been restated to reflect an adjustment to the other post employment benefits (OPEB) liability balance, which has been deemed to be immaterial to the financial statements. The effect of the restatement on the current year financial statements is as follows:

	Governmental <u>Activities</u>
Net Position - July 1, 2012 (as originally stated)	\$ 8,330,984
Overstatement of OPEB Liability	<u>1,513</u>
Net Position - July 1, 2012 (as restated)	<u><u>\$ 8,332,497</u></u>

NOTE 21 - SUBSEQUENT EVENTS

The District's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through December 13, 2013, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that require disclosure in or adjustment to the current year financial statements.

SUPPLEMENTARY INFORMATION SECTION

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Revenue Limit Sources:				
State Apportionment	\$ 159,224	\$ 201,268	\$ 201,487	\$ 219
Local Sources	3,302,345	3,411,556	3,417,947	6,391
Total Revenue Limit Sources	3,461,569	3,612,824	3,619,434	6,610
Federal Revenue	209,978	328,058	345,295	17,237
Other State Revenue	765,912	894,980	888,629	(6,351)
Other Local Revenue	1,022,915	1,128,671	1,150,419	21,748
Total Revenues	5,460,374	5,964,533	6,003,777	39,244
<u>Expenditures</u>				
Certificated Salaries	1,636,917	1,627,384	1,576,754	50,630
Classified Salaries	864,411	941,765	937,709	4,056
Employee Benefits	781,600	765,407	750,723	14,684
Books and Supplies	136,172	329,974	255,587	74,387
Services and Other				
Operating Expenditures	1,488,838	1,782,224	1,528,486	253,738
Capital Outlay		15,421	16,170	(749)
Debt Service:				
Principal Retirement	15,877	16,516	25,758	(9,242)
Interest and Fiscal Charges	3,523	2,884	4,249	(1,365)
Other Expenditures	518,641	580,644	548,969	31,675
Total Expenditures	5,445,979	6,062,219	5,644,405	417,814
Excess of Revenues Over (Under) Expenditures	14,395	(97,686)	359,372	457,058
<u>Other Financing (Uses)</u>				
Operating Transfers Out	(209,851)	(299,851)	(324,109)	(24,258)
Net Change in Fund Balances	(195,456)	(397,537)	35,263	\$ 432,800
Fund Balances - July 1, 2012	1,720,402	1,720,402	1,720,402	
Fund Balances - June 30, 2013	\$ 1,524,946	\$ 1,322,865	\$ 1,755,665	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**SAUSALITO MARIN CITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013**

	Deferred Maintenance	Cafeteria
<u>Assets</u>		
Deposits and Investments	\$ 274,214	\$ 29,124
Receivables		30,584
Total Assets	<u>\$ 274,214</u>	<u>\$ 59,708</u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts Payable	\$ 2,900	\$ 4,799
Due to Other Funds		46,112
Total Liabilities	<u>2,900</u>	<u>50,911</u>
Fund Balances:		
Nonspendable		40
Restricted		8,757
Assigned	271,314	
Total Fund Balances	<u>271,314</u>	<u>8,797</u>
Total Liabilities and Fund Balances	<u>\$ 274,214</u>	<u>\$ 59,708</u>

Debt Service	Building	County School Facilities	Total Non-Major Governmental Funds
\$ 645,735	\$ 246	\$ 590	\$ 949,909
			30,584
<u>\$ 645,735</u>	<u>\$ 246</u>	<u>\$ 590</u>	<u>\$ 980,493</u>
			\$ 7,699
			46,112
			<u>53,811</u>
			40
\$ 645,735	\$ 246	\$ 590	655,328
			271,314
<u>645,735</u>	<u>246</u>	<u>590</u>	<u>926,682</u>
<u>\$ 645,735</u>	<u>\$ 246</u>	<u>\$ 590</u>	<u>\$ 980,493</u>

**SAUSALITO MARIN CITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Deferred Maintenance	Cafeteria
<u>Revenues</u>		
Federal Revenue		\$ 77,700
State Revenue	\$ 4,898	5,350
Local Revenue	239	(29)
Total Revenues	5,137	83,021
<u>Expenditures</u>		
Food Services		157,420
Plant Services	10,705	
Total Expenditures	10,705	157,420
Excess of Revenues Over (Under) Expenditures	(5,568)	(74,399)
<u>Other Financing Sources</u>		
Operating Transfers In	95,102	83,196
Net Change in Fund Balances	89,534	8,797
Fund Balances - July 1, 2012	181,780	0
Fund Balances - June 30, 2013	\$ 271,314	\$ 8,797

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Debt Service</u>	<u>Building</u>	<u>County School Facilities</u>	<u>Total Non-Major Governmental Funds</u>
			\$ 77,700
			10,248
\$ (10,450)		\$ 1	(10,239)
(10,450)		1	77,709
			157,420
			10,705
0		0	168,125
(10,450)		1	(90,416)
55,767			234,065
45,317		1	143,649
600,418	\$ 246	589	783,033
<u>\$ 645,735</u>	<u>\$ 246</u>	<u>\$ 590</u>	<u>\$ 926,682</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

ORGANIZATION

The Sausalito Marin City School District comprises and serves the City of Sausalito, Marin City, and several military installations. There were no changes in the boundaries of the District during the current year. The District currently operates two elementary schools serving students in kindergarten through grade eight.

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
William Ziegler	President	December 2016
Joshua Barrow	Vice President	December 2014
Thomas Newmeyer	Member	December 2014
Caroline Van Alst	Clerk	December 2016
Shirley Thornton, Ed. D.	Member	December 2014

ADMINISTRATION

Dr. Valerie Pitts
Superintendent

Paula F. Rigney
Business Manager

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>P-2 Report</u>		<u>Annual Report</u>	
	<u>District Reported</u>	<u>Audited</u>	<u>District Reported</u>	<u>Audited</u>
<u>Elementary</u>				
Kindergarten	16.23	16.23	16.46	16.46
First through Third	38.85	38.09	40.22	39.44
Fourth through Sixth	34.82	34.46	34.89	34.59
Seventh and Eighth	22.40	22.07	22.21	21.80
Special Education - Special Day Class	1.77	2.53	2.64	2.55
Special Education - Nonpublic	4.83	3.03	4.68	3.10
Extended Year - Nonpublic	0	0.27	0.27	0.27
Totals	<u>118.90</u>	<u>116.68</u>	<u>121.37</u>	<u>118.21</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>Adjusted 1982-83 Actual Minutes</u>	<u>1986-87 Minutes Required</u>	<u>Adjusted 1986-87 Minutes Required</u>	<u>2012-13 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,500	30,625	36,000	35,000	58,530	180	N/A	In Compliance
Grade 1	45,500	44,236	50,400	49,000	58,530	180	N/A	In Compliance
Grade 2	45,500	44,236	50,400	49,000	59,890	180	N/A	In Compliance
Grade 3	45,500	44,236	50,400	49,000	59,890	180	N/A	In Compliance
Grade 4	54,250	52,743	54,000	52,500	59,890	180	N/A	In Compliance
Grade 5	54,250	52,743	54,000	52,500	61,195	180	N/A	In Compliance
Grade 6	54,250	52,743	54,000	52,500	61,195	180	N/A	In Compliance
Grade 7	54,250	52,743	54,000	52,500	61,195	180	N/A	In Compliance
Grade 8	54,250	52,743	54,000	52,500	61,195	180	N/A	In Compliance

SAUSALITO MARIN CITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
U.S. Department of Agriculture:			
Passed through California Department of Education (CDE):			
<i>Child Nutrition Cluster:</i>			
National School Lunch	10.555	13524	\$ 58,955
School Needy Breakfast	10.553	13526	18,745
U.S. Department of Education:			
Passed through CDE:			
Education Jobs Fund	84.410	25152	509
NCLB: Title I - Basic Grant Low-Income & Neglected	84.010	14329	199,139
NCLB: Title II - Improving Teacher Quality	84.367	14341	25,029
NCLB: Title III - Immigrant Education Program	84.365	15146	400
NCLB: Title III - Limited English Proficient	84.365	14346	2,642
Passed through Marin County SELPA:			
<i>Special Education Cluster:</i>			
IDEA Part B Basic Local Assistance	84.027	13379	69,533
IDEA Part B Mental Health Allocation Plan	84.027A	14468	30,247
Received Direct:			
Federal Impact Aid	84.041	n/a	<u>17,428</u>
Total			<u>\$ 422,627</u>

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	General Fund	Special Revenue - Special Reserve Fund	Corporation Debt Service Fund	Capital Projects - Special Reserve Fund	Corporation Acquisition Fund	Debt Service Fund
June 30, 2013 Annual Financial and Budget Report Fund Balances	\$ 1,684,365	\$ 172,310	\$ 323,513	\$ 184,671	\$ 57	\$ 600,418
Adjustments Increasing/(Decreasing) Fund Balances:						
Overstatement of State Revenues	(9,639)					
Understatement of Employee Benefits	(9,152)					
Understatement of Other Outgo	(82,219)					
Overstatement of Other Outgo				536,765		
Understatement of Interest Revenue			39		418	
Overstatement of Interest Revenue						(10,450)
Understatement of Contract Services			(170,258)			
Understatement of Debt Service Interest			(41,000)			
Overstatement of Capital Outlay				58,249		
Understatement of Debt Service Principal			(440,000)			
Understatement of Transfers In			480,998	1,048,363	33	55,767
Understatement of Transfers Out			(33)	(536,765)	(1,048,363)	
Understatement of Other Sources			175,000		3,500,000	
Overstatement of Other Sources				(1,105,804)		
Reclassifications Increasing/(Decreasing) Fund Balances:	172,310	(172,310)				
Net Adjustments & Reclassifications	71,300	(172,310)	4,746	808	2,452,088	45,317
June 30, 2013 Audited Financial Statements Fund Balances	\$ 1,755,665	\$ 0	\$ 328,259	\$ 185,479	\$ 2,452,145	\$ 645,735

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2013.

The reclassification of fund balances above was required as a result of the definition of special revenue funds prescribed by GASB 54.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	GENERAL FUND			
	(Budget)* 2013-14**	2012-13	2011-12	2010-11
Revenues and Other Financial Sources	\$ 5,497,101	\$ 6,003,777	\$ 5,869,977	\$ 6,516,776
Expenditures	5,668,575	5,644,405	5,505,000	6,345,571
Other Uses and Transfers Out	283,600	324,109	295,016	108,133
Total Outgo	5,952,175	5,968,514	5,800,016	6,453,704
Change in Fund Balance	(455,074)	35,263	69,961	63,072
Ending Fund Balance	\$ 1,300,591	\$ 1,755,665	\$ 1,720,402	\$ 1,650,441
Available Reserves	\$ 1,139,198	\$ 1,555,347	\$ 1,364,459	\$ 1,382,942
Reserve for Economic Uncertainties ***	\$ 595,218	\$ 588,841	\$ 577,517	\$ 894,140
Available Reserves as a Percentage of Total Outgo	19.1%	26.1%	23.5%	21.4%
Average Daily Attendance at P-2	119	117	128	157
Total Long-Term Liabilities	\$ 20,036,452	\$ 20,819,832	\$ 17,680,436 ⁽¹⁾	\$ 18,140,296 ⁽¹⁾

* Amounts reported for the 2013-14 budget are presented for analytical purposes only and have not been audited.

** Amounts have been adjusted to ensure comparability with the current year GASB 54 financial statement presentation.

*** Reported balances are a component of available reserves.

⁽¹⁾ The amounts presented have been adjusted to reflect the restatement described in Note 20.

The fund balance of the General Fund increased \$105,224 (6.4%) over the past two years. The fiscal year 2013-14 budget projects a decrease of \$455,074 (25.9%). For a district this size, the state recommends available reserves of at least 5% of total general fund expenditures, transfers out, and other uses (total outgo).

The District produced operating surpluses of \$35,263, \$69,961, and \$63,072 during fiscal years 2012-13, 2011-12, and 2010-11, respectively.

Average daily attendance (ADA) decreased 40 ADA (25.5%) over the past two years. The District anticipates an increase of 2 ADA during fiscal year 2013-14.

Total long-term liabilities increased \$2,679,536 over the past two years due primarily to the issuance of \$3,675,000 of certificates of participation in fiscal year 2012-13.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Charter School

Willow Creek Academy

District Audit

Excluded

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District is required to present a Schedule of Revenues, Expenditures, and Changes in Fund Balance budgetary comparison for the General Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget, final adopted budget, and the actual revenues and expenditures of each of these funds by object.

B. Combining Statements

Combining statements are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. These statements present more detailed information about the financial position and financial activities of the District's individual funds.

C. Schedule of Average Daily Attendance

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

D. Schedule of Instructional Time

The District received state funding under the Basic Aid Provision and therefore did not receive incentive funding for increasing instructional time as provided by the incentive 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.

E. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes the federal grant activities of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

F. 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, as reported in the Annual Financial and Budget Report to the audited financial statements.

G. 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 for a reasonable period of time.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

H. Schedule of Charter Schools

This schedule lists all charter schools chartered by the District and identifies whether or not the charter schools were included or excluded from the audit of the District.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Sausalito Marin City School District
Sausalito, California

Report on State Compliance

We have audited Sausalito Marin City School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13* for the year ended June 30, 2013.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on Sausalito Marin City School District's compliance based on our compliance audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*, prescribed in the California Code of Regulations, Title 5, section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Sausalito Marin City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with state laws and regulations applicable in the following areas. However, our audit does not provide a legal determination of Sausalito Marin City School District's compliance with those requirements.

<u>Description</u>	Procedures in Education Audit Appeals Panel's <u>Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Not Applicable
Continuation Education	10	Not Applicable

<u>Description</u>	<u>Procedures In Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	No (see below)
Juvenile Court Schools	8	Not Applicable
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or Charter Schools With Only One School Serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Contemporaneous Records of Attendance For Charter Schools	1	Not Applicable
Mode of Instruction for Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/ Independent Study for Charter Schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction for Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based For Charter Schools	4	Not Applicable

We were unable to perform the procedures for the school accountability report card because the District did not publish the school accountability report card for fiscal year 2012-13.

Opinion on Compliance

In our opinion, Sausalito Marin City School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2013, except as described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Findings 13-5, 13-6, and 13-7**.

Board of Trustees
Sausalito Marin City School District
Page Three

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the District's Board, management, California State Controller's Office, California Department of Finance, California Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 13, 2013

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

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

Board of Trustees
Sausalito Marin City School District
Sausalito, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sausalito Marin City School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 13, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness, as noted in **Finding 13-1**.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies, as noted in **Findings 13-2, 13-3, and 13-4**.

Compliance and Other Matters

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

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 13, 2013

FINDINGS AND QUESTIONED COSTS SECTION

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weaknesses identified?	<u> X </u> Yes	<u> </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

State Awards

Internal control over state programs:		
Material weaknesses identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None reported
Type of auditor's report issued on compliance for state programs:	Qualified	

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

13 - 1 / 30000

MATERIAL WEAKNESS

FINANCIAL REPORTING - UNAUDITED ACTUALS

<u>Criteria:</u>	Each year, school districts are responsible for preparing complete and accurate financial information, which is reported to the California Department of Education in the form of the "Unaudited Actuals" Financial Report. In addition, each year the governing board certifies that the report was prepared in accordance with Education Code Section 41010, and approves the report as the official submission of financial information that will be used as the basis for the District's annual financial statements. Accordingly, districts should have an effective system of internal control over financial reporting that will ensure that the information contained in the report is free of material misstatement.
<u>Condition:</u>	During the performance of the annual audit, we noted several misstatements on the "Unaudited Actuals" that we consider to be material to the District's annual financial statements.
<u>Questioned Costs:</u>	None.
<u>Context:</u>	The adjustments made to ensure that the financial statements were fairly stated are presented on page 58 of this report.
<u>Effect:</u>	The "Unaudited Actuals" approved by the Governing Board contained misstatements that are material to the District's annual financial statements.
<u>Cause:</u>	The District eliminated an administrative position in the District Office that required other District Office personnel to absorb additional job responsibilities. In addition, the District Office moved locations in August 2013, in the middle of their year-end closing process, due to ongoing construction required for the consolidation of the two school sites.
<u>Recommendation:</u>	The District should add procedures to their comprehensive financial reporting checklist to ensure all relevant areas are covered during the year-end closing process.
<u>District Response:</u>	The District agrees and will start the year end process earlier in the school year now to ensure that errors are minimized and that there is more time to double check everything prior to finalizing the unaudited actuals.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

13 - 2 / 30000

SIGNIFICANT DEFICIENCY

CAFETERIA FUND ENCROACHMENT

Criteria: The Cafeteria Fund should attempt to operate as close to break-even as possible to ensure that the fund does not encroach on the General Fund in significant amounts.

Condition: The Cafeteria Fund has not operated close to a break-even basis. The program continues to incur increasing operating deficits and has relied upon annual contributions from the General Fund. A summary of the operating deficits and annual contributions are as follows:

	<u>Budget</u>			
	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>
Cafeteria Fund				
Operating Deficits	\$ 42,833	\$ 74,399	\$ 60,908	\$ 51,657
General Fund				
Contributions	\$ 42,833	\$ 83,196	\$ 60,159	\$ 52,366

Questioned Cost: None.

Context: The Cafeteria Fund is incurring annual operating deficits and has become dependent on significant annual General Fund contributions. In addition, the District issued \$3,675,000 of certificates of participation that will be financed by the General Fund, which will further deplete the District's reserves.

Effect: If appropriate program cuts are not made, the current trend of deficit spending in the Cafeteria Fund will likely continue and may begin to impair the District's ability to maintain adequate reserves in the General Fund in the future.

Cause: The District has been unsuccessful in reducing cafeteria program costs down to a level that is consistent with the revenues generated by the program.

Recommendation: The District should continue to investigate program changes that will allow the Cafeteria Fund to operate closer to a break-even basis and become less dependent on annual General Fund contributions.

District Response: The District has implemented an in house cafeteria program with the hope of being able to provide an all organic/environmental food program that is cost effective and efficient.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

13 - 3 / 30000

SIGNIFICANT DEFICIENCY

INSTRUCTIONAL MINUTES CALCULATIONS

- Criteria:** The 1983 Educational Reform Act established financial incentives for school districts that offer at least a specified minimum number of instructional minutes per school year. Accordingly, districts should develop procedures to ensure that the required number of instructional minutes are provided and properly documented.
- Condition:** Instructional minute calculations are not routinely prepared, by school site administrators, on an annual basis to ensure compliance with instructional minute requirements. As a result, no independent review is performed by the business office to ensure that the instructional minute calculations are accurate and comply with state incentive funding requirements.
- Questioned Costs:** None. The District complied with the instructional minute requirements for fiscal year 2012-13. In addition, the District was funded under the basic aid provision in 2012-13, and therefore did not receive longer day incentive funding.
- Context:** Both school sites were tested for instructional minutes compliance in fiscal year 2012-13.
- Effect:** The District's procedures for instructional minutes compliance is inadequate and may result in a loss of funding if the District is unable to detect and prevent a potential instructional minute shortfall in the future. If school sites do not meet minimum daily instructional minute requirements, the school day cannot be counted for apportionment purposes, and could potentially result in a loss of average daily attendance that could potentially affect categorical funding.
- Cause:** The District has not enforced procedures that require school site administrators to compute annual instructional minutes calculations at the beginning of each school year. The 2012-13 instructional minutes calculations were not completed by the District until August 2013.
- Recommendation:** The District should enforce procedures that require each site administrator to compute the annual instructional minutes at the beginning of each school year, and submit their calculation, along with the related school calendar and bell schedules, to the business office for review. Site administrators should be notified that changes may not be made to bell schedules without obtaining prior approval from the business office. If revisions are made to site bell schedules, site administrators should recalculate instructional minutes and submit the revised calculations to the business office for review.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

INSTRUCTIONAL MINUTES CALCULATIONS (CONCLUDED)

District Response:

The District will enforce procedures that require school site administration to compute annual instructional minutes at the beginning of each school year, and submit their calculation, along with the related school calendar and bell schedules, to the business office for review.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

13 - 4 / 30000

SIGNIFICANT DEFICIENCY

TRANSACTION AUTHORIZATION

Criteria: Discretionary funds that are transferred to other agencies should be supported by approved agreements signed by both parties or by specific approval from the Governing Board that is documented in the Governing Board minutes.

Condition: There was no written agreement approving the discretionary supplemental funding provided to Willow Creek Academy (Charter School) in fiscal year 2012-13.

Questioned Cost: None. (This is an administrative comment only to promote better internal controls and increase transparency).

Context: The supplemental funding provided to the Charter School was not approved in a memorandum of understanding between the District and the Charter School. In fiscal year 2012-13, the District provided \$328,876 of supplemental funding to the Charter School. The only documented approval for this transfer to the Charter School was the Governing Board's approval of the District's 2012-13 Budget on June 28, 2012, which included \$328,876 on a line item described as "All Other Transfers Out to All Others."

Effect: When transactions are not supported by appropriate written authorization, errors, improprieties, or misinterpretations are more likely to occur.

Cause: The amount of supplemental funding provided to Willow Creek Academy has been an ongoing process of negotiations between the District and Charter School.

Recommendation: The supplemental funding provided to the Charter School should be approved in a memorandum of understanding between the District and Charter School so the Business Manager has documented authorization to support the transfers of supplemental funding to the Charter School.

District Response: The District strongly agrees and will require that all agreements be formalized in writing, in the form of a memorandum of understanding (MOU), contract, or agreement.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

13 - 5 / 10000

SIGNIFICANT DEFICIENCY

ATTENDANCE

Criteria: 1-3. In accordance with Education Code Section 46000, attendance in all schools and classes shall be recorded and kept according to regulations prescribed by the State Board of Education.

Conditions:

1. One special day class student was misclassified as a regular education student.
2. The average daily attendance for some special day class students was reported twice.
3. The "all day" absence code to record student attendance, whenever a student was absent for the entire day, was not consistently used by the attendance clerk.

Questioned Costs: 1-3. Average daily attendance (ADA), reported on the P-2 and Annual attendance reports was understated/(overstated) by the following amounts. There is no significant fiscal impact of this finding as the District is funded under the Basic Aid provision; however the District may experience reduced categorical funding and SELPA funding as a result of this finding, which has not been calculated.

<u>Line</u>	<u>Program</u>	<u>P-2</u>	<u>Annual</u>
A-2	Grades 1-3	(0.76)	(0.78)
A-3	Grades 4-6	(0.36)	(0.30)
A-4	Grades 7-8	(0.33)	(0.41)
A-9	Special Education - SDC	0.76	(0.09)
A-10	Special Education - Nonpublic	(1.80)	(1.58)
A-15	Extended Year - Nonpublic	<u>0.27</u>	<u> </u>
	Totals	<u>(2.22)</u>	<u>(3.16)</u>

Context: 1-3. The errors were noted during the review of supporting documents for the P-2 and Annual attendance reports.

Effect: 1-3. The District overstated the total ADA reported to the State in fiscal year 2012-13.

Causes: 1. The attendance clerk did not review the "Monthly Attendance Summary" report which showed the SDC teacher being reported under the regular education classes for one grade level instead of under Program S for the SDC class.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

ATTENDANCE (CONCLUDED)

Causes (Concluded):

2. Attendance reports are not independently reviewed for accuracy prior to being submitted to the State.
3. The District has not established formal procedures and documentation requirements to ensure that the use of "all day" absence codes and the verification of partial day versus full day absences is properly being performed and documented by site personnel.

Recommendations:

1. The District should establish procedures to ensure that site attendance clerks review monthly attendance reports to ensure that the average daily attendance for SDC pupils is properly reported in Program S instead of the regular education program.
2. The District should establish procedures to ensure that attendance reports are independently reviewed for accuracy prior to submitting the attendance reports to the State.
3. The District should establish formal procedures and documentation requirements to ensure that the use of "all day" absence codes and the verification of partial day versus full day absences is properly being performed and documented by site personnel.

In addition, the District should revise the P-2 and Annual attendance reports to reflect the audited numbers on page 55 of this report.

District Response:

The District has provided written instructions and additional training to the attendance clerk (school site secretary). The District will continue to work with the attendance clerk and school site administration to emphasize the importance of reviewing accurate monthly attendance so that once the District Office receives and runs the reports there will be less errors.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

13 - 6 / 40000

SIGNIFICANT DEFICIENCY

CLASS SIZE REDUCTION

Criteria: In accordance with Education Code Section 52124.5, school districts and charter schools should compute the average daily enrollment for each class by adding the active enrollment for each class for each instructional day starting from the first day of instruction through April 15, and dividing that total by the count of instructional days.

Condition: The District did not compute the average daily enrollment for each participating class in accordance with Education Code Section 52124.5.

Questioned Costs: Class size reduction funding claimed in fiscal year 2012-13 was overstated by \$9,639. (9 ineligible pupils x \$1,071)

Context: The District complied with all other class size reduction program compliance requirements.

Effect: The District claimed more funding than it was entitled to receive for fiscal year 2012-13, based on the actual number of eligible pupils served in qualifying class size reduction classes.

Cause: The report normally used by the District to calculate average daily enrollment was not available at the time the Form J-7CSR report was due to the State and the substitute report used by the District did not accurately calculate the average daily enrollment for each participating class.

Recommendation: The District should develop procedures to ensure that the average daily enrollment for each participating class claimed for funding is calculated in accordance with Education Code Section 52124.5. In addition, the District should file a revised Form J-7CSR for fiscal year 2012-13 with the following class sizes reported:

<u>Grade Level</u>	<u>Class Size</u>				<u>Totals</u>
	<u>13</u>	<u>14</u>	<u>16</u>	<u>18</u>	
Kindergarten				1	1
Grade One			1		1
Grade Two		1			1
Grade Three	1				1
Total Classes	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>4</u>
Total Eligible Pupils	<u>13</u>	<u>14</u>	<u>16</u>	<u>18</u>	<u>61</u>

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

CLASS SIZE REDUCTION (CONCLUDED)

District Response: The District is working closely with technical support staff to ensure that all software upgrades are implemented so that alternatives reports are not needed to be used

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

13 - 7 / 72000

SIGNIFICANT DEFICIENCY

SCHOOL ACCOUNTABILITY REPORT CARD

Criteria: On November 8, 1988, California voters passed Proposition 98, also known as *The Classroom Instructional Improvement and Accountability Act*. This ballot initiative provides California public schools with a stable source of funding. In return, all public schools in California are required to prepare school accountability report cards on an annual basis and disseminate them to the public.

Condition: The District did not publish a school accountability report card for Bayside Elementary School and Martin Luther King Jr. Academy for fiscal year 2012-13.

Questioned Costs: None.

Context: There were no complaints noted on the quarterly report of summarized complaint data in fiscal year 2012-13. The District completed OPSC's Facility Inspection Tool for both school sites in October 2012. The District approved a compliant resolution regarding the sufficiency of textbooks and instructional materials for fiscal year 2012-13 within the first eight weeks of the school year.

Effect: The District did not comply with the requirements of Proposition 98 and therefore did not comply with any of the additional requirements added since the passage of Proposition 98.

Cause: The employee responsible for the publication of the school accountability report card was on medical leave for a portion of the 2012-13 fiscal year, and later retired from the District. Due to budget cuts in administration, the District chose not to hire a replacement for that position, and those responsibilities were absorbed by other District personnel. In addition, the District Office moved locations in the summer of 2013 due to the ongoing construction required for the consolidation of the two school sites.

Recommendation: The District should establish procedures to ensure that the required school accountability report cards are prepared for all school sites on an annual basis and disseminated to the public in accordance with Proposition 98. In addition, the District should contact the California Department of Education to determine if the District needs to take further action as a result of this finding.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

SCHOOL ACCOUNTABILITY REPORT CARD (CONCLUDED)

District Response:

The District will established procedures to ensure that the required school accountability report cards are prepared for all school sites on an annual basis and disseminated to the public in accordance with Proposition 98.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENT</u>		
12 - 1 / 30000		
<u>FINANCIAL REPORTING - UNAUDITED ACTUALS</u>		
The District should develop a comprehensive financial reporting checklist to ensure all relevant areas are covered during the year-end closing process.	Partially Implemented	Comment Repeated (Finding 13-1)
12 - 2 / 30000		
<u>MEAL REIMBURSEMENT CLAIM REPORTING</u>		
The District should revise the meal reimbursement claims for the months November 2011 and March 2012 for the accumulation errors noted. In addition, the District should investigate whether an automated system can be implemented at the elementary site to accumulate meal counts and reduce errors.	Implemented	
12 - 3 / 30000		
<u>CAFETERIA FUND ENCROACHMENT</u>		
The District should investigate program changes that will allow the Cafeteria Fund to operate closer to a break-even basis and become less dependent on General Fund contributions.	Not Implemented	Comment Repeated (Finding 13-2)
<u>STATE AWARDS</u>		
12 - 4 / 10000		
<u>ATTENDANCE REPORTING</u>		
The District should establish procedures to ensure that attendance reports are independently reviewed for accuracy and completeness prior to submitting the attendance reports to the state.	Not Implemented	Comment Repeated (Finding 13-5)

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARDS (CONCLUDED)</u>		
12 - 4 / 10000		
<u>ATTENDANCE REPORTING (CONCLUDED)</u>		
The District should establish procedures to ensure site personnel properly handle student enrollment and disenrollment from the attendance system.	Implemented	
The District should revise the P-2 and Annual attendance reports to reflect the audited numbers.	Implemented	
12 - 5 / 10000		
<u>KINDERGARTEN CONTINUANCE</u>		
The District should instruct personnel at the elementary school site to maintain a separate file for approved kindergarten continuation forms completed each year. The District should revise the P-2 and Annual attendance reports to reflect the audited numbers.	Implemented	
12 - 6 / 40000		
<u>AFTER SCHOOL EDUCATION AND SAFETY PROGRAM - ATTENDANCE</u>		
The District should establish procedures to ensure that after school staff reconcile daily attendance totals to their monthly attendance total reports. In addition, the District should establish procedures to ensure that site monthly attendance report totals are accurately entered onto the District's attendance summary worksheet.	Implemented	