

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

AUDIT REPORT

JUNE 30, 2016

SAUSALITO MARIN CITY SCHOOL DISTRICT

JUNE 30, 2016

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SAUSALITO MARIN CITY SCHOOL DISTRICT

JUNE 30, 2016

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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, 2016, 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, 2016, 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, the budgetary comparison information on page 59, the schedule of funding progress on page 60, the schedules of the proportionate share of the net pension liability on pages 61 and 62, and the schedules of contributions on pages 63 and 64 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 the Sausalito Marin City School District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is 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 supplementary information listed in the table of contents 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 15, 2016 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 15, 2016

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(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, 2016. 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 an agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's overall financial status declined during fiscal year 2015-16, as total net position decreased 15.6%.
- On the Statement of Activities, total current year expenses exceeded total current year revenues by \$434,696. The decline was directly related to the current year recognition of \$966,088 of depreciation expense, which is a non-cash expense that reflects that the District's capital assets are now one year older and considered less valuable from an accounting standpoint.
- Capital assets, net of depreciation, decreased \$909,209 due to accumulated depreciation growing at a faster rate than acquisitions and construction.
- Total long-term liabilities increased \$299,094 due primarily to the early retirement incentives offered during the year and an increase in the District's proportionate share of the net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans.
- The average daily attendance (ADA) decreased from 142 ADA in fiscal year 2014-15, down to 136 ADA in fiscal year 2015-16, a decrease of 4.2%.
- 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 2015-16, General Fund expenditures and other financing uses totaled \$5,527,347. At June 30, 2016, the District has available reserves of \$1,798,516 in the General Fund, which represents a reserve of 32.5%.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(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, 2016**

(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, the Bond Interest and Redemption Fund, the Debt Service Fund and the Capital Projects - Special Reserve 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 and acts as a "cash conduit" for Willow Creek Academy. 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, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's total net position decreased from \$2,795,062 at June 30, 2015, down to \$2,360,366 at June 30, 2016, a decrease of 15.6%.

<u>Comparative Statement of Net Position</u>		
	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2016</u>
<u>Assets</u>		
Deposits and Investments	\$ 3,879,729	\$ 4,092,629
Current Receivables	244,081	852,058
Capital Assets, net	23,220,002	22,310,793
Total Assets	<u>27,343,812</u>	<u>27,255,480</u>
<u>Deferred Outflows of Resources</u>		
Pension Deferrals	323,034	399,451
Bond Refunding	1,338,433	1,289,014
Total Deferred Outflows of Resources	<u>1,661,467</u>	<u>1,688,465</u>
<u>Liabilities</u>		
Current	1,302,525	1,421,149
Long-term	24,090,517	24,530,079
Total Liabilities	<u>25,393,042</u>	<u>25,951,228</u>
<u>Deferred Inflows of Resources</u>		
Pension Deferrals	<u>817,175</u>	<u>632,351</u>
<u>Net Position</u>		
Net Investment in Capital Assets	3,043,602	2,568,879
Restricted for Capital Projects	592	357,966
Restricted for Debt Service	1,227,848	1,101,437
Restricted for Educational Programs	142,399	231,369
Restricted for Other Purposes	1,778	3,128
Unrestricted (Deficit)	<u>(1,621,157)</u>	<u>(1,902,413)</u>
Total Net Position	<u>\$ 2,795,062</u>	<u>\$ 2,360,366</u>

Table includes financial data of the combined governmental funds.

The unrestricted deficit balance, presented above, is a result of the District's requirement to record a liability in the financial statements to reflect the District's proportionate share of the net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(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 \$434,696.

<u>Comparative Statement of Change in Net Position</u>		
	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2016</u>
<u>Program Revenues</u>		
Operating Grants & Contributions	\$ 1,317,684	\$ 1,144,016
Capital Grants & Contributions		356,847
<u>General Revenues</u>		
Taxes Levied	3,936,875	3,733,723
Federal & State Aid	1,124,989	1,369,240
Interest & Investment Earnings	20,166	18,623
Miscellaneous	250,360	740,982
Total Revenues	<u>6,650,074</u>	<u>7,363,431</u>
<u>Expenses</u>		
Instruction	3,506,278	3,704,283
Instruction-Related Services	624,844	712,812
Pupil Services	453,694	448,300
General Administration	645,455	791,638
Plant Services	718,793	934,078
Interest on Long-Term Debt	766,964	695,721
Other Expenses	762,399	511,295
Total Expenses	<u>7,478,427</u>	<u>7,798,127</u>
Change in Net Position	(828,353)	(434,696)
Net Position, Beginning	<u>3,623,415</u>	<u>2,795,062</u>
Net Position, Ending	<u>\$ 2,795,062</u>	<u>\$ 2,360,366</u>

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, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

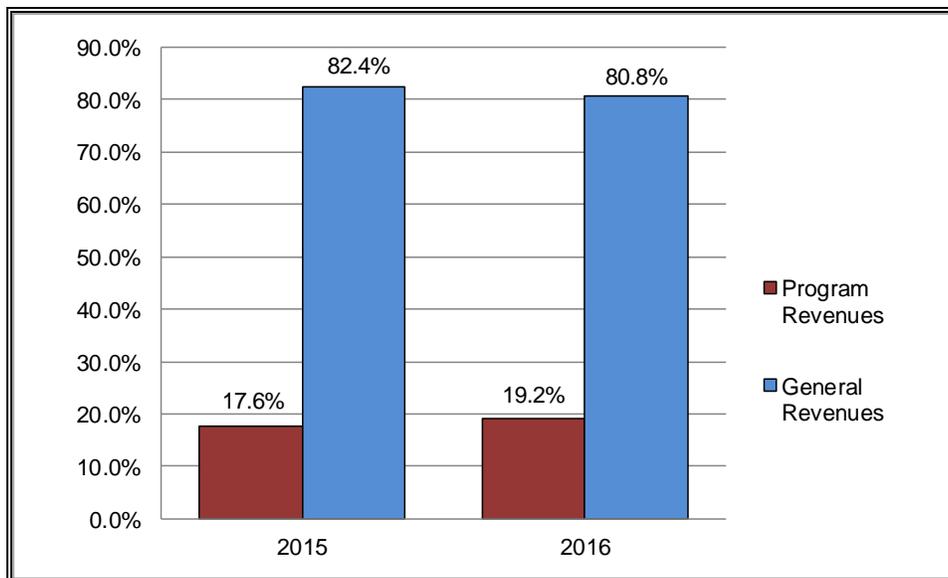
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

	Total Cost of Services		Net Cost of Services	
	2015	2016	2015	2016
Instruction	\$ 3,506,278	\$ 3,704,283	\$ 2,841,778	\$ 2,706,416
Instruction-Related Services	624,844	712,812	537,922	625,142
Pupil Services	453,694	448,300	188,065	285,558
General Administration	645,455	791,638	608,982	766,763
Plant Services	718,793	934,078	666,892	830,526
Interest on Long-Term Debt	766,964	695,721	766,964	695,721
Other Expenses	762,399	511,295	550,140	387,138
Totals	\$ 7,478,427	\$ 7,798,127	\$ 6,160,743	\$ 6,297,264

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 \$6,297,264 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



In 2015-16, program revenues financed 19.2% of the total cost of providing the services listed above, while the remaining 80.8% was financed by the general revenues of the District.

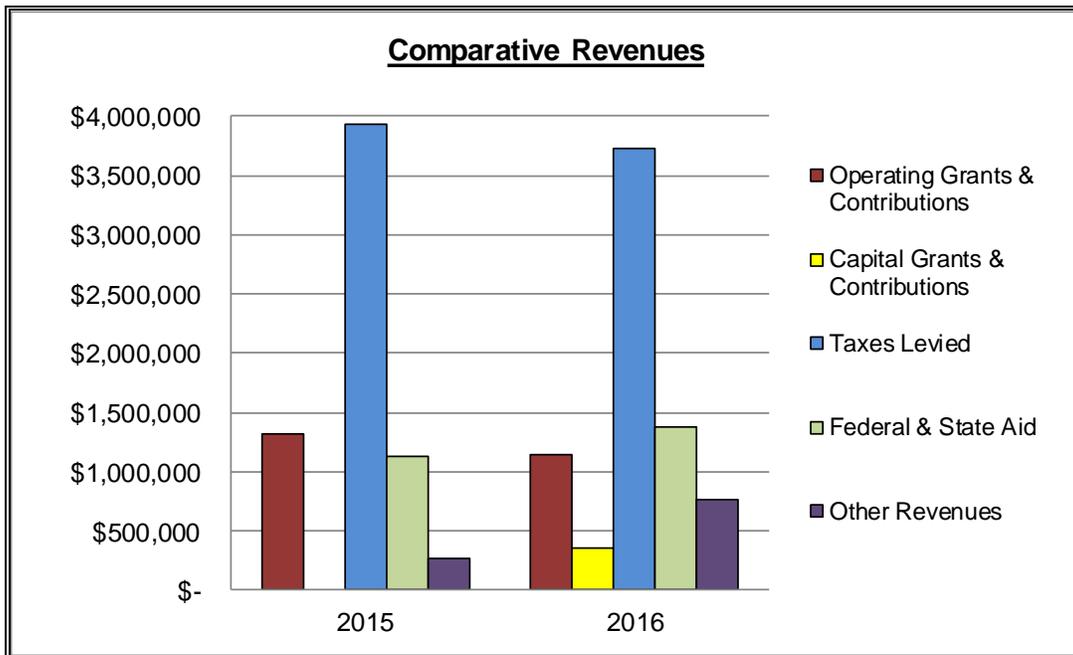
**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Schedule of Revenues For Governmental Functions</u>				
	FYE 2015 Amount	Percent of Total	FYE 2016 Amount	Percent of Total
<u>Program Revenues</u>				
Operating Grants & Contributions	\$ 1,317,684	19.81%	\$ 1,144,016	15.54%
Capital Grants & Contributions	0	0.00%	356,847	4.85%
<u>General Revenues</u>				
Taxes Levied	3,936,875	59.20%	3,733,723	50.71%
Federal & State Aid	1,124,989	16.92%	1,369,240	18.60%
Other Revenues	270,526	4.07%	759,605	10.32%
Total Revenues	<u>\$ 6,650,074</u>	<u>100.00%</u>	<u>\$ 7,363,431</u>	<u>100.00%</u>

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, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

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

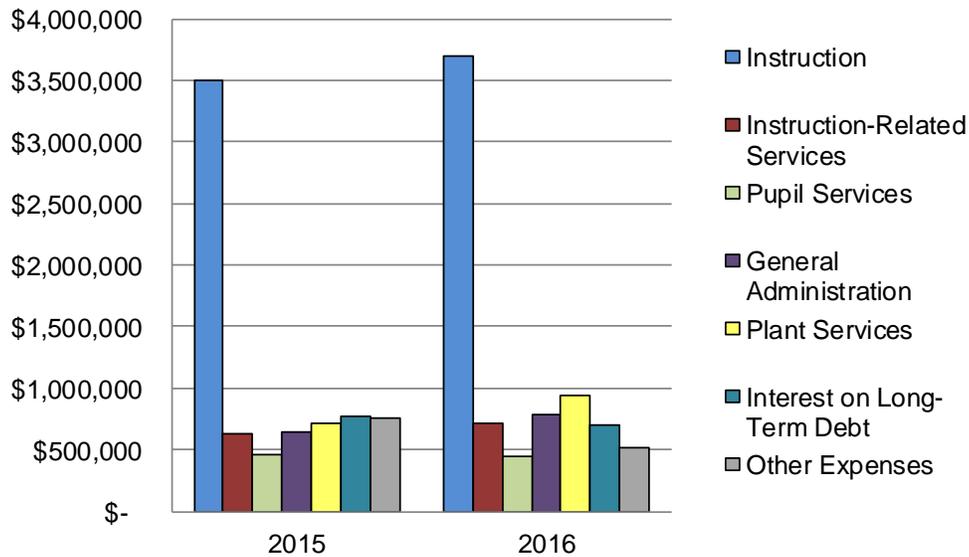
GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Expenses For Governmental Functions

<u>Expenses</u>	<u>FYE 2015 Amount</u>	<u>Percent of Total</u>	<u>FYE 2016 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 3,506,278	46.89%	\$ 3,704,283	47.50%
Instruction-Related Services	624,844	8.36%	712,812	9.14%
Pupil Services	453,694	6.07%	448,300	5.75%
General Administration	645,455	8.63%	791,638	10.15%
Plant Services	718,793	9.61%	934,078	11.98%
Interest on Long-Term Debt	766,964	10.26%	695,721	8.92%
Other Expenses	762,399	10.19%	511,295	6.56%
Total Expenses	<u>\$ 7,478,427</u>	<u>100.00%</u>	<u>\$ 7,798,127</u>	<u>100.00%</u>

Table includes financial data of the combined governmental funds

Comparative Expenses



**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(PREPARED BY DISTRICT MANAGEMENT)**

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Comparative Schedule of Capital Assets</u>		
	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2016</u>
Land	\$ 948,870	\$ 948,870
Sites and Improvements	2,519,365	2,270,855
Buildings and Improvements	27,213,070	26,931,687
Furniture and Equipment	619,190	595,732
Work-in-Progress	0	81,943
Subtotals	<u>31,300,495</u>	<u>30,829,087</u>
Less: Accumulated Depreciation	<u>(8,080,493)</u>	<u>(8,518,294)</u>
Capital Assets, net	<u>\$ 23,220,002</u>	<u>\$ 22,310,793</u>

Capital assets, net of depreciation, decreased \$909,209 due to accumulated depreciation growing at a faster rate than acquisitions and construction.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2016</u>
Compensated Absences	\$ 46,967	\$ 66,048
General Obligation Bonds	16,510,000	16,155,000
Bond Premium	406,195	391,197
Certificates of Participation	3,580,000	3,485,000
Capital Leases	1,018,907	1,000,000
Early Retirement Incentives	0	232,472
Other Post Employment Benefits	33,198	53,231
Net Pension Liabilities	<u>2,990,897</u>	<u>3,502,310</u>
Totals	<u>\$ 24,586,164</u>	<u>\$ 24,885,258</u>

Total long-term liabilities increased \$299,094 due primarily to the early retirement incentives offered during the year and an increase in the District's proportionate share of the net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(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 65% of the District's total long-term liabilities. The remaining long-term liabilities are primarily financed by the General Fund.

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, 2015	Fund Balances June 30, 2016	Increase (Decrease)
General	\$ 1,860,472	\$ 2,030,885	\$ 170,413
Bond Interest and Redemption	671,041	485,465	(185,576)
Debt Service	794,882	863,636	68,754
Capital Projects - Special Reserve	136,023	289,486	153,463
Deferred Maintenance	90,950	96,546	5,596
Cafeteria	778	2,128	1,350
Corporation Debt Service	32	25	(7)
Building	247	247	0
County School Facilities	592	357,966	357,374
Corporation Acquisition	22	22	0
Totals	\$ 3,555,039	\$ 4,126,406	\$ 571,367

The fund balance of the General Fund increased \$170,413 due primarily to an increase in basic aid supplemental revenue and the receipt of one-time state funds for outstanding mandate claims. The \$357,374 increase in fund balance in the County School Facilities Fund is due to the receipt of \$356,742 of state facilities apportionments for the seismic rehabilitation project that were unspent at June 30, 2016. The combined fund balances of all other District governmental funds increased \$43,580.

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 budget for fiscal year 2015-16 is presented alongside the actual results on page 59.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

Employer contribution rates for CalSTRS and CalPERS will continue to increase on an annual basis for the foreseeable future. In addition, the economy has finished its seventh year of expansion, lasting two years longer than the average recovery. The Governor and Department of Finance continue to urge the Legislation and local governments, including local education agencies, to plan for the next recession.

Accordingly, the District's budget should continue to be managed with a great degree of conservatism over the next few years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

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, 2016

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 4,092,629
Receivables (Note 3)	852,058
Capital Assets (Note 5)	
Land	948,870
Sites and Improvements	2,270,855
Buildings and Improvements	26,931,687
Furniture and Equipment	595,732
Work-in-Progress	81,943
Less: Accumulated Depreciation	(8,518,294)
Total Assets	27,255,480
<u>Deferred Outflows of Resources</u>	
Pension Deferrals (Note 11)	399,451
Bond Refunding (Note 1H)	1,289,014
Total Deferred Outflows of Resources	1,688,465
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	818,281
Accrued Interest Payable	247,689
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences (Note 1H)	66,048
General Obligation Bonds	130,000
Bond Premium	14,998
Certificates of Participation	95,000
Early Retirement Incentives	49,133
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 6)	16,025,000
Bond Premium (Note 1H, Note 6)	376,199
Certificates of Participation (Note 7)	3,390,000
Capital Lease (Note 8)	1,000,000
Early Retirement Incentives (Note 9)	183,339
Other Post Employment Benefits (Note 10)	53,231
Net Pension Liabilities (Note 11)	3,502,310
Total Liabilities	25,951,228
<u>Deferred Inflows of Resources</u>	
Pension Deferrals (Note 11)	632,351
<u>Net Position</u>	
Net Investment in Capital Assets	2,568,879
Restricted:	
For Capital Projects	357,966
For Debt Service	1,101,437
For Educational Programs	231,369
For Other Purposes	3,128
Unrestricted (Deficit)	(1,902,413)
Total Net Position	\$ 2,360,366

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, 2016

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	\$ 3,704,283		\$ 641,020	\$ 356,847	\$ (2,706,416)
Instruction-Related Services:					
Supervision of Instruction	63,963		9,037		(54,926)
Instructional Library and Technology	119,982				(119,982)
School Site Administration	528,867		78,633		(450,234)
Pupil Services:					
Home-to-School Transportation	2,612				(2,612)
Food Services	145,430		82,179		(63,251)
Other Pupil Services	300,258		80,563		(219,695)
General Administration:					
Data Processing Services	6,535				(6,535)
Other General Administration	785,103		24,875		(760,228)
Plant Services	934,078		103,552		(830,526)
Ancillary Services	813				(813)
Community Services	3,000				(3,000)
Interest on Long-Term Debt	695,721				(695,721)
Other Outgo	507,482		124,157		(383,325)
Total Governmental Activities	\$ 7,798,127	\$ 0	\$ 1,144,016	\$ 356,847	(6,297,264)
<u>General Revenues</u>					
Taxes Levied for General Purposes					3,028,707
Taxes Levied for Debt Service					704,749
Taxes Levied for Specific Purposes					267
Federal and State Aid - Unrestricted					1,369,240
Interest and Investment Earnings					18,623
Miscellaneous					740,982
Total General Revenues					5,862,568
Change in Net Position					(434,696)
Net Position - July 1, 2015					2,795,062
Net Position - June 30, 2016					\$ 2,360,366

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**SAUSALITO MARIN CITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>General</u>	<u>Bond Interest and Redemption</u>
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 2,230,635	\$ 485,465
Receivables (Note 3)	334,745	
Due from Other Funds (Note 4)	30,672	
Total Assets	<u>\$ 2,596,052</u>	<u>\$ 485,465</u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts Payable	\$ 532,424	
Due to Other Funds (Note 4)	32,743	
Total Liabilities	<u>565,167</u>	
Fund Balances: (Note 13)		
Nonspendable	1,000	
Restricted	231,369	\$ 485,465
Assigned		
Unassigned	1,798,516	
Total Fund Balances	<u>2,030,885</u>	<u>485,465</u>
Total Liabilities and Fund Balances	<u>\$ 2,596,052</u>	<u>\$ 485,465</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Debt Service	Capital Projects - Special Reserve	Non-Major Governmental Funds	Total Governmental Funds
\$ 863,636	\$ 71,360	\$ 441,533	\$ 4,092,629
	501,716	15,597	852,058
		32,743	63,415
<u>\$ 863,636</u>	<u>\$ 573,076</u>	<u>\$ 489,873</u>	<u>\$ 5,008,102</u>
	\$ 283,590	\$ 2,267	\$ 818,281
		30,672	63,415
	<u>283,590</u>	<u>32,939</u>	<u>881,696</u>
		40	1,040
\$ 863,636	289,486	360,348	1,940,818
		96,546	386,032
			1,798,516
<u>863,636</u>	<u>289,486</u>	<u>456,934</u>	<u>4,126,406</u>
<u>\$ 863,636</u>	<u>\$ 573,076</u>	<u>\$ 489,873</u>	<u>\$ 5,008,102</u>

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2016**

Total Fund Balances - Governmental Funds \$ 4,126,406

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	\$ 30,829,087	
Accumulated Depreciation	(8,518,294)	
Net		22,310,793

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

Deferred outflows of resources relating to pensions		399,451
Deferred inflows of resources relating to pensions		(632,351)

Unamortized costs: In governmental funds, the gain or loss from debt refunding activities is recognized in the period they are incurred. In the government-wide statements, the gain or loss is deferred and amortized as interest over the life of the new or refunded debt, whichever period is shorter. The deferred amount from refunding, reported as deferred outflows of resources, are:

1,289,014

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 are:

Compensated Absences	\$ 66,048	
General Obligation Bonds	16,155,000	
Bond Premium	391,197	
Certificates of Participation	3,485,000	
Capital Lease	1,000,000	
Early Retirement Incentives	232,472	
Other Post Employment Benefits	53,231	
Net Pension Liabilities	3,502,310	
Total		(24,885,258)

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 owed at the end of the period was:

(247,689)

Total Net Position - Governmental Activities \$ 2,360,366

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>General</u>	<u>Bond Interest and Redemption</u>
<u>Revenues</u>		
LCFF Sources:		
State Apportionment / Transfers	\$ 1,211,092	
Local Taxes	3,028,707	
Total LCFF Sources	4,239,799	
Federal Revenue	343,918	
State Revenue	498,502	\$ 2,956
Local Revenue	615,541	715,945
Total Revenues	5,697,760	718,901
<u>Expenditures</u>		
Current:		
Instruction	2,432,133	
Supervision of Instruction	59,106	
Instructional Library and Technology	115,200	
School Site Administration	478,023	
Home-To-School Transportation	35	
Food Services		
Other Pupil Services	265,627	
Data Processing Services	6,535	
Other General Administration	755,871	
Plant Services	565,197	
Facilities Acquisition and Construction	1,500	
Ancillary Services	813	
Community Services	3,000	
Other Outgo	507,482	
Debt Service:		
Principal Retirement	18,907	355,000
Interest and Issuance Costs	572	549,477
Total Expenditures	5,210,001	904,477
Excess of Revenues Over (Under) Expenditures	487,759	(185,576)
<u>Other Financing Sources (Uses)</u>		
Operating Transfers In		
Operating Transfers Out	(317,346)	
Total Other Financing Sources (Uses)	(317,346)	0
Net Change in Fund Balances	170,413	(185,576)
Fund Balances - July 1, 2015	1,860,472	671,041
Fund Balances - June 30, 2016	\$ 2,030,885	\$ 485,465

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Debt Service</u>	<u>Capital Projects - Special Reserve</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
		\$ 50,000	\$ 1,261,092
			3,028,707
		50,000	4,289,799
		77,685	421,603
		361,230	862,688
\$ 12,987	\$ 501,900	774	1,847,147
12,987	501,900	489,689	7,421,237
			2,432,133
			59,106
			115,200
			478,023
			35
		145,430	145,430
			265,627
			6,535
			755,871
	265,317	21,090	851,604
	83,443	23,443	108,386
			813
			3,000
			507,482
		95,000	468,907
		101,669	651,718
0	348,760	386,632	6,849,870
12,987	153,140	103,057	571,367
55,767	252,745	261,256	569,768
	(252,422)		(569,768)
55,767	323	261,256	0
68,754	153,463	364,313	571,367
794,882	136,023	92,621	3,555,039
\$ 863,636	\$ 289,486	\$ 456,934	\$ 4,126,406

**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, 2016**

Net Change in Fund Balances - Governmental Funds \$ 571,367

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	\$	114,685	
Depreciation Expense		(966,088)	
Net			(851,403)

Gain or loss on disposal of capital assets: In governmental funds, the entire proceeds from the disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from the disposal of capital assets and the resulting loss is: (57,806)

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: 468,907

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: (9,582)

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 were: (251,553)

Post employment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (20,033)

Pensions: In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual basis pension costs and actual employer contributions was: (250,172)

Amortization of debt issue premium or discount or deferred gain or loss from debt refunding: In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as Other Financing Sources or Other Financing Uses in the period it is incurred. In the government-wide statements, the premium or discount, plus any deferred gain or loss from debt refunding, is amortized as interest over the life of the debt. The net amortization for the period is: (34,421)

Change in Net Position of Governmental Activities \$ (434,696)

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	<u>Agency Funds</u>		<u>Total Fiduciary Funds</u>
	<u>Student Body Funds</u>	<u>Willow Creek Academy</u>	
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 1,119	\$ 21,913	\$ 23,032
Total Assets	<u>1,119</u>	<u>21,913</u>	<u>23,032</u>
<u>Liabilities</u>			
Due to Student Groups	1,119		1,119
Due to Willow Creek Academy		21,913	21,913
Total Liabilities	<u>1,119</u>	<u>21,913</u>	<u>23,032</u>
<u>Net Position</u>			
Total Net Position	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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, 2016

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. 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.

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

Government-wide Financial Statements (Concluded):

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.

C. 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, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. 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.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Certain grants received before eligibility requirements are met are recorded as unearned 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 unearned 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.

D. 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, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

Governmental fund types (Concluded):

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.

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.

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

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.

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. 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).

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.

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, which is used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body. In addition, the District maintains an agency fund to account for receipts to be transferred to Willow Creek Academy. The District acts only as a cash conduit for these funds.

E. 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 59.

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.

F. 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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. 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.

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund 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. 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	8-20

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

3. Deferred Outflows/Inflows of Resources

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

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

4. 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.

5. Pensions

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

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 are deferred and amortized over the life of the obligation, when applicable. Liabilities are reported net of applicable premiums or discounts.

In the fund financial statements, governmental funds recognize premiums and discounts as well as issuance and refunding costs, when the debt is issued. The face amount of the debt issued, premiums, discounts, issuance and refunding costs are reported as other financing sources or uses.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

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.

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. Local Control Funding Formula (LCFF)/Property Tax

The formula for determining the level of funding per student is the "Local Control Funding Formula" (LCFF). District funding under the LCFF is generally provided by a mix of state aid and local property taxes.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Concluded)

8. Local Control Funding Formula (LCFF)/Property Tax (Concluded)

The County of Marin is responsible for assessing, collecting and apportioning property taxes to the District. 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 LCFF sources by the District. The California Department of Education reduces the District's LCFF entitlement by the District's local property tax revenue. Any balance remaining is paid from the State General Fund, and is known as LCFF State Aid.

Since the amount of property taxes received by the District exceeds the amount of the LCFF transition entitlement, the District is considered to be a "basic aid" school district, and is permitted to keep all of its property tax revenue. In addition, as guaranteed by the California Constitution, the State must apportion \$120 per pupil to the District. However, the categorical aid that the District receives counts toward this requirement.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, 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	863,662	
County Pool Investments	<u>3,227,927</u>	<u>21,913</u>
Total Deposits and Investments	<u>\$ 4,092,629</u>	<u>\$ 23,032</u>

Cash in Bank

Cash in bank consists of all cash maintained in the commercial bank account owned by the District, exclusive of amounts held in revolving funds.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Cash in Revolving Fund

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 includes funds of held by US Bank as trustee. The Debt Service Fund has \$863,636 for the future pay-off of a capital lease. The Corporation Debt Service Fund has \$4 for the future payment of interest and redemption of principal for certificates of participation and the Corporation Acquisition Fund has \$22 remaining for the MLK Classroom Construction 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).

General Authorization

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

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 Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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:

Governmental Activities:

<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	\$ 3,227,927	\$ 3,232,338	\$ 2,699,177	\$ 528,750

Fiduciary Activities:

<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	\$ 21,913	\$ 21,943	\$ 18,324	\$ 3,589

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.

Governmental Activities:

<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	\$ 3,227,927	\$ 3,232,338			\$ 3,227,927

Fiduciary Activities:

<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	\$ 21,913	\$ 21,943			\$ 21,913

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

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, 2016, 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, 2016, 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.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2016 consist of the following:

	General Fund	Capital Projects- Special Reserve Fund	Non-Major Governmental Funds	Totals
Federal Government	\$ 130,123		\$ 14,621	\$ 144,744
State Government	31,553		976	32,529
Local Governments	171,821			171,821
Miscellaneous	1,248	\$ 501,716		502,964
Totals	<u>\$ 334,745</u>	<u>\$ 501,716</u>	<u>\$ 15,597</u>	<u>\$ 852,058</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - 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.

A. Balances Due From/Due To Other Funds

Balances due from/due to other funds at June 30, 2016 consisted of the following:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 30,672	\$ 32,743
Deferred Maintenance	32,743	
Cafeteria		<u>30,672</u>
Totals	<u>\$ 63,415</u>	<u>\$ 63,415</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.

Interfund transfers for fiscal year 2015-16 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 317,346
Debt Service	\$ 55,767	
Capital Projects - Special Reserve	252,745	252,422
Cafeteria	64,601	
Corporation Debt Service	<u>196,655</u>	
Totals	<u>\$ 569,768</u>	<u>\$ 569,768</u>

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

Transfer \$64,601 from General Fund to Cafeteria Fund to support the cafeteria program.

Transfer \$196,978 from General Fund to Capital Projects - Special Reserve Fund for the debt service payment on outstanding 2013 certificates of participation.

Transfer \$196,655 from Capital Projects - Special Reserve Fund to Corporation Debt Service Fund for debt service payment on outstanding 2013 certificates of participation.

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2016, is shown below:

	Balances July 1, 2015	Additions	Deletions	Balances June 30, 2016
Land	\$ 948,870			\$ 948,870
Sites and Improvements	2,519,365		\$ 248,510	2,270,855
Buildings and Improvements	27,213,070		281,383	26,931,687
Furniture and Equipment	619,190	\$ 32,742	56,200	595,732
Work-in-Progress	0	81,943		81,943
Totals at Historical Cost	<u>31,300,495</u>	<u>114,685</u>	<u>\$ 586,093</u>	<u>30,829,087</u>
Less Accumulated Depreciation for:				
Sites and Improvements	1,409,467	73,831	219,749	1,263,549
Buildings and Improvements	6,455,800	846,794	274,448	7,028,146
Furniture and Equipment	215,226	45,463	34,090	226,599
Total Accumulated Depreciation	<u>8,080,493</u>	<u>966,088</u>	<u>528,287</u>	<u>8,518,294</u>
Governmental Activities Capital Assets, net	<u>\$ 23,220,002</u>	<u>\$ (851,403)</u>	<u>\$ (57,806)</u>	<u>\$ 22,310,793</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	\$ 875,893
Instructional Library, Media, and Technology	4,782
School Site Administration	4,245
Home-to-School Transportation	2,577
Other General Administration	667
Plant Services	<u>77,924</u>
Total Depreciation Expense	<u>\$ 966,088</u>

NOTE 6 - GENERAL OBLIGATION BONDS

The District's outstanding general obligation debt, excluding \$391,197 of unamortized bond premiums, as of June 30, 2016 is as follows:

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2015	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2016
2/11/15	2.00-5.00	8/1/42	<u>\$ 16,510,000</u>	<u>\$ 16,510,000</u>	<u>\$ 0</u>	<u>\$ 355,000</u>	<u>\$ 16,155,000</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6 - GENERAL OBLIGATION BONDS (CONCLUDED)

The annual requirements to amortize the general obligation bonds, as of June 30, 2016, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 130,000	\$ 559,656	\$ 689,656
2018	150,000	556,856	706,856
2019	175,000	553,606	728,606
2020	200,000	548,856	748,856
2021	220,000	542,557	762,557
2022-2026	1,565,000	2,552,781	4,117,781
2027-2031	2,545,000	2,094,456	4,639,456
2032-2036	3,690,000	1,540,741	5,230,741
2037-2041	5,020,000	853,775	5,873,775
2042-2046	2,460,000	84,207	2,544,207
Totals	<u>\$ 16,155,000</u>	<u>\$ 9,887,491</u>	<u>\$ 26,042,491</u>

NOTE 7 - CERTIFICATES OF PARTICIPATION

On February 12, 2012, 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, 2016, the principal balance outstanding was \$3,485,000.

The annual requirements to amortize the certificates of participation as of June 30, 2016 are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 95,000	\$ 100,980	\$ 195,980
2018	95,000	100,125	195,125
2019	95,000	99,080	194,080
2020	95,000	97,845	192,845
2021	100,000	96,330	196,330
2022-2026	520,000	447,970	967,970
2027-2031	590,000	371,267	961,267
2032-2036	700,000	269,736	969,736
2037-2041	825,000	138,529	963,529
2042-2046	370,000	13,125	383,125
Totals	<u>\$ 3,485,000</u>	<u>\$ 1,734,987</u>	<u>\$ 5,219,987</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 - CAPITAL LEASE

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, 2016 are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Sinking</u> <u>Fund</u> <u>Payments</u>
2017	\$ 55,766
2018	<u>55,766</u>
Total sinking fund payments remaining	<u>\$ 111,532</u>
Lease payment due December 19, 2017	<u>\$ 1,000,000</u>

At June 30, 2016, the Debt Service Fund has a fund balance of \$863,636. The District will receive no sublease rental revenues nor pay any contingent rentals for the leased assets.

NOTE 9 - EARLY RETIREMENT INCENTIVES

In addition to the pension benefits described in Note 11, the District offered an early retirement incentive benefit to eligible employees through the Public Agency Retirement System (PARS) in 2015-16. The incentive was offered to certificated non-management employees as of March 8, 2016, who were at least age fifty-five (55) with five or more years of service with the District or at least age fifty (50) with thirty (30) or more years at the District as of June 30, 2016. Participants receive a monthly benefit over a specified number of years. Three employees accepted the early retirement incentive offer in fiscal year 2015-16.

The District is required to make five annual payments of \$49,778. The liability reported is the present value of future expected cash flows, using a 3.33% discount rate. Future payments are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Payments</u>
2017	\$ 49,133	\$ 645	\$ 49,778
2018	43,572	6,206	49,778
2019	45,047	4,731	49,778
2020	46,572	3,206	49,778
2021	<u>48,148</u>	<u>1,630</u>	<u>49,778</u>
Totals	<u>\$ 232,472</u>	<u>\$ 16,418</u>	<u>\$ 248,890</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

In addition to the early retirement incentives described in Note 9 and the pension benefits described in Note 11, the District offers other post employment benefits (OPEB) to employees who meet certain criteria. The District records the liability for this benefit in accordance with Governmental Accounting Standards Board Statement No. 45.

Plan Descriptions: The District provides medical coverage to classified employees, with at least 15 years of service in the District who retire before the age of 65 and are at least 55 at the time of retirement. The District also provides medical coverage to certain administrators and confidential and classified management employees who retire before the age of 65 and are at least 55 at the time of retirement. The District subsidized coverage ceases after 24 months or at age 65, whichever occurs first. The District contributes up to the employee only rate towards retiree health premiums up to the District's annual cap, which was \$10,191 at the time of the valuation.

All contracts with District employees will be renegotiated at various times in the future and, thus, costs and benefits are subject to change. Benefits and contribution requirements (both employee and employer) for the OPEB plan are established by various labor agreements.

The District had twenty (20) active employees and one (1) retired employee covered by the OPEB plan as of July 1, 2013, the effective date of the triennial OPEB valuation. For the District, OPEB benefits are administered by District personnel. No separate financial statements are issued.

Funding Policy: The District currently pays for post employment health care benefits on a pay-as-you-go basis, and these financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation: The following table shows the components of the District's annual OPEB cost for the fiscal year ended June 30, 2016, the amount contributed to the plan, and changes in the District's net OPEB obligation that resulted in a net OPEB obligation of \$53,231 for the year ended June 30, 2016.

Annual required contribution (ARC)	\$ 20,625
Interest on Net OPEB Obligation	1,328
Adjustment to ARC	<u>(1,920)</u>
Annual OPEB cost	20,033
Contributions for the fiscal year	<u>(0)</u>
Increase in Net OPEB Obligation	20,033
Net OPEB Obligation - June 30, 2015	<u>33,198</u>
Net OPEB Obligation - June 30, 2016	<u>\$ 53,231</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (CONCLUDED)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the last three fiscal years are presented below:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2016	\$ 20,033	0.0%	\$ 53,231
June 30, 2015	20,397	0.0%	33,198
June 30, 2014	20,625	37.9%	12,801

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members. The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013, actuarial valuation, the liabilities were computed using the projected unit credit cost method and the District's unfunded actuarial accrued liability is being amortized on the level dollar basis over an open 30 year amortization period. The actuarial assumptions utilized a 4% discount rate, the expected long-term rate of return on District assets. The valuation assumes an initial medical cost rate of 8%, which grades down to an ultimate rate of 5% by the 4th year, and constant 4% cost rate for dental and vision.

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

NOTE 11 - RETIREMENT PLANS

Qualified employees are covered under retirement plans maintained by agencies of the State of California. Certificated employees are eligible to participate under the multiple-employer, cost-sharing defined benefit plan administered by the California State Teachers' Retirement System (CalSTRS) and classified employees are eligible to participate under the multiple-employer, cost-sharing defined benefit plan administered by the California Public Employees' Retirement System (CalPERS).

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - RETIREMENT PLANS (CONTINUED)

The District reported net pension liabilities, deferred outflows of resources, and deferred inflows of resources in the accompanying statement of net position as follows:

<u>Pension Plan</u>	<u>Net Pension Liabilities</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
CalSTRS	\$ 2,330,126	\$ 152,515	\$ 375,834
CalPERS	1,172,184	246,936	256,517
Totals	<u>\$ 3,502,310</u>	<u>\$ 399,451</u>	<u>\$ 632,351</u>

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The California State Teachers Retirement System (CalSTRS) provides pension benefits, including disability and survivor benefits, to California full-time and part-time public school teachers and certain other employees of the public school system. The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established the plan and CalSTRS as the administrator. The benefit terms of the plan may be amended through legislation. CalSTRS issues a stand-alone comprehensive annual financial report available to the public that can be found on the CalSTRS website.

Benefits Provided

The State Teachers' Retirement Plan (STRP) is a multiple-employer, cost-sharing defined benefit plan. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs and to defray reasonable expenses for administering the STRP. Although CalSTRS is the administrator of the STRP, the State of California is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity of the STRP.

The STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform services that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform services that could be creditable to CalSTRS.

The Defined Benefit Program provides retirement benefits based on a members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas and some of the differences are noted below.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Benefits Provided (Concluded)

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2% to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4% of final compensation.

CalSTRS calculates retirement benefits based on one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of service, or for classroom teachers with less than 25 years of credited service if the employer entered into, extended, renewed, or amended an agreement prior to January 1, 2014, to elect to pay the additional benefit cost for all of its classroom teachers. One year final compensation means a member's highest average annual compensation earnable for 12 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any 36 consecutive months of credited service.

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4% at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for any 36 consecutive months of credited service.

Contributions

Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members: Under CalSTRS 2% at 60, the member contribution rate was 9.20% of applicable member earnings for fiscal year 2015-16. Under CalSTRS 2% at 62, the member contribution rate was 8.56% of applicable member earnings for fiscal year 2015-16. The rate imposed on CalSTRS 2% at 62 members is based on the normal cost of benefits.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Contributions (Concluded)

Employers: Pursuant to Chapter 47, Statutes of 2014 (AB 1469 - Bonta), the employer contribution rate was 10.73% of applicable member earnings for fiscal year 2015-16. The District contributed \$152,515 to the plan for the fiscal year ended June 30, 2016.

State: The contribution was 2.017% of the members' creditable earnings from the fiscal year ending in the prior calendar year. Also, as a result of AB 1469 - Bonta, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specified in Education Code Section 22955.1(b). The additional state contribution for the fiscal year ended June 30, 2016 was 2.874%. Including a 2.50% contribution for SBMA funding, the total state appropriation to the defined benefit program was 7.391% for the fiscal year ended June 30, 2016.

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability associated with the District was as follows:

District's proportionate share of the net pension liability	\$ 2,330,126
State's proportionate share of the net pension liability associated with the District	<u>49,348</u>
Total net pension liability attributed to District	<u><u>\$ 2,379,474</u></u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The District's proportion of the net pension liability was based on a District's share of contributions to the pension plan relative to the contributions of all participating school districts and the State.

The District's proportionate share of the net pension liability as of June 30, 2014 and June 30, 2015 was as follows:

Proportion - June 30, 2014	0.0037%
Proportion - June 30, 2015	<u>0.0035%</u>
Change - Increase (Decrease)	<u><u>-0.0002%</u></u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Concluded)

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$354,004, which includes \$123,590 of support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 152,515	
Differences between expected and actual experience		\$ 38,922
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		125,748
Net differences between projected and actual earnings on plan investments		211,164
Totals	\$ 152,515	\$ 375,834

The deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	\$ (113,131)
2018	(113,131)
2019	(113,131)
2020	18,449
2021	(27,445)
2022	(27,445)

Differences between expected and actual experience, changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2015. Differences between projected and actual earnings on plan investments are netted and reduced over a closed 5-year period.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return ¹	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit	2.00% simple for DB (Annually) Maintain 85% purchasing power level for DB

¹ Net of investment expenses, but gross of administrative expenses. CalSTRS uses a 7.5% assumed investment rate of return for funding purposes, which is net of administrative expenses.

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

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

Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Concluded)

Actuarial Methods and Assumptions

Asset Class	Assumed Asset Allocation	Long-Term* Expected Real Rate of Return
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash / Liquidity	1%	0.00%
Total	100%	

* 10-year geometric average

Discount Rate

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.60%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate:

	Discount Rate 1% Decrease 6.60%	Discount Rate Current Rate 7.60%	Discount Rate 1% Increase 8.60%
District's proportionate share of the net pension liability	\$ 3,518,309	\$ 2,330,126	\$ 1,342,650

Pension Plan's Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS)

Plan Description, Benefits Provided, and Employees Covered

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 the CalPERS. All employees who work at least half time or are appointed to a job that will last at least six months and one day are eligible for CalPERS. Benefits vest after five years. Employees are eligible to retire at or after age 50 having attained five years of credited service and are entitled to an annual retirement benefit, payable monthly for life. Employees hired after January 1, 2013 with five years of credit service must be at least age 52 to retire.

The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7.0% of their salary, and new members entering into the plan on or after January 1, 2013 are required to contribute the higher of 50% of the total normal cost rate for their defined benefit plan or 6.0% of their salary. The District's contractually required contribution rate for the fiscal year ended June 30, 2016 was 11.847% of annual payroll. The District's contribution to CalPERS for the fiscal year ended June 30, 2016 was \$101,073.

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported a liability of \$1,172,184 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Continued)

The District's proportionate share of the net pension liability as of June 30, 2014 and June 30, 2015 was as follows:

Proportion - June 30, 2014	0.0073%
Proportion - June 30, 2015	0.0080%
Change - Increase (Decrease)	0.0007%

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$273,346. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 101,073	
Differences between expected and actual experience	67,569	
Changes of assumptions		\$ 72,642
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	78,294	163,692
Net differences between projected and actual earnings on plan investments		20,183
Totals	\$ 246,936	\$ 256,517

The deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	\$ (80,210)
2018	(80,210)
2019	1,636
2020	48,130

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Concluded)

Differences between expected and actual experience, changes in assumptions, and changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of June 30, 2015. Differences between projected and actual earnings on plan investments are netted and reduced over a closed 5-year period.

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuations were determined using the following actuarial methods and assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Consumer Price Inflation	2.75%
Payroll Growth	3.00%
Investment Rate of Return (1)	7.50%
Post Retirement Benefit Increase (2)	

- (1) Net of pension plan investment and administrative expenses, includes inflation
(2) Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

Mortality rate table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS website.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Discount Rate (Continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. For the Schools Pool, this difference was deemed immaterial.

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

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - RETIREMENT PLANS (CONCLUDED)

B. California Public Employees' Retirement System (CalPERS) (Concluded)

Discount Rate (Concluded)

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	19.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	<u>Discount Rate 1% Decrease 6.50%</u>	<u>Discount Rate Current Rate 7.50%</u>	<u>Discount Rate 1% Increase 8.50%</u>
District's proportionate share of the net pension liability	\$ 1,907,828	\$ 1,172,184	\$ 560,448

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

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 employees vest immediately. Both the District and participating employees were required to contribute 6.2% of an employee's gross earnings, up to the annual limit.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12 - LONG-TERM LIABILITIES

The changes in long-term liabilities for the year ended June 30, 2016, is shown below:

	Balances July 1, 2015	Additions	Deductions	Balances June 30, 2016	Due within One Year
Compensated Absences	\$ 46,967	\$ 19,081		\$ 66,048	\$ 66,048
General Obligation Bonds	16,510,000		\$ 355,000	16,155,000	130,000
Bond Premium	406,195		14,998	391,197	14,998
Certificates of Participation	3,580,000		95,000	3,485,000	95,000
Capital Leases	1,018,907		18,907	1,000,000	
Early Retirement Incentives	0	232,472		232,472	49,133
Other Post Employment Benefits	33,198	20,033		53,231	
Net Pension Liabilities	2,990,897	511,413		3,502,310	
Totals	\$ 24,586,164	\$ 782,999	\$ 483,905	\$ 24,885,258	\$ 355,179

The general obligation bonds are obligations of the Bond Interest and Redemption Fund, which is financed primarily by property taxes collections. All other long-term liabilities will be financed primarily by the General Fund.

NOTE 13 - FUND BALANCES

The District's fund balances at June 30, 2016 consisted of the following:

	General Fund	Bond Interest & Redemption Fund	Debt Service Fund	Capital Projects - Special Reserve Fund	Non-Major Governmental Funds	Totals
Nonspendable:						
Revolving Cash	\$ 1,000				\$ 40	\$ 1,040
Total Nonspendable	1,000				40	1,040
Restricted:						
Categorical Programs	231,369				2,088	233,457
Debt Service		\$ 485,465	\$ 863,636		25	1,349,126
Capital Projects					358,235	358,235
Total Restricted	231,369	485,465	863,636		360,348	1,940,818
Assigned:						
Deferred Maintenance					96,546	96,546
Other Assignments				\$ 289,486		289,486
Total Assigned	0	0	0	289,486	96,546	386,032
Unassigned:						
Reserve for Economic Uncertainties	554,410					554,410
Remaining Unassigned Balances	1,244,106					1,244,106
Total Unassigned	1,798,516	0	0	0	0	1,798,516
Total Fund Balances	\$ 2,030,885	\$ 485,465	\$ 863,636	\$ 289,486	\$ 456,934	\$ 4,126,406

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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 \$123,590 (7.12589% of creditable compensation subject to CalSTRS).

NOTE 15 - 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 2015-16, 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 16 - 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.

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 17 - 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, 2015 through June 30, 2019.

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 18 - 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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 18 - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

B. Questioned Costs - Ratio of Administrative Employees to Teachers

As discussed at **Finding 2016-009** in the Findings and Questioned Costs Section of this report, the District did not comply with the ratio of administrative employees to teacher requirement of Education Code Section 41402. The District will be pursuing a waiver that will hold the District harmless for the noncompliance related to the ratio of administrative employees to teacher requirements. These financial statements do not contain any adjustments related to this noncompliance, since the outcome of the District's attempts to obtain a waiver, cannot reasonably be determined at this time.

C. Memorandum of Understanding - Willow Creek Academy

On November 30, 2015, the District's Board of Trustees and the Willow Creek Academy, a Public Benefit Corporation (WCA), executed a memorandum of understanding to address the legal requirements of the business relationship between the District and WCA and to specify the obligations of the District and WCA to the extent required by law. Certain provisions in the agreement stipulate that an equitable allocation of resources between the parties in regards to revenues, costs, and facilities will be made. However, as of December 15, 2016, final calculations for fiscal years 2014-15 and 2015-16 have not been completed. As a result, these financial statements do not contain any accruals related these final allocations between the District and WCA as the final amounts cannot reasonably be determined at this time.

D. Litigation

With the exception of the matters described in Note 19, the District is subject to various other 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.

NOTE 19 - 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 15, 2016, 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, except as noted below.

Investigations and Complaints

Subsequent to June 30, 2016, the District has been required to respond to various investigations and complaints. As of the completion of the annual financial and compliance audit of the District, all of these matters remain unresolved. Accordingly, there is no way to determine the results or effects of the investigations and complaints on the District. However, it is anticipated that the legal fees to represent the District in these matters will be significant and will adversely affect the financial position and results of operations of the District going forward.

REQUIRED 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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
LCFF Sources:				
State Apportionment / Transfers	\$ 1,074,279	\$ 1,204,800	\$ 1,211,092	\$ 6,292
Local Sources	3,008,051	2,980,391	3,028,707	48,316
Total LCFF Sources	4,082,330	4,185,191	4,239,799	54,608
Federal Revenue	346,757	345,349	343,918	(1,431)
Other State Revenue	165,305	371,055	498,502	127,447
Other Local Revenue	580,821	618,693	615,541	(3,152)
Total Revenues	5,175,213	5,520,288	5,697,760	177,472
<u>Expenditures</u>				
Certificated Salaries	1,542,689	1,602,227	1,567,084	35,143
Classified Salaries	851,447	900,421	878,308	22,113
Employee Benefits	722,889	755,708	822,376	(66,668)
Books and Supplies	110,390	214,711	163,485	51,226
Services and Other				
Operating Expenditures	1,139,422	1,450,584	1,219,044	231,540
Capital Outlay			32,743	(32,743)
Debt Service:				
Principal Retirement	17,874	18,907	18,907	
Interest and Fiscal Charges	2,884	2,678	572	2,106
Other Expenditures	581,033	574,218	507,482	66,736
Total Expenditures	4,968,628	5,519,454	5,210,001	309,453
Excess of Revenues Over Expenditures	206,585	834	487,759	486,925
<u>Other Financing (Uses)</u>				
Operating Transfers Out	(350,565)	(304,846)	(317,346)	(12,500)
Net Change in Fund Balances	(143,980)	(304,012)	170,413	\$ 474,425
Fund Balances - July 1, 2015	1,860,472	1,860,472	1,860,472	
Fund Balances - June 30, 2016	\$ 1,716,492	\$ 1,556,460	\$ 2,030,885	

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
7/1/13	\$ 0	\$ 107,144	\$ 107,144	0%	\$ 1,145,431	9.35%

SAUSALITO MARIN CITY SCHOOL DISTRICT

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS *

JUNE 30, 2016

<u>Year Ended June 30</u>	<u>District's Proportion of the NPL</u>	<u>District's Proportionate Share of the NPL</u>	<u>State's Proportionate Share of the NPL Associated to District</u>	<u>Total NPL Attributed to District</u>	<u>District's Covered Employee Payroll</u>	<u>District's Proportionate Share of the NPL as a % of Covered Employee Payroll</u>	<u>Plan Fiduciary Net Position As a % of Total Pension Liability</u>
2016	0.0035%	\$ 2,330,126	\$ 49,348	\$ 2,379,474	\$ 1,606,441	145.05%	74.02%
2015	0.0037%	2,162,169	51,188	2,213,357	1,629,127	132.72%	76.52%

* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SAUSALITO MARIN CITY SCHOOL DISTRICT

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS *

JUNE 30, 2016

<u>Year Ended June 30</u>	<u>District's Proportion of the NPL</u>	<u>District's Proportionate Share of the NPL</u>	<u>District's Covered Employee Payroll</u>	<u>District's Proportionate Share of the NPL as a % of Covered Employee Payroll</u>	<u>Plan Fiduciary Net Position As a % of Total Pension Liability</u>
2016	0.0080%	\$ 1,172,184	\$ 880,401	133.14%	79.43%
2015	0.0073%	828,728	763,206	108.59%	83.38%

* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - CALSTRS *
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Year Ended June 30</u>	<u>Actuarially Determined Contributions</u>	<u>Contributions In Relation to Contractually Required Contributions</u>	<u>Contribution Deficiency/ (Excess)</u>	<u>District's Covered Employee Payroll</u>	<u>Contributions As a % of Covered Employee Payroll</u>
2016	\$ 152,515	\$ 152,515	\$ -	\$ 1,421,389	10.73%
2015	139,115	139,115	-	1,566,610	8.88%

* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - CALPERS *
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Year Ended June 30</u>	<u>Actuarially Determined Contributions</u>	<u>Contributions In Relation to Contractually Required Contributions</u>	<u>Contribution Deficiency/ (Excess)</u>	<u>District's Covered Employee Payroll</u>	<u>Contributions As a % of Covered Employee Payroll</u>
2016	\$ 101,073	\$ 101,073	\$ -	\$ 853,153	11.847%
2015	103,996	103,996	-	883,493	11.771%

* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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. Excess expenditures over appropriations as of June 30, 2016 were as follows:

<u>General Fund</u>	<u>Excess Expenditures</u>
Employee Benefits	\$ 66,668
Capital Outlay	32,743

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

B. Schedule of Funding Progress

In accordance with Governmental Accounting Standards Board Statement No. 45, the District is required to present a schedule which shows the funding progress of the District's OPEB plan for the most recent valuation and two preceding valuations, as applicable. The information required to be disclosed includes the valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability, the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll and the ratio of the unfunded actuarial liability to annual covered payroll.

C. Schedule of the Proportionate Share of the Net Pension Liability

In accordance with Governmental Accounting Standards Board Statement No. 68, the District is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the District's proportion and proportionate share of the collective net pension liability, the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability associated with the District, if applicable, the District's covered-employee payroll, the District's proportionate share of the collective net pension liability as a percentage of the District's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

D. Schedule of Contributions

In accordance with Governmental Accounting Standards Board Statement No. 68, the District is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the statutorily or contracted required District contribution, the amount of contributions recognized by the pension plan in relation to the required District contribution, the difference between the required District contribution and the amount recognized by the pension plan, the District's covered-employee payroll, and the amount of contributions recognized by the pension plan in relation of the District as a percentage of the District's covered-employee payroll.

SUPPLEMENTARY INFORMATION SECTION

**SAUSALITO MARIN CITY SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 one elementary school serving students in kindergarten through grade eight.

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Caroline Van Alst	President	December 2016
Joshua Barrow	Vice President	December 2018
Thomas Newmeyer	Clerk	December 2018
Ida Green	Member	December 2018
William Ziegler	Member	December 2016

ADMINISTRATION

Bob Ferguson
Interim Superintendent

Paula F. Rigney
Chief Business Official

**SAUSALITO MARIN CITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2016**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Corporation Debt Service</u>
<u>Assets</u>			
Deposits and Investments	\$ 65,028	\$ 18,245	\$ 25
Receivables		15,597	
Due from Other Funds	32,743		
Total Assets	\$ 97,771	\$ 33,842	\$ 25
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 1,225	\$ 1,042	
Due to Other Funds		30,672	
Total Liabilities	1,225	31,714	
Fund Balances:			
Nonspendable		40	
Restricted		2,088	\$ 25
Assigned	96,546		
Total Fund Balances	96,546	2,128	25
Total Liabilities and Fund Balances	\$ 97,771	\$ 33,842	\$ 25

SEE NOTES TO SUPPLEMENTARY INFORMATION

<u>Building</u>	<u>County School Facilities</u>	<u>Corporation Acquisition</u>	<u>Total Non-Major Governmental Funds</u>
\$ 247	\$ 357,966	\$ 22	\$ 441,533
			15,597
			32,743
<u>\$ 247</u>	<u>\$ 357,966</u>	<u>\$ 22</u>	<u>\$ 489,873</u>
			\$ 2,267
			30,672
			<u>32,939</u>
\$ 247	\$ 357,966	\$ 22	40
			360,348
			96,546
<u>247</u>	<u>357,966</u>	<u>22</u>	<u>456,934</u>
<u>\$ 247</u>	<u>\$ 357,966</u>	<u>\$ 22</u>	<u>\$ 489,873</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, 2016**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Corporation Debt Service</u>
<u>Revenues</u>			
LCFF Sources:			
State Apportionment / Transfers	\$ 50,000		
Federal Revenue		\$ 77,685	
State Revenue		4,488	
Local Revenue	129	6	\$ 7
Total Revenues	<u>50,129</u>	<u>82,179</u>	<u>7</u>
<u>Expenditures</u>			
Current:			
Food Services		145,430	
Plant Services	21,090		
Facilities Acquisition and Construction	23,443		
Debt Service:			
Principal Retirement			95,000
Interest and Issuance Costs			101,669
Total Expenditures	<u>44,533</u>	<u>145,430</u>	<u>196,669</u>
Excess of Revenues Over (Under) Expenditures	5,596	(63,251)	(196,662)
<u>Other Financing Sources</u>			
Operating Transfers In		64,601	196,655
Net Change in Fund Balances	5,596	1,350	(7)
Fund Balances - July 1, 2015	<u>90,950</u>	<u>778</u>	<u>32</u>
Fund Balances - June 30, 2016	<u>\$ 96,546</u>	<u>\$ 2,128</u>	<u>\$ 25</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

<u>Building</u>	<u>County School Facilities</u>	<u>Corporation Acquisition</u>	<u>Total Non-Major Governmental Funds</u>
			\$ 50,000
			77,685
	\$ 356,742		361,230
	632		774
	<u>357,374</u>		<u>489,689</u>
			145,430
			21,090
			23,443
			95,000
			<u>101,669</u>
	<u>0</u>		<u>386,632</u>
	357,374		103,057
			261,256
\$ 0	357,374	\$ 0	364,313
<u>247</u>	<u>592</u>	<u>22</u>	<u>92,621</u>
<u>\$ 247</u>	<u>\$ 357,966</u>	<u>\$ 22</u>	<u>\$ 456,934</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	P-2 Report			
	TK / K - 3	4 - 6	7 - 8	Totals
Regular ADA	71.24	42.74	17.96	131.94
Extended Year Special Education		0.15	0.21	0.36
Special Education - Nonpublic	0.74	0.98	1.83	3.55
Totals	<u>71.98</u>	<u>43.87</u>	<u>20.00</u>	<u>135.85</u>

	Annual Report			
	TK / K - 3	4 - 6	7 - 8	Totals
Regular ADA	71.65	42.79	17.77	132.21
Extended Year Special Education		0.15	0.21	0.36
Special Education - Nonpublic	0.79	0.98	1.83	3.60
Totals	<u>72.44</u>	<u>43.92</u>	<u>19.81</u>	<u>136.17</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Grade Level</u>	<u>Minutes Required</u>	<u>2015-16 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	36,000	49,120	180	N/A	In Compliance
Grade 1	50,400	59,070	180	N/A	In Compliance
Grade 2	50,400	59,070	180	N/A	In Compliance
Grade 3	50,400	59,070	180	N/A	In Compliance
Grade 4	54,000	59,070	180	N/A	In Compliance
Grade 5	54,000	59,070	180	N/A	In Compliance
Grade 6	54,000	59,070	180	N/A	In Compliance
Grade 7	54,000	59,070	180	N/A	In Compliance
Grade 8	54,000	59,070	180	N/A	In Compliance

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	General Fund	Special Revenue - Special Reserve Fund	Capital Projects - Special Reserve Fund	Deferred Maintenance Fund
June 30, 2016 Annual Financial and Budget Report Fund Balances	\$ 1,890,945	\$ 173,190	\$ 271,213	\$ 63,296
Adjustments Increasing/(Decreasing) Fund Balances: (Understatement)/Overstatement of				
Contract Services Expenditures	(33,250)			33,250
Overstatement of Capital Outlay Expenditures			18,273	
Reclassifications Increasing/(Decreasing) Fund Balances:				
Reclassification of Fund Balances	173,190	(173,190)		
Net Adjustments & Reclassifications	139,940	(173,190)	18,273	33,250
June 30, 2016 Audited Financial Statements Fund Balances	\$ 2,030,885	\$ 0	\$ 289,486	\$ 96,546

Auditor's Comments

The fund balances of the General Fund and Special Revenue - Special Reserve Fund have been combined for financial reporting purposes in accordance with GASB 54.

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	GENERAL FUND			
	(Budget) ⁽¹⁾			
	2016-17 ⁽²⁾	2015-16	2014-15	2013-14
Revenues and Other Financial Sources	\$ 5,561,330	\$ 5,697,760	\$ 5,657,200	\$ 5,797,537
Expenditures	5,587,294	5,210,001	5,505,232	5,273,540
Other Uses and Transfers Out	300,565	317,346	295,220	275,938
Total Outgo	5,887,859	5,527,347	5,800,452	5,549,478
Change in Fund Balance	(326,529)	170,413	(143,252)	248,059
Ending Fund Balance	\$ 1,704,356	\$ 2,030,885	\$ 1,860,472	\$ 2,003,724
Available Reserves	\$ 1,499,377	\$ 1,798,516	\$ 1,717,073	\$ 1,840,732
Reserve for Economic Uncertainties ⁽³⁾	\$ 588,786	\$ 554,410	\$ 585,045	\$ 555,431
Available Reserves as a Percentage of Total Outgo	25.5%	32.5%	29.6%	33.2%
Average Daily Attendance at P-2	145	136	142	142
Total Long-Term Liabilities	\$ 24,530,080	\$ 24,885,258	\$ 24,586,164	\$ 24,131,315

(1) Amounts reported for the budget are presented for analytical purposes only and have not been audited.

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

(3) Reported balances are a component of available reserves.

The fund balance of the General Fund increased \$27,161 over the past two years. The fiscal year 2016-17 budget projects a decrease of \$326,529. 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 \$170,413 and \$248,059 during fiscal years 2015-16 and 2013-14, respectively, and incurred an operating deficit of \$143,252 during fiscal year 2014-15.

Average daily attendance (ADA) decreased 6 ADA over the past two years. The District anticipates an increase of 9 ADA during fiscal year 2016-17.

Total long-term liabilities increased \$753,943 over the past two years due primarily to the early retirement incentives offered in 2015-16 and the bond premium that was recognized as a result of the issuance of the 2015 refunding general obligation bonds.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Charter School

Willow Creek Academy

District Audit

Excluded

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. 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.

B. 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.

C. Schedule of Instructional Time

The District participated in the Longer Day incentive funding program for the current fiscal year, but the District did not meet or exceed its LCFF target funding. This schedule presents information on the instructional days provided and the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 of Part 26 of the Education Code.

D. 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.

E. 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.

F. 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 *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's state programs identified on the following page for the fiscal year ended June 30, 2016.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*, 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 that could have a direct and material effect on the District's state programs 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. Our audit does not provide a legal determination of Sausalito Marin City School District's compliance with those requirements.

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

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Not Applicable
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

Basis for Qualified Opinion on State Compliance

As described in the accompanying Schedule of Findings and Questioned Costs, Sausalito Marin City School District did not comply with the requirements regarding the ratio of administrative employees to teachers as noted in **Finding 2016-009**. Compliance with such requirements is necessary, in our opinion, for the Sausalito Marin City School District to comply with the state laws and regulations referred to above.

Qualified Opinion on State Compliance

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Sausalito Marin City School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* and which are described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Finding 2016-010** through **2016-013**. Further, the results of our auditing procedures disclosed instances of noncompliance with other state laws and regulations, which are described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Finding 2016-014**. Our opinion on state compliance on the programs previously identified is not modified with respect to these matters.

The District's responses to the noncompliance 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 them.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 15, 2016

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, 2016, 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 15, 2016.

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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness, as noted in **Finding 2016-001 and 2016-002**.

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 **Finding 2016-003 through 2016-008**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, except as noted in **Finding 2016-014**.

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 15, 2016

FINDINGS AND QUESTIONED COSTS SECTION

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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> X </u> Yes	<u> </u> No

State Awards

Any audit findings required to be reported in accordance with the <i>2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting?</i>	<u> X </u> Yes	<u> </u> No
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, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

2016 - 001 / 30000

MATERIAL WEAKNESS

FINANCIAL REPORTING - UNAUDITED ACTUALS

- Criteria: 1-2. 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. Accordingly, school 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 misstatements.
- Conditions: 1. A duplicate accounts payable accrual in the amount of \$18,273 was incorrectly recorded in fiscal year 2015-16 and was not cancelled until fiscal year 2016-17.
2. A payment in the amount of \$33,250, related to pre-election costs associated with placing a bond measure on the November 2016 ballot, was incorrectly recorded in the Deferred Maintenance Fund, instead of the General Fund.
- Questioned Costs: 1-2. None. The financial statements have been adjusted to correct the misstatements as reflected on page 74.
- Context: 1. The District's internal control system detected the duplicate year-end accrual however, the District did not record a journal entry to properly adjust the books prior to closing.
2. The payment was not consistent with the purpose of the Deferred Maintenance Fund.
- Effects: 1. Capital outlay expenditures were overstated in the Capital Projects - Special Reserve Fund in fiscal year 2015-16.
2. Contract services expenditures were understated in the General Fund and overstated in the Deferred Maintenance Fund, in fiscal year 2015-16.
- Causes: 1. District personnel were unaware that if an accrual cannot be cancelled, a manual journal entry is required to properly adjust the year-end accrual to ensure that expenditures are not misstated.
2. The account coding of the expenditure was initially miscoded and the District's internal control system did not detect and correct the error.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

FINANCIAL REPORTING - UNAUDITED ACTUALS (CONCLUDED)

- Recommendations:
1. The District should develop a comprehensive financial reporting checklist, which can be used by staff during the year-end closing process, to prevent material misstatements from occurring in the future. District personnel should receive in-service training to understand the significance of year-end cut-off procedures.
 2. The District should establish internal control procedures to ensure that account coding is properly reviewed by appropriate supervisors.

District Responses: The District is still determining the reason for the findings noted in this section. The District will be establishing effective internal controls and separation of duties. Regarding these specific findings:

1. The District will provide specific training and provide staff a checklist and written procedures for the year end closing process. This will be in place for the close of the 2016-2017 fiscal year.
2. The District will provide specific training in two areas:
 - a. The District will develop written procedures for properly coding payments and will ensure that all payments processed are reviewed and authorized by a secondary person.
 - b. The District will provide staff with an updated copy of the California School Accounting Manual and provide opportunities to staff to attend trainings in the area of school accounting.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2016 - 002 / 30000

MATERIAL WEAKNESS

INFORMATION AND COMMUNICATION

Criteria: An effective information and communication system is a key component of a strong internal control structure pursuant to the Committee of Sponsoring Organizations' (COSO) Internal Control - Integrated Framework.

Condition: The District incurred substantial costs in fiscal year 2015-16 in an effort to place a bond measure on the November 2016 ballot, however the District did not submit the required paperwork to the County Elections Office by the filing deadline. As a result, the bond measure was never placed on the ballot.

Questioned Costs: The District incurred at least \$33,250 of pre-election costs in fiscal year 2015-16, which were funded by District reserves.

Context: The Governing Board, Management, employees, and the community spent considerable time and effort creating bond priority lists, in anticipation of the bond measure, which were communicated to the District's facilities consultants to incorporate into the District's Master Plan with their associated costs.

Effect: It is difficult to determine the total effect since it is unknown whether the bond measure would have passed had it been placed on the November 8, 2016 ballot. However, regardless of what the election results may have been, had the bond measure been successfully placed on the ballot, the District must now determine the best means to provide the funding necessary to make needed upgrades to its aging facilities.

Cause: There was a breakdown in communication within the District as to who was responsible for filing the required paperwork with the County Elections Office by the deadline.

Recommendation: The District needs to promote better communication at all levels of the organization to enable the District to properly execute organizational objectives.

District Response: The District's Administrative team and Board of Trustees will develop a more effective manner in which to better communicate with its employees to ensure that duties and tasks to be performed are clearly outlined. This improved communication will include all levels of the organization.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2016 - 003 / 30000

SIGNIFICANT DEFICIENCY

PAYROLL

Criteria: Employee timesheets should be signed by employees and their immediate supervisor prior to processing timesheets for payment.

Condition: Employee timesheets were processed for payment prior to being signed by the employees' supervisor.

Questioned Costs: None. We determined that the internal control deficiency did not result in any improper payments.

Context: The condition was noted when testing supplemental payroll for the month of April 2016.

Effect: It is difficult to determine the validity of the hours claimed for payment on the timesheets, when the timesheets are not signed by the employees' supervisor.

Cause: The District did not implement the prior year recommendation.

Recommendation: The District should enforce procedures that require supervisors to sign employee timesheets prior to processing the timesheets for payment.

District Response: The District will implement payroll procedures that will provide a sound internal control structure. Firm payroll submission deadlines as well as what constitutes a complete employee timesheet submission will be established and employees will be notified in writing of these deadlines and requirements. This is the second year of this finding and there is no evidence that this issue was addressed in 2015-2016. School districts are required to pay employees timely. With that in mind, some timesheets in 2015-2016 were processed prior to the written approval of the appropriate supervisor.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2016 - 004 / 30000

SIGNIFICANT DEFICIENCY

CASH RECEIPTS

Criteria: A strong system of internal control over financial reporting requires that deposits be supported by appropriate documentation, which identifies the source of funds, the purpose of the deposit, and the deposit amount.

Condition: District deposits were not consistently supported by appropriate documentation, which identified the source of funds, the purpose of the deposit, or the deposited amount.

Questioned Costs: None.

Context: The condition was noted throughout fiscal year 2015-16. The majority of checks deposited are for local donations, facilities rentals, health and welfare payments, grants and reimbursements.

Effect: There is no way to determine that deposits have been posted to the general ledger to the correct account, or at the correct amount, if appropriate supporting documentation such as copies of checks or check remittances are not retained to support the deposit.

Cause: The District scans checks for deposit to the County Treasury using Cash Pro, which allows the user to print the scanned checks for a period of up to three months. District personnel were unaware of the internal control weakness associated with deposits that are not supported by documentation, which identifies the source of funds, the purpose of the deposit, and the deposit amount and as a result did not printout or maintain a copy of the scanned checks or other supporting documentation.

Recommendation: The District should establish appropriate procedures to ensure that all deposits are adequately supported by appropriate documentation, which identifies the source of funds, the purpose of the deposit, and the deposit amount.

District Response: The District currently utilizes Cash Pro to deposit checks received by the District. In the prior year, deposits were processed without complete documentation. The District now has put appropriate procedures in place for proper tracking of funds received by the District (via checks). The District still needs to document these new procedures in writing.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2016 - 005 / 30000

SIGNIFICANT DEFICIENCY

BANK ACCOUNTS - AUTHORIZED SIGNORS

Criteria: A strong system of internal control over financial reporting requires that bank accounts should be reconciled on a monthly basis. In addition, authorized signors on bank accounts should be maintained on a current basis.

Conditions: The District did not receive bank statements for two commercial bank accounts in fiscal year 2015-16. The authorized signors on the bank accounts have not been properly updated with the bank.

Questioned Costs: None.

Context: There has been no District initiated activity in the cafeteria and student body accounts for several years. Based on the most recent bank statements available, the accounts do not have balances that are material to the financial statements.

Effect: There is no way to determine the balances in the accounts or to correct bank errors if the bank refuses to release information because only authorized signors can request information.

Cause: The District has experience significant turnover in administrative and business positions in the last five years and as a result, the authorized signors on the bank accounts have not been updated appropriately. Many of the authorized signors on the accounts no longer work for the District.

Recommendation: The District should determine whether the accounts will be used in the future. If the accounts are no longer needed, the District should close the account(s). If the account(s) will be used in the future, the District should update the authorized signors on the account(s) and ensure that the appropriate employees receive monthly bank statements to properly perform reconciliations of the account balances.

District Response: The District will closely review all bank accounts held outside of the County of Marin Treasury. Currently, there are bank accounts that are either underutilized or no longer needed. Also, these accounts do not have the current staff listed as signatures on the accounts. These issues will be corrected during the 2016-2017 year. The District will also prepare written procedures to ensure that when District staff changes, proper procedures for updating authorized signatures continue.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2016 - 006 / 30000

SIGNIFICANT DEFICIENCY

REVOLVING ACCOUNT

Criteria: The check register balance of the revolving account should be reconciled to the bank statement balance on a monthly basis. The check register balance of the revolving account should also be reconciled to the imprest balance each month.

Condition: During our review of the revolving account, we noted that bank reconciliations were not performed on a monthly basis. In addition, the check register balance was not reconciled to the \$1,000 imprest balance.

Questioned Costs: None.

Context: The conditions existed throughout fiscal year 2015-16.

Effect: The check register may not reflect the actual balance available in the revolving account. As a result, errors or irregularities may occur and not be detected in a timely manner.

Cause: The District has not established procedures, which require the check register balance of the revolving account to be reconciled to the bank statement balance and the imprest balance on a monthly basis.

Recommendation: The District should establish procedures that require the check register balance of the revolving account to be reconciled to the bank statement balance and the \$1,000 imprest balance on a monthly basis.

District Response: The District will properly reconcile the revolving checking account and balance to the approved balance of \$1,000 on a monthly basis. The District will also prepare written procedures to ensure that when District staff changes, proper procedures for timely reconciliation continue.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2016 - 007 / 30000

SIGNIFICANT DEFICIENCY

CLEARING ACCOUNTS RECONCILIATION

Criteria: An appropriate system of internal control over financial reporting requires that clearing accounts used to facilitate the payment of items such as health and welfare benefits, taxes, and insurance, should be reconciled on a periodic basis, to ensure that all related liability and expenditure balances are properly reported.

Condition: The health and welfare clearing accounts were not reconciled on a routine basis and were not reconciled as of June 30, 2016.

Questioned Costs: None.

Context: The balances in the health and welfare clearing accounts do not appear to be materially misstated as of June 30, 2016.

Effect: The District does not have procedures in place to ensure that the health and welfare clearing accounts are functioning as intended, and to confirm that the related liabilities and expenditure balances are properly reported.

Cause: The District does not have adequate procedures in place to ensure that clearing accounts, used to facilitate the payment of health and welfare benefits, are reconciled on a monthly basis.

Recommendation: The District should establish appropriate written procedures to ensure that clearing accounts, used to facilitate the payment of health and welfare benefits, are reconciled on a monthly basis and that the reconciliations are retained for audit purposes. Errors detected during the reconciliation process, should be investigated and resolved in a timely manner to ensure that the related liability and expenditure balances are properly reported.

District Response: The District currently does not have procedures in place to properly reconcile health and welfare clearing accounts. The District will review and develop health and welfare reconciliation procedures specific to the District's needs.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

2016 - 008 / 30000

SIGNIFICANT DEFICIENCY

CONFLICT OF INTEREST FORMS

Criteria: A "Statement of Economic Interests" form is required to be submitted to the appropriate agency by April 1st of each year. For elected officials assuming office or leaving office, forms should be submitted 30 days after assuming or leaving office, respectively.

Condition: A "Statement of Economic Interests" form (California Form 700) covering the period January 1, 2015 through December 31, 2015 was not available for one Board member as of December 9, 2016.

Questioned Costs: None. This is an administrative comment only.

Context: All other Board members as of June 30, 2016 submitted the required annual California Form 700 for the period covering January 1, 2015 through December 31, 2015.

Effects: There is no way to identify if potential conflicts of interest exist for the one Board member.

Cause: The District has not established procedures to ensure that all Board members complete annual "Statement of Economic Interests" forms.

Recommendations: The Board member who did not have a recent form on file should be instructed to complete the "Statement of Economic Interests" Form (California Form 700) as soon as possible. The District should establish procedures to ensure forms are completed by the required due dates.

District Response: The District will direct the Board member who does not have a current Statement of Economic Interests form to immediately complete and submit the form to the District. The District will establish procedures and timelines that ensure these forms are submitted by all Board members each year.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

2016 - 009 / 40000

RATIO OF ADMINISTRATIVE EMPLOYEES TO TEACHERS

- Criteria:** In accordance with Education Code Section 41402, the maximum ratio of administrative employees to each 100 teachers in an elementary school district shall be 9.
- Condition:** The District had an actual excess of 0.87 FTE for administrators in fiscal year 2015-16, which rounds up to 1 FTE.
- Questioned Costs:** \$37,708. The estimated penalty, in accordance with Education Code Section 41404, was calculated using the California Department of Education's Employee Ratio Worksheet. The District's Total State Revenue was divided by the District's Total Revenue and Other Financing Sources ($\$1,410,141 / \$5,706,885 = 0.25$, rounded to two decimals). Total Annual Salaries of Administrators was divided by the Administrator FTE ($\$362,000 / 2.4 \text{ FTE} = \$150,833$ average administrator salary). The average administrator salary was multiplied by the State Funded Share of Administrator Salary ($\$150,833 \times 0.25 = \$37,708$). Then then the penalty was multiplied by the rounded excess administrator FTE ($\$37,708 \times 1 \text{ FTE} = \$37,708$).
- Context:** The District received a grant in previous years, which paid for one administrator's salary, however when the grant ended, the District did not adjust their administrative staffing levels accordingly.
- Effect:** The District did not comply with the requirements of Education Code Section 41402.
- Cause:** The District was not able to adjust their Administrative FTEs during the 2015-16 fiscal year.
- Recommendation:** The District should review Administrative and Teacher FTEs to ensure they are in compliance with the requirements of Education Code Section 41402.
- District Response:** It is anticipated that the District, in the current year 2016-2017, continues to exceed the allowable maximum ratio of administrators to teachers. For the 2017-2018 school year, the District will review this ratio and make the necessary adjustments in administrative staffing to be in compliance of Education Code 41402.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

2016 - 010 / 10000

ATTENDANCE

- Criteria:** 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.
- Condition:** The weekly "Classroom Attendance Report" was not carefully reviewed by the classroom teacher before certifying the report and returning it to the school office.
- Questioned Costs:** None. The apportionment adjustment due to this error was only 2 apportionment days, which did not result in material misstatement of average daily attendance (ADA) in either the P-2 or Annual attendance period. (0.02 ADA for P-2 and 0.01 ADA for Annual)
- Context:** One student listed on the weekly "Classroom Attendance Report", who generated 2 days of apportionment, was listed with no name, but the teacher did not catch the omission or investigate the matter with the school office.
- Effect:** The District overstated ADA reported on the P-2 and Annual Attendance Reports.
- Cause:** The District did not implement the prior year recommendation.
- Recommendation:** The District should emphasize the importance of reporting accurate attendance information to school personnel and continue to provide in-service training on proper attendance procedures.
- District Response:** It will be required that all teachers take daily attendance and ensure that clerical site staff retain and maintain records to substantiate excused student absences in accordance with AR 5113. The District will provide immediate training for site staff regarding their roles and responsibilities in providing accurate student attendance recordkeeping and close monitoring.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

2016 - 011 / 71000

TEACHER MISASSIGNMENT

Criteria: Any teacher who is assigned to teach a class in which more than 20 percent of the pupils were English learners should be authorized to instruct limited-English-proficient pupils pursuant to the provisions of Education Code Sections 44253.3, 44253.4 or 44253.10.

Condition: One teacher was assigned to teach a class made up of more than 20 percent English learners, but was not authorized to instruct limited-English-proficient pupils pursuant to the provisions of Education Code Sections 44253.3, 44253.4 or 44253.10.

Questioned Costs: None. The teacher held a valid certification document.

Context: One teacher in our sample appeared to be misassigned to a class with more than 20 percent of pupils classified as English Learners during the 2015-16 fiscal year. The Marin County Office of Education issued a Temporary County Certificate effective May 23, 2016 to bridge the date of the application for an Emergency CLAD.

Effect: The District did not comply with the requirements of Education Code Sections 44253.3, 44253.4 or 44253.10.

Cause: The District was unaware the teacher's class had more than 20 percent of pupils classified as English Learners.

Recommendation: The District should report this as a teacher misassignment in the school's School Accountability Report Card. In the future, the District should establish procedures to ensure that all teachers, assigned to teach a class in which more than 20 percent of the pupils are English learners, are authorized to instruct limited-English-proficient pupils pursuant to the provisions of Education Code Sections 44253.3, 44253.4 or 44253.10.

District Response: The District will report a teacher misassignment for 2015-2016 on the School Accountability Report Card due to a teacher assigned to a class made up of more than 20 percent of English Learners. The District will establish procedures to ensure all teachers are properly assigned in accordance of Education Code Sections 44253.3, 44523.4 or 44253.10.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

2016 - 012 / 40000

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM

Criteria: 1-2. In accordance with Education Code Section 8482.3(f)(10), After School Education and Safety Program grantees agree to provide program attendance of participating pupils to the department. Grantees are required to report the days of operation and the students served for each school for the 1st and 2nd Half of each fiscal year. Ongoing program funding is based on grantees meeting specific attendance goals, therefore grantees should develop and maintain accurate attendance records to support attendance reported to the California Department of Education.

Conditions: The following conditions were noted during our testing at Bayside Martin Luther King Jr. Academy:

1. The number of 3 hour students served that was reported to the California Department of Education (CDE) for the 1st Half After School Base attendance report did not agree to the summary worksheets from the contractor who operated the program on behalf of the District.
2. The total 3 hour student days served summarized by the contractor on the summary worksheets did not agree to the supporting sign-in/sign-out sheets on a consistent basis. We traced the monthly totals on the summary worksheets, prepared by the contractor, to the supporting sign-in/sign-out sheets for 22 students in the month of October 2015 and 8 students in the month of March 2016 and noted the following:
 - The attendance for 5 students was correctly summarized
 - The attendance for 5 students was overstated by 1 day on the summary worksheet
 - The attendance for 8 students was understated by 1 day on the summary worksheet
 - The attendance for 10 students was understated by 2 days on the summary worksheet
 - The attendance for 2 students was understated by 3 days on the summary worksheet

Questioned Costs: 1. The number of 3 hour students served for the 1st Half After School Base attendance report was understated by 570.

2. For the 30 students tested, we noted accumulation errors for 25 students that resulted in a net understatement of 29 days served. There is no way to reasonably determine the effect of these errors to the remaining population.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (CONCLUDED)

- Context:
1. The condition appears to be limited to the 1st Half After School Base attendance report.
 2. The condition was noted in October 2015 and March 2016. We performed limited test counts in January 2016 and February 2016 but did not observe similar accumulation errors.
- Effect:
- 1-2. The District does not appear to have appropriate procedures in place to ensure compliance with the relevant sections of Education Code Sections 8482.3.
- Causes:
1. The District mistakenly excluded all 216 days generated by students in the month of August 2015 and the contractor revised the totals for December 2015, resulting in an additional 354 days, but the revised total was not included in the 1st Half After School Base attendance report.
 2. The contractor did not properly summarize the days reported on the summary worksheets and the District did not have procedures in place to audit or verify the totals reported by the contractor.
- Recommendations:
1. The District should establish appropriate procedures to ensure that information submitted to the California Department of Education for the ASES program reconciles to supporting site records which are retained for audit purposes.
 2. The District should establish appropriate procedures to review the attendance records that are prepared and maintained by contractor to ensure that the program is operated in accordance with state laws.
- District Responses:
- 1-2. The District currently does not have procedures in place to review attendance reporting for the After School Education and Safety Program. The District will develop written procedures for the vendor hired to run the ASES program to ensure accurately track student attendance. The District will develop a procedure that requires the vendor to properly train its staff on attendance data collection. The District itself needs to develop procedures for regular auditing of the data prepared by the vendor.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

2016 - 013 / 40000

UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS

Criteria: 1-3. Education Code Section 42238.02(b)(2) commencing with the 2013-14 fiscal year requires a school district or charter school to annually submit its enrolled free and reduced-price meal eligibility, foster youth, and English learner pupil-level records for enrolled pupils to the Superintendent using the California Longitudinal Pupil Achievement Data System (CALPADS). Education Code Section 42238.02(b)(3)(B) states that the Controller shall include instructions necessary to enforce paragraph (2) in the audit required by Education Code Section 14502.1 and that the instructions shall include, but are not necessarily limited to, procedures for determining if the English learner, foster youth, and free or reduced-price meal eligible pupil counts are consistent with the school district's or charter school's English learner, foster youth, and free or reduced-price meal eligible pupil records.

Conditions: 1. The District did not have appropriate documentation to support the English Learner (EL) eligibility status assigned to one student reported on the CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" report as **only** EL eligible as identified under the "ELAS Designation" column.

2. The District did not have appropriate documentation to support the English Learner eligibility status assigned to two students on the CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" report, who had a "No" under the "Direct Certification" column, and were reported eligible in **both** the "NSLP Program" column and the "ELAS Designation" column. One of two students did have appropriate documentation to support their FRPM eligibility status.

3. The District did not have appropriate documentation to support the free or reduced price meal eligibility status assigned to fourteen (14) students on the CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" report, who had a "No" under the "Direct Certification" column, and were reported eligible in **both** the "NSLP Program" column and the "ELAS Designation" column. These 14 students did have appropriate documentation to support their EL eligibility status.

Questioned Costs: 1-3. A summary of certified enrollment, unduplicated pupil counts, pupil count adjustments, and audited unduplicated pupil counts is presented for the District's schools, as follows:

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (CONCLUDED)

Questioned Costs
(Concluded):

	Total Enrollment	Unduplicated Eligible Free/Reduced Meal Counts	EL Funding Eligible	Unduplicated FRPM/EL Eligible Count
Bayside Martin Luther King Jr. NPS School Group	140 4	94 0	50 0	110 0
Certified Pupil Counts	<u>144</u>	<u>94</u>	<u>50</u>	<u>110</u>
Bayside Martin Luther King Jr. NPS School Group		(14)	(3)	(2)
Audit Adjustments	<u>0</u>	<u>(14)</u>	<u>(3)</u>	<u>(2)</u>
Bayside Martin Luther King Jr. NPS School Group	140 4	80 0	47 0	108 0
Audited Pupil Counts	<u>144</u>	<u>80</u>	<u>47</u>	<u>108</u>

1-3. The District received funding under the Basic Aid provision and did not receive either supplemental or concentration grant funding in fiscal year 2015-16, therefore there is no fiscal impact.

Context:

1-3. We reviewed 100% of the student population where the exceptions were noted.

Effect:

1-3. The District overstated the unduplicated pupil counts reported to the California Department of Education for fiscal year 2015-16 based on the District's supporting documentation.

Causes:

- 1-2. The students were not on the District's master English Learner list. Two students had been reclassified, RFEP in fiscal year 2014-15 and one student was entered into the system incorrectly as an English Learner.
3. The District was unable to provide appropriate documentation to support the students' classification as FRPM eligible.

Recommendations:

1-3. The District should establish procedures to ensure that all pupils, who are reported as FRPM and/or EL eligible on the CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" report and who are not directly certified, have appropriate documentation to support their eligibility status.

District Response:

1-3. The District will develop trainings and written procedures to ensure that staff collecting the unduplicated count data understands the importance and necessary steps to accurately collect this data.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

2016 - 014 / 40000 / 50000

CAFETERIA OPERATIONS

- Criteria:**
1. Districts are required to submit the monthly claims for reimbursement to the state by the applicable submission deadline date specified on the California Department of Education website. Claims submitted after the submission deadline, are not paid unless the District meets certain criteria, circumstances, or conditions that allow the claim to be considered for payment.
 2. Districts should establish appropriate procedures to ensure that all revenue transactions are properly recorded on the general ledger.
 3. All revenue from the sale of nonprogram foods are required to accrue to the nonprofit school food service account in accordance with Section 206 of the Healthy, Hunger-Free Kids Act of 2010.
- Conditions:**
1. The August 2015 claim for reimbursement was not transmitted to the California Department of Education prior to the specified submission deadline.
 2. The District did not receive a state reimbursement check from the California Department of Education for the month of October 2015 and as a result, the corresponding revenue was not recorded on the District's general ledger.
 3. The District did not maintain records of the number of meals served to District employees and other non-student individuals in fiscal year 2015-16. In addition, the District did not collect any funds from District employees and other non-student individuals for any meals served in fiscal year 2015-16.
- Questioned Costs:**
1. \$1,411. (The amount of funding the District was eligible to receive based on the meal counts for August 2015.)
 2. \$632 (The October 2015 state reimbursement check that was not received).
 3. Since there is no record of the number of meals or ala carte items served to District employees and other non-student individuals, there is no way to quantify the amount of nonprogram revenue that should have accrued to the school food service account in fiscal year 2015-16.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

CAFETERIA OPERATIONS (CONTINUED)

- Context:
1. The condition appears to be limited to the August 2015 claim for reimbursement.
 2. The condition appears to be limited to the October 2015 state reimbursement.
 3. The District partners with a contractor to prepare and serve meals in the food service program. We did not observe program costs and nonprogram costs split out on the contractor's invoices.
- Effects:
1. The District incurred cost to provide meals to students of the District, during August 2015, but failed to receive reimbursement from the California Department of Education due to the claim being submitted after the specified submission deadline.
 2. The check was not received by the District and could have potentially resulted in loss of funding to the District had the audit not identified the missing reimbursement.
 3. The District was not in compliance with Section 206 of the Healthy, Hunger-Free Kids Act of 2010.
- Causes:
1. District Office personnel were dealing with the aftermath from a fire on September 6, 2015, which destroyed the District Office.
 2. The District has not established procedures to ensure that all child nutrition reimbursements are received.
 3. The District has not established procedures to track meals or ala carte items served to anyone other than a student registered at the District and has not established procedures to collect funds from those individuals. All meals served are provided free of charged to students enrolled in the District. The District makes annual contributions to the cafeteria program to defray cost overruns incurred by the program from General Fund reserves.
- Recommendations:
1. The District should review the criteria, circumstances, or conditions, specified on the California Department of Education website, that allow the claim to be considered for payment, and determine if the District may still qualify to receive payment for the late claim.
 2. The District should establish appropriate procedures to ensure that child nutrition reimbursements are received and recorded appropriately on the general ledger. Reimbursements that are not received in a timely manner should be investigated by District personnel.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

CAFETERIA OPERATIONS (CONCLUDED)

Recommendations

(Concluded):

3. The District should keep track all the number of meals served, ala carte sales made, and any catered meals provided to individuals, other than students of the District, in order to properly track the nonprogram foods served during the year. The District should also establish procedures to enable them to properly collect funds from the sale of nonprogram foods and beverages. The District should complete the USDA's nonprogram food revenue tool or its equivalent to ensure that nonprogram food revenues are at least covering the nonprogram food costs.

District Responses:

1. The District will develop a process for timely requesting reimbursements due from the National School Lunch Program so that dollars owed are not lost due to late filings.
2. The District did not properly review the receipt of all funds distributed by the National School Lunch Program, therefore it was unknown that the District did not receive all funds due to this. The District will develop monthly or bimonthly procedures to ensure that the Cafeteria program is receiving all anticipated funding.
3. Currently, adults are served meals through the Cafeteria and pay for these meals directly to the vendor that provides meals to the students. The District will work with the vendor to develop a method of tracking the cost of adult meals so that the vendor can invoice the district separately for the adult meals. The District will also have established a mechanism for the adults to pay the District directly for meals purchases.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
15 - 001 / 30000		
<u>PAYROLL</u>		
The District should enforce procedures that require supervisor's to sign employee timesheets prior to processing the timesheets for payment.	Not Implemented	Comment Repeated (Finding 2016-003)
<u>STATE AWARDS</u>		
15 - 002 / 10000		
<u>ATTENDANCE</u>		
The District should establish appropriate attendance accounting procedures to ensure that enrollment is reconciled to attendance at the end of each school month; employees, who prepare and review attendance calculations, understand how to calculate non-public school ADA; and to ensure the school calendar entered into the computerized system properly reflects the actual number of school days.	Implemented	
The District should submit revised P-2 and Annual attendance reports for fiscal year 2014-15 that reflect the audited ADA.	Implemented	
15 - 003 / 40000		
<u>AFTER SCHOOL EDUCATION AND SAFETY PROGRAM</u>		
The District should establish appropriate procedures to ensure that information submitted to the California Department of Education for the ASES program reconciles to supporting site records which are retained for audit purposes.	Partially Implemented	Comment Repeated (Finding 2016-011)

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARDS (CONCLUDED)</u>		
<u>AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (CONCLUDED)</u>		
The District should establish appropriate procedures to review the attendance records that are prepared and maintained by the Charter School, to ensure that the program is operated in accordance with state laws.	Implemented	
15 - 004 / 40000		
<u>UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS</u>		
The District should establish procedures to ensure that all pupils, who are reported as FRPM-eligible on the CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" report and who are not directly certified, have an approved FRPM application or alternative income form submitted between July 1 and October 31 of each school year.	Not Implemented	Comment Repeated (Finding 2016-012)
The District should establish procedures to ensure that enrollment counts reported in CalPADS reconcile to their student information system and that the unduplicated pupil counts reported in CalPADS are consistent with the District's eligible pupil records.	Implemented	
15 - 005 / 62000		
<u>LOCAL CONTROL ACCOUNTABILITY PLAN</u>		
The District should establish appropriate procedures to ensure they maintain supporting documentation showing the District's compliance with Education Code Section 52062(a)(1) in the future.	Implemented	