

**SAUSALITO MARIN CITY SCHOOL
DISTRICT**

**AUDIT REPORT
JUNE 30, 2017**

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**SAUSALITO MARIN CITY SCHOOL DISTRICT
 TABLE OF CONTENTS
 FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL SECTION

Independent Auditors’ Report 1
 Management’s Discussion and Analysis..... 4
 Basic Financial Statements
 Government-wide Financial Statements
 Statement of Net Position 12
 Statement of Activities 13
 Fund Financial Statements
 Governmental Funds – Balance Sheet..... 14
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 15
 Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances..... 16
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund
 Balances to the Statement of Activities 17
 Fiduciary Funds – Statement of Net Position..... 19
 Notes to Financial Statements 20

REQUIRED SUPPLEMENTARY INFORMATION

General Fund – Budgetary Comparison Schedule 53
 Schedule of Funding Progress 54
 Schedule of the District’s Proportionate Share of the Net Pension Liability - CalSTRS 55
 Schedule of the District’s Proportionate Share of the Net Pension Liability - CalPERS..... 56
 Schedule of District Contributions - CalSTRS 57
 Schedule of District Contributions - CalPERS..... 58
 Notes to Required Supplementary Information..... 59

SUPPLEMENTARY INFORMATION

Schedule of Instructional Time 61
 Schedule of Financial Trends and Analysis..... 62
 Reconciliation of Annual Financial and Budget Report with Audited Financial Statements..... 63
 Schedule of Charter Schools 64
 Combining Statements – Non-Major Governmental Funds
 Combining Balance Sheet..... 65
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances..... 66
 Local Education Agency Organization Structure 67
 Notes to Supplementary Information..... 68

**SAUSALITO MARIN CITY SCHOOL DISTRICT
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2017**

OTHER INDEPENDENT AUDITORS' REPORTS

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* 69
Report on State Compliance..... 71

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results 74
Financial Statement Findings..... 75
State Award Findings and Questioned Costs..... 77
Summary Schedule of Prior Audit Findings 81

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
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, 2017, and the related notes to the financial statements, which collectively comprise the Sausalito Marin City School 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.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

Licensed by the California

State Board of Accountancy

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 Sausalito Marin City School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows 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 required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of funding progress for OPEB benefits, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not 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 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.

Supplementary 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, including the schedule of expenditures of Federal awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 was derived from and relates 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 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 14, 2017 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 solely 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.

Christy White Associates

San Diego, California
December 14, 2017

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

INTRODUCTION

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

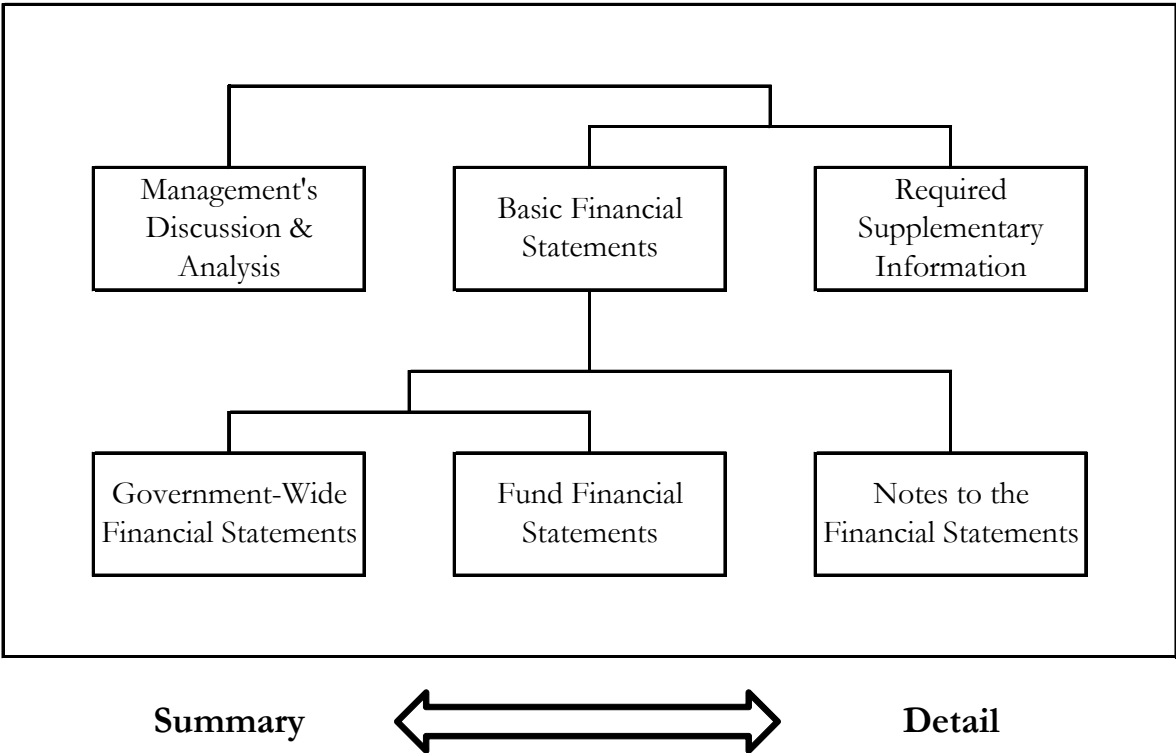
FINANCIAL HIGHLIGHTS

- The District's total net position was \$2,629,955 at June 30, 2017. This was an increase of \$269,589 from the prior year net position.

- Overall revenues were \$8,051,467 which exceeded expenses of \$7,781,878.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

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

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

 - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

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

Government-Wide Statements

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

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

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

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's net position was \$2,629,955 at June 30, 2017, as reflected in the table below. Of this amount, (\$2,483,861) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities		
	2017	2016	Net Change
ASSETS			
Current and other assets	\$ 5,718,390	\$ 4,944,687	\$ 773,703
Capital assets	21,497,938	22,310,793	(812,855)
Total Assets	27,216,328	27,255,480	(39,152)
DEFERRED OUTFLOWS OF RESOURCES	2,059,133	1,688,465	370,668
LIABILITIES			
Current liabilities	1,392,862	142,149	1,250,713
Long-term liabilities	24,479,137	25,530,079	(1,050,942)
Total Liabilities	25,871,999	25,672,228	199,771
DEFERRED INFLOWS OF RESOURCES	773,507	632,351	141,156
NET POSITION			
Net investment in capital assets	1,948,012	2,568,879	(620,867)
Restricted	3,165,804	1,693,900	1,471,904
Unrestricted	(2,483,861)	(1,902,413)	(581,448)
Total Net Position	\$ 2,629,955	\$ 2,360,366	\$ 269,589

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The table below takes the information from the Statement and rearranges slightly, so you can see our total revenues and expenses.

	Governmental Activities		
	2017	2016	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 679	\$ -	\$ 679
Operating grants and contributions	1,059,642	1,144,016	(84,374)
Capital grants and contributions	-	356,847	(356,847)
General revenues			
Property taxes	3,875,745	3,733,723	142,022
Unrestricted federal and state aid	1,341,529	1,369,240	(27,711)
Other	1,773,872	759,605	1,014,267
Total Revenues	8,051,467	7,363,431	688,036
EXPENSES			
Instruction	3,272,346	3,704,283	(431,937)
Instruction-related services	793,859	712,812	81,047
Pupil services	480,915	448,300	32,615
General administration	982,302	791,638	190,664
Plant services	776,384	934,078	(157,694)
Ancillary and community services	5,000	-	5,000
Debt service	734,853	695,721	39,132
Other Outgo	736,219	511,295	224,924
Total Expenses	7,781,878	7,798,127	(16,249)
Change in net position	269,589	(434,696)	704,285
Net Position - Beginning	2,360,366	2,795,062	(434,696)
Net Position - Ending	\$ 2,629,955	\$ 2,360,366	\$ 269,589

The cost of all our governmental activities this year was \$7,781,878 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only \$3,875,745 because the cost was paid mainly by other governments and organizations who subsidized certain programs with grants and contributions.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

In the table below, we have presented the net cost of each of the District’s functions. Net cost shows the financial burden that was placed on the District’s taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

	Net Cost of Services	
	2017	2016
Instruction	\$ 2,667,350	\$ 2,706,416
Instruction-related services	730,943	625,142
Pupil services	261,085	285,558
General administration	958,788	766,763
Plant services	776,384	830,526
Ancillary and community services	5,000	-
Debt service	734,853	695,721
Transfers to other agencies	587,154	387,138
Total Expenses	\$ 6,721,557	\$ 6,297,264

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$4,861,746, which is greater than last year's ending fund balance of \$4,126,406. The District's General Fund had \$12,085 more in operating revenues than expenditures for the year ended June 30, 2017. The District's Special Reserve Fund for Capital Outlay Projects had \$894,404 more in operating revenues than expenditures for the year ended June 30, 2017. The District's Debt Service Fund had no change in operations for the year ended June 30, 2017.

CURRENT YEAR BUDGET 2016-17

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a monthly basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016-17 the District had invested \$21,497,938 in capital assets, net of accumulated depreciation.

	Governmental Activities		
	2017	2016	Net Change
CAPITAL ASSETS			
Land	\$ 948,870	\$ 948,870	\$ -
Construction in progress	229,922	81,943	147,979
Land improvements	2,270,855	2,270,855	-
Buildings & improvements	26,931,687	26,931,687	-
Furniture & equipment	601,861	595,732	6,129
Accumulated depreciation	(9,485,257)	(8,518,294)	(966,963)
Total Capital Assets	\$ 21,497,938	\$ 22,310,793	\$ (812,855)

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end, the District had \$24,479,137 in long-term debt, a decrease of 0.21% from last year – as shown in the table below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities		
	2017	2016	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 16,401,199	\$ 16,546,197	\$ (144,998)
Total certificates of participation	3,390,000	3,485,000	(95,000)
Capital leases	1,000,000	1,000,000	-
Early retirement incentive	183,339	232,472	(49,133)
Compensated absences	11,031	66,048	(55,017)
Net OPEB obligation	53,991	53,231	760
Net pension liability	3,743,147	3,502,310	240,837
Less: current portion of long-term debt	(303,570)	(355,179)	51,609
Total Long-term Liabilities	\$ 24,479,137	\$ 24,530,079	\$ (50,942)

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

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

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

State revenues are estimated to increase modestly in 2017-18 but there is uncertainty about the State's long-term economic growth. According to the Legislative Analyst's Office, there are concerns about a possible mild recession. In addition, purchasing power has not been restored to pre-2007/08 levels for most school districts as added funding is going to pay for increases in CalPERS and CalSTRS rates increases and rising health care costs.

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

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

All of these factors were considered in preparing the District's budget for the 2017-18 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	Governmental Activities
ASSETS	
Cash and investments	\$ 5,093,130
Accounts receivable	625,260
Capital assets, not depreciated	1,178,792
Capital assets, net of accumulated depreciation	20,319,146
Total Assets	27,216,328
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	817,860
Deferred amount on refunding	1,241,273
Total Deferred Outflows of Resources	2,059,133
LIABILITIES	
Accrued liabilities	1,089,292
Long-term liabilities, current portion	303,570
Long-term liabilities, non-current portion	24,479,137
Total Liabilities	25,871,999
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	773,507
Total Deferred Inflows of Resources	773,507
NET POSITION	
Net investment in capital assets	1,948,012
Restricted:	
Capital projects	1,797,066
Debt service	1,088,846
Educational programs	279,892
Unrestricted	(2,483,861)
Total Net Position	\$ 2,629,955

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

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Function/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 3,272,346	\$ -	\$ 604,996	\$ (2,667,350)
Instruction-related services				
Instructional supervision and administration	51,837	-	11,055	(40,782)
Instructional library, media, and technology	92,753	-	402	(92,351)
School site administration	649,269	-	51,459	(597,810)
Pupil services				
Home-to-school transportation	19,167	-	5,478	(13,689)
Food services	131,956	679	69,525	(61,752)
All other pupil services	329,792	-	144,148	(185,644)
General administration				
Centralized data processing	10,665	-	-	(10,665)
All other general administration	971,637	-	23,514	(948,123)
Plant services	776,384	-	-	(776,384)
Community services	5,000	-	-	(5,000)
Interest on long-term debt	734,853	-	-	(734,853)
Other Outgo	736,219	-	149,065	(587,154)
Total Governmental Activities	\$ 7,781,878	\$ 679	\$ 1,059,642	(6,721,557)
General revenues				
Taxes and subventions				
				3,214,193
				661,552
				1,341,529
				15,497
				1,657,563
				100,812
				6,991,146
CHANGE IN NET POSITION				
				269,589
				2,360,366
				\$ 2,629,955

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	General Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 1,669,616	\$ 1,740,654	\$ 863,636	\$ 819,224	\$ 5,093,130
Accounts receivable	597,743	-	-	27,517	625,260
Due from other funds	347,442	-	-	35,534	382,976
Total Assets	\$ 2,614,801	\$ 1,740,654	\$ 863,636	\$ 882,275	\$ 6,101,366
LIABILITIES					
Accrued liabilities	\$ 849,417	\$ -	\$ -	\$ 7,227	\$ 856,644
Due to other funds	35,534	303,270	-	44,172	382,976
Total Liabilities	884,951	303,270	-	51,399	1,239,620
FUND BALANCES					
Nonspendable	1,000	-	-	40	1,040
Restricted	279,832	1,437,384	863,636	817,540	3,398,392
Committed	-	-	-	13,296	13,296
Assigned	174,010	-	-	-	174,010
Unassigned	1,275,008	-	-	-	1,275,008
Total Fund Balances	1,729,850	1,437,384	863,636	830,876	4,861,746
Total Liabilities and Fund Balances	\$ 2,614,801	\$ 1,740,654	\$ 863,636	\$ 882,275	\$ 6,101,366

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

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION
JUNE 30, 2017**

Total Fund Balance - Governmental Funds \$ 4,861,746

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

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	\$ 30,983,195	
Accumulated depreciation	(9,485,257)	21,497,938
		<hr/>

Deferred amount on refunding:

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

1,241,273

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 unmaturing interest owing at the end of the period was:

(232,648)

Long-term liabilities:

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

Total general obligation bonds	\$ 16,401,199	
Total certificates of participation	3,390,000	
Capital leases	1,000,000	
Early retirement incentive	183,339	
Compensated absences	11,031	
Net OPEB obligation	53,991	
Net pension liability	3,743,147	(24,782,707)
		<hr/>

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 related to pensions	\$ 817,860	
Deferred inflows of resources related to pensions	(773,507)	44,353
		<hr/>

Total Net Position - Governmental Activities \$ 2,629,955

**SAUSALITO MARIN CITY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCCF sources	\$ 4,480,095	\$ -	\$ -	\$ 16,750	\$ 4,496,845
Federal sources	336,015	-	-	65,109	401,124
Other state sources	350,998	-	-	6,996	357,994
Other local sources	734,808	1,295,629	-	664,254	2,694,691
Total Revenues	5,901,916	1,295,629	-	753,109	7,950,654
EXPENDITURES					
Current					
Instruction	2,405,565	-	-	-	2,405,565
Instruction-related services					
Instructional supervision and administration	47,055	-	-	-	47,055
Instructional library, media, and technology	92,753	-	-	-	92,753
School site administration	692,269	-	-	-	692,269
Pupil services					
Home-to-school transportation	16,590	-	-	-	16,590
Food services	-	-	-	132,107	132,107
All other pupil services	319,540	-	-	-	319,540
General administration					
Centralized data processing	10,665	-	-	-	10,665
All other general administration	962,018	-	-	-	962,018
Plant services	602,157	1,500	-	101,746	705,403
Facilities acquisition and maintenance	-	147,979	-	-	147,979
Community services	5,000	-	-	-	5,000
Transfers to other agencies	736,219	-	-	-	736,219
Debt service					
Principal	-	95,000	-	130,000	225,000
Interest and other	-	156,746	-	560,405	717,151
Total Expenditures	5,889,831	401,225	-	924,258	7,215,314
Excess (Deficiency) of Revenues					
Over Expenditures	12,085	894,404	-	(171,149)	735,340
Other Financing Sources (Uses)					
Transfers in	-	253,494	-	59,874	313,368
Transfers out	(313,120)	-	-	(248)	(313,368)
Net Financing Sources (Uses)	(313,120)	253,494	-	59,626	-
NET CHANGE IN FUND BALANCE					
	(301,035)	1,147,898	-	(111,523)	735,340
Fund Balance - Beginning	2,030,885	289,486	863,636	942,399	4,126,406
Fund Balance - Ending	\$ 1,729,850	\$ 1,437,384	\$ 863,636	\$ 830,876	\$ 4,861,746

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

**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 YEAR ENDED JUNE 30, 2017**

Net Change in Fund Balances - Governmental Funds \$ 735,340

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

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 estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	\$ 154,108	
Depreciation expense:	(966,963)	(812,855)

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:

225,000

Deferred amounts on refunding:

In governmental funds, deferred amounts on refunding are recognized in the period they are incurred. In the government-wide statements, the deferred amounts on refunding are amortized over the life of the debt. The net effect of the deferred amounts on refunding during the period was:

(47,741)

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 it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

15,041

(continued on following page)

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2017**

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was: 55,017

Postemployment 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: (760)

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: 36,416

Other liabilities not normally liquidated with current financial resources:

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were: 49,133

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: 14,998

Change in Net Position of Governmental Activities	\$ 269,589
--	------------

SAUSALITO MARIN CITY SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	<u>Agency Fund</u>
	<u>Warrant/Pass-through Fund</u>
ASSETS	
Cash and investments	\$ 74,459
Total Assets	<u>\$ 74,459</u>
LIABILITIES	
Due to other agencies	\$ 74,459
Total Liabilities	<u>\$ 74,459</u>

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Sausalito Marin City School District (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 District operates under a locally elected Board form of government and provides educational services to grades K-8 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

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

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

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

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

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

C. **Basis of Presentation**

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

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

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

Major Governmental Funds

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

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

Debt Service Fund: This fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term debt.

Non-Major Governmental Funds

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

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2017

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

C. Basis of Presentation (*continued*)

Non-Major Governmental Funds (*continued*)

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

County School Facilities Fund: This fund is established pursuant to *Education Code Section 17070.43* to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code Section 17070 et seq.*).

Capital Projects Fund for Blended Component Units: This fund is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

Debt Service Funds: Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

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

Debt Service Fund for Blended Component Units: This fund is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

Fiduciary Funds

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

Warrant/Pass-Through Fund: This fund exists primarily to account separately for amounts collected from employees for federal taxes, state taxes, transfers to credit unions, and other contributions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. **Basis of Accounting – Measurement Focus**

Government-Wide and Fiduciary Financial Statements

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

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

Governmental Funds

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

Revenues – Exchange and Non-Exchange Transactions

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

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

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

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

D. Basis of Accounting – Measurement Focus (*continued*)

Unearned Revenue

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

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

Expenses/Expenditures

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

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

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

Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	14-36 years
Furniture and Equipment	10-40 years
Vehicles	5-20 years

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Premiums and Discounts

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

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District 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 (revenue) until that time.

Pensions

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

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

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2017

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

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

Fund Balance (*continued*)

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

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

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

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

F. Interfund Activity

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

G. Estimates

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2017

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

H. Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

I. Property Tax

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

J. New Accounting Pronouncements

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has not yet determined the impact on the financial statements.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This standard's primary objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for periods beginning after June 15, 2016. The District has implemented GASB Statement No. 80 for the year ended June 30, 2017.

GASB Statement No. 82 – In March 2016, GASB issued Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This standard's primary objective is to address issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The majority of this Statement is effective for periods beginning after June 15, 2016. The District has implemented GASB Statement No. 82 for the year ended June 30, 2017.

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Investment in county treasury	\$ 4,228,428	\$ 74,459
Cash with fiscal agent	863,662	-
Cash in revolving fund	1,040	-
Total cash and investments	<u>\$ 5,093,130</u>	<u>\$ 74,459</u>

B. Policies and Practices

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

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Marin County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is based upon the District’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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 Corporate 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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$4,305,100 and an amortized book value of \$4,302,887. The average weighted maturity for this pool is 231 days.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2017, the pooled investments in the County Treasury were required to be rated.

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS (continued)

F. Custodial Credit Risk – Deposits

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

G. Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Marin County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements at June 30, 2017 were as follows:

	Uncategorized
Investment in county treasury	\$ 4,305,100
Total fair market value of investments	\$ 4,305,100

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government			
Categorical aid	\$ 287,123	\$ 25,659	\$ 312,782
State Government			
Apportionment	43,305	589	43,894
Lottery	6,452	-	6,452
Local Government			
Other local sources	260,863	1,269	262,132
Total	\$ 597,743	\$ 27,517	\$ 625,260

NOTE 4 – CAPITAL ASSETS

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

	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 948,870	\$ -	\$ -	\$ 948,870
Construction in progress	81,943	147,979	-	229,922
Total Capital Assets not Being Depreciated	1,030,813	147,979	-	1,178,792
Capital assets being depreciated				
Land improvements	2,270,855	-	-	2,270,855
Buildings & improvements	26,931,687	-	-	26,931,687
Furniture & equipment	595,732	6,129	-	601,861
Total Capital Assets Being Depreciated	29,798,274	6,129	-	29,804,403
Less Accumulated Depreciation				
Land improvements	1,263,549	73,831	-	1,337,380
Buildings & improvements	7,028,146	846,794	-	7,874,940
Furniture & equipment	226,599	46,338	-	272,937
Total Accumulated Depreciation	8,518,294	966,963	-	9,485,257
Governmental Activities				
Capital Assets, net	\$ 22,310,793	\$ (812,855)	\$ -	\$ 21,497,938

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 4 – CAPITAL ASSETS (continued)

Depreciation Expense for the year ended June 30, 2017 was allocated to governmental activities as follows:

Instruction	\$ 876,768
Instructional supervision and administration	4,782
School site administration	4,245
Home-to-school transportation	2,577
All other general administration	667
Plant services	77,924
	<u>\$ 966,963</u>

NOTE 5 – INTERFUND TRANSACTIONS

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

Individual interfund receivable and payable balances at June 30, 2017 were as follows:

<u>Due To Other Funds</u>	<u>Due From Other Funds</u>		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 35,534	\$ 35,534
Special Reserve Fund for Capital Outlay Projects	303,270	-	303,270
Non-Major Governmental Funds	44,172	-	44,172
Total Due From Other Funds	<u>\$ 347,442</u>	<u>\$ 35,534</u>	<u>\$ 382,976</u>
General Fund due to the Cafeteria Fund for expenses.			\$ 2,791
General Fund due to the Deferred Maintenance Fund for LCFF transfer.			32,743
Cafeteria Fund due to the General Fund for expenses.			30,672
Deferred Maintenance Fund due to the General Fund for expenses.			13,500
General Fund due to the Special Reserve Fund for Capital Outlay Projects for repayment of expenses.			303,270
Total			<u>\$ 382,976</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 5 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

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

Interfund Transfers Out	Interfund Transfers In		
	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
General Fund	\$ 253,494	\$ 59,626	\$ 313,120
Non-Major Governmental Funds	-	248	248
Total Interfund Transfers	\$ 253,494	\$ 59,874	\$ 313,368

General Fund transfer to the Cafeteria Fund for expenses.	\$ 59,626
Building Fund transfer to the Cafeteria Fund for expenses.	248
General Fund transfer to the Special Reserve Fund for Capital Outlay for expenses.	253,494
Total	\$ 313,368

NOTE 6 – ACCRUED LIABILITIES

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

	Non-Major Governmental			Total
	General Fund	Funds	District-Wide	Governmental Activities
Payroll	\$ 65,331	\$ -	\$ -	\$ 65,331
Vendors payable	784,086	7,227	-	791,313
Unmatured interest	-	-	232,648	232,648
Total	\$ 849,417	\$ 7,227	\$ 232,648	\$ 1,089,292

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 7 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2017 consisted of the following:

	Balance July 01, 2016	Additions	Deductions	Balance June 30, 2017	Balance Due In One Year
Governmental Activities					
General obligation bonds	\$ 16,155,000	\$ -	\$ 130,000	\$ 16,025,000	\$ 150,000
Unamortized premium	391,197	-	14,998	376,199	14,998
Total general obligation bonds	16,546,197	-	144,998	16,401,199	164,998
Certificates of participation	3,485,000	-	95,000	3,390,000	95,000
Capital leases	1,000,000	-	-	1,000,000	-
Early retirement incentive	232,472	-	49,133	183,339	43,572
Compensated absences	66,048	-	55,017	11,031	-
Net OPEB obligation	53,231	760	-	53,991	-
Net pension liability	3,502,310	240,837	-	3,743,147	-
Total	\$ 24,885,258	\$ 241,597	\$ 344,148	\$ 24,782,707	\$ 303,570

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments on certificates of participation are made in the Special Reserve Fund for Capital Outlay Projects.
- Payments for the early retirement incentive are made in the General Fund.
- Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2017 amounted to \$11,031. This amount is included as part of long-term liabilities in the government-wide financial statements.

B. Certificates of Participation

On February 12, 2012, the Sausalito School District Financing Corporation issued Certificates of Participation amounting to \$3,675,000 payable in annual installments to provide financing for the MLK Jr. Academy Classroom Construction Project. At June 30, 2017, the principal outstanding was \$3,390,000.

The annual requirements to amortize the certificates of participation outstanding at June 30, 2017 were as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 95,000	\$ 100,600	\$ 195,600
2019	95,000	99,650	194,650
2020	95,000	98,510	193,510
2021	100,000	97,180	197,180
2022	100,000	95,480	195,480
2023 - 2027	530,000	441,578	971,578
2028 - 2032	610,000	362,465	972,465
2033 - 2037	725,000	258,025	983,025
2038 - 2042	850,000	124,170	974,170
2043	190,000	6,650	196,650
Total	\$ 3,390,000	\$ 1,684,308	\$ 5,074,308

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 7 – LONG-TERM DEBT (continued)

C. General Obligation Bonds

In the November 2004 election, the citizens of the District approved the issuance and sale of general obligation bonds to finance the construction, improvement, equipping and furnishing of various capital facilities of the District. Under such voters' authorization, there have been two bond issuances (Series 2006A and Series 2006B) which have been refunded in 2015 with terms summarized as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2016	Additions	Deductions	Outstanding June 30, 2017
2015 Refunding Bonds	1/27/2015	8/1/2042	2.00% - 5.00%	\$ 16,510,000	\$ 16,155,000	\$ -	\$ 130,000	\$ 16,025,000
					\$ 16,155,000	\$ -	\$ 130,000	\$ 16,025,000

The annual requirements to amortize these bonds, as of June are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 150,000	\$ 558,356	\$ 708,356
2019	175,000	555,356	730,356
2020	200,000	551,856	751,856
2021	220,000	545,856	765,856
2022	250,000	539,256	789,256
2023 - 2027	1,735,000	2,521,481	4,256,481
2028 - 2032	2,770,000	2,036,881	4,806,881
2033 - 2037	3,935,000	1,483,919	5,418,919
2038 - 2042	5,325,000	771,356	6,096,356
2043	1,265,000	42,694	1,307,694
Total	\$ 16,025,000	\$ 9,607,011	\$ 25,632,011

Debt service payments are made from property tax levy authorized by the voters.

D. Capital Leases

On December 1, 2002 the District entered into a \$1,000,000 lease agreement to finance the remodel of its existing school facilities and update technology systems. The agreement requires the District 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 the expiration of the lease. As of June 30, 2017, the District has one sinking fund payment in the amount of \$55,766 remaining. At June 30, 2017, the Debt Service Fund has a balance of \$863,636.

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 7 – LONG-TERM DEBT (continued)

E. Early Retirement Incentives

The District offered an early retirement incentive to 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 of service with 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 the 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:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 43,572	\$ 6,206	\$ 49,778
2019	45,047	4,731	49,778
2020	46,572	3,206	49,778
2021	48,148	1,630	49,778
Total	\$ 183,339	\$ 15,773	\$ 199,112

F. Net Pension Liability

The District's beginning net pension liability was \$3,502,310 and increased by \$240,837 during the year ended June 30, 2017. The ending net pension liability at June 30, 2017 was \$3,743,147. See Note 10 for additional information regarding the net pension liability.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 8 – FUND BALANCES

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	\$ 1,000	\$ -	\$ -	\$ 40	\$ 1,040
Total non-spendable	1,000	-	-	40	1,040
Restricted					
Educational programs	279,832	-	-	-	279,832
Capital projects	-	1,437,384	-	359,682	1,797,066
Debt service	-	-	863,636	457,858	1,321,494
Total restricted	279,832	1,437,384	863,636	817,540	3,398,392
Committed					
Deferred maintenance	-	-	-	13,296	13,296
Total committed	-	-	-	13,296	13,296
Assigned					
Special reserve for other than capital outlay	174,010	-	-	-	174,010
Total assigned	174,010	-	-	-	174,010
Unassigned					
Reserve for economic uncertainties	303,324	-	-	-	303,324
Remaining unassigned	971,684	-	-	-	971,684
Total unassigned	1,275,008	-	-	-	1,275,008
Total	\$ 1,729,850	\$ 1,437,384	\$ 863,636	\$ 830,876	\$ 4,861,746

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District’s Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 5 percent of General Fund expenditures and other financing uses.

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

The District provides medical, dental and vision benefits to retirees and their covered eligible dependents. The District pays a portion of the medical costs for eligible retirees only. Retirees must pay the entire cost for dental, vision, and dependent medical benefits. All active employees who retire directly from the District and meet the eligibility criteria may participate. 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 valuation.

Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	33
Active plan members	3
Total*	<u>36</u>
 Number of participating employers	 1

*As of July 1, 2016 actuarial study

B. Funding Policy

The District’s contribution is currently based on a project pay-as-you-go funding method, that is, benefits are payable when due.

As of June 30, 2017, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$	54,715
Interest on net OPEB obligation		2,129
Adjustment to annual required contribution		(3,081)
Annual OPEB cost (expense)		<u>53,763</u>
Contributions made		<u>(53,003)</u>
Increase (decrease) in net OPEB obligation		760
Net OPEB obligation, beginning of the year		<u>53,231</u>
Net OPEB obligation, end of the year	\$	<u>53,991</u>

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

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 53,763	99%	\$ 53,991
2016	\$ 20,033	0%	\$ 53,231
2015	\$ 20,397	0%	\$ 33,198

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2016	\$ -	\$ 329,953	\$ 329,953	0%	\$ 2,093,163	16%

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

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

E. Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	7/1/2016
Actuarial Cost Method	Entry Age
Amortization Method	Level-percentage of payroll
Remaining Amortization Period	30
Asset Valuation	\$ -
Actuarial Assumptions:	
Investment rate of return	4.0%
Discount rate	4.0%
Health care trend rate	5.0% - 8.0%
Inflation rate	1.0%

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 10 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	<u>Net pension liability</u>	<u>Deferred outflows related to pensions</u>	<u>Deferred inflows related to pensions</u>	<u>Pension expense</u>
STRS Pension	\$ 2,335,077	\$ 359,349	\$ 544,901	\$ 140,896
PERS Pension	1,408,070	458,511	228,606	124,567
Total	<u>\$ 3,743,147</u>	<u>\$ 817,860</u>	<u>\$ 773,507</u>	<u>\$ 265,463</u>

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Benefits provided

The CalSTRS defined benefit plan has two benefit formulas:

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

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

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 percent 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 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

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

Benefits provided (continued)

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 percent 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 percent at age 65 or older.

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 9.205% of their salary for fiscal year 2017, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2017 was 12.58% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$173,712 for the year ended June 30, 2017.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$136,406 to CalSTRS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, 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 that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$ 2,335,077
State's proportionate share of the net pension liability associated with the District	1,329,514
Total	\$ 3,664,591

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. 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 school districts, actuarially determined. At June 30, 2016, the District’s proportion was 0.003 percent, which was a decrease of 0.00057 percent from its proportion measured as of June 30, 2015.

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2017, the District recognized pension expense of \$140,896. In addition, the District recognized pension expense and revenue of \$237,216 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ 185,637	\$ -
Differences between expected and actual experience	-	56,962
Changes in proportion and differences between District contributions and proportionate share of contributions	-	487,939
District contributions subsequent to the measurement date	173,712	-
	<u>\$ 359,349</u>	<u>\$ 544,901</u>

The \$173,712 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2018	\$ 4,050	\$ 95,212
2019	4,050	95,212
2020	107,912	95,212
2021	69,625	95,212
2022	-	95,212
2023	-	68,841
	<u>\$ 185,637</u>	<u>\$ 544,901</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

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

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	3.00%
Investment Yield*	7.60%
Wage Inflation	3.75%

* Net of investment expenses, but gross 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.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2006–June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary’s (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are 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 on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	6.30%
Private Equity	13%	9.30%
Real Estate	13%	5.20%
Inflation Sensitive	4%	3.80%
Fixed Income	12%	0.30%
Absolute Return	9%	2.90%
Cash/Liquidity	2%	-1.00%
	<u>100%</u>	

* 20-year geometric average

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

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

Discount rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan’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 presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	\$ 3,360,703	\$ 2,335,077	\$ 1,483,252

Pension plan 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 FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees’ Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees’ Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Benefits provided

The benefits for the defined benefit plan are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees’ Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member’s contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2017 was 13.888% of annual payroll. Contributions to the plan from the District were \$128,167 for the year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a liability of \$1,408,070 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. 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 school districts, actuarially determined. At June 30, 2016, the District’s proportion was 0.007 percent, which was a decrease of 0.00082 percent from its proportion measured as of June 30, 2015.

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2017, the District recognized pension expense of \$124,567. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ 218,487	\$ -
Differences between expected and actual experience	60,561	-
Changes in assumptions	-	42,304
Changes in proportion and differences between District contributions and proportionate share of contributions	51,296	186,302
District contributions subsequent to the measurement date	128,167	-
	<u>\$ 458,511</u>	<u>\$ 228,606</u>

The \$128,167 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2018	\$ 85,668	\$ 105,972
2019	80,897	98,100
2020	106,757	24,534
2021	57,022	-
	<u>\$ 330,344</u>	<u>\$ 228,606</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

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

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Yield*	7.65%
Wage Inflation	Varies by Entry Age and Service

* Net of investment expenses, but gross of administrative expenses.

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS’ membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

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, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. 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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

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

Actuarial assumptions (continued)

The table below reflects 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.

Asset Class	Assumed Asset Allocation	Real Return Years 1-10*	Real Return Years 11+**
Global Equity	51%	5.25%	5.71%
Global Debt Securities	20%	0.99%	2.43%
Inflation Assets	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	1%	-0.55%	-1.05%
	100%		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

Discount rate

The discount rate used to measure the total pension liability was 7.65 percent. 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.

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 7.65 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District’s proportionate share of the net pension liability	\$ 2,100,848	\$ 1,408,070	\$ 831,196

Pension plan fiduciary net position

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – COMMITMENTS AND CONTINGENCIES

A. Grants

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

B. Litigation

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

C. 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 the regards to revenues, costs and facilities will be made. However, as of December 15, 2017, an estimated number has been calculated and accrued for by the District, but final calculations for the fiscal year have not been completed.

D. Construction Commitments

As of June 30, 2017, the District had no commitments with respect to unfinished capital projects.

NOTE 12 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in two joint ventures under joint powers authorities (JPAs), the Marin Schools Insurance Authority (MSIA) for workers' compensation and property and liability, and the Marin Pupils Transportation Agency (MPTA). 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 have budgeting and financial reporting requirements independent of member units, and their financial statements are not presented in these financial statements. However, fund transactions between the JPAs and the District are included in these statements. The audited financial statements are generally available from the respective entities.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 13 – 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, 2017, 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, 2017, 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.

NOTE 14 – 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 additional five years for the period July 1, 2015 through June 30, 2019.

NOTE 15 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Refunded Debt

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District's long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2017, the deferred amount on refunding was \$1,241,273.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**SAUSALITO MARIN CITY SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 4,333,346	\$ 4,420,128	\$ 4,480,095	\$ 59,967
Federal sources	354,504	345,990	336,015	(9,975)
Other state sources	189,729	216,671	350,998	134,327
Other local sources	660,784	795,651	733,988	(61,663)
Total Revenues	5,538,363	5,778,440	5,901,096	122,656
EXPENDITURES				
Certificated salaries	1,527,237	1,658,467	1,672,295	(13,828)
Classified salaries	872,554	907,796	955,186	(47,390)
Employee benefits	861,867	906,175	964,982	(58,807)
Books and supplies	112,047	136,022	136,081	(59)
Services and other operating expenditures	1,350,290	1,793,779	1,418,939	374,840
Capital outlay	-	6,129	6,129	-
Other outgo				
Excluding transfers of indirect costs	491,840	746,059	736,219	9,840
Total Expenditures	5,215,835	6,154,427	5,889,831	264,596
Excess (Deficiency) of Revenues				
Over Expenditures	322,528	(375,987)	11,265	387,252
Other Financing Sources (Uses)				
Transfers out	(350,565)	(304,829)	(313,120)	(8,291)
Net Financing Sources (Uses)	(350,565)	(304,829)	(313,120)	(8,291)
NET CHANGE IN FUND BALANCE	(28,037)	(680,816)	(301,855)	378,961
Fund Balance - Beginning	1,857,695	1,857,695	1,857,695	-
Fund Balance - Ending	\$ 1,829,658	\$ 1,176,879	\$ 1,555,840	\$ 378,961

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reasons:

- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2016	\$ -	\$ 329,953	\$ 329,953	0%	\$ 2,093,163	16%
July 1, 2013	\$ -	\$ 107,144	\$ 107,144	0%	\$ 1,145,431	9%

The District did not have an actuarial evaluation prior to July 1, 2013.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALSTRS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.003%	0.003%	0.004%
District's proportionate share of the net pension liability	\$ 2,335,077	\$ 2,330,126	\$ 2,162,169
State's proportionate share of the net pension liability associated with the District	1,329,514	1,232,377	51,188
Total	<u>\$ 3,664,591</u>	<u>\$ 3,562,503</u>	<u>\$ 2,213,357</u>
District's covered payroll	\$ 1,446,288	\$ 1,606,441	\$ 1,629,127
District's proportionate share of the net pension liability as a percentage of its covered payroll	161.5%	145.0%	132.7%
Plan fiduciary net position as a percentage of the total pension liability	70.0%	74.0%	76.5%

See accompanying note to required supplementary information.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALPERS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.007%	0.008%	0.007%
District's proportionate share of the net pension liability	\$ 1,408,070	\$ 1,172,184	\$ 828,728
District's covered payroll	\$ 922,874	\$ 880,401	\$ 763,206
District's proportionate share of the net pension liability as a percentage of its covered payroll	152.6%	133.1%	108.6%
Plan fiduciary net position as a percentage of the total pension liability	73.9%	79.4%	83.4%

See accompanying note to required supplementary information.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 173,712	\$ 152,515	\$ 139,115
Contributions in relation to the contractually required contribution*	(173,712)	(152,515)	(139,115)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,446,288	\$ 1,606,441	\$ 1,629,127
Contributions as a percentage of covered payroll	12.01%	9.49%	8.54%

*Amounts do not include on behalf contributions

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 128,167	\$ 101,073	\$ 103,996
Contributions in relation to the contractually required contribution	(128,167)	(101,073)	(103,996)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 922,874	\$ 880,401	\$ 763,206
Contributions as a percentage of covered payroll	13.89%	11.48%	13.63%

See accompanying note to required supplementary information.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

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

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

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

Schedule of District Contributions

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
 FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2017, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Certificated salaries	\$ 1,658,467	\$ 1,672,295	\$ 13,828
Classified salaries	\$ 907,796	\$ 955,186	\$ 47,390
Employee benefits	\$ 906,175	\$ 964,982	\$ 58,807
Books and supplies	\$ 136,022	\$ 136,081	\$ 59

**SUPPLEMENTARY
INFORMATION**

**SAUSALITO MARIN CITY SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2017**

Grade Level	Minutes Requirement	2016-17 Actual Minutes	Number of Days	Status
Kindergarten	36,000	49,000	180	Complied
Grade 1	50,400	58,760	180	Complied
Grade 2	50,400	58,760	180	Complied
Grade 3	50,400	58,760	180	Complied
Grade 4	54,000	58,760	180	Complied
Grade 5	54,000	58,760	180	Complied
Grade 6	54,000	60,100	180	Complied
Grade 7	54,000	60,100	180	Complied
Grade 8	54,000	60,100	180	Complied

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

	2018 (Budget)	2017	2016	2015
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 5,577,222	\$ 5,901,096	\$ 5,697,760	\$ 5,657,200
Expenditures And Other Financing Uses	6,084,921	6,202,951	5,527,347	5,800,452
Net change in Fund Balance	\$ (507,699)	\$ (301,855)	\$ 170,413	\$ (143,252)
Ending Fund Balance	\$ 1,048,141	\$ 1,555,840	\$ 2,030,885	\$ 1,860,472
Available Reserves*	\$ 548,977	\$ 1,275,008	\$ 1,798,516	\$ 1,717,073
Available Reserves As A Percentage Of Outgo	9.02%	20.55%	32.54%	29.60%
Long-term Debt	\$ 24,479,137	\$ 24,782,707	\$ 24,885,258	\$ 24,586,164
Average Daily Attendance At P-2	148	148	136	142

The General Fund balance has decreased by \$304,632 over the past two years. The fiscal year 2017-18 budget projects a further decrease of \$507,699. For a District this size, the State recommends available reserves of at least 5% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2017-18 fiscal year. Total long term obligations have increased by \$196,543 over the past two years.

Average daily attendance has increased by 6 ADA over the past two years. No change in ADA is anticipated during the 2017-18 fiscal year.

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

**The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Special Reserve Fund for Other Than Capital Outlay
June 30, 2017, annual financial and budget report fund balance	\$ 1,555,840	\$ 174,010
Adjustments and reclassifications:		
Increase (decrease) in total fund balances:		
Fund balance transfer (GASB 54)	174,010	(174,010)
Net adjustments and reclassifications	174,010	(174,010)
June 30, 2017, audited financial statement fund balance	<u>\$ 1,729,850</u>	<u>\$ -</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2017

Charter School	Status	Included in Audit Report
Willow Creek Academy Charter School	Active	No

See accompanying note to supplementary information.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2017**

	Cafeteria Fund	Deferred Maintenance Fund	County School Facilities Fund	Capital Projects Fund for Blended Component Units	Bond Interest & Redemption Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds
ASSETS							
Cash and investments	\$ 830	\$ 854	\$ 359,660	\$ 22	\$ 457,833	\$ 25	\$ 819,224
Accounts receivable	27,517	-	-	-	-	-	27,517
Due from other funds	2,791	32,743	-	-	-	-	35,534
Total Assets	\$ 31,138	\$ 33,597	\$ 359,660	\$ 22	\$ 457,833	\$ 25	\$ 882,275
LIABILITIES							
Accrued liabilities	\$ 426	\$ 6,801	\$ -	\$ -	\$ -	\$ -	\$ 7,227
Due to other funds	30,672	13,500	-	-	-	-	44,172
Total Liabilities	31,098	20,301	-	-	-	-	51,399
FUND BALANCES							
Non-spendable	40	-	-	-	-	-	40
Restricted	-	-	359,660	22	457,833	25	817,540
Committed	-	13,296	-	-	-	-	13,296
Total Fund Balances	40	13,296	359,660	22	457,833	25	830,876
Total Liabilities and Fund Balance	\$ 31,138	\$ 33,597	\$ 359,660	\$ 22	\$ 457,833	\$ 25	\$ 882,275

See accompanying note to supplementary information.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES
 FOR THE YEAR ENDED JUNE 30, 2017**

	Cafeteria Fund	Deferred Maintenance Fund	Building Fund	County School Facilities Fund	Capital Projects Fund for Blended Component Units	Bond Interest & Redemption Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds
REVENUES								
LCFF sources	\$ -	\$ 16,750	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,750
Federal sources	65,109	-	-	-	-	-	-	65,109
Other state sources	4,416	-	-	-	-	2,580	-	6,996
Other local sources	620	1,746	1	1,694	-	660,193	-	664,254
Total Revenues	70,145	18,496	1	1,694	-	662,773	-	753,109
EXPENDITURES								
Current								
Pupil services								
Food services	132,107	-	-	-	-	-	-	132,107
Plant services	-	101,746	-	-	-	-	-	101,746
Debt service								
Principal	-	-	-	-	-	130,000	-	130,000
Interest and other	-	-	-	-	-	560,405	-	560,405
Total Expenditures	132,107	101,746	-	-	-	690,405	-	924,258
Excess (Deficiency) of Revenues								
Over Expenditures	(61,962)	(83,250)	1	1,694	-	(27,632)	-	(171,149)
Other Financing Sources (Uses)								
Transfers in	59,874	-	-	-	-	-	-	59,874
Transfers out	-	-	(248)	-	-	-	-	(248)
Net Financing Sources (Uses)	59,874	-	(248)	-	-	-	-	59,626
NET CHANGE IN FUND BALANCE	(2,088)	(83,250)	(247)	1,694	-	(27,632)	-	(111,523)
Fund Balance - Beginning	2,128	96,546	247	357,966	22	485,465	25	942,399
Fund Balance - Ending	\$ 40	\$ 13,296	\$ -	\$ 359,660	\$ 22	\$ 457,833	\$ 25	\$ 830,876

See accompanying note to supplementary information.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2017**

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.

GOVERNING BOARD

Member	Office	Term Expires
Joshua Barrow	President	December 2018
Ida Green	Vice President	December 2018
Debra Turner	Clerk	December 2020
Caroline Van Alst	Trustee	December 2020
Thomas Newmeyer	Trustee	December 2018

DISTRICT ADMINISTRATORS

Will McCoy
Superintendent

Amy Prescott
Interim Chief Business Official

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections 46200 through 46208*. During the year ended June 30, 2017, the District participated in the Longer Day incentive funding program. As of June 30, 2017, the District had not yet met its target funding.

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.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

Combining Statements – Non-Major Funds

These statements provide information on the District's non-major funds.

Local Education Agency Organization Structure

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

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Governing Board
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 Sausalito Marin City School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Sausalito Marin City School District's basic financial statements, and have issued our report thereon dated December 14, 2017.

Internal Control over Financial Reporting

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

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

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California
State Board of Accountancy*

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs that we consider to be significant deficiencies. (Finding #2017-001 and # 2017-002)

Compliance and Other Matters

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

Sausalito Marin City School District's Response to Findings

Sausalito Marin City School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Sausalito Marin City School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



San Diego, California
December 14, 2017

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
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 *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of Sausalito Marin City School District's state programs for the fiscal year ended June 30, 2017, as identified below.

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 Sausalito Marin City School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. 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 state programs noted below occurred. An audit includes examining, on a test basis, evidence about Sausalito Marin City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Sausalito Marin City School District's compliance with those requirements.

Opinion on State Compliance

In our opinion, Sausalito Marin City School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2017.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

Licensed by the California

State Board of Accountancy

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as items #2017-003, #2017-004, #2017-005. Our opinion on state compliance is not modified with respect to these matters.

Sausalito Marin City School District’s response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Sausalito Marin City School District’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Procedures Performed

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 the state laws and regulations applicable to the following items:

PROGRAM NAME	PROCEDURES PERFORMED
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

PROGRAM NAME	PROCEDURES PERFORMED
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	Yes
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform testing for Independent Study because the ADA was not material.

Christy White Associates

San Diego, California
December 14, 2017

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

The District was not subject to Uniform Guidance Single Audit for the year ended June 30, 2017 because federal award expenditures did not exceed \$750,000.

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

FIVE DIGIT CODE

20000
30000

AB 3627 FINDING TYPE

Inventory of Equipment
Internal Control

FINDING #2017-001: BANK ACCOUNTS AND RECONCILIATIONS (30000)

Criteria: Internal controls over bank accounts and reconciliations are important to ensure that the District's financial statements are free of material misstatement. Ensuring that bank reconciliations are prepared timely is an effective internal control for detecting accounting and banking errors and for identifying fraudulent transactions originating from outside the local government.

Condition: During our testing of the District's bank accounts and reconciliations, it was noted that the District's Cash with Fiscal Agent did not reconcile from the District's general ledger to the supporting documentation. The amount of the discrepancy was not material to the financial statements.

Questioned Cost: The total variance is \$60,599.

Cause: Lack of oversight over District Cash with Fiscal Agent reconciliation.

Perspective/Context: During our audit we conduct substantive tests, which include verifying amounts to Bank Statements, overall all District cash balances recoded in the general ledger.

Effect: Risk of material misstatement.

Recommendation: Sound internal controls and oversight should be put into place to review all activity related to the District's Cash with Fiscal Agent.

District Response: The District will properly reconcile the cash with a fiscal agent and balance to the approved balance 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
FINANCIAL STATEMENT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2017-002: CASH DISBURSEMENTS – PURCHASE ORDERS (30000)

Criteria: Proper internal controls require adequate segregation of duties, prior approval of the expenditure and sufficient supporting documentation such as a vendor invoice. Prior approval is necessary to ensure that expenditures are appropriate uses of the fund and to ensure that expenses are being properly budgeted.

Condition: During the review of internal controls over cash disbursements, 4 of the 25 cash disbursements were not properly approved. In addition, one of the disbursements not properly approved, in the amount of \$108,421, was for the demolition of the old District office. *Public Contract Code (PCC)* Section 20111(a) requires school district governing boards to competitively bid and award any contracts involving an expenditure of more than \$50,000, adjusted for inflation, to the lowest responsible bidder.

Questioned Cost: None.

Prospective/Context: Review of cash disbursements including contracts to test for proper internal controls.

Effect: Without prior approval of the expenditures, it could lead to budgeting issues in the future and misuse of the funds.

Cause: Controls over the Districts purchasing process are not properly implemented.

Recommendation: We recommend that the District implement procedures to ensure that all disbursements are properly approved and comply with Public Contract Code.

District Response: Due to the circumstances of the fire and the need to mitigate the damage caused by the fire it was understood that the situation met the requirements to be declared an emergency. Therefore, a non-competitive contract was approved by the District, but not formalized by the board.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINDING #2017-003: ADMINISTRATIVE TEACHER RATIO (40000)

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 excess of 1.39 FTE for administrators in fiscal year 2016-17.

Cause: The District was not able to adjust their Administrative FTEs during the 2016-17 fiscal year.

Effect: The District did not comply with the requirements of Education Code Section 41402.

Perspective/Context: We reviewed the state provided admin teacher ratio, calculation and supporting documents.

Questioned Cost: The questioned costs are the estimated penalty of \$49,309. The estimated penalty, in accordance with Education Code Section 41404 was calculated using the California Department of Education Employee Ratio Worksheet. The District's Total State Revenue was divided by the District's Total Revenue and Other Financing Sources ($\$1,759,594 / \$5,747,390 = 0.31$) Total Annual Salaries of administrators was divided by the Administrator FTE ($\$418,757 / 2.6 \text{ FTE} = \$161,060$ average administrator salary). The average administrator salary was multiplied by the State Funded Share of Administrator Salary ($\$161,060 \times 0.31 = \$49,309$). Then the penalty was multiplied by the rounded excess administrator FTE ($\$49,309 \times 1 \text{ FTE} = \$49,309$).

Recommendations: 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 was anticipated that the District, in the current year 2016-2017, continued 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
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2017-004: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (40000)

Criteria: Per California Education Code Section 8483(a)(4), it is the intent of the legislature that that pupils in elementary school participate in the full day of the program every day during which pupils participate to accomplish program goals. In addition, every program shall establish a policy regarding reasonable early release of pupils to the program.

Condition: Through site attendance testing performed at the ASES site, it was noted that early release forms are not properly maintained at each respective site. While a specific early release policy is set in place by the District, it does not appear that the ASES program is adequately monitoring and enforcing the policy.

Perspective/Context: We sampled and tested the After School Education and Safety Program at both school sites. Ten (10) of twenty (20) students did not have an early release policy of file during December 5 to December 9.

Questioned Costs: None. The misstatements noted did not cause the District to fall below the 85% attendance threshold and would therefore result in no questioned costs.

Cause: Sites are not completing early release forms due to change in supervisors and negligence in enforcing their policy when students leave the program early.

Effect: The District is not in compliance with State requirements involving the ASES program.

Recommendation: We recommend that the District continue to provide oversight and training to staff in regard to the importance of having a documented early release policy and ensuring that a signed copy is maintained for each child in the program.

District Response: District recognizes that there is an issue with retaining the early release polices in the ASES program. The District is working with the Site Administrators to resolve the issue and develop a written policy and procedure that is intended to mitigate this problem. The District will be responsible for the ongoing monitoring and supervision of the ASES program.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
 STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
 FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2017-005– UNDUPLICATED PUPIL COUNT (40000)

Criteria: Students classified as free or reduced price meal eligible (FRPM) (who are not directly certified) on the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report must have supporting documentation that indicates the student was eligible for the determination. Auditors are required to verify compliance with Education Code Section 42238.02(b)(3)(b) in Section W of the 2016-17 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

Condition: 2 of 8 students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who was classified as FRPM did not have proper supporting documentation to support their designation. A total of 8 students made up the entire population for the FRPM students who are not directly certified and non English Language learners.

Effect: The District is not in compliance with State requirements.

Perspective/Context: We tested a 100% of FRPM students who are not directly certified students.

Cause: Clerical oversight.

Questioned Costs: The District received funding under the Basic Aid provision and did not receive either supplemental or concentration grant funding in fiscal year 2016-17, therefore there is no fiscal impact.

	CY Unduplicated Pupil Count
Bayside Martin Luther King Jr.	130
NPS School Group	1
Certified Pupil Counts	<u>131</u>
Bayside Martin Luther King Jr.	(2)
NPS School Group	-
Audit Adjustments	<u>(2)</u>
Bayside Martin Luther King Jr.	128
NPS School Group	1
Audited Pupil Counts	<u>129</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2017-005– UNDUPLICATED PUPIL COUNT (40000)

Recommendation: We recommend that all household income documentation be reviewed and obtained for accurate CALPADS reporting.

District Response: Student data which includes Free and Reduced Price Meal Status (FRPM) is reported to CALPADS based on data as of the CBEDS date which occurs annually on the first Wednesday in October. Verification of income as required by federal regulations must be completed annually by November 10. CALPADS guidelines require students FRPM status to be changed for students selected to verify income, and who fail to meet the deadline. Student data is compiled for all other student reporting as of the CBEDS date, except for FRPM reporting which must be revised even though the students were legally receiving FRPM as of the CBEDS date. The FRPM data base maintained by the Food Service Department must accurately reflect the date changes in status for each student. Therefore, the data between the two systems will be different as of the CBEDS date.

In future reporting periods, the District will manually adjust the data uploaded to CALPADS for the December certification to comply with CALPADS requirements for FRPM data.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2016-001: FINANCIAL REPORTING – UNAUDITED ACTUALS – 30000

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 20 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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-001: FINANCIAL REPORTING – UNAUDITED ACTUALS – 30000 (continued)

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.

Current Status: Implemented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-002: INFORMATION AND COMMUNITCATION – 30000

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.

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.

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.

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 all organization.

Current Status: Implemented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-003: PAYROLL – 30000

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.

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

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.

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.

Current Status: Implemented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-004: CASH RECEIPTS – 30000

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.

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.

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.

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.

Current Status: Implemented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-002: BANK ACCOUNTS – AUTHORIZED SIGNORS – 30000

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.

Condition: 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.

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.

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 the information.

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.

Current Status: Implemented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-006: REVOLVING ACCOUNT – 30000

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 the 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.

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.

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.

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.

Current Status: Implemented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-007: CLEARING ACCOUNTS RECONCILIATION– 30000

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.

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.

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.

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.

Current Status: Implemented.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2016-008: CONFLICT OF INTERST FORMS – 30000

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.

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

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

Recommendation: 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.

Current Status: Implemented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-009: RATIO OF ADMINISTRATIVE EMPLOYEES TO TEACHERS – 40000

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 Financing Sources ($\$1,410,141 / 2.4 \text{ FTE} = \$150,833$ 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 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.

Cause: The District was not able to adjust their Administrative FTEs to ensure they are in compliance with the requirements of Education Code Section 41402.

Effect: The District did not comply with the requirements of Education Code Section 41402.

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.

Current Status: Not implemented, see finding #2017-004.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-010: ATTENDANCE – 10000

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.

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

Effect: The District overstated ADA reported on the P-2 and Annual Attendance Reports.

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.

Current Status: Implemented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-011: TEACHER MISASSIGNMENT – 71000

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 sampled 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.

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

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

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, 44253.4 or 44253.10.

Current Status: Implemented.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2016-012: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM – 40000

Criteria:

- 1-2. In accordance with Education Code Section 8482.3(f)(10). After School Education and Safety Program grantees 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 Kind Jr. Academy:

1. The number of 3 hour students served that was reported to 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
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2016-012: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM – 40000 (continued)

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.

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.

Effects:

- 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.

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 Response:

- 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.

Current Status: Implemented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-013: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS – 40000

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 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.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2016-013: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS – 40000 (continued)

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:

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

- 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, there fore there is no fiscal impact.

Context:

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

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-013: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS – 40000 (continued)

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.

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.

Current Status: Not implemented, see finding #2017-006.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2016-014: CAFETERIA OPERATIONS – 40000/50000

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.

Condition:

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
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2016-014: CAFETERIA OPERATIONS – 40000/50000 (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.

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 in the District. The District makes annual contributions to the cafeteria program to defray cost overruns incurred by the program from General Fund reserves.

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.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2016-014: CAFETERIA OPERATIONS – 40000/50000 (continued)

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.
3. The District should keep track all the number of meals served, ala carte 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 the nonprogram food revenues are at least covering the nonprogram food costs.

District Response:

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.

Current Status: Implemented.