

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

AUDIT REPORT

JUNE 30, 2014

SAUSALITO MARIN CITY SCHOOL DISTRICT

JUNE 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	22
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	24
Statement of Net Position - Fiduciary Funds	25
Notes to the Basic Financial Statements	26
<u>SUPPLEMENTARY INFORMATION SECTION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	51
Combining Statements:	
Combining Balance Sheet - Non-Major Governmental Funds	52
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds	54
Schedule of Funding Progress	56
Organization/Board of Trustees/Administration	57

SAUSALITO MARIN CITY SCHOOL DISTRICT

JUNE 30, 2014

TABLE OF CONTENTS (CONCLUDED)

	<u>Page</u>
<u>SUPPLEMENTARY INFORMATION SECTION (CONCLUDED)</u>	
Schedule of Average Daily Attendance	58
Schedule of Instructional Time	59
Schedule of Expenditures of Federal Awards	60
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	61
Schedule of Financial Trends and Analysis	62
Schedule of Charter Schools	63
Notes to Supplementary Information	64
<u>OTHER INDEPENDENT AUDITOR'S REPORTS SECTION</u>	
Independent Auditor's Report on State Compliance	67
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	71
<u>FINDINGS AND QUESTIONED COSTS SECTION</u>	
Schedule of Findings and Questioned Costs:	
Section I - Summary of Auditor's Results	73
Section II - Financial Statement Findings	74
Section III - State Award Findings and Questioned Costs	77
Schedule of Prior Year Recommendations	83

FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sausalito Marin City School District
Sausalito, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sausalito Marin City School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Sausalito Marin City School District, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the budgetary comparison information on page 51, and schedule of funding progress on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining non-major governmental fund financial statements, statistical section, and supplementary schedules listed in the table of contents, including the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 combining non-major governmental fund financial statements, statistical section, and supplementary schedules listed in the table of contents, including the Schedule of Expenditures of Federal Awards are 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 12, 2014 on our consideration of Sausalito Marin City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sausalito Marin City School District's internal control over financial reporting and compliance.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 12, 2014

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

This section of Sausalito Marin City School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 through 3, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

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

FINANCIAL HIGHLIGHTS

- Fiscal year 2013-14 was the first year the District's entire student population was served on the consolidated Bayside Elementary / Martin Luther King Jr. Academy site.
- The District's overall financial status declined during fiscal year 2013-14, as total net position decreased 6%.
- On the Statement of Activities, total current year expenses exceeded total current year revenues by \$453,903.
- Capital assets, net of depreciation, increased \$1,764,202 due to the addition of \$2,732,630 of new capital assets and the current year recognition of \$968,428 of depreciation expense.
- Total long-term liabilities decreased \$459,341 due primarily to payments on the outstanding balances of the certificates of participation, capital lease and early retirement incentives.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balances, total current year expenditures and other financing uses exceeded total current year revenues and other financing sources by \$2,629,497 due primarily to current year expenditures of certificates of participation proceeds received in the prior fiscal year.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 5% of total general fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2013-14, General Fund expenditures and other financing uses totaled \$5,549,478. At June 30, 2014, the District has available reserves of \$1,840,732 in the General Fund, which represents a reserve of 33.2%.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT

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

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

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

Reporting the District as a Whole

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

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

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

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

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

Governmental Activities:

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

Business-type Activities:

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

Reporting the District's Most Significant Funds

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

Governmental Funds:

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

Proprietary Funds:

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

Fiduciary Funds:

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

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's total net position decreased from \$7,625,083 at June 30, 2013, down to \$7,171,180 at June 30, 2014, a decrease of 6%.

<u>Comparative Statement of Net Position</u>		
	Governmental Activities	
	2013	2014
<u>Assets</u>		
Deposits and Investments	\$ 6,949,300	\$ 3,552,894
Current Receivables	529,820	455,410
Capital Assets, net	<u>22,362,572</u>	<u>24,126,774</u>
Total Assets *	<u>29,841,692</u>	<u>28,135,078</u>
<u>Deferred Outflows of Resources *</u>	<u>72,734</u>	<u>0</u>
<u>Liabilities</u>		
Current	2,252,891	1,126,733
Long-term	<u>20,036,452</u>	<u>19,837,165</u>
Total Liabilities	<u>22,289,343</u>	<u>20,963,898</u>
<u>Net Position</u>		
Net Investment in Capital Assets *	5,674,551	5,733,812
Restricted for Capital Projects	73,324	591
Restricted for Debt Service	(290,965)	(768,425)
Restricted for Educational Programs	199,318	161,992
Restricted for Other Purposes	9,797	24,804
Unrestricted	<u>1,959,058</u>	<u>2,018,406</u>
Total Net Position *	<u>\$ 7,625,083</u>	<u>\$ 7,171,180</u>

Table includes financial data of the combined governmental funds

** The prior year balances have been adjusted to reflect the restatement described in Note 20 and for reclassifications prescribed by GASB 65.*

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

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(PREPARED BY DISTRICT MANAGEMENT)**

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

The District's total current year expenses exceeded total current year revenues by \$453,903.

<u>Comparative Statement of Change in Net Position</u>		
	Governmental Activities	
	2013	2014
<u>Program Revenues</u>		
Charges for Services	\$ 0	\$ 20,129
Operating Grants & Contributions	1,610,105	1,410,084
<u>General Revenues</u>		
Taxes Levied	4,209,238	4,007,205
Federal & State Aid	763,878	1,080,234
Interest & Investment Earnings	(7,477)	24,201
Transfers from Other Agencies	59,410	17,633
Miscellaneous	238,752	199,171
Total Revenues	6,873,906	6,758,657
<u>Expenses</u>		
Instruction	3,340,541	3,246,783
Instruction-Related Services	850,399	724,339
Pupil Services	460,283	432,966
General Administration	787,167	653,876
Plant Services	619,797	681,359
Ancillary Services	3,930	8,930
Interest on Long-Term Debt	799,976	850,778
Other Outgo	550,882	613,529
Total Expenses	7,412,975	7,212,560
Change in Net Position	\$ (539,069)	\$ (453,903)

Table includes financial data of the combined governmental funds

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

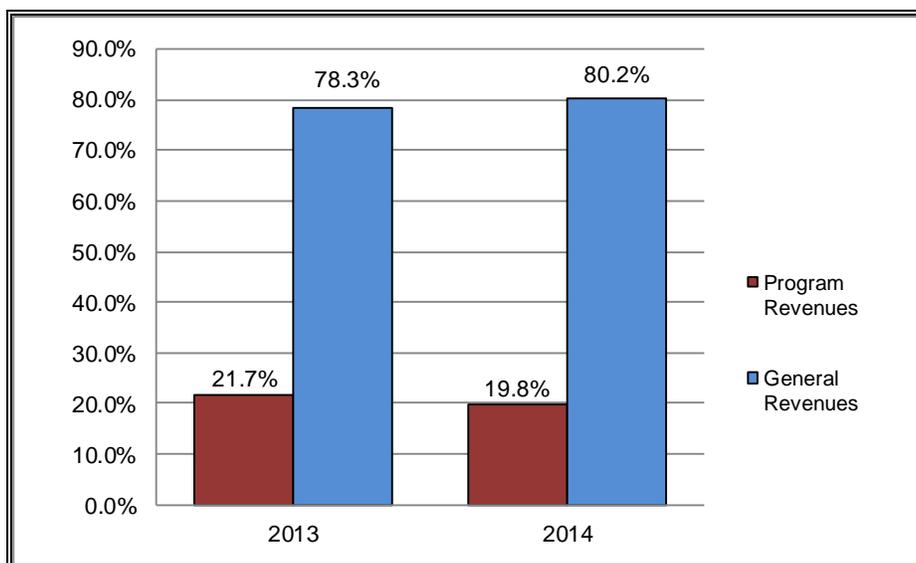
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	2013	2014	2013	2014
Instruction	\$ 3,340,541	\$ 3,246,783	\$ 2,354,398	\$ 2,657,489
Instruction-Related Services	850,399	724,339	618,995	672,169
Pupil Services	460,283	432,966	250,485	164,146
General Administration	787,167	653,876	758,067	616,737
Plant Services	619,797	681,359	614,899	629,458
Ancillary Services	3,930	8,930	3,930	8,930
Interest on Long-Term Debt	799,976	850,778	799,976	850,778
Other Outgo	550,882	613,529	402,120	182,640
Totals	\$ 7,412,975	\$ 7,212,560	\$ 5,802,870	\$ 5,782,347

Table includes financial data of the combined governmental funds

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$5,782,347 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



In 2013-14, program revenues financed 19.8% of the total cost of providing the services listed above, while the remaining 80.2% was financed by the general revenues of the District.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

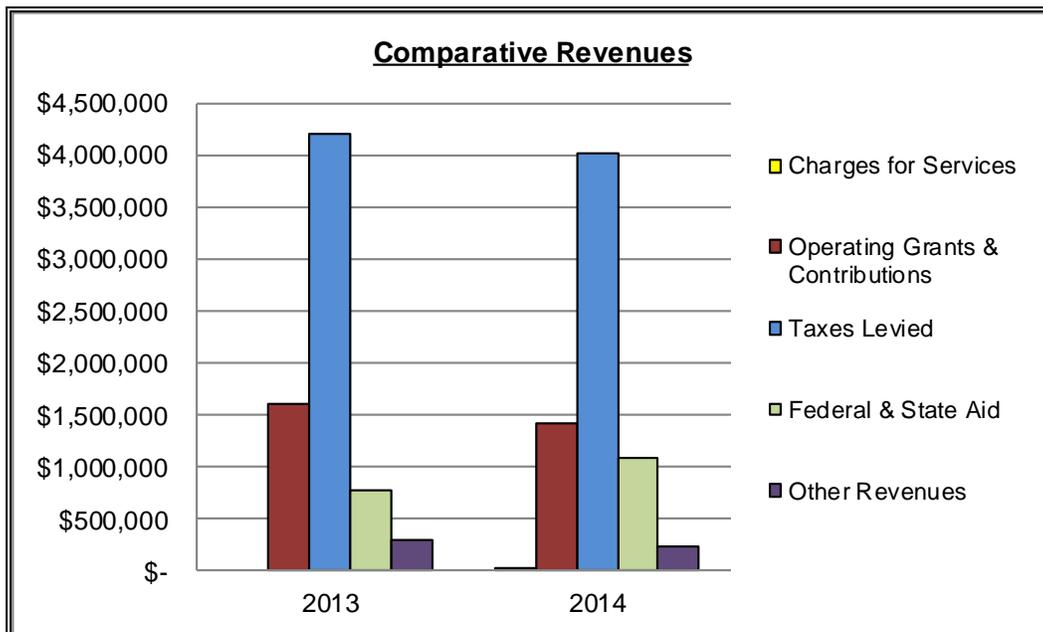
(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Schedule of Revenues For Governmental Functions</u>				
	FYE 2013 Amount	Percent of Total	FYE 2014 Amount	Percent of Total
<u>Program Revenues</u>				
Charges for Services	\$ 0	0.00%	\$ 20,129	0.30%
Operating Grants & Contributions	1,610,105	23.42%	1,410,084	20.86%
<u>General Revenues</u>				
Taxes Levied	4,209,238	61.24%	4,007,205	59.29%
Federal & State Aid	763,878	11.11%	1,080,234	15.98%
Other Revenues	290,685	4.23%	241,005	3.57%
Total Revenues	\$ 6,873,906	100.00%	\$ 6,758,657	100.00%

Table includes financial data of the combined governmental funds



**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(PREPARED BY DISTRICT MANAGEMENT)**

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

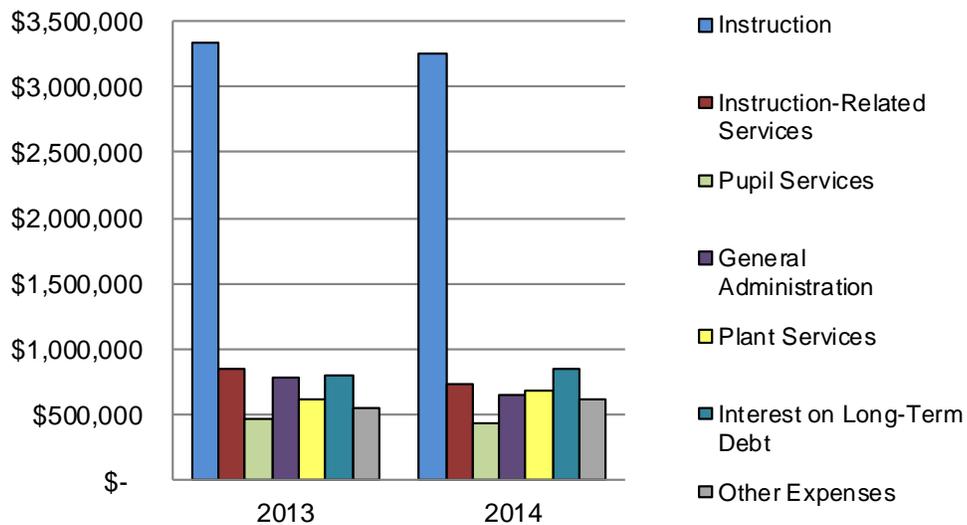
GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Expenses For Governmental Functions

<u>Expenses</u>	<u>FYE 2013 Amount</u>	<u>Percent of Total</u>	<u>FYE 2014 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 3,340,541	45.06%	\$ 3,246,783	45.02%
Instruction-Related Services	850,399	11.47%	724,339	10.04%
Pupil Services	460,283	6.21%	432,966	6.00%
General Administration	787,167	10.62%	653,876	9.07%
Plant Services	619,797	8.36%	681,359	9.45%
Interest on Long-Term Debt	799,976	10.79%	850,778	11.80%
Other Expenses	554,812	7.48%	622,459	8.63%
Total Expenses	<u>\$ 7,412,975</u>	<u>100.00%</u>	<u>\$ 7,212,560</u>	<u>100.00%</u>

Table includes financial data of the combined governmental funds

Comparative Expenses



**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Comparative Schedule of Capital Assets</u>		
	Governmental Activities	
	2013	2014
Land	\$ 948,870	\$ 948,870
Sites and Improvements	2,022,186	2,485,365
Buildings and Improvements	24,046,205	27,201,585
Furniture and Equipment	422,235	598,572
Work-in-Progress	1,062,266	0
Subtotals	28,501,762	31,234,392
Less: Accumulated Depreciation	(6,139,190)	(7,107,618)
Capital Assets, net	<u>\$ 22,362,572</u>	<u>\$ 24,126,774</u>

Capital assets, net of depreciation, increased \$1,764,202 due to the addition of \$2,732,630 of new capital assets and the current year recognition of \$968,428 of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	Governmental Activities	
	2013	2014
Compensated Absences	\$ 9,412	\$ 14,920
General Obligation Bonds	15,656,262	15,602,580
Certificates of Participation	4,055,000	3,675,000
Capital Leases	1,065,390	1,038,306
Early Retirement Incentives	33,768	16,884
Other Post Employment Benefits	0	12,801
Totals	<u>\$ 20,819,832</u>	<u>\$ 20,360,491</u>

Total long-term liabilities decreased \$459,341 due primarily to payments on the outstanding balances of the certificates of participation, capital lease and early retirement incentives.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONCLUDED)

The general obligation bonds are financed by the local taxpayers and represent 76.6% of the District's total long-term liabilities. The certificates of participation and capital leases are financed by the General Fund and represent 23.1% of the total long-term liabilities. The obligations for compensated absences, early retirement incentives, and other post employment benefits are also financed by the General Fund, and make up the remaining portion of the long-term liabilities.

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

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

<u>Comparative Schedule of Fund Balances</u>			
	Fund Balances June 30, 2013	Fund Balances June 30, 2014	Increase (Decrease)
General	\$ 1,755,665	\$ 2,003,724	\$ 248,059
Bond Interest & Redemption	589,041	632,024	42,983
Debt Service	645,735	725,062	79,327
Capital Projects - Special Reserve	185,479	147,121	(38,358)
Deferred Maintenance	271,314	75,158	(196,156)
Cafeteria	8,797	23,804	15,007
Corporation Debt Service	328,259	22	(328,237)
Building	246	246	0
County School Facilities	590	591	1
Corporation Acquisition	2,452,145	22	(2,452,123)
Totals	<u>\$ 6,237,271</u>	<u>\$ 3,607,774</u>	<u>\$ (2,629,497)</u>

The fund balance of the General Fund increased \$248,059, while the combined fund balances of all other District funds decreased \$2,877,556. The Corporation Acquisition Fund decreased \$2,452,123 due to current year expenditures of certificates of participation proceeds received in the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim to reflect the most current financial information available at that point in time. The original and final budget for fiscal year 2013-14 is presented alongside the actual results on page 51.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

On November 4, 2014, the voters of the State of California elected to approve Proposition 2 (State Budget: Budget Stabilization Account. Legislative Constitutional Amendment). The measure will alter the existing requirements for the Budget Stabilization Account (BSA) that was originally established with Proposition 58, passed in 2004. Proposition 2 is set to create a distinct budget stabilization fund known as the "Proposition 98 Reserve" or Public School System Stabilization Account (PSSSA). Proposition 2 also includes a provision that will limit the amount that many school districts may hold in reserves in future years. At this time, the fiscal impact of Proposition 2 is not immediately clear, since the ultimate impact will largely depend on how it is implemented at the state and local levels moving forward.

Fiscal year 2014-15 will be the second year of the projected eight year phase-in period for the new Local Control Funding Formula (LCFF). Although more information regarding the new funding and accountability standards was released during the past year, it is very likely that there will be additional modifications in the future. As a result, school district budgets should continue to be managed with a great degree of conservatism over the next few years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 3,552,894
Receivables (Note 4)	455,410
Capital Assets: (Note 6)	
Land	948,870
Sites and Improvements	2,485,365
Buildings and Improvements	27,201,585
Furniture and Equipment	598,572
Less: Accumulated Depreciation	(7,107,618)
Total Assets	28,135,078
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	400,530
Accrued Interest Payable	202,877
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences	8,568
General Obligation Bonds	
Current Interest	385,000
Certificates of Participation	95,000
Capital Leases	17,874
Early Retirement Incentives (Note 10)	16,884
<i>Portion Due or Payable After One Year:</i>	
Compensated Absences (Note 11)	6,352
General Obligation Bonds (Note 7)	
Current Interest	9,825,000
Capital Appreciation	5,392,580
Certificates of Participation (Note 8)	3,580,000
Capital Leases (Note 9)	1,020,432
Other Post Employment Benefits (Note 11)	12,801
Total Liabilities	20,963,898
<u>Net Position</u>	
Net Investment in Capital Assets	5,733,812
Restricted:	
For Capital Projects	591
For Debt Service	(768,425)
For Educational Programs	161,992
For Other Purposes	24,804
Unrestricted	2,018,406
Total Net Position	\$ 7,171,180

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities</u>					
Instruction	\$ 3,246,783	\$ 16,817	\$ 572,477		\$ (2,657,489)
Instruction-Related Services:					
Supervision of Instruction	163,908	787	24,987		(138,134)
Instructional Library and Technology	48,552				(48,552)
School Site Administration	511,879		26,396		(485,483)
Pupil Services:					
Home-to-School Transportation	19,073				(19,073)
Food Services	163,342		108,462		(54,880)
Other Pupil Services	250,551	2,477	157,881		(90,193)
General Administration:					
Data Processing Services	37,344		14,087		(23,257)
Other General Administration	616,532	48	23,004		(593,480)
Plant Services	681,359		51,901		(629,458)
Ancillary Services	8,930				(8,930)
Interest on Long-Term Debt	850,778				(850,778)
Other Outgo	613,529		430,889		(182,640)
Total Governmental Activities	\$ 7,212,560	\$ 20,129	\$ 1,410,084	\$ 0	(5,782,347)
<u>General Revenues</u>					
Taxes Levied for General Purposes					3,181,757
Taxes Levied for Debt Service					824,273
Taxes Levied for Specific Purposes					1,175
Federal and State Aid - Unrestricted					1,080,234
Interest and Investment Earnings					24,201
Transfers from Other Agencies					17,633
Miscellaneous					199,171
Total General Revenues					5,328,444
Change in Net Position					(453,903)
Net Position - July 1, 2013 (As Restated - Note 20)					7,625,083
Net Position - June 30, 2014					\$ 7,171,180

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**SAUSALITO MARIN CITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General</u>	<u>Bond Interest and Redemption</u>
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 1,904,780	\$ 632,024
Receivables (Note 4)	438,370	
Total Assets	<u>\$ 2,343,150</u>	<u>\$ 632,024</u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts Payable	\$ 339,426	
Total Liabilities	<u>339,426</u>	
Fund Balances: (Note 13)		
Nonspendable	1,000	
Restricted	161,992	\$ 632,024
Assigned		
Unassigned	1,840,732	
Total Fund Balances	<u>2,003,724</u>	<u>632,024</u>
Total Liabilities and Fund Balances	<u>\$ 2,343,150</u>	<u>\$ 632,024</u>

Debt Service	Capital Projects - Special Reserve	Non-Major Governmental Funds	Total Governmental Funds
\$ 725,062	\$ 191,360	\$ 99,668	\$ 3,552,894
		17,040	455,410
<u>\$ 725,062</u>	<u>\$ 191,360</u>	<u>\$ 116,708</u>	<u>\$ 4,008,304</u>
	\$ 44,239	\$ 16,865	\$ 400,530
	<u>44,239</u>	<u>16,865</u>	<u>400,530</u>
\$ 725,062	147,121	40	1,040
		24,645	1,543,723
		75,158	222,279
			<u>1,840,732</u>
<u>725,062</u>	<u>147,121</u>	<u>99,843</u>	<u>3,607,774</u>
<u>\$ 725,062</u>	<u>\$ 191,360</u>	<u>\$ 116,708</u>	<u>\$ 4,008,304</u>

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balances - Governmental Funds \$ 3,607,774

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

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

Capital Assets	\$ 31,234,392	
Accumulated Depreciation	(7,107,618)	
Net		24,126,774

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

Compensated Absences	\$ 14,920	
General Obligation Bonds	15,602,580	
Certificates of Participation	3,675,000	
Capital Leases	1,038,306	
Early Retirement Incentives	16,884	
Other Post Employment Benefits	12,801	
Total		(20,360,491)

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 unmaturred interest owing at the end of the period was:

(202,877)

Total Net Position - Governmental Activities **\$ 7,171,180**

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>General</u>	<u>Bond Interest and Redemption</u>
<u>Revenues</u>		
LCFF Sources:		
State Apportionment / Transfers	\$ 1,046,474	
Local Taxes	3,181,757	
Total LCFF Sources	4,228,231	
Federal Revenue	314,535	
State Revenue	278,793	\$ 3,914
Local Revenue	975,972	821,878
Total Revenues	5,797,531	825,792
<u>Expenditures</u>		
Instruction	2,473,067	
Supervision of Instruction	163,908	
Instructional Library and Technology	43,200	
School Site Administration	469,265	
Home-To-School Transportation	19,073	
Food Services		
Other Pupil Services	250,551	
Data Processing Services	31,001	
Other General Administration	590,950	
Plant Services	581,481	
Facilities Acquisition and Construction		
Ancillary Services	8,930	
Debt Service:		
Principal Retirement	27,084	350,000
Interest and Issuance Costs	2,501	432,809
Other Outgo	612,529	
Total Expenditures	5,273,540	782,809
Excess of Revenues Over (Under) Expenditures	523,991	42,983
<u>Other Financing Sources (Uses)</u>		
Operating Transfers In	6	
Operating Transfers Out	(275,938)	
Total Other Financing Sources (Uses)	(275,932)	0
Net Change in Fund Balances	248,059	42,983
Fund Balances - July 1, 2013	1,755,665	589,041
Fund Balances - June 30, 2014	\$ 2,003,724	\$ 632,024

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Debt Service</u>	<u>Capital Projects - Special Reserve</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
		\$ 4,829	\$ 1,051,303
			3,181,757
		4,829	4,233,060
		101,455	415,990
		6,973	289,680
\$ 23,561	\$ 70,194	1,056	1,892,661
<u>23,561</u>	<u>70,194</u>	<u>114,313</u>	<u>6,831,391</u>
			2,473,067
			163,908
			43,200
			469,265
			19,073
		133,455	133,455
			250,551
			31,001
			590,950
		13,520	595,001
	2,499,753	232,876	2,732,629
			8,930
		380,000	757,084
	1,000	143,935	580,245
			612,529
<u>0</u>	<u>2,500,753</u>	<u>903,786</u>	<u>9,460,888</u>
<u>23,561</u>	<u>(2,430,559)</u>	<u>(789,473)</u>	<u>(2,629,497)</u>
55,766	2,643,527	280,842	2,980,141
	(251,326)	(2,452,877)	(2,980,141)
<u>55,766</u>	<u>2,392,201</u>	<u>(2,172,035)</u>	<u>0</u>
79,327	(38,358)	(2,961,508)	(2,629,497)
645,735	185,479	3,061,351	6,237,271
<u>\$ 725,062</u>	<u>\$ 147,121</u>	<u>\$ 99,843</u>	<u>\$ 3,607,774</u>

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Net Change in Fund Balances - Governmental Funds \$ (2,629,497)

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

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

Capital Outlay Expenditures	\$ 2,732,630	
Depreciation Expense	(968,428)	
Net		1,764,202

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

(72,734)

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

General Obligation Bonds	\$ 350,000	
Certificates of Participation	380,000	
Capital Leases	27,084	
Total		757,084

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

11,376

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

(12,801)

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

24,785

Accreted interest: In governmental funds, accreted interest on capital appreciation bonds is recognized as an expenditure in the period that it becomes due. In the government-wide statements, accreted interest is recognized as an expense as the capital appreciation bonds accrete in value. The amount of accreted interest recognized in the current period was:

(296,318)

Change in Net Position of Governmental Activities \$ (453,903)

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

	<u>Agency Funds</u>		<u>Total Fiduciary Funds</u>
	<u>Student Body Funds</u>	<u>Willow Creek Academy</u>	
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 1,119	\$ 73,916	\$ 75,035
<u>Liabilities</u>			
Due to Student Groups	1,119		1,119
Due to Willow Creek Academy		73,916	73,916
Total Liabilities	1,119	73,916	\$ 75,035
<u>Net Position</u>			
Total Net Position	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

The financial reporting entity consists of the following:

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

Component Units are legally separate organizations for which elected officials of the primary government (District) are financially accountable. The District is financially accountable for the Sausalito School District Financing Corporation (the "Corporation") and therefore the Corporation meets the reporting entity definition. Accordingly, the financial activities of the Corporation have been included in the financial statements of the District.

The following are those aspects of the relationship between the District and the Corporation that satisfy the financial reporting entity criteria:

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Concluded)

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

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

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

B. Implementation of New Accounting Pronouncements

In March of 2012, the Governmental Accounting Standard Board issued Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, with required implementation for the District during the year ended June 30, 2014. The objective of GASB 65 is to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The effect of implementing GASB 65 resulted in a restatement of the beginning net position balance to write-off unamortized debt issuance costs. The effect of the restatement on these financial statements is presented in Note 20.

C. Basis of Presentation

Government-wide Financial Statements:

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Concluded)

Government-wide Financial Statements (Concluded):

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

Fund Financial Statements:

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Concluded)

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

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

Unearned Revenue:

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

Expenses/Expenditures:

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

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

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District maintains the following governmental fund types:

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

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

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

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

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

Major Governmental Funds:

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

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

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

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

Non-major Governmental Funds:

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

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

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Concluded)

Non-major Governmental Funds (Concluded):

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

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

Fiduciary Funds:

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

F. Budgets and Budgetary Accounting

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

These budgets are revised by the District's Governing Board and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented for the General Fund as required supplementary information on page 51.

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

G. Use of Estimates

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

H. Encumbrances

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and Equity

1. Deposits and Investments

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

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

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

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

2. Capital Assets

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

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

3. Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. The District has no liability at June 30, 2014.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and Equity (Continued)

4. Compensated Absences

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

5. Long-term Liabilities

In the government-wide financial statements, long-term obligations are reported as liabilities in the Statement of Net Position. Premiums and discounts as well as refunding costs are deferred and amortized over the life of the obligation, when applicable. Liabilities are reported net of applicable premiums, discounts or refunding costs.

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

6. Fund Balance

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

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

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

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and Equity (Continued)

6. Fund Balance (Concluded)

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

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

7. Local Control Funding Formula (LCFF)/Property Tax

As part of the 2013-14 State Budget Act, the formula for determining the level of funding per student changed from the "revenue limit" formula to the "Local Control Funding Formula" (LCFF). The LCFF creates base, supplemental and concentration grants as the new general purpose entitlement to replace most existing funding streams, including the State aid portion of the revenue limit and most State categorical programs from prior years. District funding under the LCFF is generally provided by a mix of State aid and local property taxes.

The County of Marin is responsible for assessing, collecting and apportioning property taxes to the District. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

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

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local LCFF sources by the District. The California Department of Education reduces the District's LCFF entitlement by the District's local property tax revenue. Any balance remaining is paid from the State General Fund, and is known as LCFF State Aid.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

I. Assets, Liabilities and Equity (Concluded)

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, consist of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash in Bank		\$ 1,119
Cash in Revolving Fund	\$ 1,040	
Cash with Fiscal Agent	725,085	
County Pool Investments	<u>2,826,769</u>	<u>73,916</u>
Total Deposits and Investments	<u>\$ 3,552,894</u>	<u>\$ 75,035</u>

Cash in Bank

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

Cash in Revolving Fund

Cash in revolving fund consists of all cash maintained in commercial bank accounts that are used as revolving funds.

Cash with Fiscal Agent

Cash with Fiscal Agent consists of \$1, \$22, and \$725,062, held by US Bank as trustee, for future payment of interest and redemption of principal for certificates of participation, for the MLK Classroom Construction Project, and for the future pay-off of a capital lease, respectively.

County Pool Investments

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

General Authorization

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

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

Interest Rate Risk

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

Segmented Time Distribution

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

Governmental Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 2,826,769	\$ 2,827,309	\$ 2,156,323	\$ 670,446

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Segmented Time Distribution (Concluded)

Fiduciary Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 73,916	\$ 73,930	\$ 56,385	\$ 17,531

Credit Risk

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

Governmental Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 2,826,769	\$ 2,827,309			\$ 2,826,769

Fiduciary Activities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 73,916	\$ 73,930			\$ 73,916

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, the District does not have a bank balance that is exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2014, the District does not have any investments that are held by counterparties.

Derivative Investments

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

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

<u>General Fund</u>	<u>Excess Expenditures</u>
Debt Service: Principal Retirement	\$ 667
Other Expenditures	22,251

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2014 consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 65,929	\$ 16,193	\$ 82,122
State Government	274,846	847	275,693
Local Governments	91,812		91,812
Miscellaneous	5,783		5,783
Totals	<u>\$ 438,370</u>	<u>\$ 17,040</u>	<u>\$ 455,410</u>

NOTE 5 - INTERFUND ACTIVITIES

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 5 - INTERFUND ACTIVITIES (CONCLUDED)

Interfund Transfers

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

Interfund transfers for fiscal year 2013-14 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 6	\$ 275,938
Debt Service	55,766	
Capital Projects - Special Reserve	2,643,527	251,326
Deferred Maintenance	45,171	
Cafeteria	40,000	
Corporation Debt Service	195,671	6
Corporation Acquisition		2,452,871
Totals	<u>\$ 2,980,141</u>	<u>\$ 2,980,141</u>

Transfer \$45,171 from General Fund to Deferred Maintenance Fund for contribution for future deferred maintenance projects.

Transfer \$40,000 from General Fund to Cafeteria Fund to support the cafeteria program.

Transfer \$135,000 from General Fund to Capital Projects - Special Reserve Fund for debt service payment on outstanding 2013 certificates of participation.

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

Transfer \$195,560 from Capital Projects - Special Reserve Fund to Corporation Debt Service Fund for debt service payment on outstanding 2006 certificates of participation.

Transfer \$55,766 from Capital Projects - Special Reserve Fund to Debt Service Fund for capital lease sinking fund payment.

Transfer \$6 from Corporation Debt Service Fund to General Fund to refund the excess interest earnings in the 2006 certificates of participation reserve account.

Transfer \$111 from Corporation Acquisition Fund to Corporation Debt Service Fund the excess balance in the 2006 certificates of participation construction account to be used to pay off the 2006 certificates of participation.

Transfer \$2,452,760 from Corporation Acquisition Fund to Capital Projects - Special Reserve Fund to reimburse fund for expenditures incurred for MLK classroom project.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2014, is shown below:

	Balances July 1, 2013	Additions	Deletions	Balances June 30, 2014
Land	\$ 948,870			\$ 948,870
Sites and Improvements	2,022,186	\$ 463,179		2,485,365
Buildings and Improvements	24,046,205	3,155,380		27,201,585
Furniture and Equipment	422,235	176,337		598,572
Work-in-Progress	1,062,266		\$ 1,062,266	0
Totals at Historical Cost	28,501,762	3,794,896	1,062,266	31,234,392
Less Accumulated Depreciation for:				
Sites and Improvements	1,257,593	75,166		1,332,759
Buildings and Improvements	4,750,552	852,460		5,603,012
Furniture and Equipment	131,045	40,802		171,847
Total Accumulated Depreciation	6,139,190	968,428	0	7,107,618
Governmental Activities Capital Assets, net	<u>\$ 22,362,572</u>	<u>\$ 2,826,468</u>	<u>\$ 1,062,266</u>	<u>\$ 24,126,774</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	\$ 790,600
Instructional Library, Media, and Technology	5,352
School Site Administration	38,347
Food Services	29,887
Data Processing Services	2,076
Other General Administration	24,990
Plant Services	<u>77,176</u>
Total Depreciation Expense	\$ 968,428

NOTE 7 - GENERAL OBLIGATION BONDS

The outstanding general obligation debt of the District as of June 30, 2014 was as follows:

A. Current Interest Bonds

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2013	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2014
8/18/05	3.65-5.50	8/1/30	\$ 7,640,000	\$ 6,300,000		\$ 245,000	\$ 6,055,000
9/7/06	3.25-4.125	8/1/22	1,680,000	1,150,000		95,000	1,055,000
9/7/06	3.85-4.375	8/1/28	3,110,000	3,110,000		10,000	3,100,000
Totals			<u>\$ 12,430,000</u>	<u>\$ 10,560,000</u>	<u>\$ 0</u>	<u>\$ 350,000</u>	<u>\$ 10,210,000</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)

A. Current Interest Bonds (Concluded)

The annual requirements to amortize the current interest bonds, as of June 30, 2014, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 385,000	\$ 414,626	\$ 799,626
2016	425,000	397,167	822,167
2017	455,000	380,798	835,798
2018	490,000	362,991	852,991
2019	530,000	343,234	873,234
2020-2024	3,145,000	1,353,824	4,498,824
2025-2029	3,810,000	641,699	4,451,699
2030-2034	970,000	42,140	1,012,140
Totals	<u>\$ 10,210,000</u>	<u>\$ 3,936,479</u>	<u>\$ 14,146,479</u>

B. Capital Appreciation Bonds

<u>Date of Issue</u>	<u>Accretion Rate %</u>	<u>Date of Maturity</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2013</u>	<u>Issued Current Year</u>	<u>Accreted Interest Current Year</u>	<u>Outstanding June 30, 2014</u>
9/7/06	7.586	8/1/33	\$ 309,991	\$ 515,003		\$ 39,807	\$ 554,810
9/7/06	5.523	8/1/42	<u>3,159,933</u>	<u>4,581,259</u>		<u>256,511</u>	<u>4,837,770</u>
Totals			<u>\$ 3,469,924</u>	<u>\$ 5,096,262</u>	<u>\$ 0</u>	<u>\$ 296,318</u>	<u>\$ 5,392,580</u>

The outstanding obligation for the Series 2006A capital appreciation bonds at June 30, 2014, is as follows:

<u>Year Ended June 30</u>	<u>Accretion Rate</u>	<u>Original Issue (Principal)</u>	<u>Accreted Interest</u>	<u>Totals</u>
2015-2019		\$ 0	\$ 0	\$ 0
2020-2024	7.586%	39,780	31,416	71,196
2025-2029	7.586%	159,968	126,336	286,304
2030-2034	7.586%	110,243	87,067	197,310
Totals		<u>\$ 309,991</u>	<u>\$ 244,819</u>	<u>\$ 554,810</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)

B. Capital Appreciation Bonds (Concluded)

The annual requirements to amortize the Series 2006A capital appreciation bonds at June 30, 2014, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015-2019	\$ 0	\$ 0	\$ 0
2020-2024	39,780	100,220	140,000
2025-2029	159,968	540,032	700,000
2030-2034	110,243	589,757	700,000
Totals	\$ 309,991	\$ 1,230,009	\$ 1,540,000

The outstanding obligation for Series 2006B capital appreciation bonds at June 30, 2014, is as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Accretion</u> <u>Rate</u>	<u>Original Issue</u> <u>(Principal)</u>	<u>Accreted</u> <u>Interest</u>	<u>Totals</u>
2015-2019		\$ 0	\$ 0	\$ 0
2020-2024		0	0	0
2025-2029		0	0	0
2030-2034	5.523%	1,025,915	544,727	1,570,642
2035-2039	5.523%	1,264,893	671,641	1,936,534
2040-2044	5.523%	869,125	461,469	1,330,594
Totals		\$ 3,159,933	\$ 1,677,837	\$ 4,837,770

The annual requirements to amortize the Series 2006B capital appreciation bonds at June 30, 2014, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015-2019	\$ 0	\$ 0	\$ 0
2020-2024	0	0	0
2025-2029	0	0	0
2030-2034	1,025,915	3,044,085	4,070,000
2035-2039	1,264,893	5,180,107	6,445,000
2040-2044	869,125	4,790,875	5,660,000
Totals	\$ 3,159,933	\$ 13,015,067	\$ 16,175,000

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8 - CERTIFICATES OF PARTICIPATION

On February 12, 2013, the Sausalito School District Financing Corporation issued certificates of participation in the principal amount of \$3,675,000 to provide financing for the MLK Jr. Academy Classroom Construction Project. At June 30, 2014, the principal balance outstanding was \$3,675,000.

The annual requirements to amortize the certificates of participation as of June 30, 2014 are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 95,000	\$ 102,215	\$ 197,215
2016	95,000	101,669	196,669
2017	95,000	100,980	195,980
2018	95,000	100,125	195,125
2019	95,000	99,080	194,080
2020-2024	500,000	470,826	970,826
2025-2029	560,000	404,764	964,764
2030-2034	650,000	313,960	963,960
2035-2039	775,000	194,065	969,065
2040-2044	715,000	51,187	766,187
Totals	<u>\$ 3,675,000</u>	<u>\$ 1,938,871</u>	<u>\$ 5,613,871</u>

NOTE 9 - CAPITAL LEASES

- A. On December 1, 2002, the District entered into a \$1,000,000 lease agreement to finance the remodel of its existing school facilities and the update of its technology systems. The agreement requires the District to make fifteen (15) annual payments of \$55,766 to a sinking fund maintained by US Bank. The sum of the annual payments plus interest earned on the sinking fund balance are expected to be sufficient to make a single \$1,000,000 lease payment on December 19, 2017 and pay-off the entire lease balance at that time. The lease does not include a prepayment option. The agreement provides for title to pass upon expiration of the lease period. Future required sinking fund payments as of June 30, 2014 are as follows:

Year Ended <u>June 30</u>	<u>Sinking Fund Payments</u>
2015	\$ 55,766
2016	55,766
2017	55,766
2018	<u>55,766</u>
Total sinking fund payments remaining	<u>\$ 223,064</u>
Lease payment due December 19, 2017	<u>\$ 1,000,000</u>

At June 30, 2014, the Debt Service Fund has a fund balance of \$725,062.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 - CAPITAL LEASES (CONCLUDED)

B. The District entered into a lease agreement to finance the acquisition of energy management equipment valued at \$156,600. The agreement provides for title to pass upon expiration of the lease period.

Future minimum lease payments under this agreement are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Lease</u> <u>Payments</u>
2015	\$ 19,399
2016	<u>19,399</u>
Total payments	38,798
Less amounts representing interest	<u>(492)</u>
Present value of net minimum lease payments	<u>\$ 38,306</u>

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

NOTE 10 - EARLY RETIREMENT INCENTIVES

In addition to the pension benefits described in Note 15, the District offered an early retirement incentive benefit program through the Public Agency Retirement System (PARS) in fiscal year 2009-10. The PARS program was offered to all certificated employees with at least 30 years of teaching experience and 10 years of service with the District. The District has one remaining payment of \$16,884 due in fiscal year 2014-15.

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

From an accrual accounting perspective, the cost of other post employment benefits (OPEB), like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in future years when the benefits are paid or provided. Governmental Accounting Standards Board Statement No. 45 requires an accrual basis measurement and recognition of OPEB cost over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan.

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS (CONCLUDED)

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

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

Annual OPEB Cost and Net OPEB Obligation: The following table shows the components of the District's annual OPEB cost for the fiscal year ended June 30, 2014, the amount contributed to the plan, and changes in the District's net OPEB obligation that resulted in a net OPEB obligation of \$12,801 for the year ended June 30, 2014.

Annual required contribution (ARC)	\$ 20,625
Interest on Net OPEB Obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost	20,625
Contributions for the fiscal year	<u>(7,824)</u>
Increase in Net OPEB Obligation	12,801
Net OPEB Obligation - June 30, 2013	<u>0</u>
Net OPEB Obligation - June 30, 2014	<u>\$ 12,801</u>

In future years, three-year trend information will be presented. Prior to fiscal year 2013-14, the District's OPEB obligation was not material to the financial statements and therefore, prior year comparative data is not available.

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 12 - LONG-TERM LIABILITIES

The changes in long-term liabilities for the year ended June 30, 2014, is shown below:

	Balances			Balances	
	July 1, 2013	Additions	Deductions	June 30, 2014	Due within One Year
Compensated Absences	\$ 9,412	\$ 14,920	\$ 9,412	\$ 14,920	\$ 8,568
General Obligation Bonds:					
Current Interest	10,560,000		350,000	10,210,000	385,000
Capital Appreciation	5,096,262	296,318		5,392,580	
Certificates of Participation	4,055,000		380,000	3,675,000	95,000
Capital Leases	1,065,390		27,084	1,038,306	17,874
Early Retirement Incentives	33,768		16,884	16,884	16,884
Other Post Employment Benefits	0	20,625	7,824	12,801	
Totals	\$ 20,819,832	\$ 331,863	\$ 791,204	\$ 20,360,491	\$ 523,326

General obligation bonds are an obligation of the Bond Interest and Redemption Fund, which is funded by property taxes collections. The remaining long-term liabilities are obligations of the General Fund.

NOTE 13 - FUND BALANCES

The District's fund balances at June 30, 2014 consisted of the following:

	General Fund	Bond Interest and Redemption Fund	Debt Service Fund	Capital Projects- Special Reserve Fund	Non-Major Governmental Funds	Totals
Nonspendable	\$ 1,000				\$ 40	\$ 1,040
Restricted	161,992	\$ 632,024	\$ 725,062		24,645	1,543,723
Assigned				\$ 147,121	75,158	222,279
Unassigned:						
Economic Uncertainties	555,431					555,431
Other	1,285,301					1,285,301
Total Fund Balances	\$ 2,003,724	\$ 632,024	\$ 725,062	\$ 147,121	\$ 99,843	\$ 3,607,774

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

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (CalSTRS) for K-12 Education. This payment consists of state general fund contributions to CalSTRS of \$57,224 (5.204002% of salaries subject to CalSTRS).

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

A. State Teachers' Retirement System (CalSTRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-14 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2014, 2013, and 2012, were \$136,852, \$116,109, and \$90,718, respectively, and equal 100% of the required contributions for each year.

B. California Public Employees' Retirement System (CalPERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-14 was 11.442%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2014, 2013, and 2012, were \$86,997, \$106,529, and \$106,309, respectively, and equal 100% of the required contributions for each year.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

C. Social Security

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

NOTE 16 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013-14, the District participated in one joint powers authority (JPA) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage for each of the past three years.

NOTE 17 - JOINT VENTURES

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

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

The JPAs are audited on an annual basis. Financial information can be obtained by contacting each JPA's management.

NOTE 18 - CHARTER SCHOOL

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 19 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

B. Litigation

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

C. Child Nutrition Program Administrative Review

During fiscal year 2013-14, the California Department of Education's Child Nutrition Division performed an Administrative Review on the District's national school lunch, school breakfast and afterschool snack programs for the month of February 2014. The state's review resulted in a revocation of the Provision 2 status for the District's school when supporting eligibility documentation from the 2010 base year could not be located. The District collected new free and reduced price meal applications during fiscal year 2013-14 and was instructed to begin claiming reimbursements based on meals served using actual eligibility classifications. The state reviewed the District's new meal counting procedures for May 2014 with no exceptions noted.

The state's review comments noted that total meal counts, by category, would be adjusted by reviewers by multiplying the counts by a normalization factor based on nationwide historical daily participation data and the resulting percentages would be applied to reimbursement claims dating back to the beginning of the 2013-14 school year. This matter has been turned over to the California Department of Education's Program Integrity Unit for final resolution. These financial statements do not contain any adjustments related to this noncompliance, since the outcome of the CDE's review cannot reasonably be determined at this time.

NOTE 20 - RESTATEMENT OF NET POSITION

In accordance with the provisions of GASB 65, the beginning net position balance has been restated to reflect the write-off of unamortized debt issuance costs. The effect of the restatement on the current year financial statements is as follows:

	<u>Statement of Activities</u>
Net Position - July 1, 2013 (as originally stated)	\$ 7,793,428
Overstatement of Unamortized Debt Issuance Costs	<u>(168,345)</u>
Net Position - July 1, 2013 (as restated)	<u>\$ 7,625,083</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 21 - SUBSEQUENT EVENTS

The District's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through December 12, 2014, 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 described below.

Charter Renewal

On July 8, 2014, the District renewed the charter school agreement with Willow Creek Academy Charter School for an additional five years for the period of July 1, 2014 through June 30, 2019.

SUPPLEMENTARY INFORMATION SECTION

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
LCFF Sources:				
State Apportionment / Transfers	\$ 185,771	\$ 903,398	\$ 1,046,474	\$ 143,076
Local Sources	3,011,256	3,158,718	3,181,757	23,039
Total LCFF Sources	3,197,027	4,062,116	4,228,231	166,115
Federal Revenue	326,356	318,541	314,535	(4,006)
Other State Revenue	900,344	308,373	278,793	(29,580)
Other Local Revenue	1,073,374	1,073,269	975,972	(97,297)
Total Revenues	5,497,101	5,762,299	5,797,531	35,232
<u>Expenditures</u>				
Certificated Salaries	1,626,872	1,809,504	1,766,212	43,292
Classified Salaries	824,394	795,764	766,889	28,875
Employee Benefits	726,420	755,709	684,806	70,903
Books and Supplies	163,935	321,521	216,624	104,897
Services and Other				
Operating Expenditures	1,591,276	1,572,540	1,196,895	375,645
Capital Outlay				
Debt Service:				
Principal Retirement	16,516	26,417	27,084	(667)
Interest and Fiscal Charges	2,884	3,169	2,501	668
Other Expenditures	716,278	590,278	612,529	(22,251)
Total Expenditures	5,668,575	5,874,902	5,273,540	601,362
Excess of Revenues Over (Under) Expenditures	(171,474)	(112,603)	523,991	636,594
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In			6	6
Operating Transfers Out	(283,600)	(311,759)	(275,938)	35,821
Total Other Financing Sources (Uses)	(283,600)	(311,759)	(275,932)	35,827
Net Change in Fund Balances	(455,074)	(424,362)	248,059	\$ 672,421
Fund Balances - July 1, 2013	1,755,665	1,755,665	1,755,665	
Fund Balances - June 30, 2014	\$ 1,300,591	\$ 1,331,303	\$ 2,003,724	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**SAUSALITO MARIN CITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Corporation Debt Service</u>
<u>Assets</u>			
Deposits and Investments	\$ 90,959	\$ 7,828	\$ 22
Receivables		17,040	
Total Assets	<u>\$ 90,959</u>	<u>\$ 24,868</u>	<u>\$ 22</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 15,801	\$ 1,064	
Total Liabilities	<u>15,801</u>	<u>1,064</u>	
Fund Balances:			
Nonspendable		40	
Restricted		23,764	\$ 22
Assigned	75,158		
Total Fund Balances	<u>75,158</u>	<u>23,804</u>	<u>22</u>
Total Liabilities and Fund Balances	<u>\$ 90,959</u>	<u>\$ 24,868</u>	<u>\$ 22</u>

<u>Building</u>	<u>County School Facilities</u>	<u>Corporation Acquisition</u>	<u>Total Non-Major Governmental Funds</u>
\$ 246	\$ 591	\$ 22	\$ 99,668
			17,040
<u>\$ 246</u>	<u>\$ 591</u>	<u>\$ 22</u>	<u>\$ 116,708</u>
			\$ 16,865
			<u>16,865</u>
\$ 246	\$ 591	\$ 22	40
			24,645
			75,158
<u>246</u>	<u>591</u>	<u>22</u>	<u>99,843</u>
<u>\$ 246</u>	<u>\$ 591</u>	<u>\$ 22</u>	<u>\$ 116,708</u>

**SAUSALITO MARIN CITY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Corporation Debt Service</u>
<u>Revenues</u>			
LCFF Sources:			
State Apportionment / Transfers	\$ 4,829		
Federal Revenue		\$ 101,455	
State Revenue		6,973	
Local Revenue	240	34	\$ 33
Total Revenues	<u>5,069</u>	<u>108,462</u>	<u>33</u>
<u>Expenditures</u>			
Food Services		133,455	
Plant Services	13,520		
Facilities Acquisition and Construction	232,876		
Debt Service:			
Principal Retirement			380,000
Interest and Issuance Costs			143,935
Total Expenditures	<u>246,396</u>	<u>133,455</u>	<u>523,935</u>
Excess of Revenues Over (Under) Expenditures	<u>(241,327)</u>	<u>(24,993)</u>	<u>(523,902)</u>
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	45,171	40,000	195,671
Operating Transfers Out			(6)
Total Other Financing Sources (Uses)	<u>45,171</u>	<u>40,000</u>	<u>195,665</u>
Net Change in Fund Balances	(196,156)	15,007	(328,237)
Fund Balances - July 1, 2013	<u>271,314</u>	<u>8,797</u>	<u>328,259</u>
Fund Balances - June 30, 2014	<u>\$ 75,158</u>	<u>\$ 23,804</u>	<u>\$ 22</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Building</u>	<u>County School Facilities</u>	<u>Corporation Acquisition</u>	<u>Total Non-Major Governmental Funds</u>
			\$ 4,829
			101,455
			6,973
	\$ 1	\$ 748	1,056
	<u>1</u>	<u>748</u>	<u>114,313</u>
			133,455
			13,520
			232,876
			380,000
			143,935
	<u>0</u>	<u>0</u>	<u>903,786</u>
	<u>1</u>	<u>748</u>	<u>(789,473)</u>
			280,842
		(2,452,871)	(2,452,877)
	<u>0</u>	<u>(2,452,871)</u>	<u>(2,172,035)</u>
\$ 0	1	(2,452,123)	(2,961,508)
<u>246</u>	<u>590</u>	<u>2,452,145</u>	<u>3,061,351</u>
<u>\$ 246</u>	<u>\$ 591</u>	<u>\$ 22</u>	<u>\$ 99,843</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

SEE NOTES TO SUPPLEMENTARY INFORMATION

**SAUSALITO MARIN CITY SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

ORGANIZATION

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

BOARD OF TRUSTEES

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

ADMINISTRATION

Steve Van Zant
Superintendent

Paula F. Rigney
Business Manager

SAUSALITO MARIN CITY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	P-2 Report			
	TK / K - 3	4 - 6	7 - 8	Total
Regular ADA	68.10	45.39	25.38	138.87
Special Education - Nonpublic	0.89	2.72		3.61
Totals	<u>68.99</u>	<u>48.11</u>	<u>25.38</u>	<u>142.48</u>

	Annual Report			
	TK / K - 3	4 - 6	7 - 8	Total
Regular ADA	69.66	45.41	26.59	141.66
Special Education - Nonpublic	0.90	2.77		3.67
Totals	<u>70.56</u>	<u>48.18</u>	<u>26.59</u>	<u>145.33</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Grade Level</u>	<u>Minutes Required</u>	<u>Adjusted Minutes Required</u>	<u>2013-14 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	36,000	35,000	51,270	180	N/A	In Compliance
Grade 1	50,400	49,000	60,930	180	N/A	In Compliance
Grade 2	50,400	49,000	60,930	180	N/A	In Compliance
Grade 3	50,400	49,000	60,930	180	N/A	In Compliance
Grade 4	54,000	52,500	60,930	180	N/A	In Compliance
Grade 5	54,000	52,500	60,930	180	N/A	In Compliance
Grade 6	54,000	52,500	60,405	180	N/A	In Compliance
Grade 7	54,000	52,500	60,405	180	N/A	In Compliance
Grade 8	54,000	52,500	60,405	180	N/A	In Compliance

SAUSALITO MARIN CITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
U.S. Department of Agriculture:			
Passed through California Department of Education (CDE):			
<i>Child Nutrition Cluster:</i>			
National School Lunch	10.555	13524	\$ 76,401
School Needy Breakfast	10.553	13526	25,054
U.S. Department of Education:			
Passed through CDE:			
NCLB: Title I - Basic Grant Low-Income & Neglected	84.010	14329	195,570
NCLB: Title II - Improving Teacher Quality	84.367	14341	23,404
NCLB: Title III - Immigrant Education Program	84.365	15146	747
NCLB: Title III - Limited English Proficient	84.365	14346	1,680
Passed through Marin County SELPA:			
<i>Special Education Cluster:</i>			
IDEA Part B Basic Local Assistance	84.027	13379	82,052
IDEA Part B Mental Health Allocation Plan	84.027A	14468	11,082
Total			<u>\$ 415,990</u>

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General Fund	Special Revenue - Special Reserve Fund	Capital Projects - Special Reserve Fund
June 30, 2014 Annual Financial and Budget Report Fund Balances	\$ 1,831,220	\$ 172,504	\$ 188,484
Adjustments Increasing/(Decreasing) Fund Balances:			
Understatement of Capital Outlay Expenditures			(41,363)
Reclassifications Increasing/(Decreasing) Fund Balances:			
Reclassification of Fund Balances	172,504	(172,504)	
June 30, 2014 Audited Financial Statements Fund Balances	<u>\$ 2,003,724</u>	<u>\$ 0</u>	<u>\$ 147,121</u>

Auditor's Comments

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

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2014.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	GENERAL FUND			
	(Budget)* 2014-15**	2013-14	2012-13	2011-12
Revenues and Other Financial Sources	\$ 5,476,427	\$ 5,797,537	\$ 6,003,777	\$ 5,869,977
Expenditures	5,309,796	5,273,540	5,644,405	5,505,000
Other Uses and Transfers Out	362,655	275,938	324,109	295,016
Total Outgo	5,672,451	5,549,478	5,968,514	5,800,016
Change in Fund Balance	(196,024)	248,059	35,263	69,961
Ending Fund Balance	\$ 1,807,700	\$ 2,003,724	\$ 1,755,665	\$ 1,720,402
Available Reserves	\$ 1,472,204	\$ 1,840,732	\$ 1,555,347	\$ 1,364,459
Reserve for Economic Uncertainties ***	\$ 567,245	\$ 555,431	\$ 588,841	\$ 577,517
Available Reserves as a Percentage of Total Outgo	26.0%	33.2%	26.1%	23.5%
Average Daily Attendance at P-2	134	142	117	128
Total Long-Term Liabilities	\$ 19,837,165	\$ 20,360,491	\$ 20,819,832	\$ 17,680,436

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

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

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

The fund balance of the General Fund increased \$283,322 (16.5%) over the past two years. The fiscal year 2014-15 budget projects a decrease of \$196,024 (9.8%). For a district this size, the state recommends available reserves of at least 5% of total general fund expenditures, transfers out, and other uses (total outgo).

The District produced operating surpluses in each of the past three years.

Average daily attendance (ADA) increased 14 ADA (10.9%) over the past two years. The District anticipates a decrease of 8 ADA during fiscal year 2014-15.

Total long-term liabilities increased \$2,680,055 over the past two years due primarily to the issuance of \$3,675,000 of certificates of participation in fiscal year 2012-13.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Charter School

Willow Creek Academy

District Audit

Excluded

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

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

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

B. Combining Statements

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

C. Schedule of Funding Progress

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

D. Schedule of Average Daily Attendance

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

E. Schedule of Instructional Time

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

F. Schedule of Expenditures of Federal Awards

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

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

This schedule provides the information necessary to reconcile the fund balances of all funds, as reported in the Annual Financial and Budget Report to the audited financial statements.

H. 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.

I. Schedule of Charter Schools

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

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Sausalito Marin City School District
Sausalito, California

Report on State Compliance

We have audited Sausalito Marin City School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14* for the fiscal year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, prescribed in the California Code of Regulations, Title 5, section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Sausalito Marin City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Sausalito Marin City School District's compliance with those requirements.

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

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	Not Applicable

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time for School Districts	10	Yes
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Contemporaneous Records of Attendance For Charter Schools	8	Not Applicable
Mode of Instruction for Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/ Independent Study for Charter Schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction for Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based For Charter Schools	4	Not Applicable
Charter School Facility Grant Program	1	Not Applicable

We did not perform procedures for the independent study program because the ADA claimed by the District does not exceed the threshold that requires testing.

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 for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14* and which are described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Findings 14-3, 14-4, 14-5 and 14-6**. Our opinion on state compliance on the programs previously identified is not modified with respect to these matters.

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

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. Accordingly, this report is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 12, 2014

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

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

Board of Trustees
Sausalito Marin City School District
Sausalito, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sausalito Marin City School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 12, 2014.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness, as noted in **Finding 14-1**.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency, as noted in **Finding 14-2**.

Compliance and Other Matters

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

District's Response to Findings

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

Purpose of this Report

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 12, 2014

FINDINGS AND QUESTIONED COSTS SECTION

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

State Awards

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

14 - 1 / 30000

MATERIAL WEAKNESS

FINANCIAL REPORTING - UNAUDITED ACTUALS

<u>Criteria:</u>	Each year, school districts are responsible for preparing complete and accurate financial information, which is reported to the California Department of Education in the form of the "Unaudited Actuals" Financial Report. In addition, each year governing boards certify that the report is prepared in accordance with Education Code Section 41010, and approve the report as the official submission of financial information that will be used as the basis for the district's annual financial statements. Accordingly, districts should have an effective system of internal control over financial reporting that will ensure that the information contained in the report is free of material misstatement.
<u>Condition:</u>	Capital outlay costs incurred during fiscal year 2013-14, but not paid until fiscal year 2014-15, were not included in accounts payable at June 30, 2014. As a result, \$41,363 of capital outlay costs was recognized as expenditures in the incorrect fiscal year.
<u>Questioned Costs:</u>	None.
<u>Context:</u>	The adjustment made to ensure that the financial statements are fairly stated is presented on page 61 of this report.
<u>Effect:</u>	The "Unaudited Actuals" approved by the Governing Board contained a misstatement that was material to the District's annual financial statements.
<u>Cause:</u>	The District did not accrue the internally held construction retention, earned as of June 30, 2014, in accounts payable during the year-end closing process.
<u>Recommendation:</u>	The District should establish appropriate procedures to ensure that all material expenditures are recorded in the correct fiscal year.
<u>District Response:</u>	The District agrees and will start the year-end process earlier in the school year to ensure that errors are minimized and that there is more time to double check everything prior to finalizing the unaudited actuals

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

14 - 2 / 30000

SIGNIFICANT DEFICIENCY

CAFETERIA FUND ENCROACHMENT

Criteria: The Cafeteria Fund should attempt to operate as close to break-even as possible to minimize the encroachment on the General Fund.

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

	<u>Budget</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>
<u>2014-15</u>				
Cafeteria Fund				
Operating Deficits	\$ 59,435	\$ 24,993	\$ 74,399	\$ 60,908
General Fund				
Contributions	\$ 59,435	\$ 40,000	\$ 83,196	\$ 60,159

Questioned Cost: None.

Context: The Cafeteria Fund has incurred annual operating deficits totaling \$160,300 over the past three years. The District may also be required to repay funds to the California Department of Education as a result of findings noted in their Child Nutrition Program Administrative Review performed during fiscal year 2013-14 (Note 19C). In addition, the District has \$3,675,000 of outstanding certificates of participation that will have to be financed by the General Fund, which will further deplete the District's reserves.

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

Cause: The District made significant changes to cafeteria operations in fiscal year 2013-14 that appear to have resulted in reduced expenditures. However, it is uncertain whether the District can continue to keep costs down and whether the support from Conscious Kitchen, a non-profit foundation, will continue in future years.

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

CAFETERIA FUND ENCROACHMENT (CONCLUDED)

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

14 - 3 / 70000

SIGNIFICANT DEFICIENCY

INSTRUCTIONAL MATERIALS FUNDING REALIGNMENT PROGRAM

Criteria: In accordance with Education Code Section 60119, a governing board shall hold a public hearing, on or before the end of the eighth week of school, and shall make a determination, through a resolution, as to whether each pupil in each school in the district has sufficient textbooks or instructional materials, or both, that are aligned to the content standards adopted pursuant to Section 60605 in each of the following subjects, as appropriate, that are consistent with the content and cycles of the curriculum framework adopted by the state board in mathematics, science, history-social science, and English/language arts, including the English language development component of an adopted program.

Condition: The required public hearing was not held during the first eight weeks of school.

Questioned Costs: None. This noncompliance has no fiscal impact beginning in fiscal year 2013-14.

Context: The District held a public hearing and approved a compliant resolution during the ninth week of school.

Effect: The District did not comply with the requirements of Education Code Section 60119.

Cause: The District did not have appropriate procedures in place to ensure that the public hearing was held on or before the end of the eighth week of school.

Recommendation: The District should establish procedures to ensure that the required public hearing is held within the first eight weeks of school in accordance with Education Code Section 60119.

District Response: The District underwent some personnel changes and shifting in responsibility. The new individual has been instructed and provided the Education Code Section 60119, therefore the public hearing will be held within the first eight weeks of school.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

14 - 4 / 72000

SIGNIFICANT DEFICIENCY

SCHOOL ACCOUNTABILITY REPORT CARD

- Criteria:** On November 8, 1988, California voters passed Proposition 98, also known as *The Classroom Instructional Improvement and Accountability Act*, which provides California public schools with a stable source of funding. In return, all public schools in California are required to prepare school accountability report cards (SARC) on an annual basis and disseminate them to the public.
- Condition:** The District did not publish complete school accountability report cards for Bayside Elementary and Martin Luther King Jr. Academy in fiscal year 2013-14.
- Questioned Costs:** None. This noncompliance has no fiscal impact.
- Context:** There were no complaints noted on the quarterly report of summarized complaint data in fiscal year 2013-14. The District completed OPSC's Facility Inspection Tool for the Bayside Elementary / Martin Luther King Jr. Academy on September 13, 2013 (Grades K-8 were consolidated onto a single site beginning in fiscal year 2013-14). The District approved a resolution regarding the sufficiency of textbooks and instructional materials for fiscal year 2013-14.
- Effect:** The District did not comply with the requirements of Proposition 98 and therefore did not comply with all the additional requirements added since the passage of Proposition 98.
- Cause:** The District did publish school accountability report cards in fiscal year 2013-14. However, the District did not have procedures in place to ensure that the supplemental schedules, which disclosed the details regarding school facilities, textbooks, teacher vacancies and misassignments, were published.
- Recommendation:** The District should establish procedures to ensure that complete school accountability report cards are prepared for all school sites on an annual basis and disseminated to the public in accordance with Proposition 98.
- District Response:** The District underwent some personnel changes and shifting in responsibility. The new individual has been instructed and provided the instruction and training, therefore the SARC will have all of the corresponding links.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

14 - 5 / 40000

SIGNIFICANT DEFICIENCY

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM

- Criteria: 1-2. In accordance with Education Code Section 8483 (a)(2), it is the intent of the Legislature that elementary school pupils attend the entire program every day that the program operates, with the exception of absences allowed under each district's early release policy. In addition, Education Code Section 8483 (a)(3), requires districts to give enrollment priority to students who are able to attend the program daily. Accordingly, districts must have a system in place to classify student absences, as either allowable or unallowable in accordance with the district's early release policy, and must be able to utilize such data to ensure that the students, who are able to attend the program the most, are given enrollment priority over those students who are unable to attend.
- Conditions: 1-2. The District contracted with the Boys & Girls Clubs of Marin and Southern Sonoma Counties, to fulfill the requirements of providing afterschool services at the Bayside Elementary / Martin Luther King Jr. Academy in fiscal year 2013-14. The contractor developed appropriate records, for classifying student absences as either allowable or unallowable in accordance with the District's early release policy; however, the contractor did not establish appropriate procedures to ensure that the attendance sign in/out sheets were being completed in accordance with the intent of the form. As a result, we noted numerous instances where students were released early from the program and the designated space provided for the early release reason code was left blank.
- Questioned Costs: 1-2. None. The District's failure to use early release codes as a means of prioritizing student enrollment in the program does not affect program attendance, and has no fiscal impact on District's funding. The District does not maintain a waiting list since all students interested in attending the program are allowed to attend.
- Context:
1. Of the 419 days of attendance tested at Bayside Elementary 147 of the days did not properly include a valid early release code to identify the reason for the early release.
 2. Of the 364 days of attendance tested at Martin Luther King Jr. Academy 94 of the days did not properly include a valid early release code to identify the reason for the early release.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (CONCLUDED)

Effects: 1-2. The District does not appear to have appropriate procedures in place to ensure compliance with Education Code Sections 8483 (a)(2) and 8483 (a)(3).

Causes: 1-2. The District has not established appropriate procedures to review the attendance records that are prepared and maintained by the contractor.

Recommendation: 1-2. The District should establish appropriate procedures to review the attendance records that are prepared and maintained by the contractor, to ensure that the program is operated in accordance with state laws.

District Response: The District agrees and will start meeting the After School Providers quarterly to review the attendance sheets to ensure that the program is operated in accordance with state laws.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

14 - 6 / 40000

SIGNIFICANT DEFICIENCY

UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS

Criteria: 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.

Condition: The District did not have documentation to support the free or reduced price meal eligibility status assigned to 38 students on the CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" report, who had a "No" under the "Direct Certification" column, and who did not possess any other status designation that allowed the pupils to be reported as part of the unduplicated pupil count.

Questioned Costs: We tested 100% of the population where the error was discovered. 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	Total Unduplicated Eligible Free/Reduced Meal Counts	EL Funding Eligible	Unduplicated FRPM/EL Eligible Count
Bayside Martin Luther King Jr.	145	128	32	131
NPS School Group	3	1	0	1
Certified Pupil Counts	<u>148</u>	<u>129</u>	<u>32</u>	<u>132</u>
Bayside Martin Luther King Jr.		(38)		(38)
NPS School Group		0		0
Audit Adjustments	<u>0</u>	<u>(38)</u>	<u>0</u>	<u>(38)</u>
Bayside Martin Luther King Jr.	145	90	32	93
NPS School Group	3	1	0	1
Audited Pupil Counts	<u>148</u>	<u>91</u>	<u>32</u>	<u>94</u>

The District received funding under the Basic Aid provision and did not receive either supplemental or concentration grant funding in fiscal year 2013-14, therefore there is no fiscal impact.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (CONCLUDED)

Context: The District participated in the National School Lunch and School Breakfast programs as a Provision 2 school at the beginning of fiscal year 2013-14.

Effect: The District overstated the unduplicated pupil counts reported to the California Department of Education for fiscal year 2013-14.

Cause: The federal regulations for Provision 2 reduces free and reduced priced meal (FRPM) application burdens to once every four years. Provision 2 requires schools to make eligibility determinations during the first year, or base year, and no new eligibility determinations are made during the next three years. Fiscal 2013-14 was not a base year for the District and therefore, no FRPM applications were collected. The District was not aware that they were required to collect other documentation, such as an alternative income form, to support the free or reduced price meal eligibility status for students reported as eligible in CALPADS.

Recommendation: The District should establish procedures to ensure that counts reported on the CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" report are supported by appropriate documentation.

District Response: The District agrees and therefore started collecting lunch applications for students that are not direct certified, as of February 2014. In future years, the District will ensure that all students reported as eligible for FRPM on CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" will have appropriate supporting documentation such as a free and reduced priced meal application or alternative income form.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
13 - 1 / 30000		
<u>FINANCIAL REPORTING - UNAUDITED ACTUALS</u>		
The District should add procedures to their comprehensive financial reporting checklist to ensure all relevant areas are covered during the year-end closing process.	Partially Implemented	Comment Repeated (Finding 14-1)
13 - 2 / 30000		
<u>CAFETERIA FUND ENCROACHMENT</u>		
The District should continue to investigate program changes that will allow the Cafeteria Fund to operate closer to a break-even basis and become less dependent on annual General Fund contributions.	Partially Implemented	Comment Repeated (Finding 14-2)
13 - 3 / 30000		
<u>TRANSACTION AUTHORIZATION</u>		
The supplemental funding provided to the Charter School should be approved in a memorandum of understanding between the District and Charter School so the Business Manager has documented authorization to support the transfers of supplemental funding to the Charter School.	Not Implemented	Comment Not Repeated District implemented in fiscal year 2014-15.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARDS</u>		
13 - 4 / 40000		
<u>INSTRUCTIONAL MINUTES CALCULATIONS</u>		
The District should enforce procedures that require each site administrator to compute the annual instructional minutes at the beginning of each school year, and submit their calculation, along with the related school calendar and bell schedules, to the business office for review. In addition, site administrators should be notified that changes may not be made to bell schedules without obtaining prior approval from the business office. If revisions are made to site bell schedules, site administrators should recalculate instructional minutes and submit the revised calculations to the business office for review.	Implemented	
13 - 5 / 10000		
<u>ATTENDANCE</u>		
The District should establish procedures to ensure that site attendance clerks review monthly attendance reports to ensure that the average daily attendance for SDC pupils is properly reported in Program S instead of the regular education program.	Implemented	
The District should establish procedures to ensure that attendance reports are independently reviewed for accuracy prior to submitting the attendance reports to the State.	Implemented	
The District should establish procedures and documentation requirements to ensure that the use of "all day" absence codes and the verification of partial day versus full day absences is properly being performed and documented by site personnel.	Implemented	

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARDS (CONCLUDED)</u>		
13 - 5 / 10000		
<u>ATTENDANCE (CONCLUDED)</u>		
The District should revise the P-2 and Annual attendance reports to reflect the audited numbers.	Implemented	
13 - 6 / 40000		
<u>CLASS SIZE REDUCTION</u>		
The District should develop procedures to ensure that the average daily enrollment for each participating class claimed for funding is calculated in accordance with Education Code Section 52124.	Reporting Not Applicable in 2013-14	Comment Not Repeated
In addition, the District should file a revised Form J-7CSR for fiscal year 2012-13.	Implemented	
13 - 7 / 72000		
<u>SCHOOL ACCOUNTABILITY REPORT CARD</u>		
The District should establish procedures to ensure that the required school accountability report cards are prepared for all school sites on an annual basis and disseminated to the public in accordance with Proposition 98. In addition, the District should contact the California Department of Education to determine if the District needs to take further action as a result of this finding.	Partially Implemented	Comment Repeated (Finding 14-4)

