

SAUSALITO MARIN CITY SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2018

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

SAUSALITO MARIN CITY SCHOOL DISTRICT
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JUNE 30, 2018

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Sausalito Marin City School District
Sausalito, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sausalito Marin City School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Sausalito Marin City School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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State Board of Accountancy*

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sausalito Marin City School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 9 to the financial statements, in 2018 Sausalito Marin City School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of changes in total OPEB liability and related ratios, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sausalito Marin City School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018 on our consideration of Sausalito Marin City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sausalito Marin City School District's 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.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
December 14, 2018

SAUSALITO MARIN CITY SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

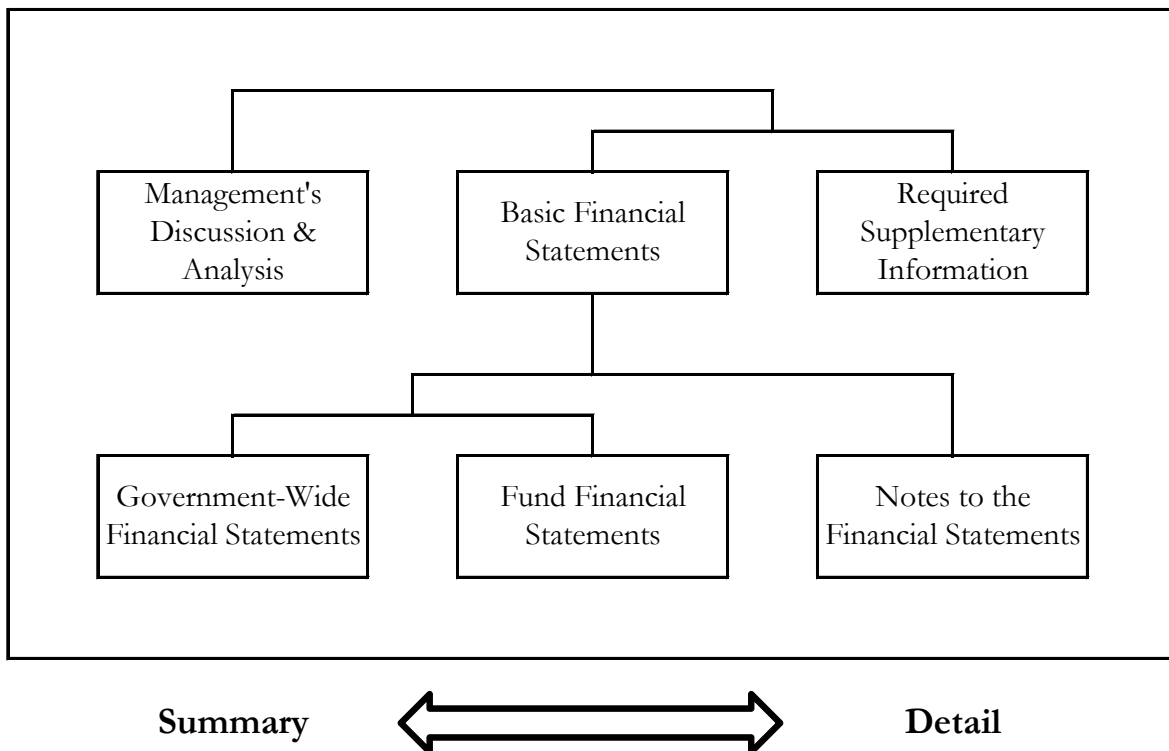
Our discussion and analysis of Sausalito Marin City School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was \$1,263,661 at June 30, 2018. This was a decrease of \$1,045,315 from the prior year after restatement.
- Overall revenues were \$6,746,630 which were exceeded by expenses of \$7,791,945.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

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

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity’s overall financial position.
- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs.
 - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

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

Government-Wide Statements

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

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

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

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's net position was \$1,263,661 at June 30, 2018, as reflected in the table below. Of this amount, \$(3,091,713) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities		
	2018	2017	Net Change
ASSETS			
Current and other assets	\$ 4,202,771	\$ 5,718,390	\$ (1,515,619)
Capital assets	20,719,430	21,497,938	(778,508)
Total Assets	24,922,201	27,216,328	(2,294,127)
DEFERRED OUTFLOWS OF RESOURCES	2,411,365	2,059,133	352,232
LIABILITIES			
Current liabilities	1,378,405	1,392,862	(14,457)
Long-term liabilities	23,831,456	24,479,137	(647,681)
Total Liabilities	25,209,861	25,871,999	(662,138)
DEFERRED INFLOWS OF RESOURCES	860,044	773,507	86,537
NET POSITION			
Net investment in capital assets	2,381,761	1,948,012	433,749
Restricted	1,973,613	3,165,804	(1,192,191)
Unrestricted	(3,091,713)	(2,483,861)	(607,852)
Total Net Position	\$ 1,263,661	\$ 2,629,955	\$ (1,366,294)

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

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

	Governmental Activities		
	2018	2017	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 1,303	\$ 679	\$ 624
Operating grants and contributions	1,105,169	1,059,642	45,527
General revenues			
Property taxes	4,188,187	3,875,745	312,442
Unrestricted federal and state aid	1,066,220	1,341,529	(275,309)
Other	385,751	1,773,872	(1,388,121)
Total Revenues	6,746,630	8,051,467	(1,304,837)
EXPENSES			
Instruction	3,437,498	3,272,346	165,152
Instruction-related services	1,040,825	793,859	246,966
Pupil services	534,460	480,915	53,545
General administration	703,062	982,302	(279,240)
Plant services	690,974	776,384	(85,410)
Ancillary and community services	-	5,000	(5,000)
Debt service	730,702	734,853	(4,151)
Other outgo	654,424	736,219	(81,795)
Total Expenses	7,791,945	7,781,878	10,067
Change in net position	(1,045,315)	269,589	(1,314,904)
Net Position - Beginning, as Restated*	2,308,976	2,360,366	(51,390)
Net Position - Ending	\$ 1,263,661	\$ 2,629,955	\$ (1,366,294)

** Beginning Net Position was restated for the 2018 year only*

The cost of all our governmental activities this year was \$7,791,945 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only \$4,188,187 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

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

	Net Cost of Services	
	2018	2017
Instruction	\$ 2,780,539	\$ 2,667,350
Instruction-related services	941,155	730,943
Pupil services	366,675	261,085
General administration	673,163	958,788
Plant services	690,974	776,384
Ancillary and community services	-	5,000
Debt service	730,702	734,853
Transfers to other agencies	502,265	587,154
Total Expenses	\$ 6,685,473	\$ 6,721,557

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$3,427,330, which is less than last year's ending fund balance of \$4,861,746. The District's General Fund had \$220,847 less in operating revenues than expenditures for the year ended June 30, 2018. The District's County School Facilities Fund had \$3,420 more in operating revenues than expenditures for the year ended June 30, 2018. The District's Special Reserve Fund for Capital Outlay Projects had \$182,218 less in operating revenues than expenditures for the year ended June 30, 2018. The District's Bond Interest and Redemption Fund \$39,567 more in operating revenues than expenditures for the year ended June 30, 2018. The District's Debt Service Fund had \$918,182 less in operating revenues than expenditures for the year ended June 30, 2018.

CURRENT YEAR BUDGET 2017-2018

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

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-2018 the District had invested \$20,719,430 in capital assets, net of accumulated depreciation.

	Governmental Activities		
	2018	2017	Net Change
CAPITAL ASSETS			
Land	\$ 948,870	\$ 948,870	\$ -
Construction in progress	-	229,922	(229,922)
Land improvements	2,270,855	2,270,855	-
Buildings & improvements	27,379,948	26,931,687	448,261
Furniture & equipment	601,861	601,861	-
Accumulated depreciation	(10,482,104)	(9,485,257)	(996,847)
Total Capital Assets	\$ 20,719,430	\$ 21,497,938	\$ (778,508)

Long-Term Debt

At year-end, the District had \$23,831,456 in long-term debt, a decrease of 2.65% from last year – as shown in the table below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities		
	2018	2017	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 16,236,201	\$ 16,401,199	\$ (164,998)
Total certificates of participation	3,295,000	3,390,000	(95,000)
Capital leases	-	1,000,000	(1,000,000)
Early retirement incentive	139,767	183,339	(43,572)
Compensated absences	13,787	11,031	2,756
Total OPEB liability*	367,336	53,991	313,345
Net pension liability	4,109,410	3,743,147	366,263
Less: current portion of long-term debt	(330,045)	(303,570)	(26,475)
Total Long-term Liabilities	\$ 23,831,456	\$ 24,479,137	\$ (647,681)

**Total OPEB liability for 2017 was restated in order to record the District's total OPEB liability in accordance with GASB Statement No. 75 which supersedes GASB Statement No. 45 for the year ended June 30, 2018.*

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

The State's economy continues to be strong but a new governor could change the fiscal policy for the funding of public education, within the boundaries of Proposition 98. Past fiscal allocations had included higher than expected funding but on-going funding may not be as strong. The UCLA Anderson Forecast (June 2018) noted that the "era of ultra-low interest rates has passed and the economy is at full employment," which creates difficulty sustaining continued growth at the rate recently experienced. And, according to the California Legislative Analyst's Office, there are concerns about a possible mild recession.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The 2018-19 adopted State Budget fully funded the LCFF funding gap two years ahead of schedule.

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

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2018. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

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

All of these factors were considered in preparing the District's budget for the 2018-19 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Cash and investments	\$ 3,725,625
Accounts receivable	458,100
Prepaid expenses	19,046
Capital assets, not depreciated	948,870
Capital assets, net of accumulated depreciation	19,770,560
Total Assets	24,922,201
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	1,217,833
Deferred amount on refunding	1,193,532
Total Deferred Outflows of Resources	2,411,365
LIABILITIES	
Accrued liabilities	1,048,360
Long-term liabilities, current portion	330,045
Long-term liabilities, non-current portion	23,831,456
Total Liabilities	25,209,861
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	860,044
Total Deferred Inflows of Resources	860,044
NET POSITION	
Net investment in capital assets	2,381,761
Restricted:	
Capital projects	1,676,515
Debt service	225,726
Educational programs	71,366
All others	6
Unrestricted	(3,091,713)
Total Net Position	\$ 1,263,661

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Function/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Position
GOVERNMENTAL ACTIVITIES				Governmental Activities
Instruction	\$ 3,437,498	\$ -	\$ 656,959	\$ (2,780,539)
Instruction-related services				
Instructional supervision and administration	168,126	-	57,594	(110,532)
Instructional library, media, and technology	44,805	-	825	(43,980)
School site administration	827,894	-	41,251	(786,643)
Pupil services				
Home-to-school transportation	13,374	-	3,014	(10,360)
Food services	221,938	1,303	53,554	(167,081)
All other pupil services	299,148	-	109,914	(189,234)
General administration				
Centralized data processing	73,590	-	-	(73,590)
All other general administration	629,472	-	29,899	(599,573)
Plant services	690,974	-	-	(690,974)
Interest on long-term debt	730,702	-	-	(730,702)
Other outgo	654,424	-	152,159	(502,265)
Total Governmental Activities	\$ 7,791,945	\$ 1,303	\$ 1,105,169	(6,685,473)
General revenues				
Taxes and subventions				
Property taxes, levied for general purposes				3,443,695
Property taxes, levied for debt service				744,492
Federal and state aid not restricted for specific purposes				1,066,220
Interest and investment earnings				40,165
Miscellaneous				345,586
Subtotal, General Revenue				5,640,158
CHANGE IN NET POSITION				(1,045,315)
Net Position - Beginning, as Restated				2,308,976
Net Position - Ending				\$ 1,263,661

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS							
Cash and investments	\$ 1,431,319	\$ 363,080	\$ 1,400,457	\$ 497,400	\$ 1,220	\$ 32,149	\$ 3,725,625
Accounts receivable	445,754	-	-	-	-	12,346	458,100
Due from other funds	162,056	-	51,342	-	-	-	213,398
Prepaid expenditures	19,046	-	-	-	-	-	19,046
Total Assets	\$ 2,058,175	\$ 363,080	\$ 1,451,799	\$ 497,400	\$ 1,220	\$ 44,495	\$ 4,416,169
LIABILITIES							
Accrued liabilities	\$ 768,173	\$ -	\$ -	\$ -	\$ -	\$ 7,268	\$ 775,441
Due to other funds	51,342	138,386	-	-	-	23,670	213,398
Total Liabilities	819,515	138,386	-	-	-	30,938	988,839
FUND BALANCES							
Nonspendable	23,546	-	-	-	-	40	23,586
Restricted	71,366	224,694	1,451,799	497,400	1,220	53	2,246,532
Committed	-	-	-	-	-	13,464	13,464
Unassigned	1,143,748	-	-	-	-	-	1,143,748
Total Fund Balances	1,238,660	224,694	1,451,799	497,400	1,220	13,557	3,427,330
Total Liabilities and Fund Balances	\$ 2,058,175	\$ 363,080	\$ 1,451,799	\$ 497,400	\$ 1,220	\$ 44,495	\$ 4,416,169

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balance - Governmental Funds	\$ 3,427,330
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Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets:

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

Capital assets	\$ 31,201,534	
Accumulated depreciation	<u>(10,482,104)</u>	20,719,430

Deferred amount on refunding:

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

1,193,532

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 unmatrued interest owing at the end of the period was:

(272,919)

Long-term liabilities:

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

Total general obligation bonds	\$ 16,236,201	
Total certificates of participation	3,295,000	
Early retirement incentive	139,767	
Compensated absences	13,787	
Total OPEB liability	367,336	
Net pension liability	<u>4,109,410</u>	(24,161,501)

Deferred outflows and inflows of resources relating to pensions:

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

Deferred outflows of resources related to pensions	\$ 1,217,833	
Deferred inflows of resources related to pensions	<u>(860,044)</u>	357,789

Total Net Position - Governmental Activities	<u>\$ 1,263,661</u>
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The accompanying notes are an integral part of these financial statements.

SAUSALITO MARIN CITY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES							
LCFF sources	\$ 4,479,275	\$ -	\$ -	\$ -	\$ -	\$ 25,000	\$ 4,504,275
Federal sources	314,949	-	-	-	-	50,536	365,485
Other state sources	373,868	-	-	3,085	-	3,274	380,227
Other local sources	719,092	3,420	14,414	744,088	81,818	7,784	1,570,616
Total Revenues	5,887,184	3,420	14,414	747,173	81,818	86,594	6,820,603
EXPENDITURES							
Current							
Instruction	2,613,455	-	-	-	-	-	2,613,455
Instruction-related services							
Instructional supervision and administration	165,254	-	-	-	-	-	165,254
Instructional library, media, and technology	44,805	-	-	-	-	-	44,805
School site administration	805,095	-	-	-	-	-	805,095
Pupil services							
Home-to-school transportation	10,797	-	-	-	-	-	10,797
Food services	558	-	-	-	-	211,240	211,798
All other pupil services	322,231	-	-	-	-	-	322,231
General administration							
Centralized data processing	73,590	-	-	-	-	-	73,590
All other general administration	647,863	-	-	-	-	-	647,863
Plant services	553,170	-	-	-	-	31,510	584,680
Facilities acquisition and maintenance	218,339	-	-	-	-	-	218,339
Transfers to other agencies	652,874	-	-	-	-	-	652,874
Debt service							
Principal	-	-	95,000	150,000	1,000,000	-	1,245,000
Interest and other	-	-	101,632	557,606	-	-	659,238
Total Expenditures	6,108,031	-	196,632	707,606	1,000,000	242,750	8,255,019
Excess (Deficiency) of Revenues	(220,847)	3,420	(182,218)	39,567	(918,182)	(156,156)	(1,434,416)
Other Financing Sources (Uses)							
Transfers in	138,386	-	252,399	-	55,766	156,330	602,881
Transfers out	(408,729)	(138,386)	(55,766)	-	-	-	(602,881)
Net Financing Sources (Uses)	(270,343)	(138,386)	196,633	-	55,766	156,330	-
NET CHANGE IN FUND BALANCE	(491,190)	(134,966)	14,415	39,567	(862,416)	174	(1,434,416)
Fund Balance - Beginning	1,729,850	359,660	1,437,384	457,833	863,636	13,383	4,861,746
Fund Balance - Ending	\$ 1,238,660	\$ 224,694	\$ 1,451,799	\$ 497,400	\$ 1,220	\$ 13,557	\$ 3,427,330

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances - Governmental Funds \$ (1,434,416)

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

Capital outlay:

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

Expenditures for capital outlay:	\$	218,339	
Depreciation expense:		(996,847)	(778,508)

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:

1,245,000

Deferred amounts on refunding:

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

(47,741)

Unmatured interest on long-term debt:

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

(40,271)

Compensated absences:

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

(2,756)

(continued on following page)

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2018**

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was:

7,634

Pensions:

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

(52,827)

Other liabilities not normally liquidated with current financial resources:

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

43,572

Amortization of debt issuance premium or discount:

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

14,998

Change in Net Position of Governmental Activities

\$	(1,045,315)
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SAUSALITO MARIN CITY SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	Agency Fund Warrant/Pass- through Fund
ASSETS	
Cash and investments	\$ 98,576
Total Assets	\$ 98,576
LIABILITIES	
Due to student groups	\$ 98,576
Total Liabilities	\$ 98,576

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District is financially accountable for the Sausalito District Financing Corporation (the "Corporation") and therefor the Corporation meets the reporting entity definition. Accordingly, the financial activities of the Corporation have been included in the financial statements of the District.

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

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

Government-Wide Statements (continued)

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

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

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

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

Major Governmental Funds

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

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Major Governmental Funds (continued)

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

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

Non-Major Governmental Funds

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

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

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

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

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

Fiduciary Funds

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Government-Wide and Fiduciary Financial Statements

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

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

Governmental Funds

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

Revenues – Exchange and Non-Exchange Transactions

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Unearned Revenue

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

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

Expenses/Expenditures

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

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

Cash and Cash Equivalents

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

Investments

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

Inventories

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital Assets

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

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

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

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB, and OPEB expense have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 – June 30, 2018

Gains and losses related to changes in total OPEB liability are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

Premiums and Discounts

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

Deferred Outflows/Deferred Inflows of Resources

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Pensions

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

Fund Balance

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

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

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

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Balance (continued)

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

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

F. Interfund Activity

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

G. Estimates

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

H. Budgetary Data

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Property Tax

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

J. New Accounting Pronouncements

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 75 for the year ended June 30, 2018.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This standard's primary objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement is effective for periods beginning after December 15, 2018. The District has not yet determined the impact on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This standard's primary objective is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 85 for the year ended June 30, 2018.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. This standard's primary objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement is effective for periods beginning after December 15, 2019. The District has not determined the impact on the financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard's primary objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The statement is effective for periods beginning after June 15, 2018. The District has not determined the impact on the financial statements.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Activities	Fiduciary Funds
Investment in county treasury	\$ 3,719,839	\$ 98,576
Cash with fiscal agent	1,246	-
Cash in revolving fund	4,540	-
Total cash and investments	\$ 3,725,625	\$ 98,576

B. Policies and Practices

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

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

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$3,818,521 and an amortized book value of \$3,818,415. The average weighted maturity for this pool is 211 days.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2018, the pooled investments in the County Treasury were required to be rated.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance was not exposed to custodial credit risk.

G. Fair Value

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

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

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

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

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

The District's fair value measurements at June 30, 2018 were as follows:

	<u>Uncategorized</u>
Investment in county treasury	\$ 3,818,521
Total fair market value of investments	<u>\$ 3,818,521</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government			
Categorical aid	\$ 11,498	\$ -	\$ 11,498
State Government			
Apportionment	174,990	-	174,990
Categorical aid	126,158	12,346	138,504
Lottery	3,389	-	3,389
Local Government			
Other local sources	129,719	-	129,719
Total	\$ 445,754	\$ 12,346	\$ 458,100

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 948,870	\$ -	\$ -	\$ 948,870
Construction in progress	229,922	-	229,922	-
Total Capital Assets not Being Depreciated	1,178,792	-	229,922	948,870
Capital assets being depreciated				
Land improvements	2,270,855	-	-	2,270,855
Buildings & improvements	26,931,687	448,261	-	27,379,948
Furniture & equipment	601,861	-	-	601,861
Total Capital Assets Being Depreciated	29,804,403	448,261	-	30,252,664
Less Accumulated Depreciation				
Land improvements	1,337,380	73,831	-	1,411,211
Buildings & improvements	7,874,940	876,678	-	8,751,618
Furniture & equipment	272,937	46,338	-	319,275
Total Accumulated Depreciation	9,485,257	996,847	-	10,482,104
Governmental Activities				
Capital Assets, net	\$ 21,497,938	\$ (548,586)	\$ 229,922	\$ 20,719,430

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 4 – CAPITAL ASSETS (continued)

Depreciation Expense for the year ended June 30, 2018 was allocated to governmental activities as follows:

Instruction	\$ 906,652
Instructional supervision and administration	4,782
School site administration	4,245
Home-to-school transportation	2,577
All other general administration	667
Plant services	77,924
Total	\$ 996,847

NOTE 5 – INTERFUND TRANSACTIONS

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

Individual interfund receivable and payable balances at June 30, 2018 were as follows:

	Due From Other Funds		
	General Fund	Special Reserve Fund for Capital Outlay Projects	Total
Due To Other Funds			
General Fund	\$ -	\$ 51,342	\$ 51,342
County School Facilities Fund	138,386	-	138,386
Non-Major Governmental Funds	23,670	-	23,670
Total Due From Other Funds	\$ 162,056	\$ 51,342	\$ 213,398

General Fund due to the Special Reserve Fund for Capital Outlay Projects for the final 2017-18 COP payment.	\$ 51,342
Cafeteria Fund due to the General Fund for a contribution.	23,670
County School Facilities Fund due to the General Fund for repayments of funds used for portable building project.	138,386
Total	\$ 213,398

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 5 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

Interfund transfers for the year ended June 30, 2018 consisted of the following:

Interfund Transfers Out	Interfund Transfers In				
	General Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 252,399	\$ -	\$ 156,330	\$ 408,729
County School Facilities Fund	138,386	-	-	-	138,386
Special Reserve Fund for Capital Outlay Projects	-	-	55,766	-	55,766
Total Interfund Transfers	\$ 138,386	\$ 252,399	\$ 55,766	\$ 156,330	\$ 602,881

General Fund transfer to the Cafeteria Fund for expenditures.	\$ 156,330
General Fund transfer to the Special Reserve Fund for Capital Outlay Projects for construction.	252,399
County School Facilities Fund transfer to the General Fund for expenditures.	138,386
Special Reserve Fund for Capital Outlay Projects transfer to the Debt Service Fund for debt payment.	55,766
Total	\$ 602,881

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2018 consisted of the following:

	Non-Major Governmental			Total Governmental
	General Fund	Funds	District-Wide	Activities
Payroll	\$ 40,960	\$ 4,655	\$ -	\$ 45,615
Vendors payable	688,502	1,006	-	689,508
Unmatured interest	-	-	272,919	272,919
Other liabilities	38,711	1,607	-	40,318
Total	\$ 768,173	\$ 7,268	\$ 272,919	\$ 1,048,360

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 7 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2018 consisted of the following:

	Restated Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018	Balance Due In One Year
Governmental Activities					
General obligation bonds	\$ 16,025,000	\$ -	\$ 150,000	\$ 15,875,000	\$ 175,000
Unamortized premium	376,199	-	14,998	361,201	14,998
Total general obligation bonds	16,401,199	-	164,998	16,236,201	189,998
Certificates of participation	3,390,000	-	95,000	3,295,000	95,000
Capital leases	1,000,000	-	1,000,000	-	-
Early retirement incentive	183,339	-	43,572	139,767	45,047
Compensated absences	11,031	2,756	-	13,787	-
Total OPEB liability	374,970	-	7,634	367,336	-
Net pension liability	3,743,147	366,263	-	4,109,410	-
Total	\$ 25,103,686	\$ 369,019	\$ 1,311,204	\$ 24,161,501	\$ 330,045

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

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2018 amounted to \$13,787. This amount is included as part of long-term liabilities in the government-wide financial statements.

B. Certificates of Participation

On February 12, 2012, the Sausalito School District Financing Corporation issued Certificates of Participation amounting to \$3,675,000 payable in annual installments to provide financing for the MLK Jr. Academy Classroom Construction Project. At June 30, 2018, the principal outstanding was \$3,390,000. The annual requirements to amortize the certificates of participation outstanding at June 30, 2018 were as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 95,000	\$ 99,650	\$ 194,650
2020	95,000	98,510	193,510
2021	100,000	97,180	197,180
2022	100,000	95,480	195,480
2023	100,000	93,480	193,480
2024 - 2028	545,000	427,657	972,657
2029 - 2033	630,000	343,900	973,900
2034 - 2038	750,000	233,350	983,350
2039 - 2043	880,000	94,500	974,500
Total	\$ 3,295,000	\$ 1,583,707	\$ 4,878,707

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 7 – LONG-TERM DEBT (continued)

C. General Obligation Bonds

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

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding			Bonds Outstanding	
					July 01, 2017	Additions	Deductions	June 30, 2018	
2015 Refunding Bonds	1/27/2015	8/1/2042	2.00% - 5.00%	\$ 16,510,000	\$ 16,025,000	\$ -	\$ 150,000	\$ 15,875,000	
					\$ 16,025,000	\$ -	\$ 150,000	\$ 15,875,000	

The annual requirements to amortize these bonds, as of June 30, 2018 are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 175,000	\$ 555,356	\$ 730,356
2020	200,000	551,856	751,856
2021	220,000	545,856	765,856
2022	250,000	539,256	789,256
2023	280,000	529,257	809,257
2024 - 2028	1,915,000	2,447,881	4,362,881
2029 - 2033	3,000,000	1,923,381	4,923,381
2034 - 2038	4,190,000	1,361,812	5,551,812
2039 - 2043	5,645,000	594,000	6,239,000
Total	\$ 15,875,000	\$ 9,048,655	\$ 24,923,655

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

D. Capital Leases

On December 1, 2002 the District entered into a \$1,000,000 lease agreement to finance the remodel of its existing school facilities and update technology systems. The agreement requires the District make fifteen (15) annual payments of \$55,766 to a sinking fund maintained by US Bank. The sum of the annual payments plus interest earned on the sinking fund balance are expected to be sufficient to make a single \$1,000,000 lease payment on December 19, 2017 and pay-off the entire lease balance at that time. The lease does not include a prepayment option. The agreement provides for title to pass upon the expiration of the lease. At June 30, 2018, the lease had been paid off.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 7 – LONG-TERM DEBT (continued)

E. Early Retirement Incentives

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

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

Year Ended June 30,	Principal	Interest	Total
2019	\$ 45,047	\$ 4,731	\$ 49,778
2020	46,572	3,206	49,778
2021	48,148	1,630	49,778
Total	\$ 139,767	\$ 9,567	\$ 149,334

F. Other Postemployment Benefits

The District's restated beginning total OPEB liability was \$374,970 and decreased by \$7,634 during the year ended June 30, 2018. The ending total OPEB liability at June 30, 2018 was \$367,336. See Note 9 for additional information regarding the total OPEB liability.

G. Net Pension Liability

The District's beginning net pension liability was \$3,743,147 and increased by \$366,263 during the year ended June 30, 2018. The ending net pension liability at June 30, 2018 was \$4,109,410. See Note 10 for additional information regarding the net pension liability.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2018:

	General Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable							
Revolving cash	\$ 4,500	\$ -	\$ -	\$ -	\$ -	\$ 40	\$ 4,540
Prepaid expenditures	19,046	-	-	-	-	-	19,046
Total non-spendable	23,546	-	-	-	-	40	23,586
Restricted							
Educational programs	71,366	-	-	-	-	-	71,366
Capital projects	-	224,694	1,451,799	-	-	22	1,676,515
Debt service	-	-	-	497,400	1,220	25	498,645
All others	-	-	-	-	-	6	6
Total restricted	71,366	224,694	1,451,799	497,400	1,220	53	2,246,532
Committed							
Other commitments	-	-	-	-	-	13,464	13,464
Total committed	-	-	-	-	-	13,464	13,464
Unassigned							
Reserve for economic uncertainties	325,839	-	-	-	-	-	325,839
Remaining unassigned	817,909	-	-	-	-	-	817,909
Total unassigned	1,143,748	-	-	-	-	-	1,143,748
Total	\$ 1,238,660	\$ 224,694	\$ 1,451,799	\$ 497,400	\$ 1,220	\$ 13,557	\$ 3,427,330

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

The Sausalito Marin City School District’s defined benefit OPEB plan administered by Sausalito Marin City School District. The Plan is a single employer defined benefit plan administered by the district. The District currently provides retiree health benefits to eligible Certificated and Classified employees. Eligibility requirements vary by employee classification.

B. Benefits Provided

At retirement and with at least 55 years of age and 15 years service, Classified employees are subject to a District-paid contribution equivalent to the employee only rate (medical, dental and vision), up to the earlier of 2 years or 65.

Upon retirement, Certificated employees are eligible for District-paid health benefits at retirement if they are at least 55 years of age and have 13 years District service. Certificated employees can customize a retirement benefit plan with the District. For the purposes of the valuation, we have assumed the active Certificated members agree at retirement to the employee only rate (medical, dental, and vision) up to the earlier of 2 years or 65 (same as Classified).

Spouse and survivor benefits are not available. The District prorates benefits for part timers, and a minimum FTE of 0.5 is required to be eligible for retiree health benefits.

C. Contributions

The contribution requirements of Plan members and the Sausalito Marin City School District are established and may be amended by the Sausalito Marin City School District and the Teachers’ Association and the local California Service Employees Association. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

D. Plan Membership

Membership of the Plan consisted of the following:

	<u>Number of participants</u>
Inactive employees receiving benefits	3
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	26
Total number of participants**	29

*Information not provided

**As of the June 30, 2018 valuation date

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

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

E. Total OPEB Liability

The Sausalito Marin City School District’s total OPEB liability of \$367,336 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

F. Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Economic assumptions:

Salary increases	3.00%
Investment rate of return	4.00%
Healthcare cost trend rates	6.00%

Non-economic assumptions:

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

The actuarial assumptions used in the June 30, 2018 valuation were based on a review of plan experience during the period July 1, 2017 to June 30, 2018.

The discount rate was based on the Bond Buyer 20 Bond Index. The actuary assumed contributions would be sufficient to fully fund the obligation over a period not to exceed thirty years.

H. Changes in Total OPEB Liability

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 31,419
Interest on total OPEB liability	12,647
Benefits payments	(51,700)
Net change in total OPEB liability	(7,634)
Total OPEB liability - beginning	374,970
Total OPEB liability - ending	<u>\$ 367,336</u>
 Covered payroll	 \$ 2,483,735
 District's total OPEB liability as a percentage of covered payroll	 15%

The Sausalito Marin City School District has invoked Paragraph 244 of GASB Statement 75 for the transition due to cost constraints. Consequently, in order to determine the beginning total OPEB liability, a “roll-back” technique has been used.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

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

I. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Sausalito Marin City School District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.62 percent) or one percentage point higher (4.62 percent) than the current discount rate:

	Valuation		
	1% Decrease	Discount Rate	1% Increase
	(2.62%)	(3.62%)	(4.62%)
Total OPEB liability	\$ 393,653	\$ 367,336	\$ 343,399

J. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the Sausalito Marin City School District, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (5.00 percent) or one percentage point higher (7.00 percent) than the current healthcare cost trend rate:

	Valuation Trend		
	1% Decrease	Rate	1% Increase
	(5.00%)	(6.00%)	(7.00%)
Total OPEB liability	\$ 336,676	\$ 367,336	\$ 400,592

K. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the Sausalito Marin City School District recognized OPEB expense of \$(7,634).

Prior periods of deferred outflows and deferred inflows of resources were not restated due to the fact that prior valuations were not rerun in accordance with Paragraph 244 of GASB Statement 75. It was determined the time and expense necessary to rerun prior valuations and to restate prior financial statements was not justified. In the future, gains and losses related to changes in total OPEB liability will be recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – PENSION PLANS

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

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	\$ 2,378,510	\$ 658,551	\$ 712,123	\$ 120,561
PERS Pension	1,730,900	559,282	147,921	301,645
Total	\$ 4,109,410	\$ 1,217,833	\$ 860,044	\$ 422,206

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits Provided

The CalSTRS defined benefit plan has two benefit formulas:

1. CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.
2. CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

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

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 9.205% of their salary for fiscal year 2018, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$209,108 for the year ended June 30, 2018.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$114,415 to CalSTRS.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$	2,378,510
State's proportionate share of the net pension liability associated with the District		1,407,118
Total	\$	<u>3,785,628</u>

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.003 percent, which did not change from its proportion measured as of June 30, 2016.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2018, the District recognized pension expense of \$120,561. In addition, the District recognized pension expense and revenue of \$40,442 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 63,346
Differences between expected and actual experience	8,796	41,485
Changes in assumptions	440,647	
Changes in proportion and differences between District contributions and proportionate share of contributions	-	607,292
District contributions subsequent to the measurement date	209,108	-
	<u>\$ 658,551</u>	<u>\$ 712,123</u>

The \$209,108 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 74,907	\$ 180,781
2020	74,907	88,213
2021	74,907	122,382
2022	74,907	184,446
2023	74,907	102,272
2024	74,908	34,029
	<u>\$ 449,443</u>	<u>\$ 712,123</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

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

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Rate of Return*	7.10%
Wage Inflation	3.50%

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

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on MP-2016 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010–June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance–PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

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

*20-year geometric average

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	\$ 3,492,408	\$ 2,378,510	\$ 1,474,507

Pension Plan Fiduciary Net Position

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

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 Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Benefits Provided

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

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.5% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2018 was 15.531% of annual payroll. Contributions to the plan from the District were \$160,271 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$1,730,900 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.007 percent, which did not change from its proportion measured as of June 30, 2016.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2018, the District recognized pension expense of \$301,645. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ 59,877	\$ -
Differences between expected and actual experience	62,011	-
Changes in assumptions	252,825	20,379
Changes in proportion and differences between District contributions and proportionate share of contributions	24,298	127,542
District contributions subsequent to the measurement date	160,271	-
	<u>\$ 559,282</u>	<u>\$ 147,921</u>

The \$160,271 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 142,986	\$ 107,042
2020	169,695	33,136
2021	119,119	7,743
2022	(32,789)	-
	<u>\$ 399,011</u>	<u>\$ 147,921</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

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

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Discount Rate	7.15%
Salary Increases	Varies by Entry Age and Service

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

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

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

Asset Class	Assumed Asset Allocation	Real Return Years 1 – 10*	Real Return Years 11+**
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
	<u>100.0%</u>		

*An expected inflation of 2.50% used for this period.

**An expected inflation of 3.00% used for this period.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

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

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	\$ 2,546,709	\$ 1,730,900	\$ 1,054,119

Pension Plan Fiduciary Net Position

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

C. Construction Commitments

As of June 30, 2018, the District had no commitments with respect to unfinished capital projects.

NOTE 12 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in two joint ventures under joint powers authorities (JPAs), the Marin Schools Insurance Authority (MSIA) for workers' compensation and property and liability, and the Marin Pupils Transportation Agency (MPTA). The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member units, and their financial statements are not presented in these financial statements. However, fund transactions between the JPAs and the District are included in these statements. The audited financial statements are generally available from the respective entities.

NOTE 13 – CHARTER SCHOOL

In accordance with Education Code Section 47605, the District approved a charter school agreement with Willow Creek Academy Charter School, which was renewed for additional five years for the period July 1, 2015 through June 30, 2019.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 14 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Refunded Debt

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows or inflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District's long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2018, the deferred amount on refunding was \$1,193,532.

B. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 10. At June 30, 2018, total deferred outflows related to pensions was \$1,217,833 and total deferred inflows related to pensions was \$860,044.

NOTE 15– RESTATEMENT OF NET POSITION

The beginning net position of Governmental Activities has been restated in order to record the District's total OPEB liability, deferred outflows of resources related to OPEB in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The effect on beginning net position is presented as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	\$ 2,629,955
Restatement	(320,979)
Net Position - Beginning, as Restated	<u>\$ 2,308,976</u>

NOTE 16– SUBSEQUENT EVENTS

On December 11, 2018, the California Department of Justice has determined that the District violated and has continued to violate the California Constitution and anti-discrimination laws with respect to the establishment and operation of Bayside-Martin Luther King, Jr. Academy ("Bayside MLK Academy"). They have concluded that Bayside MLK Academy is presently a racially segregated school, and that the District possesses the facilities and resources to operate a non-segregated school. The Attorney General has requested a meeting with the district on December 21, 2018 to discuss the steps they will require the district to remedy the segregated and discriminatory conditions described.

REQUIRED SUPPLEMENTARY INFORMATION

**SAUSALITO MARIN CITY SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual*	Variances -
	Original	Final	(Budgetary Basis)	Final to Actual
REVENUES				
LCFF sources	\$ 4,504,026	\$ 4,422,740	\$ 4,479,275	\$ 56,535
Federal sources	332,465	319,864	314,949	(4,915)
Other state sources	180,727	395,584	373,868	(21,716)
Other local sources	560,004	720,197	717,793	(2,404)
Total Revenues	5,577,222	5,858,385	5,885,885	27,500
EXPENDITURES				
Certificated salaries	1,829,396	1,781,346	1,723,828	57,518
Classified salaries	1,010,278	1,000,487	1,023,256	(22,769)
Employee benefits	1,022,328	1,082,316	1,045,974	36,342
Books and supplies	123,917	157,764	135,592	22,172
Services and other operating expenditures	1,164,179	1,622,519	1,526,507	96,012
Other outgo				
Excluding transfers of indirect costs	604,244	499,694	652,874	(153,180)
Total Expenditures	5,754,342	6,144,126	6,108,031	36,095
Excess (Deficiency) of Revenues				
Over Expenditures	(177,120)	(285,741)	(222,146)	63,595
Other Financing Sources (Uses)				
Transfers in	-	174,010	313,695	139,685
Transfers out	(330,579)	(397,455)	(408,729)	(11,274)
Net Financing Sources (Uses)	(330,579)	(223,445)	(95,034)	128,411
NET CHANGE IN FUND BALANCE				
	(507,699)	(509,186)	(317,180)	192,006
Fund Balance - Beginning	1,555,840	1,555,840	1,555,840	-
Fund Balance - Ending	\$ 1,048,141	\$ 1,046,654	\$ 1,238,660	\$ 192,006

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 31,419
Interest on total OPEB liability	12,647
Benefits payments	<u>(51,700)</u>
Net change in total OPEB liability	(7,634)
Total OPEB liability - beginning	<u>374,970</u>
Total OPEB liability - ending	<u>\$ 367,336</u>
 Covered payroll	 \$ 2,483,735
 District's total OPEB liability as a percentage of covered payroll	 15%

See accompanying note to required supplementary information.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.003%	0.003%	0.003%	0.004%
District's proportionate share of the net pension liability	\$ 2,378,510	\$ 2,335,077	\$ 2,330,126	\$ 2,162,169
State's proportionate share of the net pension liability associated with the District	1,407,118	1,329,514	1,232,377	51,188
Total	<u>\$ 3,785,628</u>	<u>\$ 3,664,591</u>	<u>\$ 3,562,503</u>	<u>\$ 2,213,357</u>
District's covered payroll	\$ 1,446,288	\$ 1,606,441	\$ 1,629,127	\$ 1,629,127
District's proportionate share of the net pension liability as a percentage of its covered payroll	164.5%	145.4%	143.0%	132.7%
Plan fiduciary net position as a percentage of the total pension liability	69.5%	70.0%	74.0%	76.5%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALPERS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.007%	0.007%	0.008%	0.007%
District's proportionate share of the net pension liability	\$ 1,730,900	\$ 1,408,070	\$ 1,172,184	\$ 828,728
District's covered payroll	\$ 922,874	\$ 880,401	\$ 763,206	\$ 763,206
District's proportionate share of the net pension liability as a percentage of its covered payroll	187.6%	159.9%	153.6%	108.6%
Plan fiduciary net position as a percentage of the total pension liability	71.9%	73.9%	79.4%	83.4%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 209,108	\$ 173,712	\$ 152,515	\$ 139,115
Contributions in relation to the contractually required contribution*	(209,108)	(173,712)	(152,515)	(139,115)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,453,517	\$ 1,446,288	\$ 1,606,441	\$ 1,629,127
Contributions as a percentage of covered payroll	14.39%	12.01%	9.49%	8.54%

*Amounts do not include on-behalf contributions

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 160,271	\$ 128,167	\$ 101,073	\$ 103,996
Contributions in relation to the contractually required contribution	(160,271)	(128,167)	(101,073)	(103,996)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,030,218	\$ 922,874	\$ 880,401	\$ 763,206
Contributions as a percentage of covered payroll	15.56%	13.89%	11.48%	13.63%

See accompanying note to required supplementary information.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Changes in Total OPEB Liability and Related Ratios

This 10-year schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 75 was applicable. The schedule presents the sources of change in the total OPEB liability, and the components of the total OPEB liability and related ratios, including the total OPEB liability as a percentage of covered-employee payroll.

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

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

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuations for CalSTRS and CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of District Contributions

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2018, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Classified salaries	\$ 1,000,487	\$ 1,023,256	\$ 22,769
Other outgo			
Excluding transfers of indirect costs	\$ 499,694	\$ 652,874	\$ 153,180

SUPPLEMENTARY INFORMATION

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED June 30, 2018**

	Second Period Report F89D9A46	Annual Report CA8B2F0C
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	62.64	63.05
Special Education - Nonpublic Schools	-	0.10
Total TK/K through Third	62.64	63.15
Fourth through Sixth		
Regular ADA	31.93	32.62
Total Fourth through Sixth	31.93	32.62
Seventh through Eighth		
Regular ADA	19.89	19.82
Total Seventh through Eighth	19.89	19.82
TOTAL SCHOOL DISTRICT	114.46	115.59

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018**

Grade Level	Minutes Requirement	2017-18 Actual Minutes	Number of Days	Status
Kindergarten	36,000	49,390	180	Complied
Grade 1	50,400	58,840	180	Complied
Grade 2	50,400	58,840	180	Complied
Grade 3	50,400	58,840	180	Complied
Grade 4	54,000	60,865	180	Complied
Grade 5	54,000	60,865	180	Complied
Grade 6	54,000	60,865	180	Complied
Grade 7	54,000	60,865	180	Complied
Grade 8	54,000	60,865	180	Complied

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

	2019 (Budget)	2018	2017	2016
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 5,863,359	\$ 6,199,580	\$ 5,901,096	\$ 5,697,760
Expenditures And Other Financing Uses	6,570,890	6,516,760	6,202,951	5,527,347
Net change in Fund Balance	\$ (707,531)	\$ (317,180)	\$ (301,855)	\$ 170,413
Ending Fund Balance	\$ 531,129	\$ 1,238,660	\$ 1,555,840	\$ 2,030,885
Available Reserves*	\$ 445,180	\$ 1,143,748	\$ 1,275,008	\$ 1,798,516
Available Reserves As A Percentage Of Outgo	6.78%	17.55%	20.55%	32.54%
Long-term Debt	\$ 23,831,456	\$ 24,161,501	\$ 24,782,707	\$ 24,885,258
Average Daily Attendance At P-2	116	114	148	136

The General Fund balance has decreased by \$792,225 over the past two years. The fiscal year 2018-19 budget projects a further decrease of \$707,531. For a District this size, the State recommends available reserves of at least 5% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2018-19 fiscal year. Total long-term obligations have decreased by \$723,757 over the past two years.

Average daily attendance has decreased by 22 ADA over the past two years. An increase of 2 ADA is anticipated during the 2018-19 fiscal year.

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

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

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

There were no amounts to reconcile the annual financial and budget report with audited financial statements.

SAUSALITO MARIN CITY SCHOOL DISTRICT
 SCHEDULE OF CHARTER SCHOOLS
 FOR THE YEAR ENDED JUNE 30, 2018

Charter #	Charter School	Status	Included in Audit Report
0351	Willow Creek Academy	Active	No

See accompanying note to supplementary information.

SAUSALITO MARIN CITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2018

	Cafeteria Fund	Deferred Maintenance Fund	Capital Projects Fund for Blended Component Units	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds
ASSETS					
Cash and investments	\$ 18,638	\$ 13,464	\$ 22	\$ 25	\$ 32,149
Accounts receivable	12,346	-	-	-	12,346
Total Assets	\$ 30,984	\$ 13,464	\$ 22	\$ 25	\$ 44,495
LIABILITIES					
Accrued liabilities	\$ 7,268	\$ -	\$ -	\$ -	\$ 7,268
Due to other funds	23,670	-	-	-	23,670
Total Liabilities	30,938	-	-	-	30,938
FUND BALANCES					
Non-spendable	40	-	-	-	40
Restricted	6	-	22	25	53
Committed	-	13,464	-	-	13,464
Total Fund Balances	46	13,464	22	25	13,557
Total Liabilities and Fund Balance	\$ 30,984	\$ 13,464	\$ 22	\$ 25	\$ 44,495

See accompanying note to supplementary information.

SAUSALITO MARIN CITY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	Cafeteria Fund	Deferred Maintenance Fund	Capital Projects Fund for Blended Component Units	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds
REVENUES					
LCFF sources	\$ -	\$ 25,000	\$ -	\$ -	\$ 25,000
Federal sources	50,536	-	-	-	50,536
Other state sources	3,274	-	-	-	3,274
Other local sources	1,106	6,678	-	-	7,784
Total Revenues	54,916	31,678	-	-	86,594
EXPENDITURES					
Current					
Pupil services					
Food services	211,240	-	-	-	211,240
Plant services	-	31,510	-	-	31,510
Total Expenditures	211,240	31,510	-	-	242,750
Excess (Deficiency) of Revenues					
Over Expenditures	(156,324)	168	-	-	(156,156)
Other Financing Sources (Uses)					
Transfers in	156,330	-	-	-	156,330
Net Financing Sources (Uses)	156,330	-	-	-	156,330
NET CHANGE IN FUND BALANCE	6	168	-	-	174
Fund Balance - Beginning	40	13,296	22	25	13,383
Fund Balance - Ending	\$ 46	\$ 13,464	\$ 22	\$ 25	\$ 13,557

See accompanying note to supplementary information.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018**

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

GOVERNING BOARD

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

DISTRICT ADMINISTRATORS

Terena Mares
Interim Superintendent

Amy Prescott
Interim Chief Business Official

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections 46200 through 46208*. During the year ended June 30, 2018, the District participated in the Longer Day incentive funding program. As of June 30, 2018, the District had not yet met its target funding.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

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

Combining Statements – Non-Major Funds

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

Local Education Agency Organization Structure

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

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Governing Board
Sausalito Marin City School District
Sausalito, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sausalito Marin City School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Sausalito Marin City School District's basic financial statements, and have issued our report thereon dated December 14, 2018.

Internal Control over Financial Reporting

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

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

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*Licensed by the California
State Board of Accountancy*

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
December 14, 2018

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
Sausalito Marin City School District
Sausalito, California

Report on State Compliance

We have audited Sausalito Marin City School District's compliance with the types of compliance requirements described in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. that could have a direct and material effect on each of Sausalito Marin City School District's state programs for the fiscal year ended June 30, 2018, as identified below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Sausalito Marin City School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Sausalito Marin City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on State Compliance

In our opinion, Sausalito Marin City School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2018.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

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Procedures Performed

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

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

PROGRAM NAME	PROCEDURES PERFORMED
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

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

Christy White Associates

San Diego, California
December 14, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

The District was not subject to Uniform Guidance Single Audit for the year ended June 30, 2018 because federal award expenditures did not exceed \$750,000.

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

There were no financial statement findings for the year ended June 30, 2018.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no State findings or questioned costs for the year ended June 30, 2018.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

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

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

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

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

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

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

Effect: Risk of material misstatement.

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

District Response: The District will properly reconcile the cash with a fiscal agent and balance to the approved balance on a monthly basis. The District will also prepare written procedures to ensure that when District staff changes, proper procedures for timely reconciliation continue.

Current Status: Implemented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2018

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

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

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

Questioned Cost: None.

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

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

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

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

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

Current Status: Implemented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2018

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

Criteria: In accordance with Education Code Section 41402, the maximum ratio of administrative employees to each 100 teachers in an elementary school district shall be 9.

Condition: The District had an excess of 1.39 FTE for administrators in fiscal year 2016-17.

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

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

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

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

Recommendations: The District should review Administrative and Teacher FTEs to ensure they are in compliance with the requirements of Education Code Section 41402.

District Response: It was anticipated that the District, in the current year 2016-2017, continued to exceed the allowable maximum ratio of administrators to teachers. For the 2017-2018 school year, the District will review this ratio and make the necessary adjustments in administrative staffing to be in compliance of Education Code 41402.

Current Status: Implemented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2018

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

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

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

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

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

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

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

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

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

Current Status: Implemented.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2018

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

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

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

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

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

Cause: Clerical oversight.

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2018

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

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

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

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

Current Status: Implemented.