

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

AUDIT REPORT

JUNE 30, 2008

SAUSALITO MARIN CITY SCHOOL DISTRICT

JUNE 30, 2008

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SAUSALITO MARIN CITY SCHOOL DISTRICT

JUNE 30, 2008

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sausalito Marin City School District
Sausalito, California

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Sausalito Marin City School District, as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Sausalito Marin City School District's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of California Code of Regulations, Title 5, Education, Section 19810, and following; and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Education Agencies 2007-08*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Sausalito Marin City School District, as of June 30, 2008, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2008, on our consideration of Sausalito Marin City School District's internal control over financial reporting and on our tests of the District's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 and the budgetary comparison information on page 47 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sausalito Marin City School District's basic financial statements. The accompanying supplementary information, including the combining statements, the Schedule of Expenditures of Federal Awards, which is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the remaining schedules listed in the table of contents, are presented for purposes of additional analysis as required by the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Education Agencies 2007-08*, and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 5, 2008

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(PREPARED BY DISTRICT MANAGEMENT)**

This section of Sausalito Marin City School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 and 2, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities, presented on pages 14 through 15, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 16 through 22, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statements provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's overall financial status improved during fiscal year 2007-08, as total net assets increased 17.9%.
- On the Statement of Activities, total current year revenues exceeded total current year expenses by \$1,474,288.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balance, total current year expenditures exceeded total current year revenues by \$2,066,005, due primarily to the spending down of bond proceeds received in prior fiscal years.
- Capital assets, net of depreciation, increased \$3,606,006 due to the current year acquisition of \$3,872,455 of new capital assets, and the current year recognition of \$266,449 of depreciation expense.
- Total long-term liabilities decreased \$438,951 due primarily to the current year reduction of the District's obligations for general obligation bonds and certificates of participation.
- The District's P-2 ADA increased from 119 ADA in fiscal year 2006-07, up to 128 ADA in fiscal year 2007-08, an increase of 7.6%.
- The District's General Fund produced an operating surplus of \$227,569 during fiscal year 2007-08, and recognized a \$70,788 increase in its available reserves.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 5% of general fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2007-08, General Fund expenditures and other financing uses totaled \$5,204,363. At June 30, 2008, the District has available reserves of \$776,012 in the General Fund, which represents a reserve of 14.9%.

SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT

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

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

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

Reporting the District as a Whole

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

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

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

Governmental Activities:

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

Business-type Activities:

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

Reporting the District's Most Significant Funds

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

Governmental Funds:

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

Proprietary Funds:

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

Fiduciary Funds:

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's total net assets increased from \$8,247,067 at June 30, 2007, up to \$9,721,355 at June 30, 2008, an increase of 17.9%.

Comparative Statement of Net Assets

	Governmental Activities	
	2007	2008
<u>Assets</u>		
Deposits and Investments	\$ 17,551,046	\$ 16,793,506
Current Receivables	480,880	448,731
Long-term Receivable	2,967,734	2,467,734
Prepaid Expenses	73,717	31,593
Capital Assets, net	7,785,851	11,391,857
Total Assets	28,860,128	31,133,421
<u>Liabilities</u>		
Current	1,419,641	2,677,265
Long-term	19,193,420	18,734,801
Total Liabilities	20,613,061	21,412,066
<u>Net Assets</u>		
Invested in Capital Assets		
- Net of Related Debt	2,266,295	4,386,116
Restricted	1,861,831	1,544,066
Unrestricted	4,118,941	3,791,173
Total Net Assets	\$ 8,247,067	\$ 9,721,355

Table includes financial data of the combined governmental funds

SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

The District's total current year revenues exceeded total current year expenses by \$1,474,288.

<u>Comparative Statement of Change in Net Assets</u>		
	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2008</u>
<u>Program Revenues</u>		
Charges for Services	\$ 1,707	\$ 35,834
Operating Grants & Contributions	1,365,544	1,460,969
Capital Grants & Contributions	701	886,073
<u>General Revenues</u>		
Taxes Levied	4,927,266	4,295,605
Federal & State Aid	591,308	242,355
Interest & Investment Earnings	818,498	717,123
Miscellaneous	140,927	134,609
Total Revenues	7,845,951	7,772,568
<u>Expenses</u>		
Instruction	2,622,310	2,763,596
Instruction-Related Services	616,808	651,371
Pupil Services	305,153	415,664
General Administration	721,987	803,005
Plant Services	573,497	577,975
Ancillary Services	444	0
Interest on Long-Term Debt	743,621	815,344
Other Outgo	1,056,091	271,325
Total Expenses	6,639,911	6,298,280
Change in Net Assets Before Special Items	1,206,040	1,474,288
Special Item - Loss from Disposition of Capital Assets	(408,265)	0
Change in Net Assets	\$ 797,775	\$ 1,474,288
<i>Table includes financial data of the combined governmental funds</i>		

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

(PREPARED BY DISTRICT MANAGEMENT)

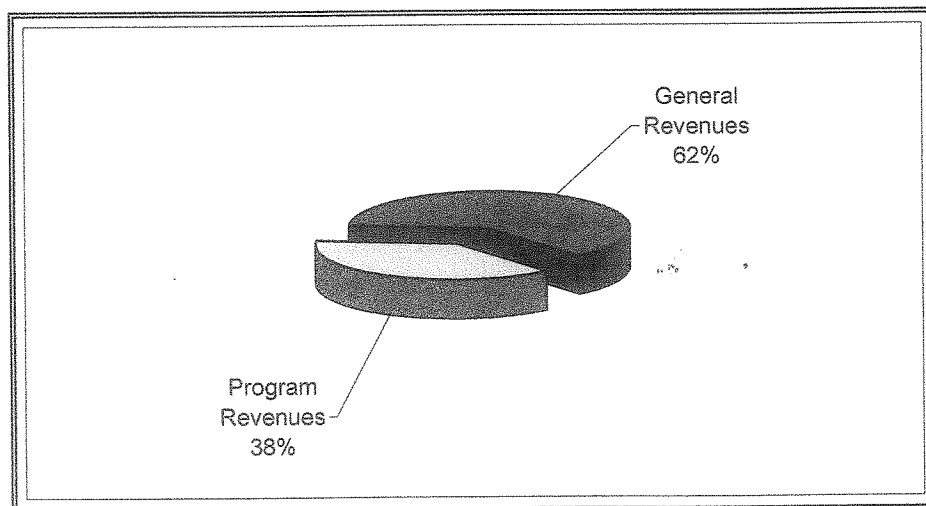
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Comparative Schedule of Costs of Services</u>				
	Total Cost of Services		Net Cost of Services	
	2007	2008	2007	2008
Instruction	\$ 2,622,310	\$ 2,763,596	\$ 1,780,818	\$ 961,458
Instruction-Related Services	616,808	651,371	368,475	359,005
Pupil Services	305,153	415,664	145,296	201,343
General Administration	721,987	803,005	650,947	758,293
Plant Services	573,497	577,975	553,985	554,978
Ancillary Services	444	0	444	0
Interest on Long-Term Debt	743,621	815,344	743,621	815,344
Other Outgo	1,056,091	271,325	1,028,373	264,983
Totals	<u>\$ 6,639,911</u>	<u>\$ 6,298,280</u>	<u>\$ 5,271,959</u>	<u>\$ 3,915,404</u>

Table includes financial data of the combined governmental funds

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$3,915,404 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed. Further detail is available on page 15 of this report.



Program revenues financed 38% of the total cost of providing the services listed above, while the remaining 62% was financed by the general revenues of the District.

SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(PREPARED BY DISTRICT MANAGEMENT)

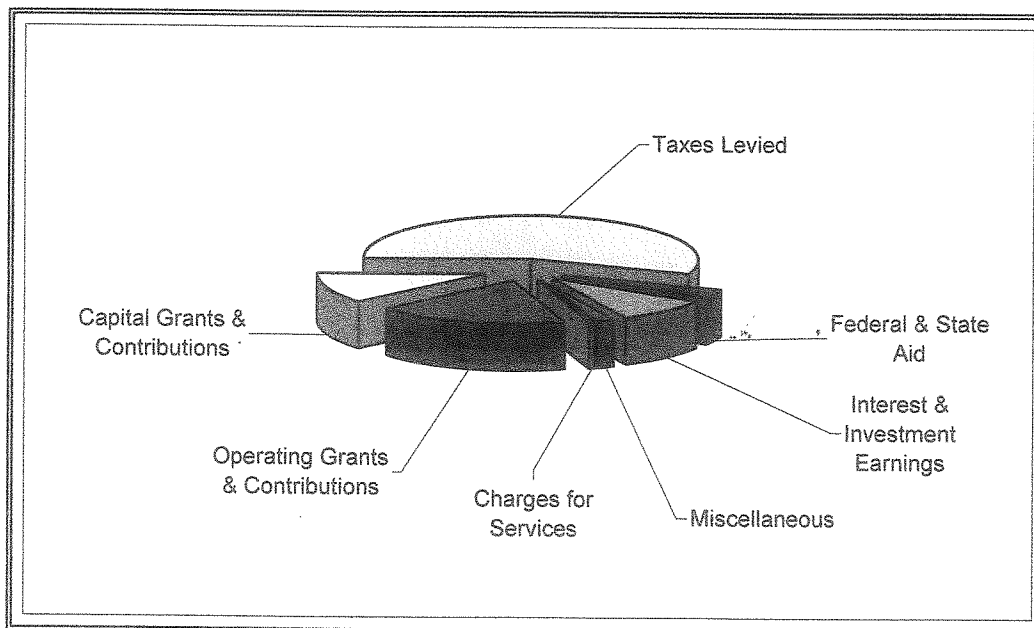
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Summary of Revenues For Governmental Functions

	FYE 2007 Amount	Percent of Total	FYE 2008 Amount	Percent of Total
<u>Program Revenues</u>				
Charges for Services	\$ 1,707	0.02%	\$ 35,834	0.46%
Operating Grants & Contributions	1,365,544	17.40%	1,460,969	18.80%
Capital Grants & Contributions	701	0.01%	886,073	11.40%
<u>General Revenues</u>				
Taxes Levied	4,927,266	62.80%	4,295,605	55.27%
Federal & State Aid	591,308	7.54%	242,355	3.12%
Interest & Investment Earnings	818,498	10.43%	717,123	9.23%
Miscellaneous	140,927	1.80%	134,609	1.73%
Total Revenues	\$ 7,845,951	100.00%	\$ 7,772,568	100.00%

Table includes financial data of the combined governmental funds



SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(PREPARED BY DISTRICT MANAGEMENT)

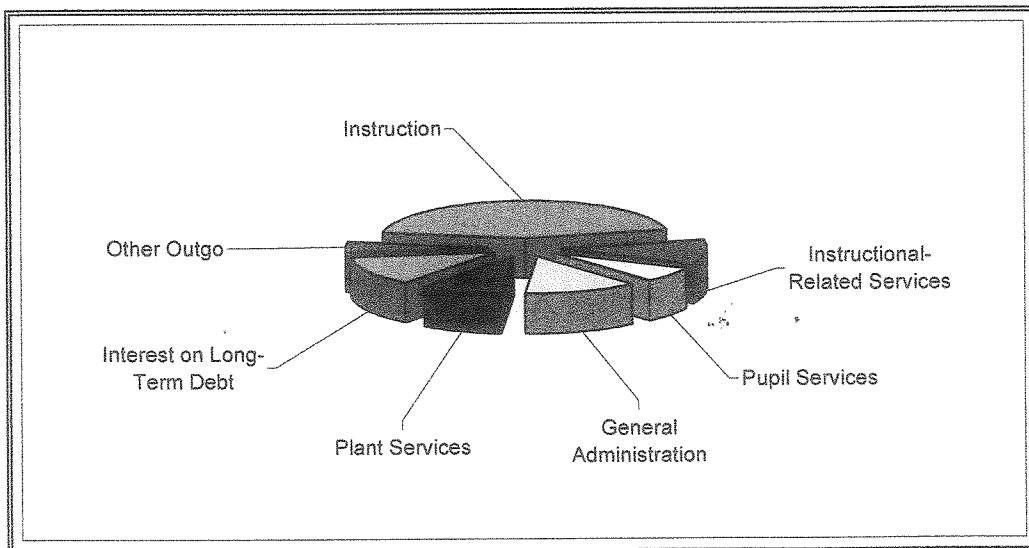
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Expenses For Governmental Functions

	FYE 2007 Amount	Percent of Total	FYE 2008 Amount	Percent of Total
<u>Expenses</u>				
Instruction	\$ 2,622,310	39.49%	\$ 2,763,596	43.88%
Instruction-Related Services	616,808	9.29%	651,371	10.34%
Pupil Services	305,153	4.60%	415,664	6.60%
General Administration	721,987	10.87%	803,005	12.75%
Plant Services	573,497	8.64%	577,975	9.18%
Ancillary Services	444	0.01%	0	0.00%
Interest on Long-Term Debt	743,621	11.20%	815,344	12.95%
Other Outgo	1,056,091	15.91%	271,325	4.31%
Total Expenses	\$ 6,639,911	100.00%	\$ 6,298,280	100.00%

Table includes financial data of the combined governmental funds



**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Comparative Schedule of Capital Assets</u>		
	Governmental Activities	
	2007	2008
Land	\$ 948,870	\$ 948,870
Sites and Improvements	1,236,391	1,245,861
Buildings and Improvements	4,183,835	8,723,038
Furniture and Equipment	90,944	90,944
Work-in-Progress	4,173,848	3,497,630
Subtotals	10,633,888	14,506,343
Less: Accumulated Depreciation	(2,848,037)	(3,114,486)
Capital Assets, net	<u>\$ 7,785,851</u>	<u>\$ 11,391,857</u>

Capital assets, net of depreciation, increased \$3,606,006 due to the current year acquisition and/or construction of \$3,872,455 of new capital assets, and the current year recognition of \$266,449 of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	Governmental Activities	
	2007	2008
Compensated Absences	\$ 16,365	\$ 15,480
General Obligation Bonds	15,898,324	15,858,776
Capital Leases	1,143,614	1,130,096
Certificates of Participation	2,800,000	2,415,000
Totals	<u>\$ 19,858,303</u>	<u>\$ 19,419,352</u>

Total long-term liabilities decreased \$438,951 due primarily to the current year reduction of the District's obligations for general obligation bonds and certificates of participation.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(PREPARED BY DISTRICT MANAGEMENT)**

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

GOVERNMENTAL ACTIVITIES (CONCLUDED)

The general obligation bonds are financed by the local taxpayers and represent 81.66% of the District's total long-term liabilities.

The capital leases are financed by the General Fund, and represents 5.82% of the District's total long-term liabilities.

The certificates of participation are financed by the proceeds from the Martin Luther King Jr. Site Lease/Purchase agreement with the City of Sausalito, and represents 12.44% of the District's total long-term liabilities.

The obligation for compensated absences is financed by the General Fund, and make up the remaining 0.08% of the District's total long-term liabilities.

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

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

Comparative Schedule of Fund Balances

	Fund Balances June 30, 2007	Fund Balances June 30, 2008	Increase (Decrease)
General	\$ 901,865	\$ 1,129,434	\$ 227,569
Corporation Debt Service	336,315	333,539	(2,776)
Building	12,541,478	10,156,149	(2,385,329)
County School Facilities	11,620	6,791	(4,829)
Capital Projects - Special Reserve	497,536	526,416	28,880
Corporation Acquisition	2,014,050	2,105,940	91,890
Deferred Maintenance	86	457	371
Cafeteria	253	7,167	6,914
Special Revenue - Special Reserve	427,258	396,331	(30,927)
Bond Interest & Redemption	620,216	560,156	(60,060)
Debt Service	234,254	296,546	62,292
Totals	\$ 17,584,931	\$ 15,518,926	\$ (2,066,005)

The combined fund balances of all District funds decreased \$2,066,005, while the fund balance of the General Fund Increased \$227,569. The overall decrease in the combined fund balances of all District funds was due primarily to the spending down of bond proceeds that were received in prior fiscal years.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(PREPARED BY DISTRICT MANAGEMENT)**

GENERAL FUND BUDGETARY HIGHLIGHTS

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

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The District will continue to be actively involved in construction projects throughout fiscal year 2008-09.
 - The District is expected to maintain its basic aid status during fiscal year 2008-09. Accordingly, the District's revenue limit funding is expected to remain generally stable.
-
- The State's economic condition is another factor affecting the District's future. Since the financial well being of the District is at least partially affected by the economic condition of the state, management will need to plan carefully and prudently to provide the resources to meet student needs over the next several years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the District Office, Sausalito Marin City School District, 630 Nevada Street, Sausalito, California 94965.

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 16,793,506
Receivables (Note 4)	448,731
Long-term Receivable (Note 5)	2,467,734
Prepaid Expenses (Note 1I)	31,593
Capital Assets: (Note 7)	
Land	948,870
Sites and Improvements	1,245,861
Buildings and Improvements	8,723,038
Furniture and Equipment	90,944
Work-in-Progress	3,497,630
Less: Accumulated Depreciation	(3,114,486)
Total Assets	<u>31,133,421</u>
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	1,921,531
Deferred Revenue (Note 1I)	71,183
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences (Note 1I)	15,480
General Obligation Bonds	
Current Interest	260,000
Capital Leases	14,071
Certificates of Participation	395,000
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 8)	
Current Interest	11,755,000
Capital Appreciation	3,843,776
Capital Leases (Note 9)	1,116,025
Certificates of Participation (Note 10)	2,020,000
Total Liabilities	<u>21,412,066</u>
<u>Net Assets</u>	
Investment in Capital Assets, Net of Related Debt	4,386,116
Restricted:	
For Capital Projects	533,207
For Debt Service	816,389
For Educational Programs	185,846
For Other Purposes	8,624
Unrestricted	<u>3,791,173</u>
Total Net Assets	<u>\$ 9,721,355</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<u>Governmental Activities</u>					Governmental Activities
Instruction	\$ 2,763,596		\$ 916,065	\$ 886,073	\$ (961,458)
Instruction-Related Services:					
Supervision of Instruction	219,543		178,072		(41,471)
Instructional Library and Technology	15,369				(15,369)
School Site Administration	416,459		114,294		(302,165)
Pupil Services:					
Home-to-School Transportation	160,759		48,932		(111,827)
Food Services	158,107	\$ 35,834	84,104		(38,169)
Other Pupil Services	96,798		45,451		(51,347)
General Administration:					
Data Processing Services	8,505				(8,505)
Other General Administration	794,500		44,712		(749,788)
Plant Services	577,975		22,997		(554,978)
Interest on Long-Term Debt	815,344				(815,344)
Other Outgo	271,325		6,342		(264,983)
Total Governmental Activities	<u>\$ 6,298,280</u>	<u>\$ 35,834</u>	<u>\$ 1,460,969</u>	<u>\$ 886,073</u>	<u>(3,915,404)</u>
<u>General Revenues</u>					
Taxes Levied for General Purposes					3,600,686
Taxes Levied for Debt Service					694,919
Federal and State Aid - Unrestricted					242,355
Interest and Investment Earnings					717,123
Miscellaneous					134,609
Total General Revenues					<u>5,389,692</u>
Change in Net Assets					1,474,288
Net Assets - July 1, 2007					8,247,067
Net Assets - June 30, 2008					<u>\$ 9,721,355</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

SAUSALITO MARIN CITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>General</u>	<u>Corporation Debt Service</u>	<u>Building</u>
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 1,096,511	\$ 333,539	\$ 11,476,208
Receivables (Note 4)	427,523		
Long-term Receivable (Note 5)			
Total Assets	<u>\$ 1,524,034</u>	<u>\$ 333,539</u>	<u>\$ 11,476,208</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 351,414		\$ 1,320,059
Deferred Revenue (Note 11)	43,186		
Total Liabilities	<u>394,600</u>		<u>1,320,059</u>
Fund Balances: (Note 12)			
Reserved	186,846	333,539	
Unreserved:			
Designated	692,012		
Undesignated	250,576		10,156,149
Total Fund Balances	<u>1,129,434</u>	<u>333,539</u>	<u>10,156,149</u>
Total Liabilities and Fund Balances	<u>\$ 1,524,034</u>	<u>\$ 333,539</u>	<u>\$ 11,476,208</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>County School Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Corporation Acquisition</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 6,791	\$ 528,916	\$ 2,105,940	\$ 1,245,601	\$ 16,793,506
	2,467,734		21,208	448,731
				2,467,734
<u>\$ 6,791</u>	<u>\$ 2,996,650</u>	<u>\$ 2,105,940</u>	<u>\$ 1,266,809</u>	<u>\$ 19,709,971</u>
	\$ 2,500		\$ 6,152	\$ 1,680,125
	2,467,734			2,510,920
	2,470,234		6,152	4,191,045
			856,742	1,377,127
6,791	526,416	2,105,940	403,915	692,012
6,791	526,416	2,105,940	1,260,657	13,449,787
<u>\$ 6,791</u>	<u>\$ 2,996,650</u>	<u>\$ 2,105,940</u>	<u>\$ 1,266,809</u>	<u>\$ 19,709,971</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2008

Total Fund Balances - Governmental Funds	\$ 15,518,926
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Amounts reported for governmental activities in the statement of net assets are different due to the following:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$14,506,343, and the accumulated depreciation is \$3,114,486.

11,391,857

Unamortized premiums: In governmental funds, bond premiums are recognized as revenues in the period they are received. In the government-wide statements, premiums are amortized over the life of the debt. Unamortized premiums at year end consist of:

Deferred Assets - Bond Premiums

(27,997)

Unamortized costs: In governmental funds, debt issuance costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issuance costs are amortized over the life of the debt. Unamortized debt issue costs, reported as prepaid expenditures, at year-end consist of:

Deferred Charges - Costs of Issuance

31,593

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

2,467,734

In governmental funds, the unmatured 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 unmatured interest owed at the end of the period was:

(241,406)

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:

Compensated Absences	\$	15,480
General Obligation Bonds		15,858,776
Capital Leases		1,130,096
Certificates of Participation		2,415,000

Total Net Assets - Governmental Activities

(19,419,352)

\$ 9,721,355

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Corporation Debt Service</u>	<u>Building</u>
<u>Revenues</u>			
Revenue Limit Sources:			
State Apportionment	\$ 93,639		
Local Taxes	3,600,686		
Total Revenue Limit Sources	3,694,325		
Federal Revenue	240,466		
State Revenue	1,126,564		
Local Revenue	320,577	\$ 12,924	\$ 520,310
Total Revenues	5,381,932	12,924	520,310
<u>Expenditures</u>			
Instruction	2,622,305		
Supervision of Instruction	208,319		
Instructional Library and Technology	14,583		
School Site Administration	395,167		
Home-To-School Transportation	152,540		
Food Services			
Other Pupil Services	91,849		
Data Processing Services	8,070		
Other General Administration	754,765		
Plant Services	548,866		723
Facilities Acquisition and Construction	55,532		2,904,916
Debt Service:			
Principal Retirement	13,518	385,000	
Interest and Issuance Costs	5,881	119,088	
Other Outgo	229,201		
Total Expenditures	5,100,596	504,088	2,905,639
Excess of Revenues Over (Under) Expenditures	281,336	(491,164)	(2,385,329)
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	50,000	502,559	
Operating Transfers Out	(103,767)	(14,171)	
Total Other Financing Sources (Uses)	(53,767)	488,388	0
Net Change in Fund Balances	227,569	(2,776)	(2,385,329)
Fund Balances - July 1, 2007	901,865	336,315	12,541,478
Fund Balances - June 30, 2008	\$ 1,129,434	\$ 333,539	\$ 10,156,149

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>County School Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Corporation Acquisition</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
				\$ 93,639
				3,600,686
				3,694,325
			\$ 75,792	316,258
\$ 879,373			16,621	2,022,558
6,700	\$ 534,780	\$ 77,719	766,417	2,239,427
886,073	534,780	77,719	858,830	8,272,568
				2,822,305
				208,319
				14,583
				395,167
				152,540
			150,024	150,024
				91,849
				8,070
				754,765
			16,600	566,189
890,902	3,341			3,854,691
			250,000	648,518
			517,383	642,352
				229,201
890,902	3,341	0	934,007	10,338,573
(4,829)	531,439	77,719	(75,177)	(2,066,005)
		14,171	103,767	670,497
	(502,559)		(50,000)	(670,497)
0	(502,559)	14,171	53,767	0
(4,829)	28,880	91,890	(21,410)	(2,066,005)
11,620	497,536	2,014,050	1,282,067	17,584,931
\$ 6,791	\$ 526,416	\$ 2,105,940	\$ 1,260,657	\$ 15,518,926

SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Net Change in Fund Balances - Governmental Funds

\$ (2,066,005)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeded depreciation expense during the year:

Capital Outlays	\$ 3,872,455	
Depreciation Expense	<u>(266,449)</u>	
		3,606,006

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

(500,000)

~~In the statement of activities, certain operating expenses compensated absences (vacations), and post employment benefits are measured by the amounts earned during the fiscal year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts used exceeded amounts earned by:~~

885

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

Cost of Issuance Amortized	(42,124)
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Bond premiums are recognized as Other Financing Sources in the period they are received in governmental funds. In the government-wide statements, premiums are amortized over the life of the debt. The difference between premiums recognized in the current period and premiums amortized for the period are:

Bond Premium Amortized	37,330
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Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

General Obligation Bonds	\$ 250,000	
Capital Leases	13,518	
Certificates of Participation	<u>385,000</u>	
		648,518

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest on long-term liabilities decreased by:

130

Accreted interest on capital appreciation bonds is not recognized as an expenditure in the governmental fund financial statements until paid. In the statement of activities, however, accreted interest is recognized as an expense as the capital appreciation bonds accrete in value. The amount of accreted interest recognized in the current year was:

(210,452)

Change in Net Assets of Governmental Activities

\$ 1,474,288

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 2,730	\$ 2,730
Total Assets	2,730	2,730
<u>Liabilities</u>		
Due to Student Groups	2,730	2,730
Total Liabilities	2,730	2,730
<u>Net Assets</u>		
Restricted	0	0
Total Net Assets	\$ 0	\$ 0

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

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

The District is also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. In addition, the District has the option to apply FASB pronouncements issued after that date to business-type activities and enterprise funds, if applicable. The District does not currently have any business-type activities or enterprise funds that require the District to follow the pronouncement of the FASB.

B. Reporting Entity

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether the entity exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters), the scope of public service, and a special financing relationship.

The District has determined that the following represents a component unit:

The District and the Sausalito Marin City School District Financing Corporation (the "Corporation") have a financial and operational relationship, which meets the reporting entity definition criteria of the GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the Corporation as a component unit of the District.

The following are those aspects of the relationship between the District and the Corporation, which satisfy the inclusion criteria:

Accountability for Fiscal Matters

- The Board of Directors for the Corporation are appointed by the District's Board.
- The Corporation has no employees or members. The District's Business Manager shall serve as the Chief Financial Officer, and the District's Superintendent shall serve as the Chief Executive Officer of the Corporation. These individuals receive no additional compensation for work performed in these capacities.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Concluded)

Accountability for Fiscal Matters (Concluded)

- The District's Board exercises significant influence over operations of the Corporation.
- It is anticipated that the District will be the sole lessee of all facilities owned by the Corporation. Any deficits incurred by the Corporation will be reflected in the lease payments of the District. Any surpluses of the Corporation revert to the District at the end of the lease period.
- All major financing arrangements, contracts, and financial transactions of the Corporation must have the consent of the District.
- The property, assets, profits, and net revenues of the Corporation are irrevocably dedicated to the District, subject to the indebtedness of the Corporation.
- The District has assumed a "moral obligation" and potentially a legal obligation for any debt incurred by the Corporation.

Financial Presentation

For financial presentation purposes, the Corporation's financial activity has been blended, or combined, with the financial data of the District.

The financial activity of the Corporation is included in the Corporation Debt Service Fund and Corporation Acquisition Fund, and the certificates of participation issued by the Corporation are reported as a liability in the Statement of Net Assets.

Scope of Public Service

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

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the District and its component units. The effect of interfund activity, within the governmental and business type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Concluded)

Government-wide Financial Statements (Concluded):

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

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

Fund Financial Statements:

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Concluded)

Revenues – Exchange and Non-exchange Transactions:

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

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

Deferred Revenue:

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

Expenses/Expenditures:

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting

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

Major Governmental Funds:

General Fund is the general operating fund of the District. It is used to account for all transactions except those required or permitted by law to be accounted for in another fund.

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

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

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

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

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

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains three non-major special revenue funds:

1. *Deferred Maintenance Fund* is used for the purpose of major repairs or replacement of District property.
2. *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's cafeteria program.
3. *Special Revenue - Special Reserve Fund* is used to accumulate resources for future board designated projects.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Encumbrances

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

I. Assets, Liabilities and Equity

1. Deposits and Investments

The District is authorized to maintain cash in banks and revolving funds that are insured to \$100,000 by the Federal Depository Insurance Corporation (FDIC).

~~The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001).~~

The County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

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

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

2. Prepaid Expenses

Prepaid expenses include the unamortized costs associated with the bonds issued since the inception of GASB Statement No. 34. The costs will be amortized over the life of the bond obligation.

Prepaid expenses are equally offset by a net assets reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Concluded)

Debt Service Funds are used to account for the accumulation of resources for, and the payment of long-term debt principal, interest and related costs. The District maintains two non-major Debt Service Funds:

1. *Bond Interest & Redemption Fund* is used to account for District taxes received and expended to pay bond interest and redeem bond principal and related costs.
2. *Debt Service Fund* is used to account for payments made to the sinking fund, which is required by the lease purchase agreement that was entered into with California School Board Association Finance Corporation, for purposes of financing capital improvements at the District's two schools.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the student body account at Martin Luther King School. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body. In addition, the District maintains an agency fund for pass-through funds of the Willow Creek Academy Charter School which was transferred to the charter school by the end of June 30, 2008.

F. Budgets and Budgetary Accounting

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

These budgets are revised by the District's Governing Board and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented for the General Fund as required supplementary information on page 47.

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

G. Use of Estimates

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and Equity (Continued)

3. Capital Assets

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

<u>Asset Class</u>	<u>Years</u>
Sites and Improvements	14-36
Buildings and Improvements	30-40
Furniture and Equipment	5-20

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. Deferred revenue includes the premiums associated with the bonds issued in the current year, when applicable, which will be amortized over the life of the bond obligation.

5. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements.

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

6. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as long-term liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs, when applicable, are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount.

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

I. Assets, Liabilities and Equity (Concluded)

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure at the balance sheet date. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Revenue Limit/Property Tax

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008, consist of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks	\$ 1,040	\$ 2,730
Cash with Fiscal Agent	2,736,025	
County Pool Investments	<u>14,056,441</u>	
Total Deposits and Investments	<u>\$ 16,793,506</u>	<u>\$ 2,730</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Cash on Hand and in Banks

Cash on hand and in banks consists of all cash held by the District and all cash maintained in commercial bank accounts owned by the District.

Cash with Fiscal Agent

Cash with Fiscal Agent consists of \$333,539 held by US Bank as trustee, for future payment of interest and redemption of certificates of participation principal; \$2,105,940 held by US Bank as trustee, for future construction projects, and \$296,546 held by US Bank as trustee, for future pay-off of a capital lease.

County Pool Investments

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

General Authorization

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

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

Interest Rate Risk

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Segmented Time Distribution

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

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 14,056,441	\$ 14,094,499	\$ 11,210,555	\$ 2,845,886

Credit Risk

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

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 14,056,441	\$ 14,094,499			\$ 14,056,441

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008, the District does not have a bank balance that is exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2008, the District does not have any investments that are held by counterparties.

Derivative Investments

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

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in General Fund was as follows:

	<u>Excess Expenditures</u>
Classified Salaries	\$ 7,570

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008 consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government			
Categorical Programs	\$ 96,109	\$ 9,585	\$ 105,694
State Government			
State Aid	25,533		25,533
Categorical Programs	177,757		177,757
Lottery	5,970		5,970
Other Allowances	28,588		28,588
Total State	237,848		237,848
Local Governments	87,501	11,623	99,124
Miscellaneous	6,065		6,065
Totals	\$ 427,523	\$ 21,208	\$ 448,731

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 5 - LONG-TERM RECEIVABLE

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

Future payments to be received under this agreement, as of June 30, 2008, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Payments</u> <u>Receivable</u>
2009	\$ 495,000
2010	475,000
2011	475,000
2012	475,000
2013	475,000
2014	<u>72,734</u>
Total	<u>\$ 2,467,734</u>

NOTE 6 - INTERFUND ACTIVITIES

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

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2007-08 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 50,000	\$ 103,767
Corporation Debt Service	502,559	14,171
Capital Projects - Special Reserve		502,559
Corporation Acquisition	14,171	
Deferred Maintenance	11,000	
Cafeteria	37,000	
Special Revenue - Special Reserve		50,000
Debt Service	<u>55,767</u>	
Totals	<u>\$ 670,497</u>	<u>\$ 670,497</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 6 - INTERFUND ACTIVITIES (CONCLUDED)

Transfer of \$11,000 from General Fund to Deferred Maintenance Fund to match State allocation.

Transfer of \$37,000 from General Fund to Cafeteria Fund to support the child nutrition program.

Transfer of \$55,767 from General Fund to Debt Service Fund for capital lease sinking fund payment.

Transfer of \$14,171 from Corporation Debt Service Fund to Corporation Acquisition Fund to transfer excess interest earnings from the certificates of participation reserve account, which will be used to finance future construction projects.

Transfer of \$502,559 from Capital Projects - Special Reserve Fund to Corporation Debt Service Fund for debt service payment on outstanding certificates of participation.

Transfer of \$50,000 from Special Revenue - Special Reserve Fund to General Fund to finance drainage project at Willow Creek Academy.

NOTE 7 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2008, is shown below:

	Balances July 1, 2007	Additions	Deletions	Balances June 30, 2008
Land	\$ 948,870			\$ 948,870
Sites and Improvements	1,236,391	\$ 9,470		1,245,861
Buildings and Improvements	4,183,835	4,539,203		8,723,038
Furniture and Equipment	90,944			90,944
Work-in-Progress	4,173,848	3,497,630	\$ 4,173,848	3,497,630
Totals at Historical Cost	10,633,888	8,046,303	4,173,848	14,506,343
Less Accumulated Depreciation for:				
Sites and Improvements	935,039	74,172		1,009,211
Buildings and Improvements	1,889,830	187,951		2,077,781
Furniture and Equipment	23,168	4,326	.	27,494
Total Accumulated Depreciation	2,848,037	266,449	0	3,114,486
Governmental Activities Capital Assets, net	<u>\$ 7,785,851</u>	<u>\$ 7,779,854</u>	<u>\$ 4,173,848</u>	<u>\$ 11,391,857</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 7 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 141,291
Supervision of Instruction	11,224
Instructional Library, Media, and Technology	786
School Site Administration	21,292
Home-to-School Transportation	8,219
Food Services	8,083
Other Pupil Services	4,949
Data Processing Services	435
Other General Administration	40,620
Plant Services	<u>29,550</u>
Total Depreciation Expense	<u>\$ 266,449</u>

NOTE 8 - GENERAL OBLIGATION BONDS

On August 18, 2005, the District issued general obligation bonds, series 2005 in an aggregate principal amount of \$7,640,000, with interest rates ranging from 3.65% to 5.5%.

On September 7, 2006, the District issued general obligation bonds, series 2006A in an aggregate principal amount of \$1,989,991 with interest rates ranging from 3.25% to 5.08%.

On September 7, 2006, the District issued general obligation bonds, series 2006B in an aggregate principal amount of \$6,269,933 with interest rates ranging from 4.0% to 5.21%.

Each of the above bond issues were authorized by more than 55% of the qualified voters of the District at the election held on November 2, 2004. The net proceeds from the sales of the bonds are being used to finance various construction/modernization projects within the District.

The outstanding general obligation debt of the District as of June 30, 2008 was as follows:

A. Current Interest Bonds

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2007</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2008</u>
8/18/05	3.65-5.5	8/1/31	\$ 7,640,000	\$ 7,475,000		\$ 165,000	\$ 7,310,000
9/7/06	3.25-4.125	8/1/22	1,680,000	1,680,000		85,000	1,595,000
9/7/06	4.0-4.375	8/1/28	3,110,000	3,110,000			3,110,000
Total			<u>\$ 12,430,000</u>	<u>\$ 12,265,000</u>	<u>\$ 0</u>	<u>\$ 250,000</u>	<u>\$ 12,015,000</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - GENERAL OBLIGATION BONDS (CONTINUED)

A. Current Interest Bonds (Concluded)

The annual requirements to amortize the current interest general obligation bonds, as of June 30, 2008, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$ 260,000	\$ 505,683	\$ 765,683
2010	275,000	492,883	767,883
2011	290,000	479,314	769,314
2012	305,000	464,863	769,863
2013	325,000	449,389	774,389
2014-2018	2,105,000	1,988,391	4,093,391
2019-2023	3,065,000	1,479,541	4,544,541
2024-2028	3,550,000	798,645	4,348,645
2029-2033	1,840,000	102,711	1,942,711
Totals	\$ 12,015,000	\$ 6,761,420	\$ 18,776,420

B. Capital Appreciation Bonds

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Date of Maturity</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2007</u>	<u>Issued Current Year</u>	<u>Accreted Interest Current Year</u>	<u>Outstanding June 30, 2008</u>
9/7/06	7.586	8/1/33	\$ 309,991	\$ 329,456		\$ 25,465	\$ 354,921
9/7/06	5.523	8/1/42	3,159,933	3,303,868		184,987	3,488,855
Totals			\$ 3,469,924	\$ 3,633,324	\$ 0	\$ 210,452	\$ 3,843,776

The outstanding obligation for Series 2006A capital appreciation bonds at June 30, 2008, was as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Rate %</u>	<u>Amount of Original Issue (Principal)</u>	<u>Accreted Interest</u>	<u>Totals</u>
2009-2013		\$ 0	\$ 0	\$ 0
2014-2018		0	0	0
2019-2023		0	0	0
2024-2028	7.586	172,333	24,977	197,310
2029-2033	7.586	118,765	17,214	135,979
2034-2038	7.586	18,893	2,739	21,632
Totals		\$ 309,991	\$ 44,930	\$ 354,921

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - GENERAL OBLIGATION BONDS (CONCLUDED)

B. Capital Appreciation Bonds (Concluded)

The annual requirements to amortize the Series 2006A capital appreciation bonds at June 30, 2008, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009-2013	\$ 0	\$ 0	\$ 0
2014-2018	0	0	0
2019-2023	0	0	0
2024-2028	172,333	527,667	700,000
2029-2033	118,765	581,235	700,000
2034-2038	18,893	121,107	140,000
Totals	\$ 309,991	\$ 1,230,009	\$ 1,540,000

The outstanding obligation for Series 2006B capital appreciation bonds at June 30, 2008, was as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Rate %</u>	<u>Amount of</u> <u>Original Issue</u> <u>(Principal)</u>	<u>Accreted</u> <u>Interest</u>	<u>Totals</u>
2009-2013		\$ 0	\$ 0	\$ 0
2014-2018		0	0	0
2019-2023		0	0	0
2024-2028		0	0	0
2029-2033	5.523	778,788	81,062	859,850
2034-2038	5.523	1,275,448	132,779	1,408,227
2039-2043	5.523	1,105,697	115,081	1,220,778
Totals		\$ 3,159,933	\$ 328,922	\$ 3,488,855

The annual requirements to amortize the Series 2006B capital appreciation bonds at June 30, 2008, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009-2013	\$ 0	\$ 0	\$ 0
2014-2018	0	0	0
2019-2023	0	0	0
2024-2028	0	0	0
2029-2033	778,788	2,221,212	3,000,000
2034-2038	1,275,448	4,894,552	6,170,000
2039-2043	1,105,697	5,899,303	7,005,000
Totals	\$ 3,159,933	\$ 13,015,067	\$ 16,175,000

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 - CAPITAL LEASES

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

Future required sinking fund payments as of June 30, 2008 are as follows:

Year Ended June 30	Sinking Fund Payments
2009	\$ 55,766
2010	55,766
2011	55,766
2012	55,766
2013	55,766
2014-2018	<u>278,835</u>
Total sinking fund payments remaining	<u>\$ 557,665</u>
Lease payment due December 19, 2017	<u>\$ 1,000,000</u>

At June 30, 2008, the Debt Service sinking fund has a fund balance of \$296,546.

- B. On August 19, 2005, The District entered into a lease agreement to finance the acquisition of energy management equipment valued at \$156,600 at an interest rate of 4.095%. The agreement requires 10 annual payments of \$19,399. The agreement provides for title to pass upon expiration of the lease period.

Future minimum lease payments under this agreement are as follows:

Year Ended June 30	Lease Payments
2009	\$ 19,399
2010	19,399
2011	19,399
2012	19,399
2013	19,399
2014-2018	<u>58,197</u>
Total payments	155,192
Less amounts representing interest	<u>(25,096)</u>
Present value of net minimum lease payments	<u>\$ 130,096</u>

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - CERTIFICATES OF PARTICIPATION

In August 2006, the Sausalito School District Financing Corporation issued certificates of participation (COPS) in the amount of \$3,235,000 with interest rates ranging from 3.25% to 5.0%. The 2006 COPS were issued to refund the outstanding 1996 Refunding COPS and provide financing for the renovation, construction, and modernization of certain District facilities. At June 30, 2008, the principal balance outstanding was \$2,415,000.

The annual requirements to amortize the certificates of participation as of June 30, 2008 are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$ 395,000	\$ 105,613	\$ 500,613
2010	385,000	92,775	477,775
2011	400,000	77,375	477,375
2012	415,000	61,375	476,375
2013	440,000	41,000	481,000
2014-2018	380,000	19,000	399,000
Totals	\$ 2,415,000	\$ 397,138	\$ 2,812,138

NOTE 11 - LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2008, is shown below:

	<u>Balances</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2008</u>	<u>Due within</u> <u>One Year</u>
Compensated Absences	\$ 16,365	\$ 15,480	16,365	\$ 15,480	\$ 15,480
General Obligation Bonds	15,898,324	210,452	\$ 250,000	15,858,776	260,000
Capital Leases	1,143,614		13,518	1,130,096	14,071
Certificates of Participation	2,800,000		385,000	2,415,000	395,000
Totals	\$ 19,858,303	\$ 225,932	\$ 664,883	\$ 19,419,352	\$ 684,551

NOTE 12 - FUND BALANCES

A. Reservations of fund balances as of June 30, 2008 are as follows:

	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Totals</u>
Revolving Fund	\$ 1,000	\$ 40	\$ 1,040
Debt Service		1,190,241	1,190,241
Restricted Programs	185,846		185,846
Totals	\$ 186,846	\$ 1,190,281	\$ 1,377,127

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 12 - FUND BALANCES (CONCLUDED)

- A. Reserved for Revolving Fund represents the portion of the ending fund balance represented by the revolving fund cash.

Reserved for Debt Service includes \$560,156 in the Bond Interest & Redemption Fund reserved for future payment of interest and redemption of bond principal, \$333,539 in the Corporation Debt Service Fund reserved for future payment of interest and redemption of certificates of participation principal, and \$296,546 in the Debt Service Fund reserved for future pay-off of a capital lease.

Reserved for Restricted Programs reflects unspent program revenues that are legally restricted for future use.

Restricted program balances at June 30, 2008 are as follows:

General Fund:

English Language Acquisition	\$ 273
Lottery Instructional Materials	390
Arts, Music & Physical Education	7,275
Supplemental School Counseling	10,227
Economic Impact Aid	39,809
Gifted & Talented Education	5,217
Instructional Materials Realignment	3,085
Targeted Instructional Improvement	102,074
School & Library Improvement	2,060
School Site Discretionary	7,243
District Discretionary	<u>8,193</u>
Total	<u>\$ 185,846</u>

- B. Designations of ending fund balances as of June 30, 2008 are as follows:

General Fund:

Economic Uncertainties	\$ 525,436
Supplemental Charter School Grant	157,000
Donations	<u>9,576</u>
Total	<u>\$ 692,012</u>

NOTE 13 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (STRS) for K-12 Education. This payment consists of state general fund contributions to STRS of \$56,335 (4.517% of salaries subject to STRS). In addition, to the normal rate, a rate of 2.237% was applied to the District's 2003-04 salaries and recorded as a contribution in fiscal year 2007-08.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

A. State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-08 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ended June 30, 2008, 2007, and 2006, were \$99,774, \$100,614, and \$95,091, respectively, and equal 100% of the required contributions for each year.

B. California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2007-08 was 9.306%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2008, 2007, and 2006, were \$91,882, \$84,513, and \$87,533, respectively, and equal 100% of the required contributions for each year.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and participating employee vest immediately. The District contributes 6.2% of each employee's gross earnings. In addition, each employee is required to contribute 6.2% of his or her gross earnings.

NOTE 15 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007-08, the District participated in one joint powers authority (JPA) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage in any of the past three years.

NOTE 16 - JOINT VENTURES

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

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

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

NOTE 17 - CHARTER SCHOOL

In accordance with Education Code Section 47605, the District approved a Charter School agreement with Willow Creek Charter School, which was renewed for an additional five years for the period July 1, 2004 through June 30, 2009. Under the terms of the agreement, the charter school is responsible for managing, budgeting, and accounting for its activities in accordance with accounting principles generally accepted in the United States of America. Therefore, the financial activities of the charter school are not included in the District's financial reports, except for certain pass-through funds, that are presented in the Fiduciary Statement of Net Assets, and the Agency Funds - Combining Statement of Changes in Assets and Liabilities. The complete activities of the Willow Creek Charter School are presented in the Charter School's audit report, which is prepared by other auditors.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 18 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

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

B. Litigation

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

NOTE 19 - FUTURE GASB IMPLEMENTATION

In July of 2004, the Governmental Accounting Standards Board issued GASB Statement 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*, with required implementation for the District during fiscal year 2009-10. The new statement will significantly change the way state and local governments report their "other post employment benefits" to the public. As a result of GASB 45, state and local governments will be required to (1) recognize the cost of these benefits in periods when the related services were rendered to the employer, (2) provide information about the actuarial accrued liabilities for promised benefits associated with past services and to what extent those benefits have been funded, (3) and provide information useful in assessing potential demands on the employer's cash flow.

SUPPLEMENTARY INFORMATION SECTION

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Revenue Limit Sources:				
State Apportionment	\$ 59,766	\$ 85,810	\$ 93,639	\$ 7,829
Local Sources	3,468,106	3,589,965	3,600,686	10,721
Total Revenue Limit Sources	3,527,872	3,675,775	3,694,325	18,550
Federal Revenue	210,323	253,999	240,466	(13,533)
Other State Revenue	1,032,785	1,142,395	1,126,564	(15,831)
Other Local Revenue	268,412	301,894	320,577	18,683
Total Revenues	5,039,392	5,374,063	5,381,932	7,869
<u>Expenditures</u>				
Certificated Salaries	1,523,557	1,594,404	1,581,869	12,535
Classified Salaries	840,410	915,235	922,805	(7,570)
Employee Benefits	603,578	649,596	620,345	29,251
Books and Supplies	185,772	363,769	289,275	74,494
Services and Other				
Operating Expenditures	1,475,958	1,592,860	1,383,723	209,137
Capital Outlay		58,535	53,979	4,556
Debt Service:				
Principal Retirement	13,518	13,518	13,518	
Interest and Fiscal Charges	5,881	5,881	5,881	
Other Expenditures	238,220	246,842	229,201	17,641
Total Expenditures	4,886,894	5,440,640	5,100,596	340,044
Excess of Revenues Over (Under) Expenditures	152,498	(66,577)	281,336	347,913
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In		50,000	50,000	
Operating Transfers Out	(105,767)	(103,714)	(103,767)	(53)
Total Other Financing Sources (Uses)	(105,767)	(53,714)	(53,767)	(53)
Net Change in Fund Balances	46,731	(120,291)	227,569	\$ 347,860
Fund Balances - July 1, 2007	901,865	901,865	901,865	
Fund Balances - June 30, 2008	\$ 948,596	\$ 781,574	\$ 1,129,434	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

SAUSALITO MARIN CITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>
<u>Assets</u>		
Deposits and Investments	\$ 457	\$ (7,889)
Receivables		21,208
Total Assets	<u>\$ 457</u>	<u>\$ 13,319</u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts Payable		\$ 6,152
Total Liabilities		<u>6,152</u>
Fund Balances:		
Reserved		40
Unreserved:		
Undesignated	\$ 457	7,127
Total Fund Balances	<u>457</u>	<u>7,167</u>
Total Liabilities and Fund Balances	<u>\$ 457</u>	<u>\$ 13,319</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Special Revenue - Special Reserve</u>	<u>Bond Interest and Redemption</u>	<u>Debt Service</u>	<u>Total Non-Major Governmental Funds</u>
\$ 396,331	\$ 560,156	\$ 296,546	\$ 1,245,601
			21,208
<u>\$ 396,331</u>	<u>\$ 560,156</u>	<u>\$ 296,546</u>	<u>\$ 1,266,809</u>
			\$ 6,152
			6,152
	\$ 560,156	\$ 296,546	856,742
<u>\$ 396,331</u>			403,915
<u>396,331</u>	<u>560,156</u>	<u>296,546</u>	<u>1,260,657</u>
<u>\$ 396,331</u>	<u>\$ 560,156</u>	<u>\$ 296,546</u>	<u>\$ 1,266,809</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>
<u>Revenues</u>		
Federal Revenue		\$ 75,792
State Revenue	\$ 6,389	6,336
Local Revenue	(418)	37,810
Total Revenues	<u>5,971</u>	<u>119,938</u>
<u>Expenditures</u>		
Food Services		150,024
Plant Services	16,600	
Debt Service:		
Principal Retirement		
Interest and Issuance Costs		
Total Expenditures	<u>16,600</u>	<u>150,024</u>
Excess of Revenues Over (Under) Expenditures	<u>(10,629)</u>	<u>(30,086)</u>
<u>Other Financing Sources (Uses)</u>		
Operating Transfers In	11,000	37,000
Operating Transfers Out		
Total Other Financing Sources (Uses)	<u>11,000</u>	<u>37,000</u>
Net Change in Fund Balances	371	6,914
Fund Balances - July 1, 2007	86	253
Fund Balances - June 30, 2008	<u>\$ 457</u>	<u>\$ 7,167</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Special Revenue - Special Reserve</u>	<u>Bond Interest and Redemption</u>	<u>Debt Service</u>	<u>Total Non-Major Governmental Funds</u>
			\$ 75,792
\$ 19,073	\$ 3,896		16,621
	703,427	\$ 6,525	766,417
19,073	707,323	6,525	858,830
			150,024
			16,600
	250,000		250,000
	517,383		517,383
0	767,383	0	934,007
19,073	(60,060)	6,525	(75,177)
(50,000)		55,767	103,767
			(50,000)
(50,000)	0	55,767	53,767
(30,927)	(60,060)	62,292	(21,410)
427,258	620,216	234,254	1,282,067
\$ 396,331	\$ 560,156	\$ 296,546	\$ 1,260,657

SAUSALITO MARIN CITY SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Balances July 1, 2007	Additions	Deductions	Balances June 30, 2008
<u>CHARTER SCHOOL *</u>				
<u>Assets</u>				
Deposits and Investments	\$ 54,105		\$ 54,105	\$ 0
Accounts Receivable	808		808	0
Total Assets	<u>\$ 54,913</u>	<u>\$ 0</u>	<u>\$ 54,913</u>	<u>\$ 0</u>
<u>Liabilities</u>				
Due to Charter School	\$ 54,913		\$ 54,913	\$ 0
Total Liabilities	<u>\$ 54,913</u>	<u>\$ 0</u>	<u>\$ 54,913</u>	<u>\$ 0</u>
<u>STUDENT BODY</u>				
<u>Assets</u>				
Deposits and Investments	<u>\$ 2,730</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,730</u>
<u>Liabilities</u>				
Due to Student Group	<u>\$ 2,730</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,730</u>
<u>COMBINED AGENCY</u>				
<u>Assets</u>				
Deposits and Investments	\$ 56,835		\$ 54,105	\$ 2,730
Accounts Receivable	808		808	0
Total Assets	<u>\$ 57,643</u>	<u>\$ 0</u>	<u>\$ 54,913</u>	<u>\$ 2,730</u>
<u>Liabilities</u>				
Due to Student Group	\$ 2,730			\$ 2,730
Due to Charter School	54,913		\$ 54,913	0
Total Liabilities	<u>\$ 57,643</u>	<u>\$ 0</u>	<u>\$ 54,913</u>	<u>\$ 2,730</u>

* The balances held in the Charter School Agency Fund were transferred to the Charter School during fiscal year 2007-08.

SAUSALITO MARIN CITY SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

ORGANIZATION

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

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Whitney Hoyt	President	December 2010
Thomas Clark	Vice President	December 2008
Shirley Thornton, Ed.D.	Clerk	December 2010
Elizabeth Todd-Gallardo	Member	December 2008
Mark Trotter	Member	December 2010

ADMINISTRATION

Dr. Debra A. Bradley
Superintendent

Margaret Bonardi
Business Manager

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Second Period <u>Report</u>	Annual <u>Report</u>
<u>Elementary</u>		
Kindergarten	20	20
First through Third	41	42
Fourth through Sixth	30	32
Seventh and Eighth	28	27
Special Education	8	8
Extended Year	1	1
Totals	<u>128</u>	<u>130</u>

	Hours of <u>Attendance</u>
<u>Supplemental Hours</u>	
Elementary	<u>11,713</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

SAUSALITO MARIN CITY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Required</u>	<u>2007-08 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	Not Available	36,000	54,470	180	N/A	In Compliance
Grade 1	Not Available	50,400	59,750	180	N/A	In Compliance
Grade 2	Not Available	50,400	59,750	180	N/A	In Compliance
Grade 3	Not Available	50,400	60,950	180	N/A	In Compliance
Grade 4	Not Available	54,000	60,950	180	N/A	In Compliance
Grade 5	Not Available	54,000	60,950	180	N/A	In Compliance
Grade 6	Not Available	54,000	60,950	180	N/A	In Compliance
Grade 7	Not Available	54,000	60,675	180	N/A	In Compliance
Grade 8	Not Available	54,000	60,675	180	N/A	In Compliance

SEE NOTES TO SUPPLEMENTARY INFORMATION

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
U.S. Department of Agriculture:			
Passed through California			
Department of Education (CDE):			
National School Lunch	10.555	13524	\$ 57,404
Especially Needy Breakfast	10.553	13526	18,388
U.S. Department of Education:			
Passed through CDE:			
NCLB: Title I - Basic Grant	84.010	14329	106,639
NCLB: Title II - Improving Teacher Quality	84.367	14341	28,224
NCLB: Title II - Enhancing Education Through Technology	84.318	14334	1,016
NCLB: Title III - Limited English Proficiency	84.365	10084	1,345
NCLB: Title V - Innovative Education Strategies	84.298A	14354	1,061
NCLB: Title IV - Drug Free Schools	84.186	14347	1,600
Special Education - Local Assistance	84.027	13379	57,563
Gear Up Grant	*	*	7,500
Direct:			
Impact Aid - Maintenance and Operations	84.041	n/a	35,518
Total			<u>\$ 316,258</u>

* Federal Catalog / Pass-Through Identification Number not available

SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Building Fund</u>
June 30, 2008 Annual Financial and Budget Report Fund Balance	\$ 10,317,275
Adjustment decreasing Fund Balance	
Understatement of Facilities Acquisition and Construction	<u>(161,126)</u>
June 30, 2008 Audited Financial Statement Fund Balance	<u><u>\$ 10,156,149</u></u>

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2008.

SAUSALITO MARIN CITY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	GENERAL FUND			
	(Budget)* 2008-09	2007-08	2006-07	2005-06
Revenues and Other Financial Sources	\$ 5,305,005	\$ 5,431,932	\$ 6,176,210	\$ 5,332,727
Expenditures	5,080,492	5,100,596	5,524,555	5,262,877
Other Uses and Transfers Out	97,014	103,767	519,054	155,983
Total Outgo	5,177,506	5,204,363	6,043,609	5,418,860
Change in Fund Balance	127,499	227,569	132,601	(86,133)
Ending Fund Balance	\$ 1,256,933	\$ 1,129,434	\$ 901,865	\$ 769,264
Available Reserves	\$ 668,971	\$ 776,012	\$ 705,224	\$ 668,199
Designated for Economic Uncertainties	\$ 540,202	\$ 525,436	\$ 483,489	\$ 433,509
Undesignated Fund Balance	\$ 128,769	\$ 250,576	\$ 221,735	\$ 234,690
Available Reserves as a Percentage of Total Outgo	12.9%	14.9%	11.7%	12.3%
Average Daily Attendance at P-2	129	128	119	135
Total Long-Term Liabilities	\$ 18,734,801	\$ 19,419,352	\$ 19,858,303	\$ 10,127,701

* Amounts reported for the 2008-09 budget are presented for analytical purposes only and have not been audited.

The fund balance of the General Fund increased \$360,170 (46.8%) over the past two years. The fiscal year 2008-09 budget projects an increase of \$127,499 (11.3%). For a district this size, the state recommends available reserves of at least 5% of total general fund expenditures, transfers out, and other uses (total outgo).

The District incurred an operating deficit of \$86,133 in fiscal year 2005-06, and produced operating surpluses of \$132,601, and \$227,569 during fiscal years 2006-07, and 2007-08, respectively.

Average daily attendance decreased 7 ADA over the past two years. The District projects an increase of 1 ADA during fiscal year 2008-09.

Total long-term liabilities increased \$9,291,651 over the past two years, due primarily to the issuance of more than \$8 million of general obligation bonds during the prior fiscal year.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<u>Charter School</u>	<u>District Audit</u>
Willow Creek Academy	Excluded

SAUSALITO MARIN CITY SCHOOL DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

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

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

B. Combining Statements

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

C. Schedule of Average Daily Attendance

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

D. Schedule of Instructional Time

The District received state funding under the Basic Aid Provision and therefore did not receive incentive funding for increasing instructional time as provided by the incentive for longer day instructional day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

E. Schedule of Expenditures of Federal Awards

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

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

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

G. Schedule of Financial Trends and Analysis

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

H. Schedule of Charter Schools

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - EXCESS SICK LEAVE

No excess sick leave, as defined in Education Code Section 22170.5(c), was expressly authorized or accrued by District employees who were members of the California State Teachers Retirement System during fiscal year 2007-08.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Sausalito Marin City School District
Sausalito, California

We have audited the basic financial statements of Sausalito Marin City School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 5, 2008. Our audit was conducted 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; the provisions of California Code of Regulations, Title 5, Education, Section 10810 and following; and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Not Applicable
Continuation Education	10	Not Applicable
Adult Education	9	Not Applicable
Regional Occupational Centers and Programs	6	Not Applicable
Instructional Time for School Districts	6	Yes
Instructional Time for County Offices of Education	3	Not Applicable
Community Day Schools	9	Not Applicable
Morgan-Hart Class Size Reduction Program	7	Not Applicable

<u>Description</u>	<u>Procedures In Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Instructional Materials Program:		
General Requirements	12	Yes
Grades K-8	1	Yes
Grades 9-12	1	Not Applicable
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not Applicable
GANN Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Excess Sick Leave	3	Yes
Notice of Right To Elect California State Teachers Retirement System (CalSTRS) Membership	1	Yes
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not Applicable
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or Charter Schools With Only One School Serving Grades K-3	4	Yes
After School Education and Safety Program:		
General Requirements	4	Yes
After School	1	(see below)
Before School	5	Not Applicable
Contemporaneous Records of Attendance For Charter Schools	1	Not Applicable
Mode of Instruction for Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/ Independent Study for Charter Schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction for Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based For Charter Schools	3	Not Applicable

We did not perform procedures two through four in the After School component of the After School Education and Safety Program, due to the fact that the District was unable to provide complete auditable attendance records to support the program attendance reported to the state.

Based on our audit, we found that, for the items tested, the Sausalito Marin City School District complied with the state laws and regulations of the state programs referred to above, except as described in the accompanying Schedule of Findings and Questioned Costs. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Sausalito Marin City School District had not complied with the state laws and regulations.

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 5, 2008

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STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

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

Board of Trustees
Sausalito Marin City School District
Sausalito, California

We have audited 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 fiscal year ended June 30, 2008, and have issued our report thereon dated December 5, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

Internal Control Over Financial Reporting (Concluded)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. The significant deficiency that we consider to be a material weakness is described in the accompanying Schedule of Findings and Questioned Costs.

Compliance and Other Matters

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

The District's response to the finding is included in the accompanying Schedule of Findings and Questioned Costs. However, we did not audit the response and, accordingly, we express no opinion on it.

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 5, 2008

FINDINGS AND QUESTIONED COSTS SECTION

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	<u> X </u> Yes	<u> </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

State Awards

Internal control over state programs:

Material weaknesses identified?	<u> X </u> Yes	<u> </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None reported

Type of auditor's report issued on compliance for state programs: Qualified

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

08 - 1 / 30000

MATERIAL WEAKNESS

EXPENDITURE REPORTING

Criteria: Under the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, regardless of when the related invoices or progress billings are actually received.

Condition: The District's current procedure for establishing accounts payable balances at year-end does not adequately ensure that all significant expenditure items are reported in the appropriate accounting period. As a result, the 2007-08 "Unaudited Actuals" Financial and Budget Report, prepared by the District, did not include \$161,126 of capital outlay expenditures that were incurred during the fiscal year, but not billed until after the end of the fiscal year.

Questioned Costs: None.

Context: The condition appears to be limited to construction retention balances and construction progress billings that were not submitted to the District business office in a timely manner.

Effect: If effective procedures are not in place to ensure that all significant expenditures items are reported in the appropriate financial reporting period, there is more than a remote likelihood that a material misstatement of the financial statements may occur and not be prevented or detected by the District's system of internal control.

Cause: The District's year-end closing procedures do not adequately address liabilities related to construction retention balances held by the District or progress billings that have not yet been received from project vendors.

Recommendation: The District should establish procedures that require business office personnel to contact the construction architect and/or construction vendors to identify all significant expenditures that have been incurred but not billed as of June 30th of each fiscal year. In addition, all progress billings should be reviewed to make sure that all retention balances held by the District at year-end are properly included in accounts payable at June 30.

District Response: The District will establish appropriate procedures that require business office personnel to contact the construction architect and/or construction vendors to identify all significant expenditures that have been incurred but not billed as of June 30th of each fiscal year. In addition, all progress billings will be reviewed to make sure that all retention balances held by the District at year-end are properly included in accounts payable at June 30.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

08 - 2 / 40000

MATERIAL WEAKNESS

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM

Criteria: Districts that receive state funds for specific purposes are required to comply with the specific programmatic and reporting requirements of each program, and are subject to review and audit by the grantor agencies.

Condition: The District has been unable to locate complete auditable attendance records for the After School Education and Safety Program for fiscal year 2007-08.

Questioned Costs: The Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Education Agencies 2007-08 do not require questioned costs to be identified for the after school component noncompliance noted above.

Context: The District recognized \$239,757 of state funding for the After School Education and Safety Program during fiscal year 2007-08.

Effect: There is no way for the independent auditor to audit the program if there are no attendance records available which support the District's compliance with program requirements.

Cause: The individuals who were in charge of operating the program during fiscal year 2007-08 are no longer employed by the District and were unable to offer any insight as to where the attendance records may be located.

Recommendation: The District should establish appropriate procedures to ensure that auditable attendance records are maintained at the District Office for the After School Education and Safety Program.

District Response: The District will establish appropriate procedures to ensure that auditable attendance records are maintained at the District Office for the After School Education and Safety Program.

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
07 - 1 / 30000		
MATERIAL WEAKNESS		
<u>FINANCIAL REPORTING</u>		
Management should work to develop alternative policies and procedures to ensure that complete and accurate financial statements are prepared and reviewed prior to the arrival of the independent auditors.	Partially Implemented	The District's current policies and procedures for preparing and reviewing complete and accurate financial statements are consistent with the industry standards.
		(Comment Not Repeated)
07 - 2 / 30000		
MATERIAL WEAKNESS		
<u>SEGREGATION OF DUTIES</u>		
Management should work to develop alternative procedures to ensure that all financial transactions and reporting activities are independently reviewed and approved.	Partially Implemented	The District's current procedures for independently reviewing and approving financial transactions and financial reporting activities are consistent with the industry standards.
		(Comment Not Repeated)