

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

AUDIT REPORT

JUNE 30, 2009

168.07

167.99

SAUSALITO MARIN CITY SCHOOL DISTRICT

JUNE 30, 2009

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JUNE 30, 2009

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FINANCIAL SECTION

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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, 2009, 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 2008-09*. 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, 2009, 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 14, 2009, 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 should be considered in 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 2008-09*, 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 14, 2009

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(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, 2009. 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 and 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 slightly improved during fiscal year 2008-09, as total net assets increased 1.4%.
- On the Statement of Activities, total current year revenues exceeded total current year expenses by \$136,315.
- Capital assets, net of depreciation, increased \$9,100,032 due to the current year addition of \$9,408,919 of new capital assets, and the current year recognition of \$308,887 of depreciation expense.
- Total long-term liabilities decreased \$444,273, 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 128 ADA in fiscal year 2007-08, up to 153 ADA in fiscal year 2008-09, an increase of 19.5%.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balance, total current year expenditures exceeded total current year revenues by \$8,918,387, due primarily to the spending down of bond proceeds received in prior fiscal years.
- The District's General Fund produced an operating surplus of \$240,864 during fiscal year 2008-09, and recognized a \$56,560 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 2008-09, General Fund expenditures and other financing uses totaled \$5,493,231. At June 30, 2009, the District has available reserves of \$832,572 in the General Fund, which represents a reserve of 15.2%.

SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(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, 2009
(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, Bond Interest and Redemption Fund, Building 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, 2009
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's total net assets increased from \$9,721,355 at June 30, 2008, up to \$9,857,670 at June 30, 2009, an increase of 1.4%.

| <u>Comparative Statement of Net Assets</u> | | |
|---|----------------------------|---------------------|
| | Governmental Activities | |
| | 2008 | 2009 |
| <u>Assets</u> | | |
| Deposits and Investments | \$ 16,793,506 | \$ 7,996,668 |
| Current Receivables | 448,731 | 774,663 |
| Long-term Receivable | 2,467,734 | 1,972,734 |
| Prepaid Expenses | 31,593 | 0 |
| Capital Assets, net | 11,391,857 | 20,491,889 |
| Total Assets | <u>31,133,421</u> | <u>31,235,954</u> |
| <u>Liabilities</u> | | |
| Current | 2,677,265 | 3,093,613 |
| Long-term | 18,734,801 | 18,284,671 |
| Total Liabilities | <u>21,412,066</u> | <u>21,378,284</u> |
| <u>Net Assets</u> | | |
| Invested in Capital Assets | | |
| - Net of Related Debt | 4,386,116 | 5,250,953 |
| Restricted | 1,544,066 | 1,103,709 |
| Unrestricted | 3,791,173 | 3,503,008 |
| Total Net Assets | <u>\$ 9,721,355</u> | <u>\$ 9,857,670</u> |

Table includes financial data of the combined governmental funds

SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(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 \$136,315.

| <u>Comparative Statement of Change in Net Assets</u> | | |
|---|--------------------------------|-------------------|
| | <u>Governmental Activities</u> | |
| | <u>2008</u> | <u>2009</u> |
| <u>Program Revenues</u> | | |
| Charges for Services | \$ 35,834 | \$ 1,066 |
| Operating Grants & Contributions | 1,460,969 | 1,501,443 |
| Capital Grants & Contributions | 886,073 | 151 |
| <u>General Revenues</u> | | |
| Taxes Levied | 4,295,605 | 4,615,027 |
| Federal & State Aid | 242,355 | 286,718 |
| Interest & Investment Earnings | 717,123 | 259,158 |
| Miscellaneous | 134,609 | 118,468 |
| Total Revenues | 7,772,568 | 6,782,031 |
| <u>Expenses</u> | | |
| Instruction | 2,763,596 | 3,008,943 |
| Instruction-Related Services | 651,371 | 656,671 |
| Pupil Services | 415,664 | 422,916 |
| General Administration | 803,005 | 808,380 |
| Plant Services | 577,975 | 654,897 |
| Ancillary Services | 0 | 8,199 |
| Interest on Long-Term Debt | 815,344 | 804,152 |
| Other Outgo | 271,325 | 281,558 |
| Total Expenses | 6,298,280 | 6,645,716 |
| Change in Net Assets | \$ 1,474,288 | \$ 136,315 |

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, 2009
(PREPARED BY DISTRICT MANAGEMENT)**

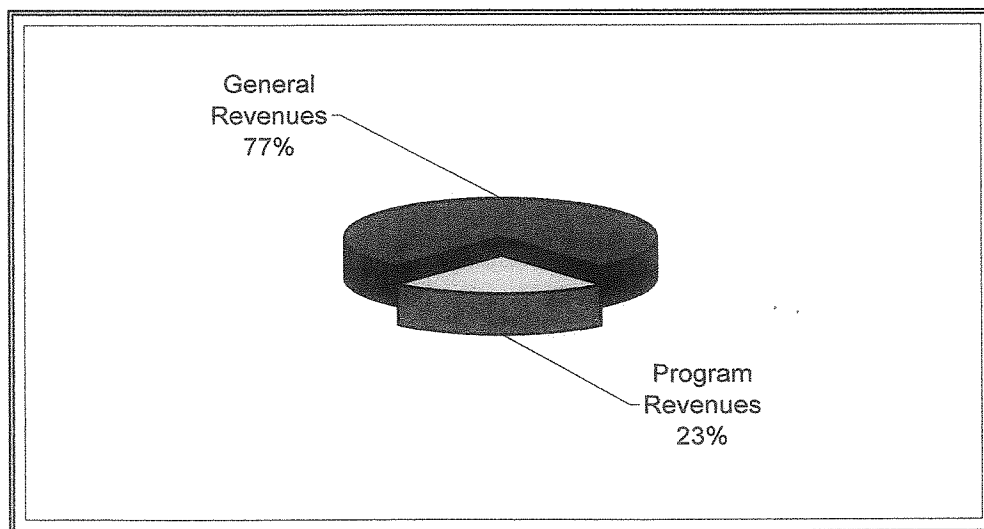
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

| <u>Comparative Schedule of Costs of Services</u> | | | | |
|---|--------------------------------------|----------------------------|------------------------------------|----------------------------|
| | <u>Total Cost of Services</u> | | <u>Net Cost of Services</u> | |
| | <u>2008</u> | <u>2009</u> | <u>2008</u> | <u>2009</u> |
| Instruction | \$ 2,763,596 | \$ 3,008,943 | \$ 961,458 | \$ 1,991,845 |
| Instruction-Related Services | 651,371 | 656,671 | 359,005 | 512,354 |
| Pupil Services | 415,664 | 422,916 | 201,343 | 182,271 |
| General Administration | 803,005 | 808,380 | 758,293 | 764,351 |
| Plant Services | 577,975 | 654,897 | 554,978 | 654,897 |
| Ancillary Services | 0 | 8,199 | 0 | 1,402 |
| Interest on Long-Term Debt | 815,344 | 804,152 | 815,344 | 804,152 |
| Other Outgo | 271,325 | 281,558 | 264,983 | 231,784 |
| Totals | <u>\$ 6,298,280</u> | <u>\$ 6,645,716</u> | <u>\$ 3,915,404</u> | <u>\$ 5,143,056</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 \$5,143,056 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 23% of the total cost of providing the services listed above, while the remaining 77% 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, 2009
(PREPARED BY DISTRICT MANAGEMENT)

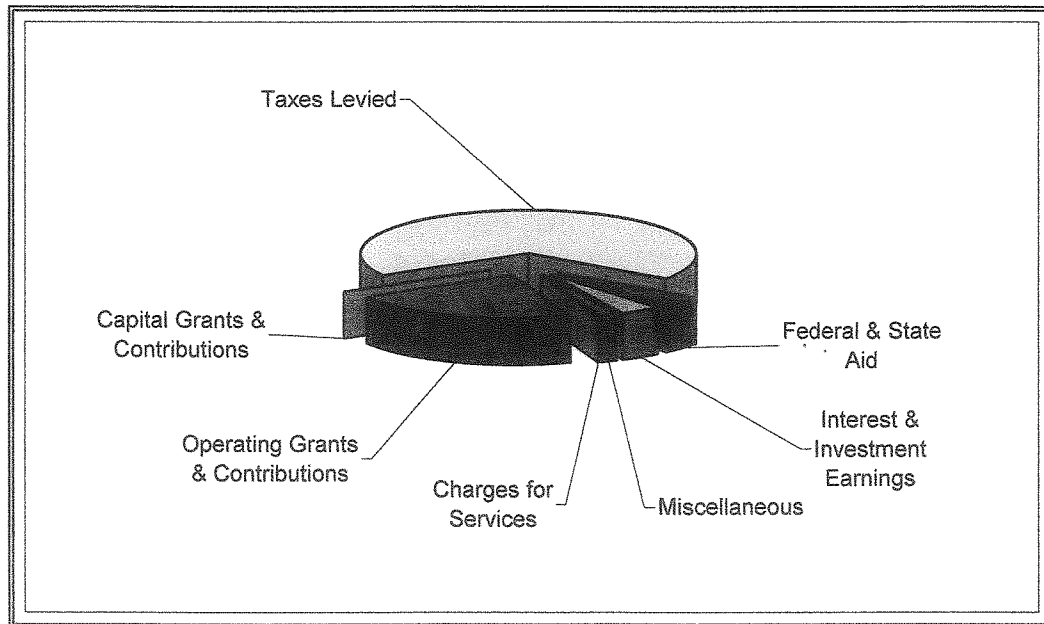
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Summary of Revenues For Governmental Functions

| | FYE 2008 Amount | Percent of Total | FYE 2009 Amount | Percent of Total |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|
| <u>Program Revenues</u> | | | | |
| Charges for Services | \$ 35,834 | 0.46% | \$ 1,066 | 0.02% |
| Operating Grants & Contributions | 1,460,969 | 18.80% | 1,501,443 | 22.14% |
| Capital Grants & Contributions | 886,073 | 11.40% | 151 | 0.00% |
| <u>General Revenues</u> | | | | |
| Taxes Levied | 4,295,605 | 55.27% | 4,615,027 | 68.05% |
| Federal & State Aid | 242,355 | 3.12% | 286,718 | 4.23% |
| Interest & Investment Earnings | 717,123 | 9.23% | 259,158 | 3.82% |
| Miscellaneous | 134,609 | 1.73% | 118,468 | 1.75% |
| Total Revenues | \$ 7,772,568 | 100.00% | \$ 6,782,031 | 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, 2009
(PREPARED BY DISTRICT MANAGEMENT)

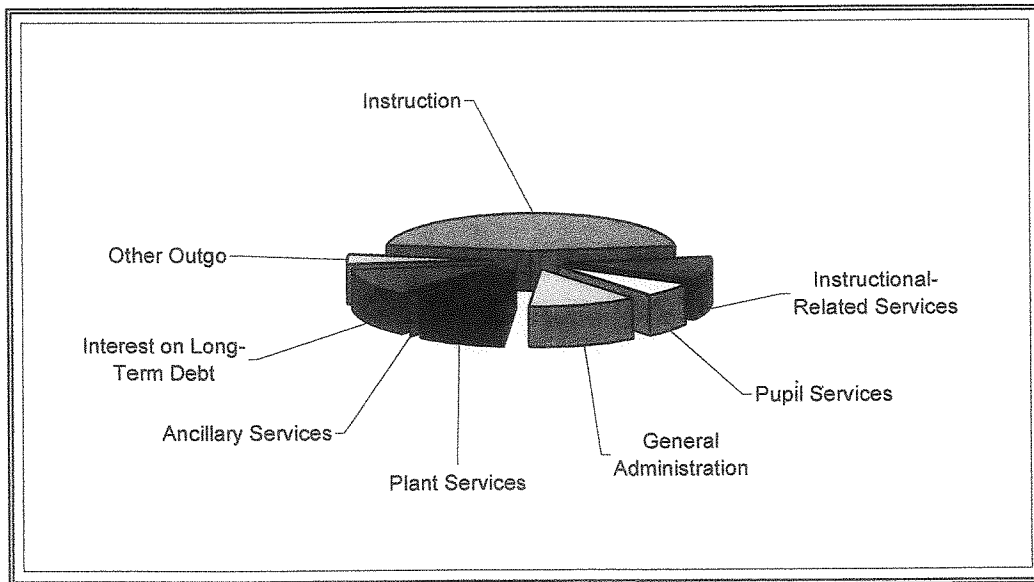
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Expenses For Governmental Functions

| | FYE 2008 Amount | Percent of Total | FYE 2009 Amount | Percent of Total |
|------------------------------|---------------------|---------------------|---------------------|---------------------|
| Expenses | | | | |
| Instruction | \$ 2,763,596 | 43.88% | \$ 3,008,943 | 45.28% |
| Instruction-Related Services | 651,371 | 10.34% | 656,671 | 9.88% |
| Pupil Services | 415,664 | 6.60% | 422,916 | 6.36% |
| General Administration | 803,005 | 12.75% | 808,380 | 12.16% |
| Plant Services | 577,975 | 9.18% | 654,897 | 9.85% |
| Ancillary Services | 0 | 0.00% | 8,199 | 0.12% |
| Interest on Long-Term Debt | 815,344 | 12.95% | 804,152 | 12.10% |
| Other Outgo | 271,325 | 4.31% | 281,558 | 4.24% |
| Total Expenses | \$ 6,298,280 | 100.00% | \$ 6,645,716 | 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, 2009
(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 | |
| | 2008 | 2009 |
| Land | \$ 948,870 | \$ 948,870 |
| Sites and Improvements | 1,245,861 | 1,384,149 |
| Buildings and Improvements * | 8,463,184 | 8,463,184 |
| Furniture and Equipment | 90,944 | 106,711 |
| Work-in-Progress * | 3,757,484 | 13,012,348 |
| Subtotals | 14,506,343 | 23,915,262 |
| Less: Accumulated Depreciation | (3,114,486) | (3,423,373) |
| Capital Assets, net | <u>\$ 11,391,857</u> | <u>\$ 20,491,889</u> |
| * The prior year balances have been reclassified to ensure comparability between years. | | |

Capital assets, net of depreciation, increased \$9,100,032 due to the current year addition of \$9,408,919 of new capital assets, and the current year recognition of \$308,887 of depreciation expense.

| <u>Comparative Schedule of Long-Term Liabilities</u> | | |
|---|----------------------------|----------------------|
| | Governmental Activities | |
| | 2008 | 2009 |
| Compensated Absences | \$ 15,480 | \$ 15,760 |
| General Obligation Bonds | 15,858,776 | 15,821,554 |
| Capital Leases | 1,130,096 | 1,117,765 |
| Certificates of Participation | 2,415,000 | 2,020,000 |
| Totals | <u>\$ 19,419,352</u> | <u>\$ 18,975,079</u> |

Total long-term liabilities decreased \$444,273 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, 2009
(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 83.38% of the District's total long-term liabilities.

The capital leases are financed by the General Fund, and represents 5.89% 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 10.65% of the Districts 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

| <u>Comparative Schedule of Fund Balances</u> | | | |
|---|--|--|--------------------------------|
| | Fund Balances June 30, 2008 | Fund Balances June 30, 2009 | Increase (Decrease) |
| General | \$ 1,129,434 | \$ 1,370,298 | \$ 240,864 |
| Bond Interest & Redemption | 560,156 | 561,037 | 881 |
| Building | 10,156,149 | 1,212,260 | (8,943,889) |
| Capital Projects - Special Reserve | 526,416 | 268,138 | (258,278) |
| Corporation Acquisition | 2,105,940 | 2,141,906 | 35,966 |
| Deferred Maintenance | 457 | 456 | (1) |
| Cafeteria | 7,167 | 11,272 | 4,105 |
| Special Revenue - Special Reserve | 396,331 | 344,244 | (52,087) |
| Corporation Debt Service | 333,539 | 323,581 | (9,958) |
| Debt Service | 296,546 | 360,405 | 63,859 |
| County School Facilities | 6,791 | 6,942 | 151 |
| Totals | \$ 15,518,926 | \$ 6,600,539 | \$ (8,918,387) |

The combined fund balances of all District funds decreased \$8,918,387, while the fund balance of the General Fund Increased \$240,864. 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, 2009
(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 2009-10.
- The District is expected to maintain its basic aid status during fiscal year 2009-10. As a result, the anticipated increase in student enrollment will likely reduce per pupil funding.
- Due to the unprecedented nature of the current State and Federal fiscal crisis, the amount of funding that will be available to the District remains uncertain. As a result, 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, 2009

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>Assets</u> | |
| Deposits and Investments (Note 2) | \$ 7,996,668 |
| Receivables (Note 4) | 774,663 |
| Long-term Receivable (Note 5) | 1,972,734 |
| Capital Assets: (Note 7) | |
| Land | 948,870 |
| Sites and Improvements | 1,384,149 |
| Buildings and Improvements | 8,463,184 |
| Furniture and Equipment | 106,711 |
| Work-in-Progress | 13,012,348 |
| Less: Accumulated Depreciation | (3,423,373) |
| Total Assets | <u>31,235,954</u> |
| <u>Liabilities</u> | |
| Accounts Payable and Other Current Liabilities | <u>2,366,453</u> |
| Deferred Revenue (Note 11) | 36,752 |
| Long-Term Liabilities: | |
| <i>Portion Due or Payable Within One Year:</i> | |
| Compensated Absences (Note 11) | 15,760 |
| General Obligation Bonds | |
| Current Interest | 275,000 |
| Capital Leases | 14,648 |
| Certificates of Participation | 385,000 |
| <i>Portion Due or Payable After One Year:</i> | |
| General Obligation Bonds (Note 8) | |
| Current Interest | 11,480,000 |
| Capital Appreciation | 4,066,554 |
| Capital Leases (Note 9) | 1,103,117 |
| Certificates of Participation (Note 10) | 1,635,000 |
| Total Liabilities | <u>21,378,284</u> |
| <u>Net Assets</u> | |
| Investment in Capital Assets, Net of Related Debt | 5,250,953 |
| Restricted: | |
| For Capital Projects | 275,080 |
| For Debt Service | 648,393 |
| For Educational Programs | 167,508 |
| For Other Purposes | 12,728 |
| Unrestricted | 3,503,008 |
| Total Net Assets | <u><u>\$ 9,857,670</u></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, 2009**

| Functions | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|--------------------------------------|---------------------|-------------------------|---|---|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| <u>Governmental Activities</u> | | | | | |
| Instruction | \$ 3,008,943 | | \$ 1,016,947 | \$ 151 | \$ (1,991,845) |
| Instruction-Related Services: | | | | | |
| Supervision of Instruction | 186,025 | | 96,431 | | (89,594) |
| Instructional Library and Technology | 38,967 | | 24,570 | | (14,397) |
| School Site Administration | 431,679 | | 23,316 | | (408,363) |
| Pupil Services: | | | | | |
| Home-to-School Transportation | 154,437 | | 88,271 | | (66,166) |
| Food Services | 131,006 | \$ 1,066 | 84,274 | | (45,666) |
| Other Pupil Services | 137,473 | | 67,034 | | (70,439) |
| General Administration: | | | | | |
| Data Processing Services | 27,894 | | | | (27,894) |
| Other General Administration | 780,486 | | 44,029 | | (736,457) |
| Plant Services | 654,897 | | | | (654,897) |
| Ancillary Services | 8,199 | | 6,797 | | (1,402) |
| Interest on Long-Term Debt | 804,152 | | | | (804,152) |
| Other Outgo | 281,558 | | 49,774 | | (231,784) |
| Total Governmental Activities | <u>\$ 6,645,716</u> | <u>\$ 1,066</u> | <u>\$ 1,501,443</u> | <u>\$ 151</u> | <u>(5,143,056)</u> |
| <u>General Revenues</u> | | | | | |
| Taxes Levied for General Purposes | | | | | 3,853,720 |
| Taxes Levied for Debt Service | | | | | 761,307 |
| Federal and State Aid - Unrestricted | | | | | 286,718 |
| Interest and Investment Earnings | | | | | 259,158 |
| Miscellaneous | | | | | 118,468 |
| Total General Revenues | | | | | <u>5,279,371</u> |
| Change in Net Assets | | | | | 136,315 |
| Net Assets - July 1, 2008 | | | | | <u>9,721,355</u> |
| Net Assets - June 30, 2009 | | | | | <u>\$ 9,857,670</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

SAUSALITO MARIN CITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

| | <u>General</u> | <u>Bond Interest and Redemption</u> | <u>Building</u> |
|---|---------------------|---|---------------------|
| <u>Assets</u> | | | |
| Deposits and Investments (Note 2) | \$ 1,165,724 | \$ 561,037 | \$ 2,772,675 |
| Receivables (Note 4) | 573,517 | | 175,000 |
| Other Current Assets | | | |
| Total Assets | <u>\$ 1,739,241</u> | <u>\$ 561,037</u> | <u>\$ 2,947,675</u> |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities: | | | |
| Accounts Payable | \$ 332,191 | | \$ 1,735,415 |
| Deferred Revenue (Note 11) | 36,752 | | |
| Total Liabilities | <u>368,943</u> | | <u>1,735,415</u> |
| Fund Balances: (Note 12) | | | |
| Reserved | 168,508 | \$ 561,037 | |
| Unreserved: | | | |
| Designated | 922,466 | | |
| Undesignated | 279,324 | | 1,212,260 |
| Total Fund Balances | <u>1,370,298</u> | <u>561,037</u> | <u>1,212,260</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,739,241</u> | <u>\$ 561,037</u> | <u>\$ 2,947,675</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

| <u>Capital Projects - Special Reserve</u> | <u>Corporation Acquisition</u> | <u>Non-Major Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|------------------------------------|---|---|
| \$ 333,948 | \$ 2,141,906 | \$ 1,021,378 | \$ 7,996,668 |
| 1,972,734 | | 26,146 | 774,663 |
| <u>\$ 2,306,682</u> | <u>\$ 2,141,906</u> | <u>\$ 1,047,524</u> | <u>\$ 10,744,065</u> |
| \$ 65,810 | | \$ 624 | \$ 2,134,040 |
| 1,972,734 | | | 2,009,486 |
| <u>2,038,544</u> | | <u>624</u> | <u>4,143,526</u> |
| | | 684,026 | 1,413,571 |
| 268,138 | \$ 2,141,906 | 362,874 | 922,466 |
| <u>268,138</u> | <u>2,141,906</u> | <u>1,046,900</u> | <u>6,600,539</u> |
| <u>\$ 2,306,682</u> | <u>\$ 2,141,906</u> | <u>\$ 1,047,524</u> | <u>\$ 10,744,065</u> |

SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2009

| | | |
|---|-----------|------------------|
| Total Fund Balances - Governmental Funds | \$ | 6,600,539 |
|---|-----------|------------------|

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 amount that capital assets exceeded accumulated depreciation was:

| | | | |
|--------------------------|----|-------------|------------|
| Capital Assets | \$ | 23,915,262 | |
| Accumulated Depreciation | | (3,423,373) | |
| | | | 20,491,889 |

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:

1,972,734

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:

(232,413)

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 | \$ | 15,760 | |
| General Obligation Bonds | | 15,821,554 | |
| Capital Leases | | 1,117,765 | |
| Certificates of Participation | | 2,020,000 | |
| | | | |

| | | |
|---|--|---------------------|
| Total Net Assets - Governmental Activities | | (18,975,079) |
|---|--|---------------------|

| | | |
|--|-----------|------------------|
| | \$ | 9,857,670 |
|--|-----------|------------------|

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| | <u>General</u> | <u>Bond Interest and Redemption</u> | <u>Building</u> |
|---|----------------|---|-----------------|
| <u>Revenues</u> | | | |
| Revenue Limit Sources: | | | |
| State Apportionment | \$ 113,716 | | |
| Local Taxes | 3,853,720 | | |
| Total Revenue Limit Sources | 3,967,436 | | |
| Federal Revenue | 336,523 | | \$ 22,500 |
| State Revenue | 1,017,882 | \$ 3,951 | |
| Local Revenue | 351,388 | 762,613 | 174,828 |
| Total Revenues | 5,673,229 | 766,564 | 197,328 |
| <u>Expenditures</u> | | | |
| Instruction | 2,832,942 | | |
| Supervision of Instruction | 175,675 | | |
| Instructional Library and Technology | 36,799 | | |
| School Site Administration | 407,662 | | |
| Home-To-School Transportation | 154,437 | | |
| Food Services | | | |
| Other Pupil Services | 129,824 | | |
| Data Processing Services | 26,342 | | |
| Other General Administration | 736,782 | | |
| Plant Services | 544,489 | | 1,783 |
| Facilities Acquisition and Construction | 62,468 | | 9,139,434 |
| Ancillary Services | 8,199 | | |
| Debt Service: | | | |
| Principal Retirement | 12,331 | 260,000 | |
| Interest and Issuance Costs | 7,068 | 505,683 | |
| Other Outgo | 249,965 | | |
| Total Expenditures | 5,384,983 | 765,683 | 9,141,217 |
| Excess of Revenues Over (Under) Expenditures | 288,246 | 881 | (8,943,889) |
| <u>Other Financing Sources (Uses)</u> | | | |
| Operating Transfers In | 60,866 | | |
| Operating Transfers Out | (108,248) | | |
| Total Other Financing Sources (Uses) | (47,382) | 0 | 0 |
| Net Change in Fund Balances | 240,864 | 881 | (8,943,889) |
| Fund Balances - July 1, 2008 | 1,129,434 | 560,156 | 10,156,149 |
| Fund Balances - June 30, 2009 | \$ 1,370,298 | \$ 561,037 | \$ 1,212,260 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

| <u>Capital Projects - Special Reserve</u> | <u>Corporation Acquisition</u> | <u>Non-Major Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|------------------------------------|---|---|
| | | | \$ 113,716 |
| | | | 3,853,720 |
| | | | 3,967,436 |
| | | \$ 77,919 | 436,942 |
| | | 6,563 | 1,028,396 |
| \$ 511,283 | \$ 22,669 | 21,476 | 1,844,257 |
| <u>511,283</u> | <u>22,669</u> | <u>105,958</u> | <u>7,277,031</u> |
| | | | 2,832,942 |
| | | | 175,675 |
| | | | 36,799 |
| | | | 407,662 |
| | | | 154,437 |
| | | 123,717 | 123,717 |
| | | | 129,824 |
| | | | 26,342 |
| | | | 736,782 |
| | | 10,000 | 556,272 |
| 269,205 | | | 9,471,107 |
| | | | 8,199 |
| | | 395,000 | 667,331 |
| | | 105,613 | 618,364 |
| | | | 249,965 |
| <u>269,205</u> | <u>0</u> | <u>634,330</u> | <u>16,195,418</u> |
| <u>242,078</u> | <u>22,669</u> | <u>(528,372)</u> | <u>(8,918,387)</u> |
| | 13,297 | 608,604 | 682,767 |
| <u>(500,356)</u> | <u></u> | <u>(74,163)</u> | <u>(682,767)</u> |
| <u>(500,356)</u> | <u>13,297</u> | <u>534,441</u> | <u>0</u> |
| <u>(258,278)</u> | <u>35,966</u> | <u>6,069</u> | <u>(8,918,387)</u> |
| <u>526,416</u> | <u>2,105,940</u> | <u>1,040,831</u> | <u>15,518,926</u> |
| <u>\$ 268,138</u> | <u>\$ 2,141,906</u> | <u>\$ 1,046,900</u> | <u>\$ 6,600,539</u> |

SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| | |
|---|-----------------------|
| Net Change in Fund Balances - Governmental Funds | \$ (8,918,387) |
|---|-----------------------|

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 | \$ 9,408,919 | |
| Depreciation Expense | <u>(308,887)</u> | |
| | | 9,100,032 |

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:

(495,000)

In the statement of activities, certain operating expenses-compensated absences (vacations) 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 earned exceeded amounts used by:

(280)

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 | | (31,593) |
|----------------------------|--|----------|

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 | | 27,997 |
|------------------------|--|--------|

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 | \$ 260,000 | |
| Capital Leases | 12,331 | |
| Certificates of Participation | <u>395,000</u> | |
| | | 667,331 |

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:

8,993

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:

(222,778)

Change in Net Assets of Governmental Activities

\$ 136,315

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

| | Agency Funds | Total Fiduciary Funds |
|-----------------------------------|-----------------|-----------------------------|
| <u>Assets</u> | | |
| Deposits and Investments (Note 2) | \$ 1,119 | \$ 1,119 |
| Total Assets | 1,119 | 1,119 |
| <u>Liabilities</u> | | |
| Due to Student Groups | 1,119 | 1,119 |
| Total Liabilities | 1,119 | 1,119 |
| <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, 2009

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.

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, 2009

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, 2009

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, 2009

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, 2009

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.

~~*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.

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

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:

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

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

Special Revenue - Special Reserve Fund is used to accumulate resources for future board designated projects.

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.

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Concluded)

Non-major Governmental Funds: (Concluded)

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

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.

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.

H. Encumbrances

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and Equity

1. Deposits and Investments

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

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

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

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

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

2. Capital Assets

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and Equity (Continued)

3. 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.

4. Compensated Absences

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

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

5. Long-term Liabilities

In the government-wide financial statements, long-term 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.

6. 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.

7. Revenue Limit/Property Tax

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

I. Assets, Liabilities and Equity (Concluded)

7. Revenue Limit/Property Tax (Concluded)

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.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the State General Fund, and is known as the state apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the applicable attendance period ADA to derive the District's total entitlement. Since the total computed entitlement is generally less than the allocated property tax revenues, the District continues to be funded under the basic aid provision.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2009, consist of the following:

| | <u>Governmental Activities</u> | <u>Fiduciary Activities</u> |
|--------------------------------|------------------------------------|---------------------------------|
| Cash on Hand and in Banks | \$ 1,040 | \$ 1,119 |
| Cash with Fiscal Agent | 2,937,295 | |
| County Pool Investments | <u>5,058,333</u> | |
| Total Deposits and Investments | <u>\$ 7,996,668</u> | <u>\$ 1,119</u> |

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Cash with Fiscal Agent

Cash with Fiscal Agent consists of \$323,581 held by US Bank as trustee, for future payment of interest and redemption of certificates of participation principal; \$2,141,906 held by US Bank as trustee, for future construction projects; \$125,693 of earned retention funds, held in an escrow account at Sonoma Bank, which will be released to the contractor upon the completion of the construction project; and \$346,115 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, 2009

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 | \$ 5,058,333 | \$ 5,092,863 | \$ 4,268,532 | \$ 789,801 |

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 | \$ 5,058,333 | \$ 5,092,863 | | | \$ 5,058,333 |

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, 2009, 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, 2009

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, 2009, 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> |
|----------------|--------------------------------|
| Capital Outlay | \$ 1,601 |

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, 2009 consist of the following:

| | <u>General Fund</u> | <u>Building Fund</u> | <u>Non-Major Governmental Funds</u> | <u>Totals</u> |
|--------------------|-------------------------|--------------------------|---|-------------------|
| Federal Government | \$ 226,767 | | \$ 11,556 | \$ 238,323 |
| State Government | 154,040 | | 300 | 154,340 |
| Local Governments | 18,131 | | | 18,131 |
| Miscellaneous | <u>174,579</u> | <u>\$ 175,000</u> | <u>14,290</u> | <u>363,869</u> |
| Totals | <u>\$ 573,517</u> | <u>\$ 175,000</u> | <u>\$ 26,146</u> | <u>\$ 774,663</u> |

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009, are as follows:

| <u>Year Ended</u> <u>June 30</u> | <u>Payments</u> <u>Receivable</u> |
|-------------------------------------|--------------------------------------|
| 2010 | \$ 475,000 |
| 2011 | 475,000 |
| 2012 | 475,000 |
| 2013 | 475,000 |
| 2014 | 72,734 |
| Total | <u>\$ 1,972,734</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 2008-09 were as follows:

| <u>Funds</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|------------------------------------|---------------------|----------------------|
| General | \$ 60,866 | \$ 108,248 |
| Capital Projects - Special Reserve | | 500,356 |
| Corporation Acquisition | 13,297 | |
| Deferred Maintenance | 10,000 | |
| Cafeteria | 42,482 | |
| Special Revenue - Special Reserve | | 60,866 |
| Corporation Debt Service | 500,356 | 13,297 |
| Debt Service | 55,766 | |
| Totals | <u>\$ 682,767</u> | <u>\$ 682,767</u> |

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 6 - INTERFUND ACTIVITIES (CONCLUDED)

Transfer of \$10,000 from General Fund to Deferred Maintenance Fund to match State allocation.

Transfer of \$42,482 from General Fund to Cafeteria Fund to support the child nutrition program.

Transfer of \$55,766 from General Fund to Debt Service Fund for capital lease sinking fund payment.

Transfer of \$500,356 from Capital Projects - Special Reserve Fund to Corporation Debt Service Fund for debt service payment on outstanding certificates of participation.

Transfer of \$60,866 from Special Revenue - Special Reserve Fund to General Fund to finance drainage project at Willow Creek Academy.

Transfer of \$13,297 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.

NOTE 7 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2009, is shown below:

| | Balances July 1, 2008 | Additions | Deletions | Balances June 30, 2009 |
|------------------------------------|--------------------------|--------------|------------|---------------------------|
| Land | \$ 948,870 | | | \$ 948,870 |
| Sites and Improvements | 1,245,861 | \$ 138,288 | | 1,384,149 |
| Buildings and Improvements * | 8,463,184 | | | 8,463,184 |
| Furniture and Equipment | 90,944 | 15,767 | | 106,711 |
| Work-in-Progress * | 3,757,484 | 9,393,152 | \$ 138,288 | 13,012,348 |
| Totals at Historical Cost | 14,506,343 | 9,547,207 | 138,288 | 23,915,262 |
| Less Accumulated Depreciation for: | | | | |
| Sites and Improvements | 1,009,211 | 62,113 | | 1,071,324 |
| Buildings and Improvements | 2,077,781 | 241,660 | | 2,319,441 |
| Furniture and Equipment | 27,494 | 5,114 | | 32,608 |
| Total Accumulated Depreciation | 3,114,486 | 308,887 | 0 | 3,423,373 |
| Governmental Activities | | | | |
| Capital Assets, net | \$ 11,391,857 | \$ 9,238,320 | \$ 138,288 | \$ 20,491,889 |

* The July 1, 2008 balances have been reclassified to ensure comparability between fiscal years.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 7 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

Depreciation expense was charged to governmental activities as follows:

| | |
|--------------------------------------|-------------------|
| Instruction | \$ 176,001 |
| Supervision of Instruction | 10,350 |
| Instructional Library and Technology | 2,168 |
| School Site Administration | 24,017 |
| Food Services | 7,289 |
| Other Pupil Services | 7,649 |
| Data Processing Services | 1,552 |
| Other General Administration | 43,424 |
| Plant Services | <u>36,437</u> |
| Total Depreciation Expense | <u>\$ 308,887</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, 2009 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, 2008</u> | <u>Issued Current Year</u> | <u>Redeemed Current Year</u> | <u>Outstanding June 30, 2009</u> |
|------------------------------|----------------------------|--------------------------|---|-------------------------------------|------------------------------------|--------------------------------------|--------------------------------------|
| 8/18/05 | 3.65-5.5 | 8/1/31 | \$ 7,640,000 | \$ 7,310,000 | | \$ 175,000 | \$ 7,135,000 |
| 9/7/06 | 3.25-4.125 | 8/1/22 | 1,680,000 | 1,595,000 | | 85,000 | 1,510,000 |
| 9/7/06 | 4.0-4.375 | 8/1/28 | <u>3,110,000</u> | <u>3,110,000</u> | | | <u>3,110,000</u> |
| Total | | | <u>\$ 12,430,000</u> | <u>\$ 12,015,000</u> | <u>\$ 0</u> | <u>\$ 260,000</u> | <u>\$ 11,755,000</u> |

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009, are as follows:

| <u>Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------|----------------------|---------------------|----------------------|
| 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 | 350,000 | 432,809 | 782,809 |
| 2015-2019 | 2,285,000 | 1,898,816 | 4,183,816 |
| 2020-2024 | 3,145,000 | 1,353,824 | 4,498,824 |
| 2025-2029 | 3,810,000 | 641,699 | 4,451,699 |
| 2030-2034 | 970,000 | 42,140 | 1,012,140 |
| Totals | <u>\$ 11,755,000</u> | <u>\$ 6,255,737</u> | <u>\$ 18,010,737</u> |

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, 2008</u> | <u>Issued Current Year</u> | <u>Accreted Interest Current Year</u> | <u>Outstanding June 30, 2009</u> |
|------------------------------|----------------------------|---------------------------------|---|-------------------------------------|------------------------------------|---|--------------------------------------|
| 9/7/06 | 7.586 | 8/1/33 | \$ 309,991 | \$ 354,921 | | \$ 27,434 | \$ 382,355 |
| 9/7/06 | 5.523 | 8/1/42 | 3,159,933 | 3,488,855 | | 195,344 | 3,684,199 |
| Totals | | | <u>\$ 3,469,924</u> | <u>\$ 3,843,776</u> | <u>\$ 0</u> | <u>\$ 222,778</u> | <u>\$ 4,066,554</u> |

The outstanding obligation for Series 2006A capital appreciation bonds at June 30, 2009, was as follows:

| <u>Year Ended June 30</u> | <u>Rate %</u> | <u>Amount of Original Issue (Principal)</u> | <u>Accreted Interest</u> | <u>Totals</u> |
|-------------------------------|---------------|---|------------------------------|-------------------|
| 2010-2014 | | \$ 0 | \$ 0 | \$ 0 |
| 2015-2019 | | 0 | 0 | 0 |
| 2020-2024 | 7.586 | 39,780 | 9,286 | 49,066 |
| 2025-2029 | 7.586 | 159,968 | 37,342 | 197,310 |
| 2030-2034 | 7.586 | 110,243 | 25,736 | 135,979 |
| Totals | | <u>\$ 309,991</u> | <u>\$ 72,364</u> | <u>\$ 382,355</u> |

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009, are as follows:

| <u>Year Ended</u> <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------------|-------------------|---------------------|---------------------|
| 2010-2014 | \$ 0 | \$ 0 | \$ 0 |
| 2015-2019 | 0 | 0 | 0 |
| 2020-2024 | 39,780 | 100,220 | 140,000 |
| 2025-2029 | 159,968 | 540,032 | 700,000 |
| 2030-2034 | 110,243 | 589,757 | 700,000 |
| Totals | \$ 309,991 | \$ 1,230,009 | \$ 1,540,000 |

The outstanding obligation for Series 2006B capital appreciation bonds at June 30, 2009, 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> |
|-------------------------------------|---------------|---|------------------------------------|---------------------|
| 2010-2014 | | \$ 0 | \$ 0 | \$ 0 |
| 2015-2019 | | 0 | 0 | 0 |
| 2020-2024 | | 0 | 0 | 0 |
| 2025-2029 | | 0 | 0 | 0 |
| 2030-2034 | 5.523 | 1,025,915 | 170,207 | 1,196,122 |
| 2035-2039 | 5.523 | 1,264,893 | 209,872 | 1,474,765 |
| 2040-2044 | 5.523 | 869,125 | 144,187 | 1,013,312 |
| Totals | | \$ 3,159,933 | \$ 524,266 | \$ 3,684,199 |

The annual requirements to amortize the Series 2006B capital appreciation bonds at June 30, 2009, are as follows:

| <u>Year Ended</u> <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------------|---------------------|----------------------|----------------------|
| 2010-2014 | \$ 0 | \$ 0 | \$ 0 |
| 2015-2019 | 0 | 0 | 0 |
| 2020-2024 | 0 | 0 | 0 |
| 2025-2029 | 0 | 0 | 0 |
| 2030-2034 | 1,025,915 | 3,044,085 | 4,070,000 |
| 2035-2039 | 1,264,893 | 5,180,107 | 6,445,000 |
| 2040-2044 | 869,125 | 4,790,875 | 5,660,000 |
| Totals | \$ 3,159,933 | \$ 13,015,067 | \$ 16,175,000 |

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009 are as follows:

| <u>Year Ended</u> <u>June 30</u> | <u>Sinking</u> <u>Fund</u> <u>Payments</u> |
|---------------------------------------|--|
| 2010 | \$ 55,766 |
| 2011 | 55,766 |
| 2012 | 55,766 |
| 2013 | 55,766 |
| 2014 | 55,766 |
| 2015-2019 | <u>223,069</u> |
| Total sinking fund payments remaining | <u>\$ 501,899</u> |
| Lease payment due December 19, 2017 | <u>\$ 1,000,000</u> |

At June 30, 2009, the Debt Service sinking fund has a fund balance of \$360,405.

- 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:

| <u>Year Ended</u> <u>June 30</u> | <u>Lease</u> <u>Payments</u> |
|---|---------------------------------|
| 2010 | \$ 19,399 |
| 2011 | 19,399 |
| 2012 | 19,399 |
| 2013 | 19,399 |
| 2014 | 19,399 |
| 2015-2019 | <u>38,798</u> |
| Total payments | 135,793 |
| Less amounts representing interest | <u>(18,028)</u> |
| Present value of net minimum lease payments | <u>\$ 117,765</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, 2009

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, 2009, the principal balance outstanding was \$2,020,000.

The annual requirements to amortize the certificates of participation as of June 30, 2009 are as follows:

| <u>Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------|---------------------|-------------------|---------------------|
| 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 | 380,000 | 19,000 | 399,000 |
| Totals | \$ 2,020,000 | \$ 291,525 | \$ 2,311,525 |

NOTE 11 - LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2009, is shown below:

| | <u>Balances July 1, 2008</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balances June 30, 2009</u> | <u>Due within One Year</u> |
|-------------------------------|----------------------------------|-------------------|-------------------|-----------------------------------|--------------------------------|
| Compensated Absences | \$ 15,480 | \$ 15,760 | \$ 15,480 | \$ 15,760 | \$ 15,760 |
| General Obligation Bonds: | | | | | |
| Current Interest | 12,015,000 | | 260,000 | 11,755,000 | 275,000 |
| Capital Appreciation | 3,843,776 | 222,778 | | 4,066,554 | |
| Capital Leases | 1,130,096 | | 12,331 | 1,117,765 | 14,648 |
| Certificates of Participation | 2,415,000 | | 395,000 | 2,020,000 | 385,000 |
| Totals | \$ 19,419,352 | \$ 238,538 | \$ 682,811 | \$ 18,975,079 | \$ 690,408 |

15,819,228

3804,228

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 12 - FUND BALANCES

The District's fund balances at June 30, 2009 consisted of the following:

| | General Fund | Bond Interest and Redemption Fund | Building Fund | Capital Projects - Special Reserve Fund | Corporation Acquisition Fund | Non-Major Governmental Funds | Totals |
|-----------------------------|---------------------|--|---------------------|---|------------------------------------|------------------------------------|---------------------|
| Reserved For: | | | | | | | |
| Revolving Fund | \$ 1,000 | | | | | \$ 40 | \$ 1,040 |
| Debt Service | | \$ 561,037 | | | | 683,986 | 1,245,023 |
| Legally Restricted Balances | 167,508 | | | | | | 167,508 |
| Unreserved: | | | | | | | |
| Designated For: | | | | | | | |
| Economic Uncertainties | 553,248 | | | | | | 553,248 |
| Program Carryovers | 369,218 | | | | | | 369,218 |
| Undesignated | <u>279,324</u> | <u></u> | <u>\$ 1,212,260</u> | <u>\$ 268,138</u> | <u>\$ 2,141,906</u> | <u>362,874</u> | <u>4,264,502</u> |
| Total Fund Balances | <u>\$ 1,370,298</u> | <u>\$ 561,037</u> | <u>\$ 1,212,260</u> | <u>\$ 268,138</u> | <u>\$ 2,141,906</u> | <u>\$ 1,046,900</u> | <u>\$ 6,600,539</u> |

NOTE 13 - 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).

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

A. State Teachers' Retirement System (STRS) (Continued)

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 2008-09 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, 2009, 2008, and 2007, were \$119,046, \$99,774, and \$100,614, 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 2008-09 was 9.428%. 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, 2009, 2008, and 2007, were \$97,985, \$91,882, and \$84,513, respectively, and equal 100% of the required contributions for each year.

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (STRS) for K-12 Education. This payment consists of state general fund contributions to STRS of \$65,180 (4.517% of salaries subject to STRS).

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 2008-09, 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, 2009 through June 30, 2014. Under the terms of the agreement, the charter school is responsible for managing, budgeting, and accounting for its activities in accordance with accounting principles generally accepted in the United States of America. Therefore, the financial activities of the charter school are not included in the District's financial reports.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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 – SUBSEQUENT EVENT

On July 28, 2009 Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009. The July budget package reduced, on a state-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amount associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

The District recorded the revenues and related receivables associated with its portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package prior to receiving notification from the State that the 2009-10 re-appropriation should not be accrued. However, due to the fact that the amount of revenue improperly recognized by the District is not considered material, no adjustments have been included in these financial statements to conform to Governmental Accounting Standards Board Statement No. 33.

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, 2009

| | <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 | \$ 85,810 | \$ 118,792 | \$ 113,716 | \$ (5,076) |
| Local Sources | 3,730,820 | 3,853,520 | 3,853,720 | 200 |
| Total Revenue Limit Sources | 3,816,630 | 3,972,312 | 3,967,436 | (4,876) |
| Federal Revenue | 201,316 | 225,400 | 336,523 | 111,123 |
| Other State Revenue | 1,039,438 | 1,027,470 | 1,017,882 | (9,588) |
| Other Local Revenue | 247,621 | 344,846 | 351,388 | 6,542 |
| Total Revenues | 5,305,005 | 5,570,028 | 5,673,229 | 103,201 |
| <u>Expenditures</u> | | | | |
| Certificated Salaries | 1,789,278 | 1,829,391 | 1,773,743 | 55,648 |
| Classified Salaries | 857,934 | 844,535 | 813,026 | 31,509 |
| Employee Benefits | 695,561 | 696,421 | 695,725 | 696 |
| Books and Supplies | 156,493 | 284,955 | 226,306 | 58,649 |
| Services and Other | | | | |
| Operating Expenditures | 1,389,322 | 1,696,990 | 1,528,586 | 168,404 |
| Capital Outlay | | 76,632 | 78,233 | (1,601) |
| Debt Service: | | | | |
| Principal Retirement | 12,331 | 12,331 | 12,331 | |
| Interest and Fiscal Charges | 7,069 | 7,069 | 7,068 | 1 |
| Other Expenditures | 172,504 | 250,584 | 249,965 | 619 |
| Total Expenditures | 5,080,492 | 5,698,908 | 5,384,983 | 313,925 |
| Excess of Revenues Over (Under) Expenditures | 224,513 | (128,880) | 288,246 | 417,126 |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Operating Transfers In | | 60,866 | 60,866 | |
| Operating Transfers Out | (97,014) | (107,014) | (108,248) | (1,234) |
| Total Other Financing Sources (Uses) | (97,014) | (46,148) | (47,382) | (1,234) |
| Net Change in Fund Balances | 127,499 | (175,028) | 240,864 | \$ 415,892 |
| Fund Balances - July 1, 2008 | 1,129,434 | 1,129,434 | 1,129,434 | |
| Fund Balances - June 30, 2009 | \$ 1,256,933 | \$ 954,406 | \$ 1,370,298 | |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

SAUSALITO MARIN CITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2009

| | <u>Deferred Maintenance</u> | <u>Cafeteria</u> | <u>Special Revenue - Special Reserve</u> |
|---|---------------------------------|------------------|--|
| <u>Assets</u> | | | |
| Deposits and Investments | \$ 456 | \$ 40 | \$ 344,244 |
| Receivables | | 11,856 | |
| Total Assets | <u>\$ 456</u> | <u>\$ 11,896</u> | <u>\$ 344,244</u> |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities: | | | |
| Accounts Payable | | \$ 624 | |
| Total Liabilities | | <u>624</u> | |
| Fund Balances: | | | |
| Reserved | | 40 | |
| Unreserved: | | | |
| Undesignated | \$ 456 | 11,232 | \$ 344,244 |
| Total Fund Balances | <u>456</u> | <u>11,272</u> | <u>344,244</u> |
| Total Liabilities and Fund Balances | <u>\$ 456</u> | <u>\$ 11,896</u> | <u>\$ 344,244</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

| <u>Corporation Debt Service</u> | <u>Debt Service</u> | <u>County School Facilities</u> | <u>Total Non-Major Governmental Funds</u> |
|---|-------------------------|---|---|
| \$ 323,581 | \$ 346,115 14,290 | \$ 6,942 | \$ 1,021,378 26,146 |
| <u>\$ 323,581</u> | <u>\$ 360,405</u> | <u>\$ 6,942</u> | <u>\$ 1,047,524</u> |
| | | | \$ 624 |
| | | | 624 |
| \$ 323,581 | \$ 360,405 | | 684,026 |
| | | \$ 6,942 | 362,874 |
| <u>323,581</u> | <u>360,405</u> | <u>6,942</u> | <u>1,046,900</u> |
| <u>\$ 323,581</u> | <u>\$ 360,405</u> | <u>\$ 6,942</u> | <u>\$ 1,047,524</u> |

SACRAMENTO 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, 2009**

| | <u>Deferred Maintenance</u> | <u>Cafeteria</u> | <u>Special Revenue - Special Reserve</u> |
|---|---------------------------------|------------------|--|
| <u>Revenues</u> | | | |
| Federal Revenue | | \$ 77,919 | |
| State Revenue | | 6,563 | |
| Local Revenue | \$ (1) | 858 | \$ 8,779 |
| Total Revenues | (1) | 85,340 | 8,779 |
| <u>Expenditures</u> | | | |
| Food Services | | 123,717 | |
| Plant Services | 10,000 | | |
| Debt Service: | | | |
| Principal Retirement | | | |
| Interest and Issuance Costs | | | |
| Total Expenditures | 10,000 | 123,717 | 0 |
| Excess of Revenues Over (Under) Expenditures | (10,001) | (38,377) | 8,779 |
| <u>Other Financing Sources (Uses)</u> | | | |
| Operating Transfers In | 10,000 | 42,482 | |
| Operating Transfers Out | | | (60,866) |
| Total Other Financing Sources (Uses) | 10,000 | 42,482 | (60,866) |
| Net Change in Fund Balances | (1) | 4,105 | (52,087) |
| Fund Balances - July 1, 2008 | 457 | 7,167 | 396,331 |
| Fund Balances - June 30, 2009 | \$ 456 | \$ 11,272 | \$ 344,244 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

| <u>Corporation Debt Service</u> | <u>Debt Service</u> | <u>County School Facilities</u> | <u>Total Non-Major Governmental Funds</u> |
|---|-------------------------|---|---|
| | | | \$ 77,919 |
| | | | 6,563 |
| \$ 3,596 | \$ 8,093 | \$ 151 | 21,476 |
| <u>3,596</u> | <u>8,093</u> | <u>151</u> | <u>105,958</u> |
| | | | 123,717 |
| | | | 10,000 |
| 395,000 | | | 395,000 |
| 105,613 | | | 105,613 |
| <u>500,613</u> | <u>0</u> | <u>0</u> | <u>634,330</u> |
| (497,017) | 8,093 | 151 | (528,372) |
| 500,356 | 55,766 | | 608,604 |
| (13,297) | | | (74,163) |
| <u>487,059</u> | <u>55,766</u> | <u>0</u> | <u>534,441</u> |
| (9,958) | 63,859 | 151 | 6,069 |
| 333,539 | 296,546 | 6,791 | 1,040,831 |
| <u>\$ 323,581</u> | <u>\$ 360,405</u> | <u>\$ 6,942</u> | <u>\$ 1,046,900</u> |

SAUSALITO MARIN CITY SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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> |
|-------------------------|----------------|---------------------|
| Mark Trotter | President | December 2010 |
| Shirley Thornton, Ed.D. | Vice President | December 2010 |
| Karen Benjamin | Clerk | December 2012 |
| William Ziegler | Member | December 2012 |
| Thomas Newmeyer | 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, 2009

| | Second Period <u>Report</u> | Annual <u>Report</u> |
|----------------------|-----------------------------------|-------------------------|
| <u>Elementary</u> | | |
| Kindergarten | 28 | 28 |
| First through Third | 55 | 54 |
| Fourth through Sixth | 33 | 33 |
| Seventh and Eighth | 31 | 30 |
| Special Education | 2 | 2 |
| Extended Year | 4 | 4 |
| | <hr/> | <hr/> |
| Totals | <u>153</u> | <u>151</u> |

| | |
|---------------------------|-------------------------------|
| <u>Supplemental Hours</u> | Hours of <u>Attendance</u> |
| Elementary | <u>10,577</u> |

SEE NOTES TO SUPPLEMENTARY INFORMATION

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| <u>Grade Level</u> | <u>1982-83 Actual Minutes</u> | <u>1986-87 Minutes Required</u> | <u>2008-09 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 | 54,430 | 180 | N/A | In Compliance |
| Grade 1 | Not Available | 50,400 | 59,430 | 180 | N/A | In Compliance |
| Grade 2 | Not Available | 50,400 | 59,430 | 180 | N/A | In Compliance |
| Grade 3 | Not Available | 50,400 | 60,790 | 180 | N/A | In Compliance |
| Grade 4 | Not Available | 54,000 | 60,790 | 180 | N/A | In Compliance |
| Grade 5 | Not Available | 54,000 | 60,790 | 180 | N/A | In Compliance |
| Grade 6 | Not Available | 54,000 | 60,790 | 180 | N/A | In Compliance |
| Grade 7 | Not Available | 54,000 | 62,590 | 180 | N/A | In Compliance |
| Grade 8 | Not Available | 54,000 | 62,590 | 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, 2009

| <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 | \$ 60,754 |
| Especially Needy Breakfast | 10.553 | 13526 | 17,165 |
| U.S. Department of Education: | | | |
| Passed through CDE: | | | |
| NCLB: Title I - Basic Grant | 84.010 | 14329 | 116,755 |
| NCLB: Title II - Improving Teacher Quality | 84.367 | 14341 | 27,414 |
| NCLB: Title II - Enhancing Education Through Technology | 84.318 | 14334 | 1,041 |
| NCLB: Title III - Limited English Proficiency | 84.365 | 10084 | 1,387 |
| NCLB: Title V - Innovative Education Strategies | 84.298A | 14354 | 1,099 |
| NCLB: Title IV - Drug Free Schools | 84.186 | 14347 | 1,318 |
| Special Education - IDEA Part B Basic Assistance | 84.027 | 13379 | 50,154 |
| E Rate Reimbursement | * | * | 22,500 |
| Direct: | | | |
| Impact Aid - Maintenance and Operations | 84.041 | n/a | 28,734 |
| Total | | | <u>\$ 328,321</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, 2009

| | General Fund |
|--|----------------------------|
| June 30, 2009 Annual Financial and Budget Report Fund Balance | <u>\$ 1,263,954</u> |
| Adjustments Increasing Fund Balance: | |
| Understatement of Local Taxes Revenues | 67,094 |
| Overstatement of Other Expenditures | <u>39,250</u> |
| Total Adjustments | <u>106,344</u> |
| June 30, 2009 Audited Financial Statement Fund Balance | <u><u>\$ 1,370,298</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, 2009.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| | GENERAL FUND | | | |
|--|----------------------|---------------|---------------|---------------|
| | (Budget)* 2009-10 | 2008-09 | 2007-08 | 2006-07 |
| Revenues and Other Financial Sources | \$ 5,552,985 | \$ 5,734,095 | \$ 5,431,932 | \$ 6,176,210 |
| Expenditures | 5,490,156 | 5,384,983 | 5,100,596 | 5,524,555 |
| Other Uses and Transfers Out | 103,545 | 108,248 | 103,767 | 519,054 |
| Total Outgo | 5,593,701 | 5,493,231 | 5,204,363 | 6,043,609 |
| Change in Fund Balance | (40,716) | 240,864 | 227,569 | 132,601 |
| Ending Fund Balance | \$ 1,329,582 | \$ 1,370,298 | \$ 1,129,434 | \$ 901,865 |
| Available Reserves | \$ 789,355 | \$ 832,572 | \$ 776,012 | \$ 705,224 |
| Designated for Economic Uncertainties | \$ 559,370 | \$ 553,248 | \$ 525,436 | \$ 483,489 |
| Undesignated Fund Balance | \$ 229,985 | \$ 279,324 | \$ 250,576 | \$ 221,735 |
| Available Reserves as a Percentage of Total Outgo | 14.1% | 15.2% | 14.9% | 11.7% |
| Average Daily Attendance at P-2 | 157 | 153 | 128 | 119 |
| Total Long-Term Liabilities | \$ 18,284,671 | \$ 18,975,079 | \$ 19,419,352 | \$ 19,858,303 |

* Amounts reported for the 2009-10 budget are presented for analytical purposes only and have not been audited.

The fund balance of the General Fund increased \$468,433 (51.9%) over the past two years. The fiscal year 2009-10 budget projects a decrease of \$40,716 (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 produced operating surpluses of \$132,601, \$227,569, and \$240,864 during fiscal years 2006-07, 2007-08, and 2008-09, respectively.

Average daily attendance increased 34 ADA over the past two years. The District projects an increase of 4 ADA during fiscal year 2009-10.

Total long-term liabilities decreased \$883,224 over the past two years, due primarily to the reduction of the District's obligations for general obligation bonds and certificates of participation.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| <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, 2009

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.

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, 2009, and have issued our report thereon dated December 14, 2009. 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 19810 and following; and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*. 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 |
| Independent Study | 23 | Not Applicable |
| Continuation Education | 10 | Not Applicable |
| Adult Education | 9 | Not Applicable ^(a) |
| Regional Occupational Centers and Programs | 6 | Not Applicable ^(a) |
| 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 ^(a) |
| Instructional Materials Program: | | |
| General Requirements | 12 | 1 ^(b) |
| Grades K-8 | 1 | Not Applicable ^(a) |
| Grades 9-12 | 1 | Not Applicable ^(a) |
| 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 |

| <u>Description</u> | <u>Procedures In Education Audit Appeals Panel's Audit Guide</u> | <u>Procedures Performed</u> |
|--|--|---------------------------------|
| School Accountability Report Card | 3 | Yes |
| Mathematics and Reading Professional Development | 4 | Not Applicable ^(a) |
| 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 | Not Applicable |
| After School Education and Safety Program: | | |
| General Requirements | 4 | Yes |
| After School | 4 | Yes |
| 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 |

^(a) This program is not required to be audited per flexibility provisions in SBx3 4.

^(b) The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19828.3 procedures (b), (c), and (e) were not performed.

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 14, 2009

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 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, 2009, which collectively comprise the Sausalito Marin City School District's basic financial statements and have issued our report thereon dated December 14, 2009. 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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies 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 deficiencies that we consider to be material weaknesses are 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 findings 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 14, 2009

FINDINGS AND QUESTIONED COSTS SECTION

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SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

09 - 1 / 30000

MATERIAL WEAKNESS

FINANCIAL REPORTING - UNAUDITED ACTUALS

| | |
|--------------------------|---|
| <u>Criteria:</u> | Each year, school districts are responsible for preparing complete and accurate financial information, which is reported to the California Department of Education in the form of the "Unaudited Actuals" Financial Report. In addition, each year the governing board certifies that the report was prepared in accordance with Education Code Section 41010, and approves the report as the official submission of financial information that will be used as the basis for the District's annual financial statements. Accordingly, districts should have an effective system of internal control over financial reporting that will ensure that the information contained in the report is free of material misstatement. (In accordance with Statement on Auditing Standards No. 112 (SAS 112), if material misstatements are identified during a financial audit, it is presumed that the internal control over financial reporting is either ineffective or non-existent.) |
| <u>Condition:</u> | Two warrants were issued for the same expenditure during fiscal year 2008-09. The second warrant was issued to replace the first warrant that was lost. However, the first warrant was not canceled and reversed on the general ledger until fiscal year 2009-10. Accordingly, the same expenditure was recognized twice during fiscal year 2008-09, resulting in a misstatement that we consider to be material to the District's annual financial statements. In addition, the District's system of internal control over financial reporting did not detect or prevent the misstatement from occurring. |
| <u>Questioned Costs:</u> | None. |
| <u>Context:</u> | The adjustments that were made to ensure that the financial statements were fairly stated are presented on page 56 of this report. |
| <u>Effect:</u> | The District's current system of internal control over financial reporting did not prevent a material misstatement from being included in the District's "Unaudited Actuals" financial statements. |
| <u>Cause:</u> | The District's system of internal control over financial reporting did not include a review of canceled warrants for purposes of verifying that the related expenditures had been reversed during the same reporting period. |
| <u>Recommendation:</u> | The District should establish appropriate procedures that include a review of canceled warrants at the end of each financial reporting period to ensure that the related expenditures have been reversed during the same reporting period. |

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

FINANCIAL REPORTING - UNAUDITED ACTUALS (CONCLUDED)

District Response:

The District will establish appropriate procedures that include a review of canceled warrants at the end of each financial reporting period to ensure that the related expenditures have been reversed during the same reporting period.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

09 - 2 / 40000

SIGNIFICANT DEFICIENCY

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM - ATTENDANCE

Criteria:

1. In accordance with Education Code Section 8483 (a)(2), it is the intent of the Legislature that elementary school pupils attend the entire program every day that the program operates, with the exception of absences allowed under the District's early release policy. Since the District's program begins upon the conclusion of the regular school day and ends at 6:00 p.m., each elementary pupil is expected to attend the afterschool program until 6:00 p.m., unless his/her absence is supported by a properly completed early release form, which specifies an absence reason that is considered allowable in accordance with the District's early release policy. Accordingly, the District should develop and maintain appropriate daily attendance records that identify each pupil's exact time of arrival and departure; a comprehensive early release policy, which identifies all early release absences that are considered allowable for purposes of determining pupil eligibility, and early release forms that identify the specific reasons for the absences and the specific dates or time periods covered by the early release forms.
2. In accordance with Education Code Section 8483 (a)(2), it is the intent of the Legislature that middle school pupils attend at least nine hours a week and three days a week, with the exception of absences allowed under the District's early release policy. As a result, program attendance records and supporting documentation should be configured in a manner that will substantiate that each middle school pupil is attending at least nine hours a week and three days a week, unless his/her absence is supported by a properly completed early release form, which specifies an absence reason that is considered allowable in accordance with the District's early release policy. Accordingly, the District should develop and maintain appropriate daily attendance records that identify each pupil's exact time of arrival and departure; a comprehensive early release policy, which identifies all early release absences that are considered allowable for purposes of determining pupil eligibility; and early release forms that identify the specific reasons for the absences and the specific dates or time periods covered by the early release forms.

Conditions:

- 1-2. The attendance records, early release policy, and early release forms used by the District do not meet state requirements, as follows:
 - The attendance records used by the District to record pupil attendance are not configured to identify the exact arrival or departure times of each pupil, nor do they identify the reason why a student is being released prior to 6:00 p.m.

*Take
Back
Funding*

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM - ATTENDANCE (CONTINUED)

Condition: (Concluded)

- The early release policy used by the District to identify allowable absences for purposes of determining pupil eligibility is not comprehensive and does not include reasons such as student safety concerns or participation in parallel programs as valid reasons for early release from the ASES program.
- The early release forms used by the District to document allowable versus unallowable absences, do not clearly identify the reasons for pupil absences, and do not identify the specific dates and/or time periods covered by the early release forms.

Questioned Costs: 1-2. ~~The Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Education Agencies 2008-09 do not require questioned costs to be identified for the after school component noncompliance items noted above.~~

Context: 1-2. These conditions were present throughout fiscal year 2008-09.

Effect: 1-2. The program records maintained by the District do not adequately substantiate compliance with Education Code Section 8483 (a)(2).

Cause: 1-2. The District has not adequately monitored the program to ensure that it is being operated in accordance with all state requirements.

Recommendations: 1-2. The District should provide appropriate training and guidance to program personnel, and modify its existing forms and policy as follows:

- The daily attendance records should be modified to identify the exact arrival and departure times of each pupil, and the reasons for any students who are released from the program prior to 6:00 p.m.
- The early release policy should be modified to include all allowable absences, including those related to student safety concerns or participation in parallel programs as valid reasons for early release from the ASES program.
- The early release form should be modified to identify the specific reasons for pupil absences, and the specific dates and/or time periods covered by the early release forms.

District Response: The ASES Program auditors met with the staff of Youth In Arts to review the District's early release policy and documentation. Their intent was to help the program develop documents that are aligned with the program requirements and match the District's early release policy.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM - ATTENDANCE (CONCLUDED)

District Response:

Youth In Arts after school program personnel will develop documents that address the requirements of the state program including; 1. who is authorized to release students from the program; 2. what is the reason for the early release from the program; 3. a early release sign out procedure that identifies the time, reason and the name of the authorized adult who is signing the student out.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

09 - 3 / 40000

SIGNIFICANT DEFICIENCY

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM - DAYS OF OPERATION

Criteria: In accordance with Education Code Section 8483(a)(1), all elementary or middle/junior high school programs shall commence immediately upon the conclusion of the regular school day, operate a minimum of 15 hours per week, and remain open until at least 6:00 p.m. on every regular school day during the regular school year. Per guidance provided by the California Department of Education, regular school days include minimum days and early release days, if part of the school schedule. Accordingly, the program was required to be in operation for 180 days during fiscal year 2008-09.

Condition: It does not appear that the program was in operation on all regular school days. Per our review of the program's attendance records, the program was only in operation for 165 days during fiscal year 2008-09.

Questioned Costs: The Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Education Agencies 2008-09 do not require questioned costs to be identified for the after school component noncompliance item noted above.

Context: The condition was present throughout fiscal year 2008-09.

Effect: The program records maintained by the District do not adequately substantiate compliance with Education Code Section 8483 (a)(1).

Cause: The District has not adequately monitored the program to ensure that it is being operated in accordance with all state requirements.

Recommendation: The District should obtain a thorough understanding of all program requirements and establish an appropriate monitoring system to ensure that the District complies with all program requirements in the future.

District Response: The Youth In Art staff has implemented a full program in 2009-10; a program which is open 180 days per year, starts at the end of the regularly scheduled school day and ends at 6:00 pm.

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| <u>Recommendations</u> | <u>Current Status</u> | <u>Explanation If Not Fully Implemented</u> |
|--|-----------------------|---|
| <u>FINANCIAL STATEMENTS</u> | | |
| 08 - 1 / 30000 | | |
| MATERIAL WEAKNESS | | |
| <u>EXPENDITURE REPORTING</u> | | |
| 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 30 th 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. | Implemented | |
| <u>STATE COMPLIANCE</u> | | |
| 08 - 2 / 40000 | | |
| MATERIAL WEAKNESS | | |
| <u>AFTER SCHOOL EDUCATION AND SAFETY PROGRAM</u> | | |
| 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. | Implemented | |