

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

AUDIT REPORT

JUNE 30, 2010

SAUSALITO MARIN CITY SCHOOL DISTRICT

JUNE 30, 2010

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SAUSALITO MARIN CITY SCHOOL DISTRICT

JUNE 30, 2010

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sausalito Marin City School District
Sausalito, California

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Sausalito Marin City School District, as of and for the fiscal year ended June 30, 2010, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2010, and the respective changes in financial position thereof for the 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 10, 2010 on our consideration of Sausalito Marin City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 49 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 combining fund financial statements, supplementary schedules listed in the table of contents, and the Schedule of Expenditures of Federal Awards, which is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 10, 2010

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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, 2010. 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 statement provides financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's overall financial status declined during fiscal year 2009-10, as total net assets decreased 7.6%.
- On the Statement of Activities, total current year expenses exceeded total current year revenues by \$747,161.
- Capital assets, net of depreciation, increased \$1,284,353 due primarily to current year additions for the Bayside multi-purpose project and Martin Luther King Jr. modernization project.
- Total long-term liabilities decreased \$392,940, 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 average daily attendance (ADA) increased from 153 ADA in fiscal year 2008-09, up to 159 ADA in fiscal year 2009-10, an increase of 3.9%.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balances, total current year expenditures exceeded total current year revenues by \$1,959,900, due primarily to the spending down of bond proceeds received in prior fiscal years.
- 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 2009-10, General Fund expenditures and other financing uses totaled \$6,119,100. At June 30, 2010, the District has available reserves of \$968,510 in the General Fund, which represents a reserve of 15.8%.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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, 2010
(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, Corporation Debt Service 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, 2010
(PREPARED BY DISTRICT MANAGEMENT)**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's total net assets decreased from \$9,857,670 at June 30, 2009, down to \$9,110,509 at June 30, 2010, a decrease of 7.6%.

Comparative Statement of Net Assets

	Governmental Activities	
	2009	2010
<u>Assets</u>		
Deposits and Investments	\$ 7,996,668	\$ 4,493,544
Current Receivables	774,663	527,342
Long-term Receivable	1,972,734	1,497,734
OPEB Assets	0	715
Capital Assets, net	20,491,889	21,776,242
Total Assets	<u>31,235,954</u>	<u>28,295,577</u>
<u>Liabilities</u>		
Current	3,093,613	1,316,619
Long-term	18,284,671	17,868,449
Total Liabilities	<u>21,378,284</u>	<u>19,185,068</u>
<u>Net Assets</u>		
Invested in Capital Assets		
- Net of Related Debt	5,250,953	5,544,736
Restricted *	3,076,443	2,174,261
Unrestricted *	1,530,274	1,391,512
Total Net Assets	<u>\$ 9,857,670</u>	<u>\$ 9,110,509</u>

* The prior year balances have been adjusted to ensure comparability between fiscal years.

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, 2010
(PREPARED BY DISTRICT MANAGEMENT)**

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

The District's total current year expenses exceeded total current year revenues by \$747,161.

<u>Comparative Statement of Change in Net Assets</u>		
	Governmental Activities	
	2009	2010
<u>Program Revenues</u>		
Charges for Services	\$ 1,066	\$ 933
Operating Grants & Contributions	1,501,443	1,236,369
Capital Grants & Contributions	151	58
<u>General Revenues</u>		
Taxes Levied	4,615,027	4,633,331
Federal & State Aid	286,718	825,891
Interest & Investment Earnings	259,158	38,552
Transfers from Other Agencies	0	12,309
Miscellaneous	118,468	112,667
Total Revenues	6,782,031	6,860,110
<u>Expenses</u>		
Instruction	3,008,943	3,164,330
Instruction-Related Services	656,671	911,422
Pupil Services	422,916	437,887
General Administration	808,380	1,059,579
Plant Services	654,897	704,243
Ancillary Services	8,199	5,826
Interest on Long-Term Debt	804,152	816,530
Other Outgo	281,558	507,454
Total Expenses	6,645,716	7,607,271
Change in Net Assets	\$ 136,315	\$ (747,161)
<i>Table includes financial data of the combined governmental funds</i>		

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(PREPARED BY DISTRICT MANAGEMENT)**

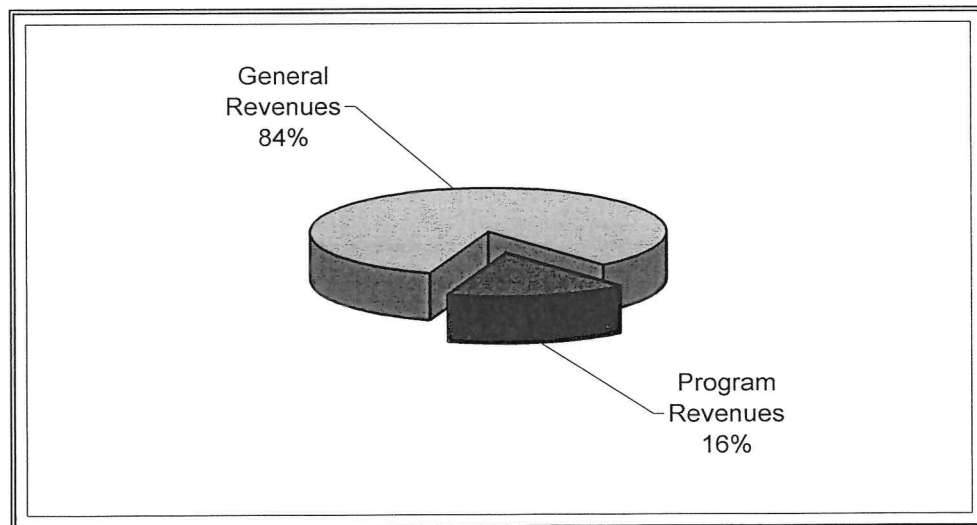
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Comparative Schedule of Costs of Services</u>				
	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	2009	2010	2009	2010
Instruction	\$ 3,008,943	\$ 3,164,330	\$ 1,991,845	\$ 2,463,324
Instruction-Related Services	656,671	911,422	512,354	671,489
Pupil Services	422,916	437,887	182,271	290,161
General Administration	808,380	1,059,579	764,351	1,052,751
Plant Services	654,897	704,243	654,897	701,543
Ancillary Services	8,199	5,826	1,402	5,826
Interest on Long-Term Debt	804,152	816,530	804,152	816,530
Other Outgo	281,558	507,454	231,784	368,287
Totals	<u>\$ 6,645,716</u>	<u>\$ 7,607,271</u>	<u>\$ 5,143,056</u>	<u>\$ 6,369,911</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 \$6,369,911 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 16% of the total cost of providing the services listed above, while the remaining 84% 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, 2010
(PREPARED BY DISTRICT MANAGEMENT)**

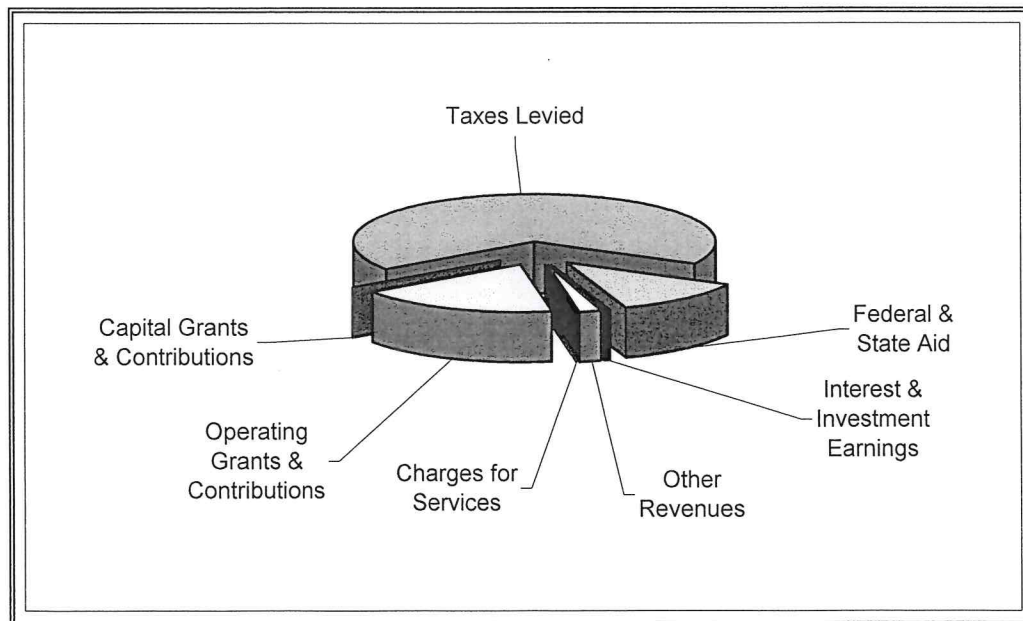
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Revenues For Governmental Functions

	<u>FYE 2009 Amount</u>	<u>Percent of Total</u>	<u>FYE 2010 Amount</u>	<u>Percent of Total</u>
<u>Program Revenues</u>				
Charges for Services	\$ 1,066	0.02%	\$ 933	0.01%
Operating Grants & Contributions	1,501,443	22.14%	1,236,369	18.02%
Capital Grants & Contributions	151	0.00%	58	0.00%
<u>General Revenues</u>				
Taxes Levied	4,615,027	68.05%	4,633,331	67.54%
Federal & State Aid	286,718	4.23%	825,891	12.04%
Interest & Investment Earnings	259,158	3.82%	38,552	0.56%
Other Revenues	118,468	1.75%	124,976	1.82%
Total Revenues	<u>\$ 6,782,031</u>	<u>100.00%</u>	<u>\$ 6,860,110</u>	<u>100.00%</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, 2010**

(PREPARED BY DISTRICT MANAGEMENT)

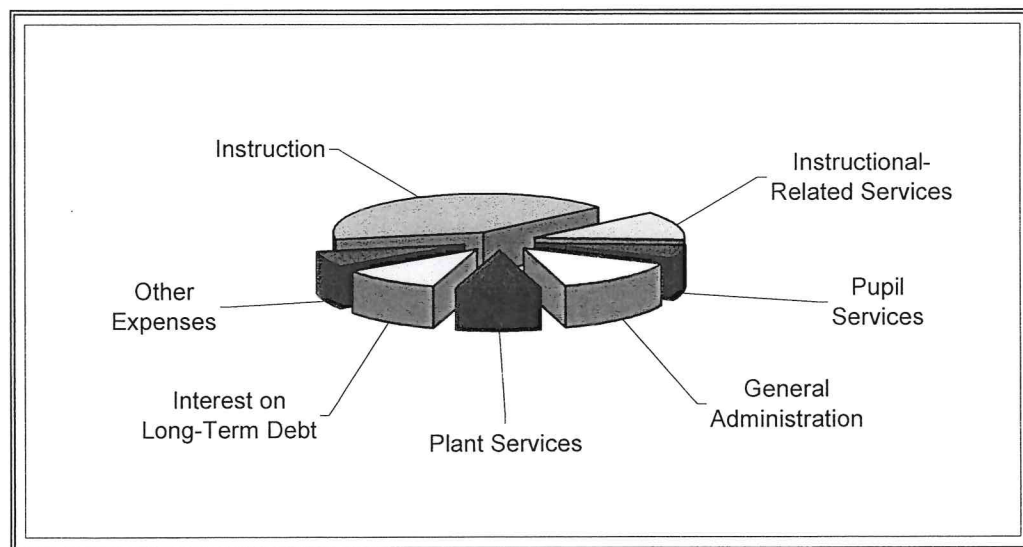
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Expenses For Governmental Functions

	FYE 2009 Amount	Percent of Total	FYE 2010 Amount	Percent of Total
<u>Expenses</u>				
Instruction	\$ 3,008,943	45.28%	\$ 3,164,330	41.60%
Instruction-Related Services	656,671	9.88%	911,422	11.98%
Pupil Services	422,916	6.36%	437,887	5.76%
General Administration	808,380	12.16%	1,059,579	13.93%
Plant Services	654,897	9.85%	704,243	9.26%
Interest on Long-Term Debt	804,152	12.10%	816,530	10.73%
Other Expenses	289,757	4.36%	513,280	6.75%
Total Expenses	<u>\$ 6,645,716</u>	<u>100.00%</u>	<u>\$ 7,607,271</u>	<u>100.00%</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, 2010
(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	
	2009	2010
Land	\$ 948,870	\$ 948,870
Sites and Improvements	1,384,149	1,384,149
Buildings and Improvements	8,463,184	22,974,892
Furniture and Equipment	106,711	392,037
Work-in-Progress	13,012,348	65,202
Subtotals	23,915,262	25,765,150
Less: Accumulated Depreciation	(3,423,373)	(3,988,908)
Capital Assets, net	<u>\$ 20,491,889</u>	<u>\$ 21,776,242</u>

Capital assets, net of depreciation, increased \$1,284,353 due primarily to current year additions for the Bayside multi-purpose project and Martin Luther King Jr. modernization project.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	Governmental Activities	
	2009	2010
Compensated Absences	\$ 15,760	\$ 19,415
General Obligation Bonds	15,821,554	15,782,394
Capital Leases	1,117,765	1,103,130
Certificates of Participation	2,020,000	1,635,000
Early Retirement Incentives	0	42,200
Totals	<u>\$ 18,975,079</u>	<u>\$ 18,582,139</u>

Total long-term liabilities decreased \$392,940 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, 2010
(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 84.9% of the District's total long-term liabilities.

The capital leases are financed by the General Fund, and represents 5.9% 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 8.8% of the District's total long-term liabilities.

The obligations for compensated absences and early retirement incentives are financed by the General Fund, and make up the remaining 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, 2009	Fund Balances June 30, 2010	Increase (Decrease)
General	\$ 1,370,298	\$ 1,239,738	\$ (130,560)
Bond Interest & Redemption	561,037	541,754	(19,283)
Corporation Debt Service	323,581	323,513	(68)
Building	1,212,260	225	(1,212,035)
Capital Projects - Special Reserve	268,138	42,866	(225,272)
Corporation Acquisition	2,141,906	1,721,205	(420,701)
Deferred Maintenance	456	400	(56)
Cafeteria	11,272	40	(11,232)
Special Revenue - Special Reserve	344,244	347,631	3,387
Debt Service	360,405	420,893	60,488
County School Facilities	6,942	2,374	(4,568)
Totals	<u>\$ 6,600,539</u>	<u>\$ 4,640,639</u>	<u>\$ (1,959,900)</u>

The combined fund balances of all District funds decreased \$1,959,900, while the fund balance of the General Fund decreased \$130,560. 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, 2010
(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. The original and final budgets for fiscal year 2009-10 are presented alongside the actual results on page 49.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The District is expected to maintain its basic aid status during fiscal year 2010-11. Due to student transiency, forecasting elementary enrollment is challenging and per pupil expenditures difficult to calculate.
- 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, 2010

	Governmental Activities
<hr/>	
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 4,493,544
Receivables (Note 4)	527,342
Long-Term Receivable (Note 5)	1,497,734
OPEB Assets (Note 1J)	715
Capital Assets: (Note 7)	
Land	948,870
Sites and Improvements	1,384,149
Buildings and Improvements	22,974,892
Furniture and Equipment	392,037
Work-in-Progress	65,202
Less: Accumulated Depreciation	(3,988,908)
Total Assets	<hr/> 28,295,577 <hr/>
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	592,872
Deferred Revenue (Note 1J)	10,057
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
General Obligation Bonds	
Current Interest	290,000
Capital Leases	15,250
Certificates of Participation	400,000
Early Retirement Incentives	8,440
<i>Portion Due or Payable After One Year:</i>	
Compensated Absences (Note 1J)	19,415
General Obligation Bonds (Note 8)	
Current Interest	11,190,000
Capital Appreciation	4,302,394
Capital Leases (Note 9)	1,087,880
Certificates of Participation (Note 10)	1,235,000
Early Retirement Incentives (Note 11)	33,760
Total Liabilities	<hr/> 19,185,068 <hr/>
<u>Net Assets</u>	
Investment in Capital Assets, Net of Related Debt	5,544,736
Restricted:	
For Capital Projects	1,542,974
For Debt Service	453,690
For Educational Programs	175,442
For Other Purposes	2,155
Unrestricted	1,391,512
Total Net Assets	<hr/> \$ 9,110,509 <hr/>

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities</u>					
Instruction	\$ 3,164,330		\$ 700,948	\$ 58	\$ (2,463,324)
Instruction-Related Services:					
Supervision of Instruction	250,950		80,763		(170,187)
Instructional Library and Technology	42,068				(42,068)
School Site Administration	618,404		159,170		(459,234)
Pupil Services:					
Home-to-School Transportation	138,822		2,229		(136,593)
Food Services	161,114	\$ 933	94,388		(65,793)
Other Pupil Services	137,951		50,176		(87,775)
General Administration:					
Data Processing Services	56,373				(56,373)
Other General Administration	1,003,206		6,828		(996,378)
Plant Services	704,243		2,700		(701,543)
Ancillary Services	5,826				(5,826)
Interest on Long-Term Debt	816,530				(816,530)
Other Outgo	507,454		139,167		(368,287)
Total Governmental Activities	<u>\$ 7,607,271</u>	<u>\$ 933</u>	<u>\$ 1,236,369</u>	<u>\$ 58</u>	<u>(6,369,911)</u>
<u>General Revenues</u>					
Taxes Levied for General Purposes					3,886,773
Taxes Levied for Debt Service					746,558
Federal and State Aid - Unrestricted					825,891
Interest and Investment Earnings					38,552
Transfers from Other Agencies					12,309
Miscellaneous					112,667
Total General Revenues					<u>5,622,750</u>
Change in Net Assets					(747,161)
Net Assets - July 1, 2009					<u>9,857,670</u>
Net Assets - June 30, 2010					<u>\$ 9,110,509</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

SAUSALITO MARIN CITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Bond Interest and Redemption	Corporation Debt Service
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 1,083,015	\$ 541,754	\$ 323,513
Receivables (Note 4)	442,357		
Long-Term Receivable (Note 5)			
Due from Other Funds (Note 6)	60,446		
	<u>1,585,818</u>	<u>541,754</u>	<u>323,513</u>
Total Assets	<u>\$ 1,585,818</u>	<u>\$ 541,754</u>	<u>\$ 323,513</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 280,256		
Due to Other Funds (Note 6)	55,767		
Deferred Revenue (Note 1J)	10,057		
	<u>346,080</u>		
Total Liabilities	<u>346,080</u>		
Fund Balances: (Note 14)			
Reserved	176,442	\$ 541,754	\$ 323,513
Unreserved:			
Designated	712,741		
Undesignated	350,555		
	<u>1,239,738</u>	<u>541,754</u>	<u>323,513</u>
Total Fund Balances	<u>1,239,738</u>	<u>541,754</u>	<u>323,513</u>
Total Liabilities and Fund Balances	<u>\$ 1,585,818</u>	<u>\$ 541,754</u>	<u>\$ 323,513</u>

<u>Building</u>	<u>Capital Projects - Special Reserve</u>	<u>Corporation Acquisition</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 133		\$ 1,844,205	\$ 700,924	\$ 4,493,544
			84,985	527,342
57,645	\$ 1,497,734			1,497,734
	121,122			239,213
<u>\$ 57,778</u>	<u>\$ 1,618,856</u>	<u>\$ 1,844,205</u>	<u>\$ 785,909</u>	<u>\$ 6,757,833</u>
\$ 36,830	\$ 52,259		\$ 845	\$ 370,190
20,723	25,997	\$ 123,000	13,726	239,213
	1,497,734			1,507,791
<u>57,553</u>	<u>1,575,990</u>	<u>123,000</u>	<u>14,571</u>	<u>2,117,194</u>
			420,933	1,462,642
225			350,005	1,062,971
	42,866	1,721,205	400	2,115,026
<u>225</u>	<u>42,866</u>	<u>1,721,205</u>	<u>771,338</u>	<u>4,640,639</u>
<u>\$ 57,778</u>	<u>\$ 1,618,856</u>	<u>\$ 1,844,205</u>	<u>\$ 785,909</u>	<u>\$ 6,757,833</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2010

Total Fund Balances - Governmental Funds	\$	4,640,639
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Amounts reported for governmental activities in the statement of net assets are different from amounts reported in governmental funds due to the following:

OPEB assets: Contributions to OPEB plans that are in excess of the actuarial determined annual OPEB expense, result in OPEB assets that are not financial resources and therefore are not reported as assets in governmental funds. The amount of OPEB assets recognized at year-end was:

715

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

Capital Assets	\$	25,765,150	
Accumulated Depreciation		(3,988,908)	
Net			21,776,242

Deferred recognition of earned but unavailable revenues: 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. Receivables 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 governmental funds, but are recognized in the government-wide statements is:

1,497,734

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

Compensated Absences	\$	19,415	
General Obligation Bonds		15,782,394	
Capital Leases		1,103,130	
Certificates of Participation		1,635,000	
Early Retirement Incentives		42,200	
Total			(18,582,139)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statements of activities, it is recognized in the period that it is incurred. The additional liability for unmatrued interest owed at the end of the period was:

(222,682)

Total Net Assets - Governmental Activities	\$	9,110,509
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**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Corporation Debt Service</u>
<u>Revenues</u>			
Revenue Limit Sources:			
State Apportionment	\$ 102,880		
Local Taxes	3,886,773		
Total Revenue Limit Sources	3,989,653		
Federal Revenue	324,632		
State Revenue	897,709	\$ 3,892	
Local Revenue	776,546	744,707	\$ 308
Total Revenues	5,988,540	748,599	308
<u>Expenditures</u>			
Instruction	2,745,252		
Supervision of Instruction	228,338		
Instructional Library and Technology	38,278		
School Site Administration	562,692		
Home-To-School Transportation	138,822		
Food Services			
Other Pupil Services	125,523		
Data Processing Services	51,294		
Other General Administration	894,144		
Plant Services	630,465		
Facilities Acquisition and Construction	61,370		
Ancillary Services	5,826		
Debt Service:			
Principal Retirement	14,635	275,000	385,000
Interest and Issuance Costs	4,764	492,882	92,775
Other Outgo	507,454		
Total Expenditures	6,008,857	767,882	477,775
Excess of Revenues Over (Under) Expenditures	(20,317)	(19,283)	(477,467)
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In			477,739
Operating Transfers Out	(110,243)		(340)
Total Other Financing Sources (Uses)	(110,243)	0	477,399
Net Change in Fund Balances	(130,560)	(19,283)	(68)
Fund Balances - July 1, 2009	1,370,298	561,037	323,581
Fund Balances - June 30, 2010	\$ 1,239,738	\$ 541,754	\$ 323,513

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Building</u>	<u>Capital Projects - Special Reserve</u>	<u>Corporation Acquisition</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
				\$ 102,880
				3,886,773
				3,989,653
			\$ 88,546	413,178
			5,927	907,528
\$ 12,506	\$ 479,765	\$ 1,959	8,960	2,024,751
12,506	479,765	1,959	103,433	7,335,110
				2,745,252
				228,338
				38,278
				562,692
				138,822
			146,599	146,599
				125,523
				51,294
				894,144
			14,431	644,896
1,582,186	292,654		4,626	1,940,836
				5,826
				674,635
				590,421
				507,454
1,582,186	292,654	0	165,656	9,295,010
(1,569,680)	187,111	1,959	(62,223)	(1,959,900)
357,645	121,122	340	110,242	1,067,088
	(533,505)	(423,000)		(1,067,088)
357,645	(412,383)	(422,660)	110,242	0
(1,212,035)	(225,272)	(420,701)	48,019	(1,959,900)
1,212,260	268,138	2,141,906	723,319	6,600,539
\$ 225	\$ 42,866	\$ 1,721,205	\$ 771,338	\$ 4,640,639

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, 2010

Net Change in Fund Balances - Governmental Funds **\$ (1,959,900)**

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

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

Capital Outlay Expenditures	\$ 1,849,888	
Depreciation Expense	(565,535)	
Net		1,284,353

Earned but unavailable revenues: In governmental funds, revenues are recognized only to the extent that they are "available," meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In government-wide statements, revenue is recognized when earned regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period, but related to a prior period is: (475,000)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the fiscal year. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: (3,655)

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	\$ 275,000	
Capital Leases	14,635	
Certificates of Participation	385,000	
Total		674,635

Other liabilities not normally liquidated with current resources: In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. Examples include special termination benefits such as early retirement incentives financed over time. This year, the amount of early retirement incentives granted was: (42,200)

Other post employment benefits: In governmental funds, other post employment benefits (OPEB) costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and employer contributions was: 715

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, interest is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was: 9,731

Accreted interest: In governmental funds, accreted interest on capital appreciation bonds is recognized as an expenditure in the period that it becomes due. In the government-wide statement of activities, accreted interest is recognized as an expense as the capital appreciation bonds accrete in value. The amount of accreted interest recognized in the current period was: (235,840)

Change in Net Assets of Governmental Activities **\$ (747,161)**

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 1,119	\$ 1,119
<u>Liabilities</u>		
Due to Student Groups	1,119	1,119
<u>Net Assets</u>		
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, 2010

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, 2010

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. Implementation of New Accounting Pronouncements

For the year ended June 30, 2010 the District was required to adopt Governmental Accounting Standards Board Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new statement significantly changes the way state and local governments report their "other post employment benefits" to the public. As a result of GASB 45, state and local governments are required to (1) recognize the cost of these benefits in periods when the related services were rendered to the employer, (2) provide information about the actuarial accrued liabilities for promised benefits associated with past services and to what extent those benefits have been funded, (3) and provide information useful in assessing potential demands on the employer's cash flow.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. 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.

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions:

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

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Concluded)

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.

F. 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.

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

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

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Accounting (Concluded)

Non-major Governmental Funds (Concluded):

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.

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, which is used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

G. 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 49.

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).

H. 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.

I. 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, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. 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. Other Postemployment Benefits (OPEB) Assets

This asset represents District contributions to the OPEB plan in excess of the current year OPEB expense. Further details on the OPEB plan are disclosed in Note 12.

Reported assets are equally offset by a net assets reserve, which indicates that this amount is not "available for appropriation and expenditure" even though it is a component of net current assets.

3. Capital Assets

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

Depreciation on all capital assets is computed using a straight-line basis over the estimated useful lives in the following table:

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Liabilities and Equity (Continued)

3. Capital Assets (Concluded)

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

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

5. Compensated Absences

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

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

6. Long-term Liabilities

In the government-wide financial statements, long-term obligations are reported as long-term liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs, when material, 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 period the debt is issued. The face amount of the debt issued, premiums, or discounts is reported as other financing sources or uses in the year issued.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriate 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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

J. Assets, Liabilities and Equity (Concluded)

8. Revenue Limit/Property Tax

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

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

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

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

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. The District is considered a "Basic aid school district" because property taxes exceed the computed revenue limit, therefore the District does not receive state aid for their revenue limit.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, consist of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash in Bank		\$ 1,119
Cash in Revolving Fund	\$ 1,040	
Cash with Fiscal Agent	2,518,197	
County Pool Investments	<u>1,974,307</u>	
Total Deposits and Investments	<u>\$ 4,493,544</u>	<u>\$ 1,119</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Cash in Bank and in Revolving Fund

Cash in bank consists of maintained in the commercial bank account owned by the District, exclusive of amounts held in revolving funds. Cash in revolving fund consists of all cash maintained in commercial bank accounts that are used as revolving funds as well as petty cash funds.

Cash with Fiscal Agent

Cash with Fiscal Agent consists of \$323,513 held by US Bank as trustee, for future payment of interest and redemption of certificates of participation principal, \$1,844,205 held by US Bank as trustee, for future construction projects, and \$350,479 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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Segmented Time Distribution

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

<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	\$ 1,974,307	\$ 1,977,810	\$ 1,446,387	\$ 527,920

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	\$ 1,974,307	\$ 1,977,810			\$ 1,974,307

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - Deposits (Concluded)

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, 2010, 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.

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, 2010, the District does not have any investments that are held by counterparties.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There was no excess of expenditures over appropriations in the General Fund in 2009-10.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010 consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 101,678	\$ 13,840	\$ 115,518
State Government	125,285	731	126,016
Local Governments	105,734		105,734
Miscellaneous	109,660	70,414	180,074
Totals	<u>\$ 442,357</u>	<u>\$ 84,985</u>	<u>\$ 527,342</u>

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 5 - LONG-TERM RECEIVABLE (CONCLUDED)

Future payments to be received under this agreement, as of June 30, 2010, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Payments</u> <u>Receivable</u>
2011	\$ 475,000
2012	475,000
2013	475,000
2014	<u>72,734</u>
Total	<u>\$ 1,497,734</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.

A. Due From/Due To Other Funds

All interfund receivables and payables are scheduled to be paid within one year. Individual fund interfund receivable and payable balances at June 30, 2010 are as follows:

<u>Funds</u>	<u>Interfund</u> <u>Receivables</u>	<u>Interfund</u> <u>Payables</u>
General	\$ 60,446	\$ 55,767
Building	57,645	20,723
Cafeteria		13,726
Capital Projects - Special Reserve	121,122	25,997
Corporation Acquisition		<u>123,000</u>
Totals	<u>\$ 239,213</u>	<u>\$ 239,213</u>

B. Interfund Transfers

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

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 110,243
Corporation Debt Service	\$ 477,739	340
Building	357,645	
Capital Projects - Special Reserve	121,122	533,505
Corporation Acquisition	340	423,000
Deferred Maintenance	14,431	
Cafeteria	40,045	
Debt Service	<u>55,766</u>	
Totals	<u>\$ 1,067,088</u>	<u>\$ 1,067,088</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 - INTERFUND ACTIVITIES (CONCLUDED)

B. Interfund Transfers (Concluded)

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

Transfer \$14,431 from General Fund to Deferred Maintenance Fund to reimburse fund for current year expenditures.

Transfer \$40,045 from General Fund to Cafeteria Fund to support the child nutrition program.

Transfer \$340 from Corporation Debt Service Fund to Corporation Acquisition Fund to transfer excess interest earnings from the certificates of participation reserve account, which will be used to finance future construction projects.

Transfer \$477,739 from Capital Projects - Special Reserve Fund to Corporation Debt Service Fund for debt service payment on outstanding certificates of participation.

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

Transfer \$357,645 from Corporation Acquisition Fund to Building Fund to reimburse fund for expenditures from certificates of participation proceeds.

Transfer \$65,355 from Corporation Acquisition Fund to Capital Projects - Special Reserve Fund to reimburse fund for expenditures from certificates of participation proceeds.

NOTE 7 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2010, is shown below:

	Balances July 1, 2009	Additions	Deletions	Balances June 30, 2010
Land	\$ 948,870			\$ 948,870
Sites and Improvements	1,384,149			1,384,149
Buildings and Improvements	8,463,184	\$ 14,511,708		22,974,892
Furniture and Equipment	106,711	285,326		392,037
Work-in-Progress	13,012,348	1,940,835	\$ 14,887,981	65,202
Totals at Historical Cost	23,915,262	16,737,869	14,887,981	25,765,150
Less Accumulated Depreciation for:				
Sites and Improvements	1,071,324	60,411		1,131,735
Buildings and Improvements	2,319,441	487,234		2,806,675
Furniture and Equipment	32,608	17,890		50,498
Total Accumulated Depreciation	3,423,373	565,535	0	3,988,908
Governmental Activities				
Capital Assets, net	<u>\$ 20,491,889</u>	<u>\$ 16,172,334</u>	<u>\$ 14,887,981</u>	<u>\$ 21,776,242</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 7 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	\$ 297,575
Supervision of Instruction	22,612
Instructional Library, Media, and Technology	3,790
School Site Administration	55,712
Food Services	14,515
Other Pupil Services	12,428
Data Processing Services	5,079
Other General Administration	90,379
Plant Services	<u>63,445</u>
Total Depreciation Expense	<u>\$ 565,535</u>

NOTE 8 - GENERAL OBLIGATION BONDS

On August 18, 2005, the District issued Series 2005 general obligation bonds, 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 Series 2006A general obligation bonds, in an aggregate principal amount of \$1,989,991. The Series 2006A bonds were issued as \$1,680,000 of current interest bonds with interest rates ranging from 3.25% to 4.125% and \$309,991 of capital appreciation bonds with an accretion rate of 7.586%.

On September 7, 2006, the District issued Series 2006B general obligation bonds, in an aggregate principal amount of \$6,269,933. The Series 2006B bonds were issued as \$3,110,000 of current interest bonds with interest rates ranging from 3.85% to 4.375% and \$3,159,933 of capital appreciation bonds with an accretion rate of 5.523%.

Each of the 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, 2010 was as follows:

A. Current Interest Bonds

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2009	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2010
8/18/05	3.65-5.5	8/1/30	\$ 7,640,000	\$ 7,135,000		\$ 190,000	\$ 6,945,000
9/7/06	3.25-4.125	8/1/22	1,680,000	1,510,000		85,000	1,425,000
9/7/06	3.85-4.375	8/1/28	<u>3,110,000</u>	<u>3,110,000</u>			<u>3,110,000</u>
Totals			<u>\$ 12,430,000</u>	<u>\$ 11,755,000</u>	<u>\$ 0</u>	<u>\$ 275,000</u>	<u>\$ 11,480,000</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, 2010, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	\$ 290,000	\$ 479,314	\$ 769,314
2012	305,000	464,864	769,864
2013	325,000	449,389	774,389
2014	350,000	432,809	782,809
2015	385,000	414,626	799,626
2016-2020	2,470,000	1,805,648	4,275,648
2021-2025	3,235,000	1,223,365	4,458,365
2026-2030	3,625,000	482,198	4,107,198
2031-2035	495,000	10,642	505,642
Totals	\$ 11,480,000	\$ 5,762,855	\$ 17,242,855

B. Capital Appreciation Bonds

<u>Date of Issue</u>	<u>Accretion Rate %</u>	<u>Date of Maturity</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2009</u>	<u>Issued Current Year</u>	<u>Accreted Interest Current Year</u>	<u>Outstanding June 30, 2010</u>
9/7/06	7.586	8/1/33	\$ 309,991	\$ 382,355		\$ 29,555	\$ 411,910
9/7/06	5.523	8/1/42	3,159,933	3,684,199		206,285	3,890,484
Totals			\$ 3,469,924	\$ 4,066,554	\$ 0	\$ 235,840	\$ 4,302,394

The outstanding obligation for the Series 2006A capital appreciation bonds at June 30, 2010, was as follows:

<u>Year Ended June 30</u>	<u>Accretion Rate</u>	<u>Amount of Original Issue (Principal)</u>	<u>Accreted Interest</u>	<u>Totals</u>
2011-2015		\$ 0	\$ 0	\$ 0
2016-2020		0	0	0
2021-2025	7.586%	76,706	25,219	101,925
2026-2030	7.586%	148,490	48,820	197,310
2031-2035	7.586%	84,795	27,880	112,675
Totals		\$ 309,991	\$ 101,919	\$ 411,910

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, 2010, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011-2015	\$ 0	\$ 0	\$ 0
2016-2020	0	0	0
2021-2025	76,706	203,294	280,000
2026-2030	148,490	551,510	700,000
2031-2035	84,795	475,205	560,000
Totals	<u>\$ 309,991</u>	<u>\$ 1,230,009</u>	<u>\$ 1,540,000</u>

The outstanding obligation for Series 2006B capital appreciation bonds at June 30, 2010, was as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Accretion</u> <u>Rate</u>	<u>Amount of</u> <u>Original Issue</u> <u>(Principal)</u>	<u>Accreted</u> <u>Interest</u>	<u>Totals</u>
2011-2015		\$ 0	\$ 0	\$ 0
2016-2020		0	0	0
2021-2025		0	0	0
2026-2030	5.523%	130,676	30,209	160,885
2031-2035	5.523%	1,165,346	269,423	1,434,769
2036-2040	5.523%	1,222,973	282,752	1,505,725
2041-2045	5.523%	640,938	148,167	789,105
Totals		<u>\$ 3,159,933</u>	<u>\$ 730,551</u>	<u>\$ 3,890,484</u>

The annual requirements to amortize the Series 2006B capital appreciation bonds at June 30, 2010, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011-2015	\$ 0	\$ 0	\$ 0
2016-2020	0	0	0
2021-2025	0	0	0
2026-2030	130,676	324,324	455,000
2031-2035	1,165,346	3,684,654	4,850,000
2036-2040	1,222,973	5,357,027	6,580,000
2041-2045	640,938	3,649,062	4,290,000
Totals	<u>\$ 3,159,933</u>	<u>\$ 13,015,067</u>	<u>\$ 16,175,000</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - CAPITAL LEASES

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

Future required sinking fund payments as of June 30, 2010 are as follows:

Year Ended <u>June 30</u>	Sinking Fund Payments
2011	\$ 55,766
2012	55,766
2013	55,766
2014	55,766
2015	55,766
2016-2020	<u>167,299</u>
Total sinking fund payments remaining	<u>\$ 446,129</u>
Lease payment due December 19, 2017	<u>\$ 1,000,000</u>

At June 30, 2010, the Debt Service Sinking Fund has a fund balance of \$420,893.

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

Future minimum lease payments under this agreement are as follows:

Year Ended <u>June 30</u>	Lease Payments
2011	\$ 19,399
2012	19,399
2013	19,399
2014	19,399
2015	19,399
2016-2020	<u>19,399</u>
Total payments	116,394
Less amounts representing interest	<u>(13,264)</u>
Present value of net minimum lease payments	<u>\$ 103,130</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, 2010

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, 2010, the principal balance outstanding was \$1,635,000.

The annual requirements to amortize the certificates of participation as of June 30, 2010 are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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	<u>\$ 1,635,000</u>	<u>\$ 198,750</u>	<u>\$ 1,833,750</u>

NOTE 11 - EARLY RETIREMENT INCENTIVES

In addition to the STRS pension benefits described in Note 15, the District provided an early retirement incentive benefit program through the Public Agency Retirement System (PARS). The PARS program was offered to all certificated employees with at least 30 years of teaching experience and with 10 years of service with the District. One certificated employee participated in the program in fiscal year 2009-10. The future liability for the early retirement incentive benefits at June 30, 2010, is \$42,200, and future payments are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>PARS</u>
2011	\$ 8,440
2012	8,440
2013	8,440
2014	8,440
2015	8,440
Total	<u>\$ 42,200</u>

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS

From an accrual accounting perspective, the cost of other post employment benefits (OPEB), like the cost of pension benefits, should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of Governmental Accounting Standards Board Statement No. 45 (GASB 45) during the year ended June 30, 2010, the District recognizes the cost of other post employment benefits in the year when employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the District's future cash flows.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Plan Descriptions: The District provides medical coverage to classified employees with at least 15 years of service in the District who retire before the age of 65. The District subsidized coverage ceases after the earlier of 24 months or at age 65. The District contributes up to the employee only rate towards classified retiree health premiums up to the District's annual cap, which was \$8,698 at the time of the valuation.

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

The District had twenty-three (23) active employees and one (1) retired employee covered by the OPEB Plan as of June 30, 2009, the effective date of the triennial OPEB valuation.

For the District, OPEB benefits are administered by District personnel. No separate financial statements are issued.

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

Annual OPEB Cost and Net OPEB Obligation/(Asset): The following table shows the components of the District's annual OPEB cost for the fiscal year ended June 30, 2010, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation/(asset) that resulted in a net OPEB asset of \$715 for the year ended June 30, 2010.

Normal service cost with interest to end of year	\$ 4,000
Amortization of UAAL with interest to end of year	<u>1,000</u>
Annual required contribution (ARC)	5,000
Interest on Net OPEB Obligation	0
Adjustment to ARC	<u>(0)</u>
Annual OPEB cost (expense)	5,000
Contributions for the fiscal year	<u>(5,715)</u>
Increase in Net OPEB Obligation/(Asset)	(715)
Net OPEB Obligation - June 30, 2009	<u>0</u>
Net OPEB Obligation/(Asset) - June 30, 2010	<u>\$ (715)</u>
Percent of annual OPEB cost contributed	114.3%

In future years, three-year trend information will be presented. Fiscal year 2009-10 was the first year of implementation for GASB 45 and the District elected to implement prospectively, therefore, prior year comparative data is not available.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (CONCLUDED)

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2010, was as follows:

Active employees	\$ 25,000
Retired employees	<u>5,000</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 30,000</u>
Annual covered payroll	\$ 801,087
UAAL as % of covered payroll	3.7%
Actuarial Value of Plan Assets	\$ 0

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include mortality, turnover, disability, retirement and other factors that affect the number of people eligible to receive future retiree benefits. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009, actuarial valuation, the liabilities were computed using the projected unit credit method and the District's UAAL is being amortized using the level dollar basis over an open 30 year period. The actuarial assumptions utilized a 4.5% discount rate, the expected long-term rate of return on District assets. The valuation assumes an initial healthcare cost rate of 12% which grades down to an ultimate rate of 5% for year 9 and thereafter.

NOTE 13 - LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2010, is shown below:

	Balances July 1, 2009	Additions	Deductions	Balances June 30, 2010	Due within One Year
Compensated Absences	\$ 15,760	\$ 3,655		\$ 19,415	
General Obligation Bonds:					
Current Interest	11,755,000		\$ 275,000	11,480,000	\$ 290,000
Capital Appreciation	4,066,554	235,840		4,302,394	
Capital Leases	1,117,765		14,635	1,103,130	15,250
Certificates of Participation	2,020,000		385,000	1,635,000	400,000
Early Retirement Incentives	0	42,200		42,200	8,440
Totals	<u>\$ 18,975,079</u>	<u>\$ 281,695</u>	<u>\$ 674,635</u>	<u>\$ 18,582,139</u>	<u>\$ 713,690</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 14 - FUND BALANCES

The District's fund balances at June 30, 2010 consisted of the following:

	General Fund	Bond Interest and Redemption Fund	Corporation Debt Service 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		\$ 541,754	\$ 323,513				420,893	1,286,160
Legally Restricted	175,442							175,442
Unreserved:								
Designated For:								
Economic								
Uncertainties	617,955							617,955
Other Designations	94,786			\$ 225			350,005	445,016
Undesignated	350,555				\$ 42,866	\$ 1,721,205	400	2,115,026
Total Fund Balances	\$ 1,239,738	\$ 541,754	\$ 323,513	\$ 225	\$ 42,866	\$ 1,721,205	\$ 771,338	\$ 4,640,639

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

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

A. State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-10 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, 2010, 2009, and 2008, were \$121,440, \$119,046, and \$99,774, respectively, and equal 100% of the required contributions for each year.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

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 2009-10 was 9.709%. 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, 2010, 2009, and 2008, were \$101,151, \$97,985, and \$91,882, 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.

NOTE 16 - 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 \$62,809 (4.267% of salaries subject to STRS).

NOTE 17 - 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 2009-10, 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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 18 - 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 19 - CHARTER SCHOOL

In accordance with Education Code Section 47605, the District approved a charter school agreement with Willow Creek Academy Charter School, which was renewed for an additional five years for the period July 1, 2009 through June 30, 2014. Under the terms of the agreement, the charter school is responsible for managing, budgeting, and accounting for its activities in accordance with accounting principles generally accepted in the United States of America. Therefore, the financial activities of the charter school are not included in the District's financial reports; however, the financial transactions between the charter school and the District are included.

NOTE 20 - 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 21 - SUBSEQUENT EVENT

On August 18, 2010, the District approved a PARS early retirement incentive benefit for one certificated employee. The future liability for this benefit is \$42,200 and requires annual payments of \$8,440 beginning in fiscal year 2010-11.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 22 - FUTURE GASB IMPLEMENTATION

In March of 2009, the Governmental Accounting Standards Board issued GASB Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definition*," with required implementation for the District during the year ended June 30, 2011. The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The statement provides for fund balance classifications such as restricted, committed, assigned, and unassigned.

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, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Revenue Limit Sources:				
State Apportionment	\$ 102,001	\$ 102,880	\$ 102,880	
Local Sources	3,935,005	3,904,862	3,886,773	\$ (18,089)
Total Revenue Limit Sources	4,037,006	4,007,742	3,989,653	(18,089)
Federal Revenue	201,859	343,854	324,632	(19,222)
Other State Revenue	1,494,487	885,965	897,709	11,744
Other Local Revenue	255,876	807,379	776,546	(30,833)
Total Revenues	5,989,228	6,044,940	5,988,540	(56,400)
<u>Expenditures</u>				
Certificated Salaries	1,730,536	1,774,583	1,748,300	26,283
Classified Salaries	881,481	904,655	892,336	12,319
Employee Benefits	756,883	726,491	725,200	1,291
Books and Supplies	191,581	306,469	214,727	91,742
Services and Other				
Operating Expenditures	1,316,960	1,963,307	1,840,071	123,236
Capital Outlay		64,645	61,370	3,275
Debt Service:				
Principal Retirement	14,065	14,635	14,635	
Interest and Fiscal Charges	5,334	4,764	4,764	
Other Expenditures	483,512	534,140	507,454	26,686
Total Expenditures	5,380,352	6,293,689	6,008,857	284,832
Excess of Revenues Over (Under) Expenditures	608,876	(248,749)	(20,317)	228,432
<u>Other Financing (Uses)</u>				
Operating Transfers Out	(644,592)	(103,545)	(110,243)	(6,698)
Net Change in Fund Balances	(35,716)	(352,294)	(130,560)	\$ 221,734
Fund Balances - July 1, 2009	1,370,298	1,370,298	1,370,298	
Fund Balances - June 30, 2010	\$ 1,334,582	\$ 1,018,004	\$ 1,239,738	

SAUSALITO MARIN CITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>
<u>Assets</u>		
Deposits and Investments	\$ 400	\$ 40
Receivables		14,571
Total Assets	<u>\$ 400</u>	<u>\$ 14,611</u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts Payable		\$ 845
Due to Other Funds		13,726
Total Liabilities		<u>14,571</u>
Fund Balances:		
Reserved		40
Unreserved:		
Designated		
Undesignated	\$ 400	
Total Fund Balances	<u>400</u>	<u>40</u>
Total Liabilities and Fund Balances	<u>\$ 400</u>	<u>\$ 14,611</u>

Special Revenue - Special Reserve	Debt Service	County School Facilities	Total Non-Major Governmental Funds
\$ 347,631	\$ 350,479 70,414	\$ 2,374	\$ 700,924 84,985
<u>\$ 347,631</u>	<u>\$ 420,893</u>	<u>\$ 2,374</u>	<u>\$ 785,909</u>
			\$ 845 13,726
			<u>14,571</u>
	\$ 420,893		420,933
\$ 347,631		\$ 2,374	350,005 400
<u>347,631</u>	<u>420,893</u>	<u>2,374</u>	<u>771,338</u>
<u>\$ 347,631</u>	<u>\$ 420,893</u>	<u>\$ 2,374</u>	<u>\$ 785,909</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>
<u>Revenues</u>		
Federal Revenue		\$ 88,546
State Revenue		5,927
Local Revenue	\$ (56)	849
Total Revenues	<u>(56)</u>	<u>95,322</u>
<u>Expenditures</u>		
Food Services		146,599
Plant Services	14,431	
Facilities Acquisition and Construction		
Total Expenditures	<u>14,431</u>	<u>146,599</u>
Excess of Revenues Over (Under) Expenditures	(14,487)	(51,277)
<u>Other Financing Sources</u>		
Operating Transfers In	<u>14,431</u>	<u>40,045</u>
Net Change in Fund Balances	(56)	(11,232)
Fund Balances - July 1, 2009	<u>456</u>	<u>11,272</u>
Fund Balances - June 30, 2010	<u>\$ 400</u>	<u>\$ 40</u>

Special Revenue - Special Reserve	Debt Service	County School Facilities	Total Non-Major Governmental Funds
			\$ 88,546
			5,927
\$ 3,387	\$ 4,722	\$ 58	8,960
3,387	4,722	58	103,433
			146,599
			14,431
		4,626	4,626
0	0	4,626	165,656
3,387	4,722	(4,568)	(62,223)
	55,766		110,242
3,387	60,488	(4,568)	48,019
344,244	360,405	6,942	723,319
\$ 347,631	\$ 420,893	\$ 2,374	\$ 771,338

SAUSALITO MARIN CITY SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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 serving students in kindergarten through grade eight.

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, 2010

<u>Elementary</u>	<u>P-2 Report</u>	<u>Annual Report</u>
Kindergarten	20.17 *	20.64 *
First through Third	62.98 *	63.26 *
Fourth through Sixth	39.16 *	39.35 *
Seventh and Eighth	32.67 *	32.41 *
Special Education - SDC	1.82 *	1.99 *
Special Education - Nonpublic	1.94	1.91
Extended Year - Nonpublic	0.11	0.11
	<hr/>	<hr/>
Totals	<u>158.85</u>	<u>159.67</u>

* ADA presented represent numbers that were submitted to the California Department of Education by the District and are subject to the qualifications noted on page 64 and Finding **10 - 3 / 10000**.

SAUSALITO MARIN CITY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>Adjusted 1982-83 Actual Minutes</u>	<u>1986-87 Minutes Required</u>	<u>Adjusted 1986-87 Minutes Required</u>	<u>2009-10 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,500	30,625	36,000	35,000	52,410	180	N/A	In Compliance
Grade 1	45,500	44,237	50,400	49,000	57,075	180	N/A	In Compliance
Grade 2	45,500	44,237	50,400	49,000	57,075	180	N/A	In Compliance
Grade 3	45,500	44,237	50,400	49,000	59,130	180	N/A	In Compliance
Grade 4	54,250	52,744	54,000	52,500	59,130	180	N/A	In Compliance
Grade 5	54,250	52,744	54,000	52,500	59,130	180	N/A	In Compliance
Grade 6	54,250	52,744	54,000	52,500	62,813	180	N/A	In Compliance
Grade 7	54,250	52,744	54,000	52,500	62,813	180	N/A	In Compliance
Grade 8	54,250	52,744	54,000	52,500	62,813	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, 2010

<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	\$ 69,903
Needy Breakfast	10.553	13526	18,643
U.S. Department of Education:			
Passed through CDE:			
<i>Title I, Part A Cluster:</i>			
NCLB: Title I Basic Grant Low-Income & Neglected	84.010	14329	92,440
NCLB: ARRA Title I Basic Grant Low-Income & Neglected	84.389	15005	33,869
NCLB: Title II - Improving Teacher Quality	84.367	14341	27,075
NCLB: Title II - Enhancing Education Through Technology	84.318	14334	916
NCLB: Title III - Limited English Proficient	84.365	10084	1,520
NCLB: Title IV - Drug Free Schools	84.186	14347	1,484
ARRA State Fiscal Stabilization Fund	84.394	25008	44,591
Passed through Marin County SELPA:			
<i>Special Education Cluster:</i>			
IDEA Part B Basic Local Assistance	84.027	13379	50,912
ARRA IDEA Part B Local Assistance	84.391	15003	69,741
Received Direct:			
Federal Impact Aid	84.041	n/a	19,297
U.S. Department of Health and Human Services:			
Passed through CDE:			
Medi-Cal Billing	93.778	10013	20,613
Total			<u>\$ 451,004</u>

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	General Fund	Building Fund	Capital Projects - Special Reserve Fund	Cafeteria Fund
June 30, 2010 Annual Financial and Budget Report Fund Balances	\$ 1,179,292	\$ 20,948	\$ 68,863	\$ 13,766
Adjustments Increasing (Decreasing) Fund Balances:				
Overstatement of Transfers Out	60,446			
Overstatement of Transfers In		(20,723)	(25,997)	(13,726)
June 30, 2010 Audited Financial Statements Fund Balances	<u>\$ 1,239,738</u>	<u>\$ 225</u>	<u>\$ 42,866</u>	<u>\$ 40</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, 2010.

SAUSALITO MARIN CITY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	GENERAL FUND			
	(Budget)** 2010-11	2009-10	2008-09	2007-08
Revenues and Other Financial Sources	\$ 5,527,904	\$ 5,988,540	\$ 5,734,095	\$ 5,431,932
Expenditures	5,507,754	6,008,857	5,384,983	5,100,596
Other Uses and Transfers Out	93,198	110,243	108,248	103,767
Total Outgo	5,600,952	6,119,100	5,493,231	5,204,363
Change in Fund Balance	(73,048)	(130,560)	240,864	227,569
Ending Fund Balance	\$ 1,166,690	\$ 1,239,738	\$ 1,370,298	\$ 1,129,434
Available Reserves	\$ 905,445	\$ 968,510	\$ 832,572	\$ 776,012
Designated for Economic Uncertainties	\$ 560,096	\$ 617,955	\$ 553,248	\$ 525,436
Undesignated Fund Balance	\$ 345,349	\$ 350,555	\$ 279,324	\$ 250,576
Available Reserves as a Percentage of Total Outgo	16.2%	15.8%	15.2%	14.9%
Average Daily Attendance at P-2	153	159 *	153	128
Total Long-Term Liabilities	\$ 18,160,323	\$ 18,582,139	\$ 18,975,079	\$ 19,419,352

* See qualification on page 64 and Finding 10 - 3 / 10000.

** Amounts reported for the 2010-11 budget are presented for analytical purposes only and have not been audited.

The fund balance of the General Fund increased \$96,578 (8.6%) over the past two years. The fiscal year 2010-11 budget projects a decrease of \$73,048 (5.9%). For a district this size, the state recommends available reserves of at least 5% of total general fund expenditures, transfers out, and other uses (total outgo).

The District incurred an operating deficit of \$130,560 during fiscal year 2009-10, and produced operating surpluses of \$240,864 and \$227,569 during fiscal years 2008-09 and 2007-08, respectively.

Average daily attendance (ADA) increased 31 ADA over the past two years. The District projects a decrease of 6 ADA during fiscal year 2010-11.

Total long-term liabilities decreased \$837,213 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, 2010

<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, 2010

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

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

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, 2010, and have issued our report thereon dated December 10, 2010. 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 2009-10*. 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	6 (see below)
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	Not Applicable
Instructional Time for School Districts	6	Yes
Instructional Time for County Offices of Education	3	Not Applicable
Instructional Materials Program:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not Applicable
GANN Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes

<u>Description</u>	Procedures In Education Audit Appeals Panel's <u>Audit Guide</u>	<u>Procedures Performed</u>
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or Charter Schools With Only One School Serving Grades K-3	4	Yes
After School Education and Safety Program:		
General Requirements	4	Yes
After School	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

We were unable to trace monthly summary totals to source documentation since the District could not locate the teacher certified attendance records. We were also unable to determine that absences recorded on absence notes and/or absence logs were consistently excluded from average daily attendance since the District was unable to locate the majority of the absence notes and/or attendance logs.

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

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 10, 2010

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

**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, 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 year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 10, 2010. 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 opinion 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness, noted as Finding 10 - 1.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency, noted as Finding 10 - 2.

Compliance and Other Matters

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

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the responses and, accordingly, we express no opinion on them.

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 10, 2010

FINDINGS AND QUESTIONED COSTS SECTION

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weaknesses identified?

 X Yes No

Significant deficiencies identified not considered
to be material weaknesses?

 X Yes None reported

Noncompliance material to financial statements noted?

 Yes X No

State Awards

Internal control over state programs:

Material weaknesses identified?

 X Yes No

Significant deficiencies identified not considered
to be material weaknesses?

 X Yes None reported

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

Qualified

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS

10 - 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. Accordingly, districts should have an effective system of internal control over financial reporting that will ensure that the information contained in the report is free of material misstatement.
<u>Condition:</u>	The District's "Unaudited Actuals" included misstatements that we consider to be material to the District's annual financial statements. Accordingly, it appears that internal control over financial reporting was inadequate in the areas where the audit adjustments were required.
<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 58 of this report.
<u>Effect:</u>	When an effective system of internal control over financial reporting is not in place, there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.
<u>Cause:</u>	The District was given incorrect instructions on how to record year end journal entries to eliminate deficit cash balances in two funds.
<u>Recommendation:</u>	The District should develop procedures to ensure that temporary borrowing between funds is recorded on the general ledger as a loan rather than a permanent equity transfer between funds.
<u>District Response:</u>	The District will update its procedures for temporary borrowing between funds. Procedures will record these temporary transfers as loans rather than permanent equity transfers.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

10 - 2 / 30000

SIGNIFICANT DEFICIENCY

CAFETERIA FUND OPERATIONS

Criteria: The Cafeteria Fund should operate on a break-even basis.

Condition: The Cafeteria Fund does not operate on a break-even basis. The Cafeteria Fund has incurred operating deficits in each of the last three years and has relied upon annual contributions from the General Fund. A summary of the operating deficits and annual contributions are as follows:

	Budget 2010-11	2009-10	2008-09	2007-08
Cafeteria Fund				
Operating Deficits	\$ 39,460	\$ 51,277	\$ 38,377	\$ 30,086
General Fund				
Contributions	\$ 33,000	\$ 40,045	\$ 42,482	\$ 37,000

Questioned Cost: None.

Context: The Cafeteria Fund is incurring annual operating deficits and has become dependent on annual General Fund contributions.

Effect: If cafeteria revenues do not increase or appropriate program cuts are not made, the current trend of deficit spending in the Cafeteria Fund will likely continue.

Cause: Based on the number of paid and reduced meals served during the year, the District should have collected \$5,885 in local revenue; however, the District recognized only \$993 of local revenue during the year. In addition, there appears to be a significant amount of waste regarding meals that are discarded on a daily basis as a result of faulty meal order counts. District staff prepared an analysis of meal service for 73 lunch periods and 60 breakfast periods. Based on the District's analysis, the annual value of meals that were discarded in fiscal year 2009-10 is estimated to be \$7,590.

Recommendation: The District should implement program changes that will allow the Cafeteria Fund to operate closer to a break-even basis. Program changes should address efforts to improve collection procedures and procedures that will provide cafeteria staff with more accurate meal order counts.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

CAFETERIA FUND OPERATIONS (CONCLUDED)

District Response:

The District has revised its classroom count procedure with staff, allowing for closer monitoring. The same process was instituted with our ASES Program personnel. This school year, 2010-11, is the base year for Provision 2 claiming, which will allow for increased reimbursements. The District makes every effort to work within the funding parameters of the program; however, operating on a break even basis is further complicated by the escalating costs of health insurance, unemployment and PERS (Public Employee Retirement System) obligations.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

10 - 3 / 10000

MATERIAL WEAKNESS

ATTENDANCE

- Criteria:
1. Due to the direct relationship between attendance and state apportionments, each LEA must develop and maintain accurate attendance records to support the attendance reported to the State.
 2. California's compulsory education law (Education Code Section 48200) requires each person between six and eighteen years of age to attend public, full-time day school, and requires their parents or guardians to send them, unless legally exempt. The two principal exemptions are (1) instruction in a private, full-time day school, or (2) instruction by a tutor or other person holding a valid California teaching credential for the grade level being taught (Education Code Sections 48220, 48222, 48224). In order to comply with the compulsory education law, the District's Board of Trustees adopted policies on what school sites should maintain as documentation to support student absences, such as notes, phone logs, etc.
- Conditions:
1. Bayside Elementary School and Martin Luther King Jr. Academy were unable to locate any teacher certified attendance records.
 2. Bayside Elementary School and Martin Luther King Jr. Academy were unable to locate a majority of the supporting absence notes and phone logs.
- Questioned Costs:
- 1-2. There is no way to reasonably quantify whether average daily attendance (ADA) is correctly stated due to the missing teacher certified attendance registers and absence notes and phone logs, however, the District receives funding under the Basic Aid provision and any questioned ADA would have no impact on the amount of state aid received by the District.
- Context:
- 1-2. The conditions were present throughout fiscal year 2009-10.
- Effect:
1. There is no documented evidence that attendance was taken by teachers, and there are no certifications by teachers as to the accuracy or completeness of the reported attendance.
 2. The District may not comply with the requirements of Education Code Section 48200.
- Cause:
- 1-2. The school sites forward all attendance records and supporting documentation to the District Office at the end of each school year. The District Office did not receive any records from the sites, and did not realize the records were missing until requested by the auditors.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

ATTENDANCE (CONCLUDED)

Recommendation: 1-2. The District should develop procedures to ensure that all attendance records, which support the attendance reported to the State, are maintained in accordance with the State's records retention requirements.

District Response: At month end, District site secretaries will forward a copy of all signed grade attendance reports. At year end, District site secretaries will hand deliver all original copies of daily classroom attendance sheets with corresponding parent communications. A sign off sheet will be provided and included in the attendance record.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

10 - 4 / 40000

SIGNIFICANT DEFICIENCY

CLASS SIZE REDUCTION

Criteria: Small school districts may qualify under the provisions of Education Code Section 52122(h) to receive class size reduction funding for classes with an average up to 22 pupils. In order to qualify, a school district must have only one school that serves kindergarten and grades one through grade three; have no more than two classes per participating grade level and the average class size is no more than 20 pupils in each of the classes participating at that schoolsite; and the school district's governing board must make a public declaration that all possible alternatives to averaging have been exhausted and the district was unable to achieve the 20:1 ratio in a way that is educationally acceptable.

Condition: The District incorrectly reported a class of 21 eligible pupils on the Form J-7CSR.

Questioned Costs: None. Class size reduction funding claimed for fiscal year 2009-10 was understated by \$2,142. (2 eligible pupils x \$1,071)

Context: The District complied with all other class size reduction program compliance requirements.

Effect: The District claimed less funding than it was entitled to receive for fiscal year 2009-10, based on the actual number of eligible pupils served in qualifying class size reduction classes.

Cause: The District reported the class of 21 pupils on the line that calculates a 5% penalty, rather than on the line for a class size of 21 for districts that qualify under the small school exception.

Recommendation: The District should establish procedures to ensure that the correct number of eligible pupils is reported to the CDE. In addition, the District should file a revised Form J-7CSR for fiscal year 2009-10 to report a total of 73 eligible pupils, as follows:

Revised J-7CSR (Audited)

<u>Grade Level</u>	<u>Class Size</u>				<u>Total</u>
	<u>14</u>	<u>18</u>	<u>20</u>	<u>21</u>	
Kindergarten	0	0	1	0	1
Grade One	0	1	0	0	1
Grade Two	0	0	0	1	1
Combo	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Subtotal	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>4</u>
Eligible Pupils	<u>14</u>	<u>18</u>	<u>20</u>	<u>21</u>	<u>73</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

CLASS SIZE REDUCTION (CONCLUDED)

District Response:

The District will establish procedures to ensure that the correct number of eligible pupils is reported to the CDE. The District will file a revised Form J-7-CSR for fiscal year 2009-10.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

10 - 5 / 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. The District did not have documentation to support the reason for the early release of pupils on a consistent basis.
2. Sign-out sheets, documenting the time of the early release and the reason for early release, were not available for review.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM - ATTENDANCE (CONCLUDED)

<u>Questioned Costs:</u>	The Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Education Agencies 2009-10 do not require questioned costs to be identified for the after school component noncompliance items noted above.
<u>Context:</u>	<ol style="list-style-type: none">1. The condition appeared to be present throughout fiscal year 2009-10 at Bayside Elementary and Willow Creek Academy.2. The condition appeared to be present throughout fiscal year 2009-10 at Martin Luther King Jr. Academy. The District did have attendance records to document the arrival of students to the program on a daily basis.
<u>Effect:</u>	Program records maintained by the District do not adequately substantiate compliance with Education Code Section 8483 (a)(2).
<u>Cause:</u>	The District has not adequately monitored the program to ensure that it is being operated in accordance with all state requirements.
<u>Recommendation:</u>	The District should provide appropriate training and guidance to program personnel. Training should include procedures to ensure that the reason for the early release of pupils from the after school program is properly documented in writing, as well as to ensure that all supporting records are maintained in accordance with the State's records retention requirements.
<u>District Response:</u>	The District has a new provider for the ASES Program for 2010-11, Boys and Girls Clubs of Marin. Their personnel is following the District's early release policy, including the early sign out of students listing appropriate codes and sign off by program personnel. The Program Manager for the Boys and Girls Clubs of Marin will provide original documentation of both attendance and early release to the District Office, with signature acceptance by District office staff.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
09 - 1 / 30000		
<u>FINANCIAL REPORTING - UNAUDITED ACTUALS</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.	Implemented	
<u>STATE AWARDS</u>		
09 - 2 / 40000		
<u>AFTER SCHOOL EDUCATION AND SAFETY PROGRAM - ATTENDANCE</u>		
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.	Partially Implemented	Comment Repeated (10 - 5 / 40000)
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.	Implemented	
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.	Implemented	

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARDS (CONCLUDED)</u>		
09 - 3 / 40000		
<u>AFTER SCHOOL EDUCATION AND SAFETY PROGRAM - DAYS OF OPERATION</u>		
The District should obtain a thorough understanding of program requirements and establish an appropriate monitoring system to ensure that the District complies with all program requirements in the future.	Implemented	