

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

AUDIT REPORT

JUNE 30, 2012

SAUSALITO MARIN CITY SCHOOL DISTRICT

JUNE 30, 2012

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SAUSALITO MARIN CITY SCHOOL DISTRICT

JUNE 30, 2012

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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, 2012, 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, 2012, 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, 2012 on our consideration of Sausalito Marin City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, the budgetary comparison information on page 49, and the schedule of funding progress on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sausalito Marin City School District's financial statements as a whole. The accompanying combining fund financial statements and supplementary schedules listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 10, 2012

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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, 2012. 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 2011-12, as total net assets decreased almost 1.1%.
- On the Statement of Activities, total current year expenses exceeded total current year revenues by \$88,500.
- Capital assets, net of depreciation, increased \$96,045, due to the capitalization of \$601,329 of capital assets and the current year recognition of \$505,284 of depreciation expense.
- Total long-term liabilities decreased \$455,612, due primarily to the current year reduction of the District's obligations for general obligation bonds and certificates of participation.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balances, total current year expenditures and other financing uses exceeded total current year revenues and other financing sources by \$175,457, due primarily to the spending down of certificates of participation proceeds received in a prior fiscal year.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 5% of total general fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2011-12, General Fund expenditures and other financing uses totaled \$5,800,016. At June 30, 2012, the District has available reserves of \$1,364,459 in the General Fund, which represents a reserve of 23.5%.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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, 2012
(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, Debt Service 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 a separate fiduciary statement. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's total net assets decreased from \$8,419,484 at June 30, 2011, down to \$8,330,984 at June 30, 2012, a decrease of almost 1.1%.

Comparative Statement of Net Assets

	Governmental Activities	
	2011	2012
<u>Assets</u>		
Deposits and Investments	\$ 3,744,703	\$ 3,529,414
Current Receivables	407,840	411,265
Long-term Receivable	1,022,734	547,734
OPEB Assets	2,735	0
Capital Assets, net	22,065,935	22,161,980
Total Assets	27,243,947	26,650,393
<u>Liabilities</u>		
Current	1,444,739	1,463,704
Long-term	17,379,724	16,855,705
Total Liabilities	18,824,463	18,319,409
<u>Net Assets</u>		
Invested in Capital Assets		
- Net of Related Debt	5,509,472	5,925,963
Restricted	1,557,179	751,529
Unrestricted	1,352,833	1,653,492
Total Net Assets	\$ 8,419,484	\$ 8,330,984

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, 2012**

(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 \$88,500.

<u>Comparative Statement of Change in Net Assets</u>		
	Governmental Activities	
	2011	2012
<u>Program Revenues</u>		
Operating Grants & Contributions	\$ 1,977,706	\$ 1,582,135
Capital Grants & Contributions	12	0
<u>General Revenues</u>		
Taxes Levied	4,373,227	4,217,184
Federal & State Aid	829,216	738,167
Interest & Investment Earnings	18,620	61,238
Transfers from Other Agencies	58,991	20,259
Miscellaneous	148,958	192,007
Total Revenues	7,406,730	6,810,990
<u>Expenses</u>		
Instruction	3,220,540	2,875,031
Instruction-Related Services	895,049	834,991
Pupil Services	675,037	415,760
General Administration	1,294,000	752,940
Plant Services	705,984	653,972
Ancillary Services	1,074	4,521
Interest on Long-Term Debt	800,316	783,793
Other Outgo	505,755	578,482
Total Expenses	8,097,755	6,899,490
Change in Net Assets	\$ (691,025)	\$ (88,500)
<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, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

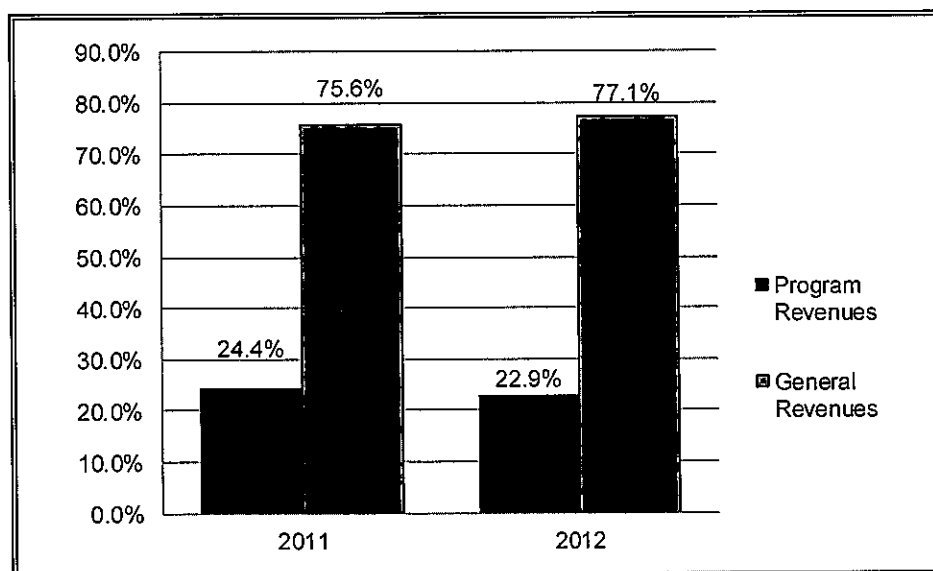
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Comparative Schedule of Costs of Services</u>				
	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	2011	2012	2011	2012
Instruction	\$ 3,220,540	\$ 2,875,031	\$ 2,337,043	\$ 1,909,413
Instruction-Related Services	895,049	834,991	579,504	552,293
Pupil Services	675,037	415,760	408,287	295,975
General Administration	1,294,000	752,940	1,000,471	723,287
Plant Services	705,984	653,972	703,486	653,972
Ancillary Services	1,074	4,521	1,074	4,521
Interest on Long-Term Debt	800,316	783,793	800,316	783,793
Other Outgo	505,755	578,482	289,856	394,101
Totals	\$ 8,097,755	\$ 6,899,490	\$ 6,120,037	\$ 5,317,355

Table includes financial data of the combined governmental funds

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$5,317,355 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



In 2011-12, program revenues financed 22.9% of the total cost of providing the services listed above, while the remaining 77.1% 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, 2012
(PREPARED BY DISTRICT MANAGEMENT)**

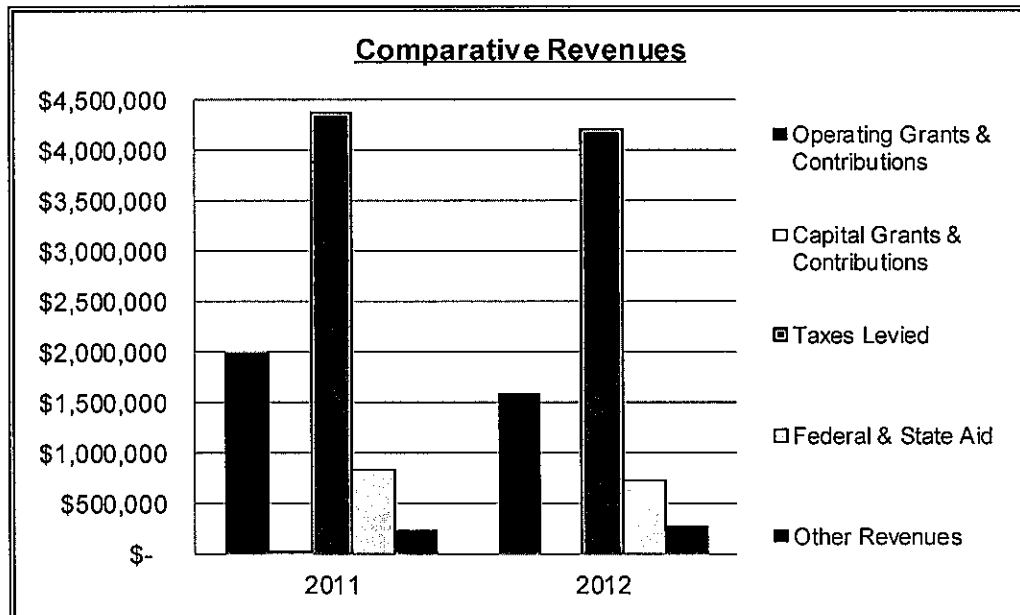
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Revenues For Governmental Functions

	FYE 2011 Amount	Percent of Total	FYE 2012 Amount	Percent of Total
<u>Program Revenues</u>				
Operating Grants & Contributions	\$ 1,977,706	26.70%	\$ 1,582,135	23.23%
Capital Grants & Contributions	12	0.00%	0	0.00%
<u>General Revenues</u>				
Taxes Levied	4,373,227	59.04%	4,217,184	61.92%
Federal & State Aid	829,216	11.20%	738,167	10.84%
Other Revenues	226,569	3.06%	273,504	4.02%
Total Revenues	\$ 7,406,730	100.00%	\$ 6,810,990	100.00%

Table includes financial data of the combined governmental funds



**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(PREPARED BY DISTRICT MANAGEMENT)**

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

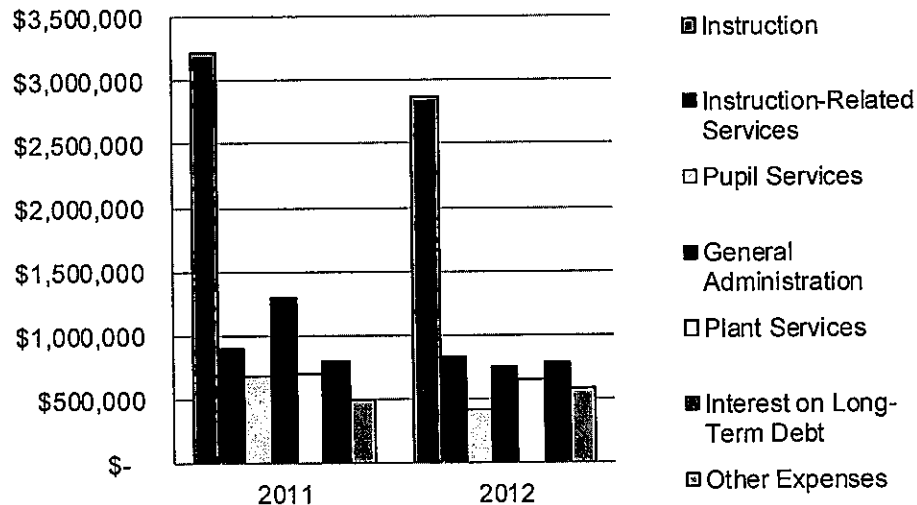
GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Expenses For Governmental Functions

	FYE 2011 Amount	Percent of Total	FYE 2012 Amount	Percent of Total
<u>Expenses</u>				
Instruction	\$ 3,220,540	39.77%	\$ 2,875,031	41.67%
Instruction-Related Services	895,049	11.05%	834,991	12.10%
Pupil Services	675,037	8.34%	415,760	6.03%
General Administration	1,294,000	15.98%	752,940	10.91%
Plant Services	705,984	8.72%	653,972	9.48%
Interest on Long-Term Debt	800,316	9.88%	783,793	11.36%
Other Expenses	506,829	6.26%	583,003	8.45%
Total Expenses	\$ 8,097,755	100.00%	\$ 6,899,490	100.00%

Table includes financial data of the combined governmental funds

Comparative Expenses



**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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	
	2011	2012
Land	\$ 948,870	\$ 948,870
Sites and Improvements	1,970,254	2,022,186
Buildings and Improvements	23,014,075	24,046,205
Furniture and Equipment	404,019	422,235
Work-in-Progress	514,852	13,903
Subtotals	26,852,070	27,453,399
Less: Accumulated Depreciation	(4,786,135)	(5,291,419)
Capital Assets, net	<u>\$ 22,065,935</u>	<u>\$ 22,161,980</u>

Capital assets, net of depreciation, increased \$96,045, due to the capitalization of \$601,329 of capital assets and the current year recognition of \$505,284 of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	Governmental Activities	
	2011	2012
Compensated Absences	\$ 7,812	\$ 17,236
General Obligation Bonds	15,742,068	15,701,400
Capital Leases	1,087,880	1,091,148
Certificates of Participation	1,235,000	820,000
Early Retirement Incentives	67,536	50,652
Other Post Employment Benefits	(2,735)	1,513
Totals	<u>\$ 18,137,561</u>	<u>\$ 17,681,949</u>

Total long-term liabilities decreased \$455,612, 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, 2012
(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 88.8% of the District's total long-term liabilities. The capital leases are financed by the General Fund, and represent 6.2% 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 represent 4.6% of the District's total long-term liabilities. The obligations for compensated absences, early retirement incentives, and other post employment benefits are financed by the General Fund, and make up the remaining portion of the long-term liabilities.

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

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

<u>Comparative Schedule of Fund Balances</u>			
	Fund Balances June 30, 2011	Fund Balances June 30, 2012	Increase (Decrease)
General	\$ 1,650,441	\$ 1,720,402	\$ 69,961
Bond Interest & Redemption	548,851	571,830	22,979
Corporation Debt Service	323,509	323,513	4
Debt Service	487,749	600,418	112,669
Capital Projects - Special Reserve	24,429	106,570	82,141
Corporation Acquisition	638,582	57	(638,525)
Deferred Maintenance	5,341	181,780	176,439
Cafeteria	749	0	(749)
Building	245	246	1
County School Facilities	966	589	(377)
Totals	\$ 3,680,862	\$ 3,505,405	\$ (175,457)

The combined fund balances of all District funds decreased \$175,457, due primarily to the spending down of certificates of participation proceeds received in a prior fiscal year in the Corporation Acquisition Fund.

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 2011-12 are presented alongside the actual results on page 49.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(PREPARED BY DISTRICT MANAGEMENT)**

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The District is expected to maintain its basic aid status during fiscal year 2012-13. 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, 200 Phillips Drive, Marin City, California 94965.

SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 3,529,414
Receivables (Note 4)	411,265
Long-Term Receivable (Note 5)	547,734
Capital Assets: (Note 7)	
Land	948,870
Sites and Improvements	2,022,186
Buildings and Improvements	24,046,205
Furniture and Equipment	422,235
Work-in-Progress	13,903
Less: Accumulated Depreciation	(5,291,419)
Total Assets	<u>26,650,393</u>
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	637,460
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences (Note 1H)	17,236
General Obligation Bonds	
Current Interest	325,000
Capital Leases	27,124
Certificates of Participation	440,000
Early Retirement Incentives	16,884
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 8)	
Current Interest	10,560,000
Capital Appreciation	4,816,400
Capital Leases (Note 9)	1,064,024
Certificates of Participation (Note 10)	380,000
Early Retirement Incentives (Note 11)	33,768
Other Post Employment Benefits (Note 12)	1,513
Total Liabilities	<u>18,319,409</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	5,925,963
Restricted:	
For Capital Projects	548,323
For Debt Service	(52,901)
For Educational Programs	255,067
For Other Purposes	1,040
Unrestricted	<u>1,653,492</u>
Total Net Assets	<u><u>\$ 8,330,984</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities</u>					
Instruction	\$ 2,875,031		\$ 965,618		\$ (1,909,413)
Instruction-Related Services:					
Supervision of Instruction	166,445		92,520		(73,925)
Instructional Library and Technology	55,654				(55,654)
School Site Administration	612,892		190,178		(422,714)
Pupil Services:					
Home-to-School Transportation	90,798		2,619		(88,179)
Food Services	173,122		94,082		(79,040)
Other Pupil Services	151,840		23,084		(128,756)
General Administration:					
Data Processing Services	30,360				(30,360)
Other General Administration	722,580		29,653		(692,927)
Plant Services	653,972				(653,972)
Ancillary Services	4,521				(4,521)
Interest on Long-Term Debt	783,793				(783,793)
Other Outgo	578,482		184,381		(394,101)
Total Governmental Activities	\$ 6,899,490	\$ 0	\$ 1,582,135	\$ 0	(5,317,355)
<u>General Revenues</u>					
Taxes Levied for General Purposes					3,424,879
Taxes Levied for Debt Service					792,305
Federal and State Aid - Unrestricted					738,167
Interest and Investment Earnings					61,238
Transfers from Other Agencies					20,259
Miscellaneous					192,007
Total General Revenues					5,228,855
Change in Net Assets					(88,500)
Net Assets - July 1, 2011					8,419,484
Net Assets - June 30, 2012					\$ 8,330,984

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**SAUSALITO MARIN CITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Corporation Debt Service</u>
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 1,730,468	\$ 571,830	\$ 323,513
Receivables (Note 4)	390,683		
Long-Term Receivable (Note 5)			
Due from Other Funds (Note 6)	20,841		
	<u>\$ 2,141,992</u>	<u>\$ 571,830</u>	<u>\$ 323,513</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 418,920		
Due to Other Funds (Note 6)	2,670		
Deferred Revenue (Note 1H)			
	<u>421,590</u>		
Fund Balances: (Note 14)			
Nonspendable	1,000		
Restricted	255,067	\$ 571,830	\$ 323,513
Assigned	99,876		
Unassigned	1,364,459		
	<u>1,720,402</u>	<u>571,830</u>	<u>323,513</u>
Total Fund Balances	<u>\$ 2,141,992</u>	<u>\$ 571,830</u>	<u>\$ 323,513</u>
Total Liabilities and Fund Balances	<u>\$ 2,141,992</u>	<u>\$ 571,830</u>	<u>\$ 323,513</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Debt Service</u>	<u>Capital Projects - Special Reserve</u>	<u>Corporation Acquisition</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 600,418	\$ 120,473	\$ 57	\$ 182,655	\$ 3,529,414
			20,582	411,265
	547,734			547,734
			2,670	23,511
<u>\$ 600,418</u>	<u>\$ 668,207</u>	<u>\$ 57</u>	<u>\$ 205,907</u>	<u>\$ 4,511,924</u>
	\$ 13,903		\$ 2,451	\$ 435,274
			20,841	23,511
	547,734			547,734
	<u>561,637</u>		<u>23,292</u>	<u>1,006,519</u>
			40	1,040
\$ 600,418		\$ 57	835	1,751,720
	106,570		181,780	388,226
			(40)	1,364,419
<u>600,418</u>	<u>106,570</u>	<u>57</u>	<u>182,615</u>	<u>3,505,405</u>
<u>\$ 600,418</u>	<u>\$ 668,207</u>	<u>\$ 57</u>	<u>\$ 205,907</u>	<u>\$ 4,511,924</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2012

Total Fund Balances - Governmental Funds

\$ 3,505,405

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

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

Capital Assets	\$ 27,453,399	
Accumulated Depreciation	(5,291,419)	
Net		22,161,980

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:

547,734

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	\$ 17,236	
General Obligation Bonds	15,701,400	
Capital Leases	1,091,148	
Certificates of Participation	820,000	
Early Retirement Incentives	50,652	
Other Post Employment Benefits	1,513	
Total		(17,681,949)

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 owing at the end of the period was:

(202,186)

Total Net Assets - Governmental Activities

\$ 8,330,984

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Corporation Debt Service</u>
<u>Revenues</u>			
Revenue Limit Sources:			
State Apportionment	\$ 172,327		
Local Taxes	3,424,879		
Total Revenue Limit Sources	3,597,206		
Federal Revenue	229,350		
State Revenue	777,986	\$ 4,122	
Local Revenue	1,235,683	788,721	\$ 35
Total Revenues	5,840,225	792,843	35
<u>Expenditures</u>			
Instruction	2,487,301		
Supervision of Instruction	166,445		
Instructional Library and Technology	50,587		
School Site Administration	591,141		
Home-To-School Transportation	90,798		
Food Services			
Other Pupil Services	144,957		
Data Processing Services	29,322		
Other General Administration	703,549		
Plant Services	604,123		
Facilities Acquisition and Construction	23,767		
Ancillary Services	4,521		
Debt Service:			
Principal Retirement	26,484	305,000	415,000
Interest and Issuance Costs	3,523	464,864	61,374
Other Outgo	578,482		
Total Expenditures	5,505,000	769,864	476,374
Excess of Revenues Over (Under) Expenditures	335,225	22,979	(476,339)
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In			476,375
Operating Transfers Out	(295,016)		(32)
Other Sources	29,752		
Total Other Financing Sources (Uses)	(265,264)	0	476,343
Net Change in Fund Balances	69,961	22,979	4
Fund Balances - July 1, 2011	1,650,441	548,851	323,509
Fund Balances - June 30, 2012	\$ 1,720,402	\$ 571,830	\$ 323,513

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Debt Service</u>	<u>Capital Projects - Special Reserve</u>	<u>Corporation Acquisition</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
				\$ 172,327
				3,424,879
				3,597,206
			\$ 87,378	316,728
			11,668	793,776
\$ 56,903	\$ 496,849	\$ 24	65	2,578,280
56,903	496,849	24	99,111	7,285,990
				2,487,301
				166,445
				50,587
				591,141
				90,798
			154,990	154,990
				144,957
				29,322
				703,549
	14,000		6,341	624,464
	562,915		1,715	588,397
				4,521
				746,484
				529,761
				578,482
0	576,915	0	163,046	7,491,199
56,903	(80,066)	24	(63,935)	(205,209)
55,766	694,348	32	239,249	1,465,770
	(532,141)	(638,581)		(1,465,770)
				29,752
55,766	162,207	(638,549)	239,249	29,752
112,669	82,141	(638,525)	175,314	(175,457)
487,749	24,429	638,582	7,301	3,680,862
\$ 600,418	\$ 106,570	\$ 57	\$ 182,615	\$ 3,505,405

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, 2012

Net Change in Fund Balances - Governmental Funds **\$ (175,457)**

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 estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Capital Outlay Expenditures	\$ 601,329	
Depreciation Expense	(505,284)	
Net		96,045

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)

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt were:

(29,752)

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	\$ 305,000	
Capital Leases	26,484	
Certificates of Participation	415,000	
Total		746,484

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

7,460

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

(4,248)

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

10,300

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

(264,332)

Change in Net Assets of Governmental Activities **\$ (88,500)**

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012**

	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
<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	<u>\$ 0</u>	<u>\$ 0</u>

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, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

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

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.
- 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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Concluded)

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.

Governmental Accounting Standards Board Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, provides further guidance, stating that a legally separate organization should be reported as a component unit if all of the following criteria are met:

- The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the primary government or its component units.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization.
- The economic resources received or held by the organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The District has determined that there are no organizations, for which the District is not financially accountable, which should be reported within its financial reporting entity under GASB 39.

B. 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 activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

Government-wide Financial Statements (Concluded):

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

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

Fund Financial Statements:

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

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

Fiduciary funds are reported using the economic resources measurement focus.

C. Basis of Accounting

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Revenues - Exchange and Non-exchange Transactions:

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

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

Deferred Revenue:

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

Expenses/Expenditures:

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting

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

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

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

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

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

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

Major Governmental Funds:

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

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

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

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

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

Major Governmental Funds (Concluded):

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.

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

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

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.

E. 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).

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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.

G. 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.

H. Assets, Liabilities and Equity

1. Deposits and Investments

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

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

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

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

2. Capital Assets

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

2. Capital Assets (Concluded)

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

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

3. 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.

4. Compensated Absences

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

5. Long-term Liabilities

In the government-wide financial statements, long-term obligations are reported as 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.

6. Fund Balance

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

6. Fund Balance (Concluded)

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

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

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

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

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

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

7. 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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

H. Assets, Liabilities and Equity (Concluded)

7. Revenue Limit/Property Tax (Concluded)

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, 2012, 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	923,988	
County Pool Investments	<u>2,604,386</u>	
Total Deposits and Investments	<u>\$ 3,529,414</u>	<u>\$ 1,119</u>

Cash in Bank

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

Cash in Revolving Fund

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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, \$57 held by US Bank as trustee, for future construction projects, and \$600,418 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 following schedule:

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

Interest Rate Risk

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Segmented Time Distribution

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

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 2,604,386	\$ 2,605,383	\$ 2,056,850	\$ 547,536

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	\$ 2,604,386	\$ 2,605,383			\$ 2,604,386

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies.

California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, the District does not have a bank balance that is exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2012, the District does not have any investments that are held by counterparties.

Derivative Investments

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

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There was no excess of expenditures over appropriations in the General Fund in 2011-12.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012 consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 75,661	\$ 19,084	\$ 94,745
State Government	167,139	1,498	168,637
Local Governments	<u>147,883</u>	<u> </u>	<u>147,883</u>
Totals	<u>\$ 390,683</u>	<u>\$ 20,582</u>	<u>\$ 411,265</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. Future payments to be received under this agreement, as of June 30, 2012, are as follows:

<u>Year Ended June 30</u>	<u>Payments Receivable</u>
2013	\$ 475,000
2014	<u>72,734</u>
Total	<u>\$ 547,734</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012 are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 20,841	\$ 2,670
Cafeteria	2,670	20,841
Totals	<u>\$ 23,511</u>	<u>\$ 23,511</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		\$ 295,016
Corporation Debt Service	\$ 476,375	32
Debt Service	55,766	
Capital Projects - Special Reserve	694,348	532,141
Corporation Acquisition	32	638,581
Deferred Maintenance	179,090	
Cafeteria	60,159	
Totals	<u>\$ 1,465,770</u>	<u>\$ 1,465,770</u>

Transfer \$179,090 from General Fund to Deferred Maintenance Fund of contribution for future deferred maintenance projects.

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

Transfer \$60,159 from General Fund to Cafeteria Fund to support the cafeteria program.

Transfer \$32 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 \$476,375 from Capital Projects - Special Reserve Fund to Corporation Debt Service Fund for debt service payment on outstanding certificates of participation.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - INTERFUND ACTIVITIES (CONCLUDED)

B. Interfund Transfers (Concluded)

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

Transfer \$638,581 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, 2012, is shown below:

	Balances <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>June 30, 2012</u>
Land	\$ 948,870			\$ 948,870
Sites and Improvements	1,970,254	\$ 51,932		2,022,186
Buildings and Improvements	23,014,075	1,032,130		24,046,205
Furniture and Equipment	404,019	18,216		422,235
Work-in-Progress	514,852	601,329	\$ 1,102,278	13,903
Totals at Historical Cost	<u>26,852,070</u>	<u>1,703,607</u>	<u>1,102,278</u>	<u>27,453,399</u>
Less Accumulated Depreciation for:				
Sites and Improvements	1,172,568	31,546		1,204,114
Buildings and Improvements	3,532,594	455,652		3,988,246
Furniture and Equipment	80,973	18,086		99,059
Total Accumulated Depreciation	<u>4,786,135</u>	<u>505,284</u>	<u>0</u>	<u>5,291,419</u>
Governmental Activities				
Capital Assets, net	<u>\$ 22,065,935</u>	<u>\$ 1,198,323</u>	<u>\$ 1,102,278</u>	<u>\$ 22,161,980</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	\$ 404,614
Instructional Library, Media, and Technology	5,067
School Site Administration	21,751
Food Services	18,132
Other Pupil Services	6,883
Data Processing Services	1,038
Other General Administration	15,247
Plant Services	<u>32,552</u>
Total Depreciation Expense	<u>\$ 505,284</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - GENERAL OBLIGATION BONDS

The outstanding general obligation debt of the District as of June 30, 2012 was as follows:

A. Current Interest Bonds

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2011</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2012</u>
8/18/05	3.65-5.5	8/1/30	\$ 7,640,000	\$ 6,745,000		\$ 215,000	\$ 6,530,000
9/7/06	3.25-4.125	8/1/22	1,680,000	1,335,000		90,000	1,245,000
9/7/06	3.85-4.375	8/1/28	3,110,000	3,110,000			3,110,000
Totals			<u>\$ 12,430,000</u>	<u>\$ 11,190,000</u>	<u>\$ 0</u>	<u>\$ 305,000</u>	<u>\$ 10,885,000</u>

The annual requirements to amortize the current interest bonds, as of June 30, 2012, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 325,000	\$ 449,389	\$ 774,389
2014	350,000	432,809	782,809
2015	385,000	414,626	799,626
2016	425,000	397,168	822,168
2017	455,000	380,797	835,797
2018-2022	2,855,000	1,597,964	4,452,964
2023-2027	3,435,000	946,163	4,381,163
2028-2032	2,655,000	199,761	2,854,761
Totals	<u>\$ 10,885,000</u>	<u>\$ 4,818,677</u>	<u>\$ 15,703,677</u>

B. Capital Appreciation Bonds

<u>Date of Issue</u>	<u>Accretion Rate %</u>	<u>Date of Maturity</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2011</u>	<u>Issued Current Year</u>	<u>Accreted Interest Current Year</u>	<u>Outstanding June 30, 2012</u>
9/7/06	7.586	8/1/33	\$ 309,991	\$ 443,750		\$ 34,301	\$ 478,051
9/7/06	5.523	8/1/42	3,159,933	4,108,318		230,031	4,338,349
Totals			<u>\$ 3,469,924</u>	<u>\$ 4,552,068</u>	<u>\$ 0</u>	<u>\$ 264,332</u>	<u>\$ 4,816,400</u>

The outstanding obligation for the Series 2006A capital appreciation bonds at June 30, 2012, is as follows:

<u>Year Ended June 30</u>	<u>Accretion Rate</u>	<u>Original Issue (Principal)</u>	<u>Accreted Interest</u>	<u>Totals</u>
2013-2017		\$ 0	\$ 0	\$ 0
2018-2022		0	0	0
2023-2027	7.586%	142,799	77,417	220,216
2028-2032	7.586%	127,946	69,364	197,310
2033-2037	7.586%	39,246	21,279	60,525
Totals		<u>\$ 309,991</u>	<u>\$ 168,060</u>	<u>\$ 478,051</u>

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013-2017	\$ 0	\$ 0	\$ 0
2018-2022	0	0	0
2023-2027	142,799	417,201	560,000
2028-2032	127,946	572,054	700,000
2033-2037	39,246	240,754	280,000
Totals	\$ 309,991	\$ 1,230,009	\$ 1,540,000

The outstanding obligation for Series 2006B capital appreciation bonds at June 30, 2012, is as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Accretion</u> <u>Rate</u>	<u>Original Issue</u> <u>(Principal)</u>	<u>Accreted</u> <u>Interest</u>	<u>Totals</u>
2013-2017		\$ 0	\$ 0	\$ 0
2018-2022		0	0	0
2023-2027		0	0	0
2028-2032	5.523%	523,923	195,376	719,299
2033-2037	5.523%	1,286,078	479,623	1,765,701
2038-2042	5.523%	1,143,415	426,407	1,569,822
2043-2047	5.523%	206,517	77,010	283,527
Totals		\$ 3,159,933	\$ 1,178,416	\$ 4,338,349

The annual requirements to amortize the Series 2006B capital appreciation bonds at June 30, 2012, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013-2017	\$ 0	\$ 0	\$ 0
2018-2022	0	0	0
2023-2027	0	0	0
2028-2032	523,923	1,431,077	1,955,000
2033-2037	1,286,078	4,613,922	5,900,000
2038-2042	1,143,415	5,716,585	6,860,000
2043-2047	206,517	1,253,483	1,460,000
Totals	\$ 3,159,933	\$ 13,015,067	\$ 16,175,000

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012 are as follows:

Year Ended <u>June 30</u>	Sinking Fund <u>Payments</u>
2013	\$ 55,766
2014	55,766
2015	55,766
2016	55,766
2017	55,766
2018-2022	<u>55,766</u>
Total sinking fund payments remaining	<u>\$ 334,596</u>
Lease payment due December 19, 2017	<u>\$ 1,000,000</u>

At June 30, 2012, the Debt Service Fund has a fund balance of \$600,418.

- B. The District entered into lease agreements to finance the acquisition of energy management equipment and the purchase of computer equipment valued at \$156,600 and \$29,752, respectively. The agreements provide for title to pass upon expiration of the lease periods.

Future minimum lease payments under these agreements are as follows:

Year Ended <u>June 30</u>	Lease <u>Payments</u>
2013	\$ 30,007
2014	30,007
2015	19,399
2016	<u>19,399</u>
Total payments	98,812
Less amounts representing interest	<u>(7,664)</u>
Present value of net minimum lease payments	<u>\$ 91,148</u>

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012, the principal balance outstanding was \$820,000.

The annual requirements to amortize the certificates of participation as of June 30, 2012 are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 440,000	\$ 41,000	481,000
2014	380,000	19,000	399,000
Totals	<u>\$ 820,000</u>	<u>\$ 60,000</u>	<u>\$ 880,000</u>

NOTE 11 - EARLY RETIREMENT INCENTIVES

In addition to the STRS pension benefits described in Note 15, the District began providing an early retirement incentive benefit program through the Public Agency Retirement System (PARS) in 2009-10. 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. The future liability for the early retirement incentive benefits at June 30, 2012, is \$50,652, and future payments are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>PARS</u>
2013	\$ 16,884
2014	16,884
2015	<u>16,884</u>
Total	<u>\$ 50,652</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, generally should be associated with the periods in which the cost occurs, rather than in future years when the benefits are paid or provided. Governmental Accounting Standards Board Statement No. 45 requires an accrual basis measurement and recognition of OPEB cost over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan.

Plan Descriptions: The District provides medical coverage to classified employees with at least 15 years of service in the District who retire before the age of 65. 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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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, 2012, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation/(asset) that resulted in a net OPEB obligation of \$1,513 for the year ended June 30, 2012.

Normal service cost with interest to end of year	\$ 4,115
Amortization of UAAL with interest to end of year	<u>1,103</u>
Annual required contribution (ARC)	5,218
Interest on Net OPEB Obligation	123
Adjustment to ARC	<u>266</u>
Annual OPEB cost (expense)	5,607
Contributions for the fiscal year	<u>(1,359)</u>
Increase in Net OPEB Obligation	4,248
Net OPEB (Asset) - June 30, 2011	<u>(2,735)</u>
Net OPEB Obligation - June 30, 2012	<u><u>\$ 1,513</u></u>

The District's annual OPEB cost, percentage of annual OPEB cost contributed to the plan, and net OPEB obligation/(asset) for the last three fiscal years are presented in the following table:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation/(Asset)</u>
June 30, 2012	\$ 5,607	24.2%	\$ 1,513
June 30, 2011	5,000	140.4%	(2,735)
June 30, 2010	5,000	114.3%	(715)

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (CONCLUDED)

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

The changes in long-term liabilities for the year ended June 30, 2012, is shown below:

	Balances July 1, 2011	Additions	Deductions	Balances June 30, 2012	Due within One Year
Compensated Absences	\$ 7,812	\$ 9,424		\$ 17,236	\$ 17,236
General Obligation Bonds:					
Current Interest	11,190,000		\$ 305,000	10,885,000	325,000
Capital Appreciation	4,552,068	264,332		4,816,400	
Capital Leases	1,087,880	29,752	26,484	1,091,148	27,124
Certificates of Participation	1,235,000		415,000	820,000	440,000
Early Retirement Incentives	67,536		16,884	50,652	16,884
Other Post Employment Benefits	(2,735)	5,607	1,359	1,513	
Totals	\$ 18,137,561	\$ 309,115	\$ 764,727	\$ 17,681,949	\$ 826,244

NOTE 14 - FUND BALANCES

The District's fund balances at June 30, 2012 consisted of the following:

	General Fund	Bond Interest and Redemption Fund	Corporation Debt Service Fund	Debt Service Fund	Capital Projects- Special Reserve Fund	Corporation Acquisition Fund	Non-Major Governmental Funds	Totals
Nonspendable	\$ 1,000						\$ 40	\$ 1,040
Restricted	255,067	\$ 571,830	\$ 323,513	\$ 600,418		\$ 57	835	1,751,720
Assigned	99,876				\$ 106,570		181,780	388,226
Unassigned:								
Economic Uncertainties	577,517							577,517
Other	786,942						(40)	786,902
Total Fund Balances	\$ 1,720,402	\$ 571,830	\$ 323,513	\$ 600,418	\$ 106,570	\$ 57	\$ 182,615	\$ 3,505,405

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

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

A. State Teachers' Retirement System (CalSTRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-12 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$90,718, \$99,979, and \$121,440, respectively, and equal 100% of the required contributions for each year.

B. California Public Employees' Retirement System (CalPERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

B. California Public Employees' Retirement System (CalPERS) (Concluded)

Funding Policy (Concluded)

The required employer contribution rate for fiscal year 2011-12 was 10.923%. 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, 2012, 2011, and 2010, were \$106,309, \$106,473, and \$101,151, 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 (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and participating employee vest immediately. The District contributes 6.2% of each employee's gross earnings and employees were required to contribute 4.2% of their gross earnings from July 2011 through June 2012.

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 (CalSTRS) for K-12 Education. This payment consists of state general fund contributions to CalSTRS of \$71,460 (4.854597% of salaries subject to CalSTRS).

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 2011-12, 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.

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.

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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. Questioned Costs - Attendance

The District did not comply with the attendance requirements of Education Code Section 46000 in fiscal year 2009-10, and as a result the District's SELPA funding will be reduced by \$72,981. The District is currently pursuing a waiver that will hold the District harmless for the inadvertent noncompliance related to the attendance requirements. These financial statements do not contain any adjustments related to this noncompliance, since the outcome of the District's attempts to obtain a waiver, cannot reasonably be determined at this time.

B. 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.

C. 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.

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, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Revenue Limit Sources:				
State Apportionment	\$ 159,460	\$ 172,327	\$ 172,327	
Local Sources	3,457,741	3,432,469	3,424,879	\$ (7,590)
Total Revenue Limit Sources	3,617,201	3,604,796	3,597,206	(7,590)
Federal Revenue	195,611	213,382	229,350	15,968
Other State Revenue	734,069	811,546	777,986	(33,560)
Other Local Revenue	1,198,896	1,250,251	1,235,683	(14,568)
Total Revenues	5,745,777	5,879,975	5,840,225	(39,750)
<u>Expenditures</u>				
Certificated Salaries	1,331,200	1,386,849	1,304,394	82,455
Classified Salaries	737,781	913,616	902,795	10,821
Employee Benefits	633,767	679,205	658,167	21,038
Books and Supplies	153,102	379,303	289,107	90,196
Services and Other				
Operating Expenditures	2,186,161	1,950,686	1,700,065	250,621
Capital Outlay	4,928	60,029	41,983	18,046
Debt Service:				
Principal Retirement	15,250	26,484	26,484	
Interest and Fiscal Charges	4,149	3,523	3,523	
Other Expenditures	620,953	641,573	578,482	63,091
Total Expenditures	5,687,291	6,041,268	5,505,000	536,268
Excess of Revenues Over (Under) Expenditures	58,486	(161,293)	335,225	496,518
<u>Other Financing Sources (Uses)</u>				
Operating Transfers Out	(90,767)	(297,234)	(295,016)	2,218
Other Sources		29,752	29,752	
Total Other Financing Sources (Uses)	(90,767)	(267,482)	(265,264)	2,218
Net Change in Fund Balances	(32,281)	(428,775)	69,961	\$ 498,736
Fund Balances - July 1, 2011	1,650,441	1,650,441	1,650,441	
Fund Balances - June 30, 2012	\$ 1,618,160	\$ 1,221,666	\$ 1,720,402	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**SAUSALITO MARIN CITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Building</u>	<u>County School Facilities</u>	<u>Total Non-Major Governmental Funds</u>
<u>Assets</u>					
Deposits and Investments	\$ 181,780	\$ 40	\$ 246	\$ 589	\$ 182,655
Receivables		20,582			20,582
Due from Other Funds		2,670			2,670
Total Assets	<u>\$ 181,780</u>	<u>\$ 23,292</u>	<u>\$ 246</u>	<u>\$ 589</u>	<u>\$ 205,907</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts Payable		\$ 2,451			\$ 2,451
Due to Other Funds		20,841			20,841
Total Liabilities		<u>23,292</u>			<u>23,292</u>
Fund Balances:					
Nonspendable		40			40
Restricted			\$ 246	\$ 589	835
Assigned	\$ 181,780				181,780
Unassigned		(40)			(40)
Total Fund Balances	<u>181,780</u>	<u>0</u>	<u>246</u>	<u>589</u>	<u>182,615</u>
Total Liabilities and Fund Balances	<u>\$ 181,780</u>	<u>\$ 23,292</u>	<u>\$ 246</u>	<u>\$ 589</u>	<u>\$ 205,907</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**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, 2012**

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Building</u>	<u>County School Facilities</u>	<u>Total Non-Major Governmental Funds</u>
<u>Revenues</u>					
Federal Revenue		\$ 87,378			\$ 87,378
State Revenue	\$ 4,910	6,758			11,668
Local Revenue	116	(54)	\$ 1	\$ 2	65
Total Revenues	<u>5,026</u>	<u>94,082</u>	<u>1</u>	<u>2</u>	<u>99,111</u>
<u>Expenditures</u>					
Food Services		154,990			154,990
Plant Services	6,341				6,341
Facilities Acquisition and Construction	1,336			379	1,715
Total Expenditures	<u>7,677</u>	<u>154,990</u>	<u>0</u>	<u>379</u>	<u>163,046</u>
Excess of Revenues Over (Under) Expenditures	(2,651)	(60,908)	1	(377)	(63,935)
<u>Other Financing Sources</u>					
Operating Transfers In	179,090	60,159			239,249
Net Change in Fund Balances	176,439	(749)	1	(377)	175,314
Fund Balances - July 1, 2011	5,341	749	245	966	7,301
Fund Balances - June 30, 2012	<u>\$ 181,780</u>	<u>\$ 0</u>	<u>\$ 246</u>	<u>\$ 589</u>	<u>\$ 182,615</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
6/30/09	\$ 0	\$ 30,000	\$ 30,000	0%	\$ 801,087	3.7%

SEE NOTES TO SUPPLEMENTARY INFORMATION

SAUSALITO MARIN CITY SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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>
Thomas Newmeyer	President	December 2014
Mark Trotter	Vice President	December 2014
Karen Benjamin	Clerk	December 2012
William Ziegler	Member	December 2012
Shirley Thornton, Ed. D.	Member	December 2014

ADMINISTRATION

Dr. Valerie Pitts
Superintendent

Paula F. Rigney
Business Manager

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>P-2 Report</u>		<u>Annual Report</u>	
	<u>District Reported</u>	<u>Audited</u>	<u>District Reported</u>	<u>Audited</u>
<u>Elementary</u>				
Kindergarten	20.33	19.65	20.18	19.51
First through Third	39.64	39.35	38.76	38.32
Fourth through Sixth	43.10	41.65	40.47	40.47
Seventh and Eighth	23.00	22.92	23.40	23.40
Home & Hospital	0.03	0.03	0.03	0.03
Special Education - Special Day Class	2.06	2.06	2.21	2.21
Special Education - Nonpublic	2.51	2.18	2.13	2.13
Extended Year - Nonpublic	0.46	0.46	0.46	0.46
Totals	<u>131.13</u>	<u>128.30</u>	<u>127.64</u>	<u>126.53</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<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>2011-12 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,500	29,400	36,000	33,600	61,970	180	N/A	In Compliance
Grade 1	45,500	42,467	50,400	47,040	58,820	180	N/A	In Compliance
Grade 2	45,500	42,467	50,400	47,040	58,820	180	N/A	In Compliance
Grade 3	45,500	42,467	50,400	47,040	60,170	180	N/A	In Compliance
Grade 4	54,250	50,633	54,000	47,040	60,170	180	N/A	In Compliance
Grade 5	54,250	50,633	54,000	50,400	61,835	180	N/A	In Compliance
Grade 6	54,250	50,633	54,000	50,400	61,835	180	N/A	In Compliance
Grade 7	54,250	50,633	54,000	50,400	61,835	180	N/A	In Compliance
Grade 8	54,250	50,633	54,000	50,400	61,835	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, 2012

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
U.S. Department of Agriculture:			
Passed through California Department of Education (CDE):			
<i>Child Nutrition Cluster:</i>			
National School Lunch	10.555	13524	\$ 66,278
School Needy Breakfast	10.553	13526	21,100
U.S. Department of Education:			
Passed through CDE:			
Education Jobs Fund	84.410	25152	1,593
NCLB: Title I Basic Grant Low-Income & Neglected	84.010	14329	108,677
NCLB: Title II - Improving Teacher Quality	84.367	14341	22,370
ARRA NCLB: Title II - Enhancing Education Through Technology	84.386	15019	1,704
NCLB: Title III - Immigrant Education Program	84.365	15146	200
NCLB: Title III - Limited English Proficient	84.365	14346	3,557
Passed through Marin County SELPA:			
IDEA Part B Basic Local Assistance	84.027	13379	69,420
Received Direct:			
Federal Impact Aid	84.041	n/a	15,711
U.S. Department of Health and Human Services:			
Passed through CDE:			
Medi-Cal Billing	93.778	10013	20,217
Total			<u>\$ 330,827</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

**SAUSALITO MARIN CITY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General Fund	Special Revenue - Special Reserve Fund	Bond Interest & Redemption Fund	Capital Projects- Special Reserve Fund
June 30, 2012 Annual Financial and Budget Report Fund Balances	\$ 1,458,397	\$ 262,005	\$ 548,851	\$ 120,473
Adjustments & Reclassifications Increasing/(Decreasing) Fund Balances:				
Overstatement of Fund Balance		(262,005)		
Understatement of Fund Balance	262,005			
Understatement of State Revenues			4,122	
Understatement of Local Revenues			788,721	
Understatement of Debt Service Principal			(305,000)	
Understatement of Debt Service Interest			(464,864)	
Understatement of Contract Services				(13,903)
Net Adjustments & Reclassifications	262,005	(262,005)	22,979	(13,903)
June 30, 2012 Audited Financial Statements Fund Balances	\$ 1,720,402	\$ 0	\$ 571,830	\$ 106,570

The reclassification of fund balances above was required as a result of the definition of special revenue funds prescribed by GASB 54.

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, 2012.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	GENERAL FUND			
	(Budget)* 2012-13 **	2011-12	2010-11	2009-10
Revenues and Other Financial Sources	\$ 5,460,374	\$ 5,869,977	\$ 6,516,776	\$ 5,988,540
Expenditures	5,445,979	5,505,000	6,345,571	6,008,857
Other Uses and Transfers Out	209,851	295,016	108,133	110,243
Total Outgo	5,655,830	5,800,016	6,453,704	6,119,100
Change in Fund Balance	(195,456)	69,961	63,072	(130,560)
Ending Fund Balance	\$ 1,524,946	\$ 1,720,402	\$ 1,650,441	\$ 1,587,369 ⁽¹⁾
Available Reserves	\$ 1,019,003	\$ 1,364,459	\$ 1,382,942	\$ 968,510
Reserve for Economic Uncertainties ***	\$ 565,583	\$ 577,517	\$ 894,140	\$ 617,955
Available Reserves as a Percentage of Total Outgo	18.0%	23.5%	21.4%	15.8%
Average Daily Attendance at P-2	131	128	157	159 ⁽²⁾
Total Long-Term Liabilities	\$ 16,855,705	\$ 17,681,949	\$ 18,140,296	\$ 18,582,139

* Amounts reported for the 2012-13 budget are presented for analytical purposes only and have not been audited.

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

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

(1) The amount presented has been adjusted to reflect the reclassification of fund balances prescribed by GASB 54 beginning in fiscal year 2010-11.

(2) The amount presented for fiscal year 2009-10 represents the audited average daily attendance (ADA) originally reported by the District. The audited ADA after excluding the questioned ADA in Finding 10 - 3 / 10000 was 2 ADA.

The fund balance of the General Fund increased \$133,033 over the past two years. The fiscal year 2012-13 budget projects a decrease of \$195,456 (11.4%). For a district this size, the state recommends available reserves of at least 5% of total general fund expenditures, transfers out, and other uses (total outgo).

The District produced operating surpluses of \$69,961 and \$63,072 during fiscal years 2011-12 and 2010-11, respectively, and incurred an operating deficit of \$130,560 during fiscal year 2009-10.

Average daily attendance (ADA) decreased 31 ADA over the past two years. The District anticipates an increase of 3 ADA during fiscal year 2012-13.

Total long-term liabilities decreased \$900,190 over the past two years, due primarily to the reduction of the District's certificates of participation obligation.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

SEE NOTES TO SUPPLEMENTARY INFORMATION

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

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

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

B. Combining Statements

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

C. Schedule of Funding Progress

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

D. Schedule of Average Daily Attendance

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

E. Schedule of Instructional Time

The District 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 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.

F. Schedule of Expenditures of Federal Awards

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

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

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

H. Schedule of Financial Trends and Analysis

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

I. Schedule of Charter Schools

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

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Sausalito Marin City School District
Sausalito, California

We have audited Sausalito Marin City School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12* to the state laws and regulations listed below for the year ended June 30, 2012. Compliance with the requirements of state laws and regulations is the responsibility of the District's management. Our responsibility is to express an opinion on Sausalito Marin City School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, prescribed in the California Code of Regulations, Title 5, section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Sausalito Marin City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Sausalito Marin City School District's compliance with those requirements.

<u>Description</u>	<u>Procedures in Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	Not Applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes

<u>Description</u>	<u>Procedures In Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
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 K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Contemporaneous Records of Attendance For Charter Schools	3	Not Applicable
Mode of Instruction for Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/ Independent Study for Charter Schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction for Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based For Charter Schools	4	Not Applicable

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.

In our opinion, Sausalito Marin City School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2012, except as described in the accompanying Schedule of Findings and Questioned Costs.

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 the responses.

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, 2012

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

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

Board of Trustees
Sausalito Marin City School District
Sausalito, California

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Sausalito Marin City School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 10, 2012. 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

Management of Sausalito Marin City School District is responsible for establishing and maintaining effective 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 a certain deficiency in internal control over financial reporting that we consider to be a material weakness, 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, as noted in **Finding 12-1**.

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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies, as noted in **Finding 12-2** and **12-3**.

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 the responses.

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 10, 2012

FINDINGS AND QUESTIONED COSTS SECTION

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

State Awards

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

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

12 - 1 / 30000

MATERIAL WEAKNESS

FINANCIAL REPORTING - UNAUDITED ACTUALS

<u>Criteria:</u>	1-2.	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>Conditions:</u>	1.	The District did not include the activity of the Bond Interest and Redemption Fund in the Unaudited Actuals that were approved by the Governing Board and submitted to the Marin County Office of Education.
	2.	The District neglected to record an accounts payable at year-end for one invoice.
<u>Questioned Costs:</u>	1-2.	None.
<u>Context:</u>	1-2.	The adjustments made to ensure that the financial statements were fairly stated are presented on page 57 of this report.
<u>Effect:</u>	1-2.	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 in a timely basis.
<u>Causes:</u>	1.	The District began the year-end closing process before the Bond Interest and Redemption Fund information was available to them and did not remember to go back and include the information before submitting the Unaudited Actuals to the Governing Board.
	2.	The District inadvertently missed accruing the invoice in accounts payable during the year-end closing process.
<u>Recommendation:</u>	1-2.	The District should develop a comprehensive financial reporting checklist to ensure all relevant areas are covered during the year-end closing process.
<u>District Response:</u>	1-2.	The District does have a checklist that states all the comprehensive financial reporting needed to complete the year-end process. The district had to proceed and complete the unaudited actuals to have them completed by the September 15 th cut off. The county office was late in submitting the bond interest and redemption fund information to the District. This audit finding was caused by the county's offices late submittal of the information needed.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

12 - 2 / 30000

SIGNIFICANT DEFICIENCY

MEAL REIMBURSEMENT CLAIM REPORTING

Criteria: Meal counts should be independently traced to the detailed site summaries, on a monthly basis, to ensure that reported counts are accurate prior to submitting the meal reimbursement claims to the state.

Condition: Meal counts reported for Bayside Elementary were not independently verified to ensure that reported counts were accurate. As a result, the District misstated the number of meals served on the monthly meal reimbursement claims submitted to the state.

Questioned Costs: The error resulted in the District overstating federal national school lunch and needy school breakfast revenue by \$1,018.66 and state child nutrition revenue by \$101.33 as follows:

National School Lunch

	<u>Free</u>	<u>Reduced</u>	<u>Paid</u>	<u>Total</u>
November 2011	166	4	15	185
May 2012	<u>1</u>	<u>1</u>		<u>2</u>
Overstated Meals	167	5	15	187
Reimbursement Rates	<u>\$ 2.79</u>	<u>\$ 2.39</u>	<u>\$ 0.28</u>	
Totals	<u>\$ 465.93</u>	<u>\$ 11.95</u>	<u>\$ 4.20</u>	<u>\$ 482.08</u>

Needy School Breakfast

	<u>Free</u>	<u>Reduced</u>	<u>Paid</u>	<u>Total</u>
November 2011	215	5	20	240
May 2012	<u>72</u>	<u>4</u>	<u>4</u>	<u>80</u>
Overstated Meals	287	9	24	320
Reimbursement Rates	<u>\$ 1.80</u>	<u>\$ 1.50</u>	<u>\$ 0.27</u>	
Totals	<u>\$ 516.60</u>	<u>\$ 13.50</u>	<u>\$ 6.48</u>	<u>\$ 536.58</u>

Child Nutrition

	<u>Meals</u>	
November 2011	392	(Free & reduced lunches & breakfasts)
May 2012	<u>78</u>	(Free & reduced lunches & breakfasts)
Overstated Meals	470	
Reimbursement Rate	<u>\$ 0.2156</u>	
Total	<u>\$ 101.33</u>	

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

MEAL REIMBURSEMENT CLAIM REPORTING (CONCLUDED)

<u>Context:</u>	Accumulation errors were noted in the meal reimbursement claims submitted to the state for November 2011 and March 2012.
<u>Effect:</u>	The District claimed reimbursement for federal and state revenues that it was not entitled to receive during the fiscal year.
<u>Cause:</u>	The school site maintains manual meal count records that are manually accumulated and totaled each month. In order to obtain the monthly meal counts which are reported by calendar month, personnel often have to add meal counts from two separate attendance month records which increases the potential for errors.
<u>Recommendation:</u>	The District should revise the meal reimbursement claims for the months November 2011 and March 2012 for the accumulation errors noted above. In addition, the District should investigate whether an automated system can be implemented at the elementary site to accumulate meal counts and reduce errors.
<u>District Response:</u>	The District is going to be implementing the same automated system that is implemented already at the MLK school site to prevent further errors. Already in process of getting it implemented.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

12 - 3 / 30000

SIGNIFICANT DEFICIENCY

CAFETERIA FUND ENCROACHMENT

Criteria: The Cafeteria Fund should attempt to operate as close to break-even as possible to ensure that the fund does not encroach on the General Fund in significant amounts.

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

	Budget <u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>
Cafeteria Fund				
Operating Deficits	\$ 54,084	\$ 60,908	\$ 51,657	\$ 51,277
General Fund				
Contributions	\$ 54,084	\$ 60,159	\$ 52,366	\$ 40,045

Questioned Cost: None.

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

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

Cause: The District has been unsuccessful in reducing cafeteria program costs down to a level that is consistent with the revenues generated by the program.

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

District Response: The District is investigating ways to implement a "health" food program that operates closer to a break-even basis.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

12 - 4 / 10000

SIGNIFICANT DEFICIENCY

ATTENDANCE REPORTING

Criteria: 1-2. In accordance with Education Code Section 46000, attendance in all schools and classes shall be recorded and kept according to regulations prescribed by the State Board of Education.

Conditions: 1. The District used the wrong monthly attendance summary report to report year-to-date average daily attendance (ADA) for the P-2 attendance report.

2. Apportionment days were generated by one student who did not attend school during the fiscal year, and the ADA was incorrectly reported on the P-2 and Annual attendance reports.

Questioned Costs: 1-2. Average daily attendance (ADA), reported on the P-2 and Annual attendance reports was overstated by the following amounts. There is no significant fiscal impact of this finding as the District is funded under the Basic Aid provision; however the District may experience reduced categorical funding and SELPA funding as a result of this finding, which have not been calculated.

<u>Line</u>	<u>Program</u>	<u>P-2</u>	<u>Annual</u>
A-2	Grades 1-3	0.29	0.44
A-3	Grades 4-6	1.45	
A-4	Grades 7-8	0.08	
A-10	Special Ed - Nonpublic	<u>0.33</u>	
	Totals	<u>2.15</u>	<u>0.44</u>

Context: 1-2. The errors were noted during the review of supporting documents for the P-2 and Annual attendance reports.

Effect: 1-2. The District overstated the ADA reported to the State in fiscal year 2011-12.

Causes: 1. The District inadvertently used the wrong attendance report when completing the P-2 attendance report.

2. Site personnel did not notice that an unassigned student was generating apportionment days. The student was enrolled in the attendance system during the summer of 2011 but was not assigned to a teacher's class. The student did not show up for school in fiscal year 2011-12 but was not disenrolled in the attendance system; and as a result generated apportionment under an unassigned class.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

ATTENDANCE REPORTING (CONCLUDED)

- Recommendations:**
1. The District should establish procedures to ensure that attendance reports are independently reviewed for accuracy and completeness prior to submitting the attendance reports to the state.
 2. The District should establish procedures to ensure site personnel properly handle student enrollment and disenrollment from the attendance system.

In addition, the District should revise the P-2 and Annual attendance reports to reflect the audited numbers on page 54 of this report.

- District Response:**
- 1-2. The District is working closely with the school site staff on how to properly handle student enrollment and disenrollment from the attendance system. Also on the handling of student files. The District is providing additional training to school site staff.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

12 - 5 / 10000

SIGNIFICANT DEFICIENCY

KINDERGARTEN CONTINUANCE

<u>Criteria:</u>	Education Code Section 46300(g) allows a district to include in its average daily attendance kindergarten pupils who have already completed one school year in kindergarten only if the school district has on file for each of those pupils an agreement made pursuant to Education Code Section 48011, approved in form and content by the California Department of Education (CDE), and signed by the pupil's parent or guardian near the anniversary date of the pupil's kindergarten admittance.
<u>Condition:</u>	During fiscal year 2011-12, one student continued in kindergarten for a second year and the District was unable to provide a signed kindergarten continuation form for the student.
<u>Questioned Costs:</u>	Average daily attendance (ADA) reported on the P-2 and Annual attendance reports was overstated by 0.68 ADA and 0.67 ADA, respectively. There is no significant fiscal impact of this finding as the District is funded under the Basic Aid provision; however the District may experience reduced categorical funding and SELPA funding as a result of this finding, which have not been calculated.
<u>Context:</u>	All kindergarten students were tested for compliance with kindergarten continuation requirements.
<u>Effect:</u>	The District did not comply with the requirements of Education Code Section 48011.
<u>Cause:</u>	The student moved to another district at the end of the 2011-12 school year and the student's cumulative file, which included the kindergarten continuation form, was forwarded to the new district. The District did not maintain a copy of the continuation form and was unable to track down a copy of the form as the student had moved on to another district.
<u>Recommendation:</u>	The District should instruct personnel at the elementary school site to maintain a separate file for approved kindergarten continuation forms completed each year. In addition, the District should revise the P-2 and Annual attendance reports to reflect the audited numbers on page 54 of this report.
<u>District Response:</u>	The District is working closely with the school site staff on how to properly handle student enrollment and disenrollment from the attendance system. Also on the handling of student files. The District is providing additional training to school site staff.

SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

12 - 6 / 40000

SIGNIFICANT DEFICIENCY

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM - ATTENDANCE

Criteria: In accordance with Education Code Section 8482.3(f)(10)(C), After School Education and Safety Program grantees agree to provide program attendance of participating pupils to the department. Grantees are required to report the days of operation and the students served for each school for the 1st and 2nd Half of each fiscal year. Ongoing program funding is based on grantees meeting specific attendance goals, therefore grantees should develop and maintain accurate attendance records to support attendance reported to the California Department of Education.

Condition: The number of students served reported to the California Department of Education (CDE) for the 1st Half and 2nd Half did not agree to the monthly summary totals and to the daily sign-in and sign-out sheets.

Questioned Cost: The number of students served reported on the 1st Half and 2nd Half: After School Base attendance reports was overstated by the following amounts:

<u>School Name</u>	<u>1st Half</u>	<u>2nd Half</u>
Bayside	911	
Martin Luther King Jr. Academy	48	200
Willow Creek Academy	2,102	

Context: The condition appeared to be present throughout the year at Martin Luther King Jr. Academy and appeared to be present at Bayside and Willow Creek Academy during the 1st Half of the year.

Effect: Program records maintained by the District did not adequately support attendance reported to the CDE.

Cause: The daily attendance totals were not consistently reconciled to the monthly attendance totals. In addition, the monthly attendance totals on the summary attendance worksheet did not consistently reconcile to the sites monthly attendance report totals.

Recommendation: The District should establish procedures to ensure that after school staff reconcile daily attendance totals to their monthly attendance total reports. In addition, the District should establish procedures to ensure that site monthly attendance report totals are accurately entered onto the District's attendance summary worksheet.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM - ATTENDANCE (CONCLUDED)

**Recommendation
(Concluded):**

In addition, the District should report to following audited number of students served by the After School Program in 2011-12 to the CDE:

<u>School Name</u>	<u>1st Half</u>	<u>2nd Half</u>
Bayside	2,244	2,252
Martin Luther King Jr. Academy	1,137	2,513
Willow Creek Academy	4,742	5,762

District Response:

The District has been working the after school providers to modify their practices to ensure accuracy in the student data that is being submitted to the office.

**SAUSALITO MARIN CITY SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARDS</u>		
11 - 1 / 40000		
<u>INSTRUCTIONAL MINUTES CALCULATIONS</u>		
The District should require each site to compute their annual instructional minute calculations at the beginning of each school year, and submit their calculation, along with related school calendar and bell schedules, to the business office for review. Site Principals should be notified that changes may not be made to bell schedules without obtaining prior approval from the business office. If revisions are made to site bell schedules, site administrators should recalculate instructional minutes and submit the revised calculation to the business office for review.	Implemented	

