

**SAN RAFAEL CITY
ELEMENTARY SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2017**



SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2017

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SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Education
San Rafael City Elementary School District
San Rafael, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Rafael City Elementary School District, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of San Rafael City Elementary School District, as of June 30, 2017, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, budgetary comparison information on page 45, schedule of funding progress on page 46, schedule of proportionate share of the net pension liability on page 47, and schedule of pension contributions on page 48 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 52 to 55 and the schedule of expenditures of federal awards on page 56 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 51 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2017, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Murrieta, California
December 5, 2017

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2017

This discussion and analysis of San Rafael City Elementary School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Overall revenues were \$67.9 million, and overall expenses were \$65.0 million.
- The District's net position increased by \$2.9 million.
- The total cost of the basic programs was \$65.0 million. Because a portion of these costs were paid for with charges, fees and intergovernmental aid, the net cost that required taxpayer funding was \$52.6 million.
- The District's outstanding long-term debt decreased by approximately \$1.5 million.
- Average daily attendance (ADA) in grades K-8 increased by 6, or 0.1%

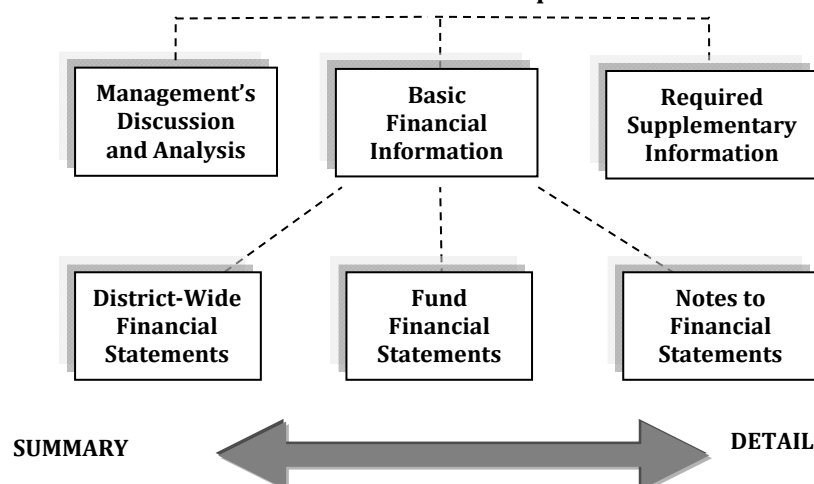
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
 - The *fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

Figure A-1. Organization of San Rafael City Elementary School District's Annual Financial Report

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain non-financial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements

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

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues.

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT*Management's Discussion and Analysis (Unaudited)**For the Fiscal Year Ended June 30, 2017***FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net Position. The District's combined net position was higher on June 30, 2017, than it was the year before – increasing 19.4% to \$(12.2) million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance Increase (Decrease)
	2017	2016	
Assets			
Current assets	\$ 56,667,145	\$ 53,035,917	\$ 3,631,228
Capital assets	68,412,884	70,108,093	(1,695,209)
Total assets	125,080,029	123,144,010	1,936,019
Deferred outflows of resources	9,862,344	6,757,287	3,105,057
Liabilities			
Current liabilities	4,358,694	4,751,113	(392,419)
Long-term liabilities	101,842,152	103,293,568	(1,451,416)
Net pension liability	39,304,422	33,037,132	6,267,290
Total liabilities	145,505,268	141,081,813	4,423,455
Deferred inflows of resources	1,684,612	4,014,967	(2,330,355)
Net position			
Net investment in capital assets	15,116,973	15,297,847	(180,874)
Restricted	13,263,552	9,794,799	3,468,753
Unrestricted	(40,628,032)	(40,288,129)	(339,903)
Total net position	\$ (12,247,507)	\$ (15,195,483)	\$ 2,947,976

Changes in net position, governmental activities. The District's total revenues increased 9.5% to \$67.9 million (See Table A-2). The increase is due primarily to increases in state and local funding.

The total cost of all programs and services increased 9.0% to \$65.0 million. The District's expenses are predominantly related to educating and caring for students, 74.6%. The purely administrative activities of the District accounted for just 5.3% of total costs. A significant contributor to the increase in costs was due to negotiated salary and benefit increases.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities		Variance Increase (Decrease)
	2017	2016	
Revenues			
Program Revenues:			
Charges for services	\$ 171,249	\$ 141,791	\$ 29,458
Operating grants and contributions	12,223,148	11,546,394	676,754
General Revenues:			
Property taxes	32,427,243	26,390,673	6,036,570
Federal and state aid not restricted	21,593,036	22,876,078	(1,283,042)
Other general revenues	1,516,621	1,092,736	423,885
Total Revenues	67,931,297	62,047,672	5,883,625
Expenses			
Instruction-related	41,958,752	38,136,056	3,822,696
Pupil services	6,541,797	6,384,698	157,099
Administration	3,424,955	2,555,369	869,586
Plant services	4,184,373	3,871,400	312,973
All other activities	8,873,444	8,662,566	210,878
Total Expenses	64,983,321	59,610,089	5,373,232
Increase (decrease) in net position	\$ 2,947,976	\$ 2,437,583	\$ 510,393

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$53.2 million, which is above last year's ending fund balance of \$49.2 million. The primary cause of the increased fund balance is increased collections for bond indebtedness and increased funding in the General Fund.

Table A-3: The District's Fund Balances

	Fund Balances				
Fund	July 1, 2016	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2017
General Fund	\$ 14,309,541	\$ 55,298,240	\$ 52,558,943	\$ (1,050,445)	\$ 15,998,393
Child Development Fund	8	300,469	296,530	68	4,015
Cafeteria Fund	155,835	2,358,235	2,431,354	-	82,716
Deferred Maintenance Fund	727,800	267,637	179,220	-	816,217
Special Reserve Fund (Postemployment Benefits)	1,739,595	8,237	-	760,295	2,508,127
Building Fund	24,723,484	120,701	1,827,785	-	23,016,400
Capital Facilities Fund	88,795	107,007	88,850	-	106,952
Special Reserve Fund (Capital Outlay)	968,862	656,189	461,566	290,082	1,453,567
Bond Interest and Redemption Fund	6,515,897	8,664,739	5,962,727	-	9,217,909
	\$ 49,229,817	\$ 67,781,454	\$ 63,806,975	\$ -	\$ 53,204,296

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$1.9 million primarily to reflect changes from federal, state, and local sources.
- Salaries and benefits costs – increased approximately \$2.7 million due to changes in staffing levels and negotiations.
- Other non-capital expenses – increased \$0.2 million to allocate resources for the schools.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$2.1 million, the actual results for the year show that revenues exceeded expenditures by roughly \$2.7 million. Actual revenues were \$0.3 million less than anticipated, and expenditures were \$5.2 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2017, that will be carried over into the 2017-18 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016-17 the District had invested \$2.4 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$4.1 million.

Table A-4: Capital Assets at Year End, Net of Depreciation

	Governmental Activities		Variance Increase (Decrease)
	2017	2016	
Land	\$ 723,499	\$ 723,499	\$ -
Improvement of sites	7,323,078	7,987,243	(664,165)
Buildings	57,381,341	60,153,190	(2,771,849)
Equipment	842,927	930,014	(87,087)
Construction in progress	2,142,039	314,147	1,827,892
Total	<u>\$ 68,412,884</u>	<u>\$ 70,108,093</u>	<u>\$ (1,695,209)</u>

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$101.8 million in general obligation bonds, certificates of participation, capital leases and employment benefits – a decrease of 1.4% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

Table A-5: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance Increase (Decrease)
	2017	2016	
General obligation bonds	\$ 92,596,079	\$ 94,671,634	\$ (2,075,555)
Certificates of participation	3,405,000	3,530,000	(125,000)
Capital leases	18,792	43,455	(24,663)
Other postemployment benefits	5,530,885	4,911,156	619,729
Compensated absences	291,396	137,323	154,073
Total	<u>\$ 101,842,152</u>	<u>\$ 103,293,568</u>	<u>\$ (1,451,416)</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Governor signed the 2017-18 *Budget Act* and other budget-related bills on June 27, 2017.

Proposition 98

Overview

State budgeting for schools and community colleges is based primarily on Proposition 98, approved by voters in 1988 and amended in 1990. In this section, we provide an overview of Proposition 98 changes under the enacted budget package.

Proposition 98 Establishes Minimum Spending Level

Proposition 98 establishes a minimum spending requirement commonly called the minimum guarantee. The minimum guarantee is determined by three main formulas (known as tests) and various inputs, including General Fund revenue, per capita personal income, and K-12 attendance. The state can spend at the minimum guarantee or any level above it. Spending above the minimum guarantee one year typically becomes part of the base for calculating the minimum guarantee the next year. If the minimum guarantee increases after budget enactment due to updated inputs, the state owes a “settle-up” obligation. In some years, the state also creates or pays “maintenance factor.” Maintenance factor is created when General Fund revenue is weak relative to per capita personal income and is paid when General Fund revenue is stronger.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Overview (continued)

2015-16 and 2016-17 Minimum Guarantees Down but Total Spending Up Slightly

The 2015-16 minimum guarantee has decreased \$379 million due to lower-than-expected General Fund revenue. Proposition 98 spending that year, however, has increased \$53 million due to various minor adjustments involving the Local Control Funding Formula (LCFF) and community college apportionments. The 2016-17 minimum guarantee has decreased \$558 million, again due to lower estimates of General Fund revenue. Proposition 98 spending that year has decreased by \$484 million, but total spending, including a settle-up payment of \$514 million, is up slightly (\$29 million) from the June 2016 level. The settle-up payment allows the state to cover some 2016-17 LCFF costs using funds set aside for Proposition 2 (2014) debt payments. In both 2015-16 and 2016-17, Proposition 98 spending is above the calculated minimum guarantees.

2017-18 Spending Up \$3.1 Billion Over Revised 2016-17 Level

In 2017-18, total spending across all segments is \$74.5 billion, an increase of \$3.1 billion (4.4 percent) from the revised 2016-17 level. For 2017-18, the state funds at the estimate of the minimum guarantee. This estimate builds upon the higher levels of spending provided in 2015-16 and 2016-17. (Had the state not funded above the guarantee in those two years, the 2017-18 guarantee would have been \$542 million lower.) Test 2 is the operative test in 2017-18, with the change in the guarantee attributable to a 3.7 percent increase in per capita personal income and a 0.05 percent decline in K-12 attendance. The increase in the guarantee also reflects a maintenance factor payment of \$536 million. Under the administration's estimates, the state would end 2017-18 with an outstanding maintenance factor obligation of \$900 million.

About One-Third of Increase Covered With Higher Property Tax Revenue

Of the total Proposition 98 spending provided in 2017-18, \$52.6 billion is state General Fund and \$21.9 billion is local property tax revenue. From 2016-17 to 2017-18, state General Fund increases \$2.1 billion (accounting for about two-thirds of the \$3.1 billion increase in spending) and property tax revenue increases by \$1 billion. The primary factor explaining the growth in property tax revenue is the projected 5.3 percent growth in assessed property values, which is similar to the average growth rate over the past 20 years. Regarding local revenue associated with the dissolution of redevelopment agencies, the budget plan assumes a net increase of \$31 million. This consists of a \$131 million increase in the ongoing revenue shifted to schools and community colleges, offset by a \$100 million decrease in revenue from the sale of assets formerly owned by redevelopment agencies.

Spending Package Reduces Outstanding Settle-Up Obligation by \$603 Million

The budget plan includes a \$603 million settle-up payment related to meeting the 2009-10 minimum guarantee. This payment reduces the state's outstanding settle-up obligation from slightly above \$1 billion to \$440 million. Of the \$603 million provided, the budget plan allocates \$514 million for covering 2016-17 LCFF costs, \$86 million for the community college guided pathways initiative, and \$3 million for the Career Technical Education Incentive Grant program. The state budget package scores all of the settle-up spending as a Proposition 2 debt payment.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

K-12 Education

\$64.7 Billion Proposition 98 Funding for K-12 Education in 2017-18

The budgeted 2017-18 level is \$2.7 billion (4.3 percent) more than revised 2016-17 level and \$2.2 billion (3.6 percent) more than the 2016-17 Budget Act level. The budget increases funding per student by \$450 (4.3 percent) over the 2016-17 Budget Act level, bringing Proposition 98 funding per student up to \$10,863.

Package Includes Mix of Ongoing and One-Time Spending

The budget includes \$2.4 billion in augmentations for K-12 education. Of these augmentations, \$1.5 billion are ongoing increases and \$933 million are one-time initiatives. In addition to these changes, the budget package includes \$328 million in one-time initiatives funded from other sources. (Of this amount, \$325 million is from Proposition 98 reversion dollars and \$3 million is from a settle-up payment. Of the reversion dollars, \$114 million is for a fund swap primarily relating to special education.) The budget also authorizes \$593 million from Proposition 51 (2016) general obligation bond proceeds for school facilities.

General Purpose Funding

Accelerates Implementation of LCFF for School Districts and Charter Schools

The budget provides an additional \$1.4 billion ongoing Proposition 98 funding for this purpose, bringing total LCFF funding for school districts and charter schools to \$57.4 billion, a 2.7% increase over the revised 2016-17 level. The administration estimates this funding will result in the LCFF-target level being 97 percent-funded. School districts and charter schools may use LCFF monies for any educational purpose.

Funds One-Time Discretionary Grants

The largest one-time augmentation for K-12 education is \$877 million that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on average daily attendance (\$147 per ADA). If an LEA has unpaid mandate claims, funding counts toward those claims. As most LEAs do not have any such claims, we estimate only about one-third (\$268 million) of the funding will end up reducing the K-12 mandates backlog. We estimate the K-12 mandates backlog will be \$799 million at the end of 2017-18.

Other Changes

Specifies Use of Remaining Proposition 39 Funds and Extends Energy-Efficiency Programs Indefinitely

The budget provides \$423 million Proposition 98 funding for energy-efficiency projects at schools and community colleges. This reflects the fifth and final year of Proposition 39 (2012) funding. Trailer legislation, however, extends the date for schools to use this funding by one year, to June 30, 2019, and sets rules for how any remaining uncommitted funds are to be used. The first \$75 million in remaining funds is earmarked for school districts and COEs to replace or retrofit school buses. Priority is given to LEAs having the oldest buses, serving disadvantaged communities, or serving high shares of low-income students. The next \$100 million is earmarked for a competitive grant program to provide K-12 LEAs with low- and no-interest loans for energy projects. Any funding still remaining is to be distributed as grants to K-12 LEAs according to Proposition 39 rules. The trailer legislation also extends the Proposition 39 energy-efficiency programs for K-12 and CCC LEAs beginning in 2018-19, contingent upon funds being made available through the annual budget act or other statute.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Other Changes (continued)

Augments After School Education and Safety (ASES) Program

Proposition 49, passed by the voters in 2002, requires the state to provide \$550 million in Proposition 98 funds annually for the ASES program. Since Proposition 49 was enacted, ASES providers have received \$7.50 per child per day. The budget increases ASES funding by \$50 million (9%)—bringing total funding to \$600 million. The augmentation will increase the per-child per-day rate.

School Facilities

Provides First Installment of Proposition 51 Bond Funding for School Facilities

Passed by the voters in November 2016, Proposition 51 authorizes the state to sell \$9 billion in general obligation bonds—\$7 billion for schools and \$2 billion for community colleges. The state plans to issue \$593 million of these bonds for K-12 facility projects in 2017-18. This would fully fund the state's list of \$368 million in already approved facility projects, as well as \$225 million in additional projects.

Establishes New Audit Rules

Trailer legislation shifts audit responsibilities for state-funded school facility projects from the Office of Public School Construction to local independent auditors. Moving forward, the local auditors are to review facility expenditures to ensure that they comply with the rules of the state's School Facilities Program. In June 2017, the State Allocation Board also enacted a regulatory change requiring districts to sign grant agreements prior to receiving state funding that specify allowable project expenditures.

All of these factors were considered in preparing the San Rafael City Elementary School District budget for the 2017-18 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (415) 492-3205.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT*Statement of Net Position**June 30, 2017*

	Total Governmental Activities
ASSETS	
Cash	\$ 53,974,841
Accounts receivable	2,689,563
Stores inventories	2,741
Nondepreciable capital assets	2,865,538
Depreciable capital assets	127,993,093
Less accumulated depreciation	<u>(62,445,747)</u>
Total assets	<u>125,080,029</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	520,803
Deferred outflows of resources - pensions	<u>9,341,541</u>
Total deferred outflows of resources	<u>9,862,344</u>
LIABILITIES	
Accounts payable	4,321,397
Unearned revenue	37,297
Long-term liabilities:	
Due within one year	7,614,613
Due after one year	94,227,539
Net pension liability	<u>39,304,422</u>
Total liabilities	<u>145,505,268</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions	<u>1,684,612</u>
NET POSITION	
Net investment in capital assets	15,116,973
Restricted for:	
Capital projects	1,560,519
Debt service	9,217,909
Categorical programs	2,485,124
Unrestricted	<u>(40,628,032)</u>
Total net position	<u><u>\$ (12,247,507)</u></u>

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities:				
Instruction	\$ 33,565,715	\$ -	\$ 6,361,570	\$ (27,204,145)
Instruction-related services:				
Supervision of instruction	4,428,751	-	1,347,550	(3,081,201)
Instructional library, media and technology	646,513	-	113,870	(532,643)
School site administration	3,317,773	-	125,520	(3,192,253)
Pupil services:				
Home-to-school transportation	1,926,537	-	238,750	(1,687,787)
Food services	2,356,309	163,453	2,107,295	(85,561)
All other pupil services	2,258,951	-	1,096,694	(1,162,257)
General administration:				
Data processing	408,178	-	7,778	(400,400)
All other general administration	3,016,777	7,796	269,607	(2,739,374)
Plant services	4,184,373	-	402,796	(3,781,577)
Community services	73,345	-	2,674	(70,671)
Interest on long-term debt	4,045,357	-	-	(4,045,357)
Other outgo	653,065	-	149,044	(504,021)
Depreciation (unallocated)	4,101,677	-	-	(4,101,677)
Total governmental activities	<u>\$ 64,983,321</u>	<u>\$ 171,249</u>	<u>\$ 12,223,148</u>	<u>\$ (52,588,924)</u>
General Revenues:				
Property taxes				32,427,243
Federal and state aid not restricted to specific purposes				21,593,036
Interest and investment earnings				111,629
Miscellaneous				<u>1,404,992</u>
Total general revenues				<u>55,536,900</u>
Change in net position				2,947,976
Net position - July 1, 2016				<u>(15,195,483)</u>
Net position - June 30, 2017				<u>\$ (12,247,507)</u>

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT*Balance Sheet – Governmental Funds**June 30, 2017*

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 20,218,412	\$ 23,230,745	\$ 9,217,909	\$ 1,307,775	\$ 53,974,841
Accounts receivable	2,278,051	337	-	411,175	2,689,563
Due from other funds	279,339	-	-	317,119	596,458
Inventories	-	-	-	2,741	2,741
Total Assets	<u>\$ 22,775,802</u>	<u>\$ 23,231,082</u>	<u>\$ 9,217,909</u>	<u>\$ 2,038,810</u>	<u>\$ 57,263,603</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 3,098,649	\$ 214,682	\$ -	\$ 112,221	\$ 3,425,552
Due to other funds	317,119	-	-	279,339	596,458
Unearned revenue	37,297	-	-	-	37,297
Total Liabilities	<u>3,453,065</u>	<u>214,682</u>	<u>-</u>	<u>391,560</u>	<u>4,059,307</u>
Fund Balances					
Nonspendable	2,500	-	-	2,741	5,241
Restricted	2,402,003	23,016,400	9,217,909	1,644,509	36,280,821
Assigned	7,409,599	-	-	-	7,409,599
Unassigned	9,508,635	-	-	-	9,508,635
Total Fund Balances	<u>19,322,737</u>	<u>23,016,400</u>	<u>9,217,909</u>	<u>1,647,250</u>	<u>53,204,296</u>
Total Liabilities and Fund Balances	<u>\$ 22,775,802</u>	<u>\$ 23,231,082</u>	<u>\$ 9,217,909</u>	<u>\$ 2,038,810</u>	<u>\$ 57,263,603</u>

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2017

Total fund balances - governmental funds \$ 53,204,296

Capital assets used in governmental *activities* are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$130,858,631, and the accumulated depreciation is (\$62,445,747). 68,412,884

Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were: 520,803

In government funds, interest on long term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: (895,845)

The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements. (39,304,422)

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

Deferred outflows of resources	9,341,541	
Deferred inflows of resources	<u>(1,684,612)</u>	7,656,929

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

General obligation bonds payable	92,596,079	
Certificates of participation payable	3,405,000	
Capital leases payable	18,792	
Other postemployment benefits	5,530,885	
Compensated absences payable	<u>291,396</u>	<u>(101,842,152)</u>

Total net position - governmental activities \$ (12,247,507)

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2017

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 40,621,337	\$ -	\$ -	\$ -	\$ 40,621,337
Federal sources	2,792,119	-	-	2,048,076	4,840,195
Other state sources	4,882,250	5,684	39,795	422,850	5,350,579
Other local sources	7,278,408	115,017	8,624,944	950,974	16,969,343
Total Revenues	55,574,114	120,701	8,664,739	3,421,900	67,781,454
EXPENDITURES					
Current:					
Instruction	32,633,550	-	-	273,682	32,907,232
Instruction-related services:					
Supervision of instruction	4,409,607	-	-	9,797	4,419,404
Instructional library, media and technology	578,855	-	-	-	578,855
School site administration	3,248,684	-	-	-	3,248,684
Pupil support services:					
Home-to-school transportation	1,926,537	-	-	-	1,926,537
Food services	896	-	-	2,339,838	2,340,734
All other pupil services	2,226,587	-	-	-	2,226,587
Community services	72,843	-	-	-	72,843
General administration services:					
Data processing services	430,436	-	-	-	430,436
Other general administration	2,221,328	-	-	-	2,221,328
Plant services	4,046,130	-	-	27,522	4,073,652
Transfers of indirect costs	(104,567)	-	-	104,567	-
Capital outlay	369,679	1,827,785	-	241,160	2,438,624
Intergovernmental transfers	652,315	-	-	-	652,315
Debt service:					
Principal	24,663	-	2,880,935	125,000	3,030,598
Interest	620	-	3,081,792	156,734	3,239,146
Total Expenditures	52,738,163	1,827,785	5,962,727	3,278,300	63,806,975
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,835,951	(1,707,084)	2,702,012	143,600	3,974,479
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	20,000	-	-	310,150	330,150
Interfund transfers out	(310,150)	-	-	(20,000)	(330,150)
Total Other Financing Sources and Uses	(290,150)	-	-	290,150	-
Net Change in Fund Balances	2,545,801	(1,707,084)	2,702,012	433,750	3,974,479
Fund Balances, July 1, 2016	16,776,936	24,723,484	6,515,897	1,213,500	49,229,817
Fund Balances, June 30, 2017	\$ 19,322,737	\$ 23,016,400	\$ 9,217,909	\$ 1,647,250	\$ 53,204,296

SAN RAFAEL CITY ELEMENTARY 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, 2017

Total net change in fund balances - governmental funds **\$ 3,974,479**

Amounts reported for governmental *activities* in the statement of activities are different because:

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

Expenditures for capital outlay	2,406,468	
Depreciation expense	<u>(4,101,677)</u>	
Net:		(1,695,209)

Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Expenditures for the repayment of the principal portion of long-term liabilities were: 3,030,598

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. Accreted interest additions exceeded accreted interest paid in the current period by: (996,201)

In the governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is: 190,821

Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In governmental funds these amounts are recognized as an expenditure. However, in the statement of activities, these amounts are amortized over the life of the debt. The difference between current year amounts and the current year amortization is: (43,400)

In governmental funds, other postemployment benefits (OPEB) costs are recognized as expenditures in the period they are paid. In the government-wide statements, OPEB costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of the period was: (619,729)

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 the prior period is: 49,166

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (788,476)

In the statement of activities, certain operating expenses - compensated absences, for example, are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, compensated absences used exceeded the amounts earned by: (154,073)

Change in net position of governmental activities **\$ 2,947,976**

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Statement of Fiduciary Net Position

June 30, 2017

	Agency Funds
	Student Body Funds
ASSETS	
Cash	\$ 23,639
Total assets	<u>\$ 23,639</u>
LIABILITIES	
Due to student groups	<u>\$ 23,639</u>
Total liabilities	<u>\$ 23,639</u>

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

San Rafael City Elementary School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

A. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For San Rafael City Elementary School District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

The District has identified no organizations that are required to be reported as component units.

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - *governmental* and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Major Governmental Funds

The District maintains the following major governmental funds:

General Fund: This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District also maintains a Deferred Maintenance Fund and a Special Reserve Fund for Postemployment Benefits. Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, the Deferred Maintenance Fund does not currently meet the definition of special revenue fund since it is no longer primarily composed of restricted or committed revenue sources. In addition, the Special Reserve Fund for Postemployment Benefits is not substantially composed of restricted or committed revenue sources. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity in these funds are being reported within the General Fund.

Building Fund: This fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.

Bond Interest and Redemption Fund: This fund is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

Special Revenue Funds:

Child Development Fund: This fund is used to account for resources committed to child development programs maintained by the District.

Cafeteria Fund: This fund is used to account for revenues received and expenditures made to operate the District's food service operations.

Capital Projects Funds:

Capital Facilities Fund: This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

Special Reserve Fund for Capital Outlay Projects: This fund is used to account for funds set aside for Board designated construction projects.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District maintains the following fiduciary fund:

Agency Funds: The District maintains a separate agency fund for the Associated Student Body (ASB) Fund at Davidson Middle School.

2. Measurement Focus, Basis of Accounting

Government-Wide and Fiduciary Fund Financial Statements

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

3. Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year. Generally, available is defined as collectible within 60 days. 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-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

3. Revenues - Exchange and Non-Exchange Transactions (continued)

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

C. Budgetary Data

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

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

D. 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 as of June 30.

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

1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

2. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

4. Unearned Revenue

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

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first item is related to its pension plans as more fully described in the footnote entitled "Pension Plans". The second is deferred amount on refunding, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. That item is to recognize the District's proportionate share of the deferred inflows of resources related to its pension plans as more fully described in the footnote entitled "Pension Plans".

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

7. Pensions

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

8. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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

F. Minimum Fund Balance Policy

During the 2010-11 fiscal year, pursuant to GASB Statement No. 54, the District adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of total General Fund expenditures and other financing uses.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed unless the governing board has provided otherwise in its commitment or assignment actions.

G. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

I. New GASB Pronouncements

During the 2016-17 fiscal year, the following GASB Pronouncements became effective:

1. Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (Issued 06/15)*

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

2. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (Issued 06/15)*

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

3. Statement No. 77, *Tax Abatement Disclosures (Issued 08/15)*

For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements, and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

4. Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans (Issued 12/15)*

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan).

5. Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 (Issued 01/16)*

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

6. Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73 (Issued 03/16)*

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 2 – CASH

Cash at June 30, 2017, is reported at fair value and consisted of the following:

	Governmental Activities/ Funds	Fiduciary Funds
Pooled Funds:		
Cash in County Treasury	\$ 53,967,141	\$ -
Total Pooled Funds	53,967,141	-
Deposits:		
Cash on hand and in banks	5,200	23,639
Cash in revolving fund	2,500	-
Total Deposits	7,700	23,639
Total Cash	\$ 53,974,841	\$ 23,639

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2017, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk 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. Cash balances held in banks are insured up to \$250,000 by the Federal Depositary Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, 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, 2017, none of the District's bank balance was exposed to custodial credit risk because it was insured by the FDIC.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2017*

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
Federal Government:				
Categorical aid programs	\$ 1,368,683	\$ -	\$ 299,273	\$ 1,667,956
State Government:				
Lottery	202,512	-	-	202,512
Special Education	223,901	-	-	223,901
Categorical aid programs	110,447	-	58,212	168,659
Local:				
Other local	372,508	337	53,690	426,535
Total	<u>\$ 2,278,051</u>	<u>\$ 337</u>	<u>\$ 411,175</u>	<u>\$ 2,689,563</u>

NOTE 4 – INTERFUND TRANSACTIONS**A. Balances Due To/From Other Funds**

Balances due to/from other funds at June 30, 2017, consisted of the following:

General Fund due to Child Deveopment Fund for expenditure reimbursement	\$ 68
General Fund due to Cafeteria Fund for cost reimbursements and negative student balance write-offs	6,969
General Fund due to Special Reserve Fund for Capital Outlay Projects for maintenance contribution	310,082
Child Development Fund due to General Fund for short-term loan and indirect costs	37,823
Cafeteria Fund due to General Fund for short-term loan and indirect costs	221,516
Special Reserve Fund for Capital Outlay Projects due to General Fund for facilities use fees	20,000
Total	<u>\$ 596,458</u>

B. Transfers To/From Other Funds

Transfers to/from other funds at June 30, 2017, consisted of the following:

General Fund transfer to Child Development Fund for expenditure reimbursements	\$ 68
General Fund transfer to the Special Reserve Fund for Capital Outlay Projects for maintenance contribution	310,082
Special Reserve Fund for Capital Outlay Projects transfer to General Fund for facilities use fees	20,000
Total	<u>\$ 330,150</u>

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2017*

NOTE 5 – FUND BALANCES

At June 30, 2017, fund balances of the District's governmental funds were classified as follows:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	\$ 2,500	\$ -	\$ -	\$ -	\$ 2,500
Stores inventories	-	-	-	2,741	2,741
Total Nonspendable	2,500	-	-	2,741	5,241
Restricted:					
Categorical programs	2,402,003	-	-	4,015	2,406,018
Food service programs	-	-	-	79,975	79,975
Capital projects	-	23,016,400	-	1,560,519	24,576,919
Debt service	-	-	9,217,909	-	9,217,909
Total Restricted	2,402,003	23,016,400	9,217,909	1,644,509	36,280,821
Assigned:					
Deferred maintenance program	816,217	-	-	-	816,217
Site donation accounts	99,140	-	-	-	99,140
PAAR	4,100	-	-	-	4,100
EIA	41,903	-	-	-	41,903
LCAP mini-grants	260,986	-	-	-	260,986
7% Board designated reserve	3,679,126	-	-	-	3,679,126
Postemployment benefits	2,508,127	-	-	-	2,508,127
Total Assigned	7,409,599	-	-	-	7,409,599
Unassigned:					
Reserve for economic uncertainties	1,576,768	-	-	-	1,576,768
Remaining unassigned balances	7,931,867	-	-	-	7,931,867
Total Unassigned	9,508,635	-	-	-	9,508,635
Total	\$ 19,322,737	\$ 23,016,400	\$ 9,217,909	\$ 1,647,250	\$ 53,204,296

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2017***NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance, July 1, 2016	Additions	Retirements	Balance, June 30, 2017
Capital assets not being depreciated:				
Land	\$ 723,499	\$ -	\$ -	\$ 723,499
Construction in progress	314,147	1,827,892	-	2,142,039
Total capital assets not being depreciated	1,037,646	1,827,892	-	2,865,538
Capital assets being depreciated:				
Improvement of sites	20,991,193	121,483	-	21,112,676
Buildings	104,958,457	410,773	-	105,369,230
Equipment	1,464,867	46,320	-	1,511,187
Total capital assets being depreciated	127,414,517	578,576	-	127,993,093
Accumulated depreciation for:				
Improvement of sites	(13,003,950)	(785,648)	-	(13,789,598)
Buildings	(44,805,267)	(3,182,622)	-	(47,987,889)
Equipment	(534,853)	(133,407)	-	(668,260)
Total accumulated depreciation	(58,344,070)	(4,101,677)	-	(62,445,747)
Total capital assets being depreciated, net	69,070,447	(3,523,101)	-	65,547,346
Governmental activity capital assets, net	\$ 70,108,093	\$ (1,695,209)	\$ -	\$ 68,412,884

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2017, were as follows:

	Balance, July 1, 2016	Additions	Deductions	Balance, June 30, 2017	Amount Due Within One Year
General Obligation Bonds:					
Principal payments	\$ 72,551,221	\$ -	\$ 2,880,935	\$ 69,670,286	\$ 5,946,131
Accreted interest	18,711,359	2,165,266	1,169,065	19,707,560	1,328,869
Unamortized Premium, net	3,409,054	-	190,821	3,218,233	190,821
Total - Bonds	94,671,634	2,165,266	4,240,821	92,596,079	7,465,821
Certificates of Participation	3,530,000	-	125,000	3,405,000	130,000
Capital Leases	43,455	-	24,663	18,792	18,792
Other Postemployment Benefits	4,911,156	619,729	-	5,530,885	-
Compensated Absences	137,323	154,073	-	291,396	-
Totals	\$ 103,293,568	\$ 2,939,068	\$ 4,390,484	\$ 101,842,152	\$ 7,614,613

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Payments for certificates of participation, other employment benefits, and capital leases payments are made by the General Fund. Accumulated vacation will be paid for by the fund for which the employee worked.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds

Election of 1999

An election was held on December 7, 1999, at which more than two-thirds of the voters in the District authorized the issuance and sale of \$26.0 million of general obligation bonds. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of, the interest on, and the principal of the bonds. Bond proceeds were used to repair roofs, remove asbestos, replace heating, ventilation and plumbing systems, make earthquake safety improvements, renovate and update classrooms, acquire school facilities, and improve school sites and facilities.

Election of 2002

An election was held on November 5, 2002, at which time more than fifty-five percent of the voters in the District authorized the issuance and sale of \$49.3 million of general obligation bonds. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of, the interest on, and the principal of the bonds. Bond proceeds were used to finance the repair, upgrading, construction, acquisition and equipping of certain district property and facilities and to pay the cost of issuing the bonds.

Election of 2015

An election was held on November 3, 2015, at which time more than fifty-five percent of the voters in the District authorized the issuance and sale of \$108.2 million of general obligation bonds. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of, the interest on, and the principal of the bonds. Bond proceeds were used to finance the upgrading, construction, acquisition and equipping of school libraries, facilities, classrooms, and science labs, modernization of plumbing and bathroom facilities, upgrading of technology infrastructure, installation of energy efficient heating and cooling systems, removal of hazardous conditions, and repair of leaky roofs.

2011 Refunding General Obligation Bonds

On July 21, 2011, the District issued \$27,710,000 of Refunding General Obligation Bonds. The bonds bear fixed interest rates averaging 3.9 percent with annual maturities from August 1, 2012, through August 1, 2028. The net proceeds of \$29,577,900 (after premiums of \$2,121,784 and issuance costs of \$253,884) were used to prepay a portion of the District's outstanding General Obligation Bonds. Deferred charges on refunding of \$520,803 remain to be amortized.

A summary of outstanding general obligation bonds issued is presented below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2016	Additions	Deductions	Balance, June 30, 2017
1999A	7/18/2000	7/1/2025	4.8%-6.0%	\$ 6,496,510	\$ 676,510	\$ -	\$ -	\$ 676,510
2002B	8/4/2004	8/1/2029	3.85%-5.7%	29,996,225	16,456,456	-	1,291,480	15,164,976
2002C	8/11/2005	8/1/2030	3.25%-5.3%	9,300,566	6,238,255	-	319,455	5,918,800
2011R	7/21/2011	8/1/2028	2.0%-5.0%	27,710,000	24,180,000	-	1,270,000	22,910,000
2015A	3/10/2016	8/1/2045	2.25%-5.0%	25,000,000	25,000,000	-	-	25,000,000
					<u>\$ 72,551,221</u>	<u>\$ -</u>	<u>\$ 2,880,935</u>	<u>\$ 69,670,286</u>
Accreted Interest:								
				1999A	\$ 1,041,483	\$ 103,582	\$ -	\$ 1,145,065
				2002B	13,498,872	1,550,954	973,520	14,076,306
				2002C	4,171,004	510,730	195,545	4,486,189
					<u>\$ 18,711,359</u>	<u>\$ 2,165,266</u>	<u>\$ 1,169,065</u>	<u>\$ 19,707,560</u>

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2017*

NOTE 7 – GENERAL LONG-TERM DEBT (continued)**A. General Obligation Bonds (continued)**

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2017 were as follows:

Fiscal Year	Principal	Interest	Total
2017-2018	\$ 5,946,131	\$ 3,254,706	\$ 9,200,837
2018-2019	5,674,032	3,262,706	8,936,738
2019-2020	3,274,340	3,311,397	6,585,737
2020-2021	3,414,332	3,429,155	6,843,487
2021-2022	3,543,598	3,551,439	7,095,037
2022-2027	18,192,874	21,677,438	39,870,312
2027-2032	12,139,979	20,156,328	32,296,307
2032-2037	3,580,000	3,134,175	6,714,175
2037-2042	6,240,000	2,208,400	8,448,400
2042-2046	7,665,000	647,500	8,312,500
Total	<u>\$ 69,670,286</u>	<u>\$ 64,633,244</u>	<u>\$ 134,303,530</u>

B. Certificates of Participation

On September 29, 2005, the District issued \$4,500,000 Certificates of Participation for the purpose of providing additional funds for school modernization. The issue consists of \$2,290,000 Serial Certificates ranging in interest from 2.8% to 4.5% and maturing February 1, 2025 and two Term Certificates for \$980,000 and \$1,230,000, respectively, with interest rates of 4.5% and 4.625%, maturing February 1, 2030 and 2035, respectively.

At June 30, 2017, the principal outstanding on the certificates was \$3,405,000. The annual requirements to amortize outstanding certificates at June 30, 2017, were as follows:

Fiscal Year	Principal	Interest	Total
2017-2018	\$ 130,000	\$ 151,890	\$ 281,890
2018-2019	135,000	146,690	281,690
2019-2020	140,000	141,290	281,290
2020-2021	145,000	135,550	280,550
2021-2022	150,000	129,388	279,388
2022-2027	860,000	541,347	1,401,347
2027-2032	1,075,000	330,281	1,405,281
2032-2035	770,000	72,381	842,381
Total	<u>\$ 3,405,000</u>	<u>\$ 1,648,817</u>	<u>\$ 5,053,817</u>

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2017*

NOTE 7 – GENERAL LONG-TERM DEBT (continued)**C. Capital Leases**

The District leases equipment under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2017-2018	<u>\$ 18,962</u>
Total	<u>18,962</u>
Less amount representing interest	<u>(170)</u>
Present value of minimum lease payments	<u><u>\$ 18,792</u></u>

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

NOTE 8 – JOINT VENTURES

The San Rafael City Elementary School District participates in a joint venture under a joint powers agreement (JPA), the Marin Schools Insurance Authority (MSIA). The relationship between the San Rafael City Elementary School District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and provide workers' compensation, property and liability and health insurance for its member school districts. The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPA.

Condensed unaudited financial information for the year ended June 30, 2016, is as follows:

	<u>MSIA</u>
Total Assets	<u>\$ 28,781,393</u>
Total Liabilities	<u>13,925,485</u>
Net Position	<u><u>\$ 14,855,908</u></u>
Total Revenues	<u>\$ 12,832,271</u>
Total Expenditures	<u>1,421,562</u>
Operating Income (Loss)	<u>11,410,709</u>
Non-Operating Income (Expense)	<u>(450,338)</u>
Change in Net Position	<u><u>\$ 10,960,371</u></u>

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

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

B. Construction Commitments

As of June 30, 2017, the District had commitments with respect to unfinished capital projects of approximately \$3.6 million to be paid from local funds.

C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2017.

NOTE 10 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2017, the District participated in the MSIA public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2017, the District participated in the MSIA JPA workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

Employee Medical Benefits

The District has contracted with CalPERS to provide employee medical and surgical benefits. Dental benefits and basic life insurance benefits are provided through the MSIA public entity risk pool.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS

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

A. General Information about the Pension Plans

Plan Descriptions

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions under the Plan are established by State statute and District resolution. CalSTRS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalSTRS website.

The District also 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. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided

CalSTRS provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of final compensation for each year of credited service at age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, increasing to a maximum of 2.4% at age 63 for members under *CalSTRS 2% at 60*, or age 65 for members under *CalSTRS 2% at 62*. The normal retirement eligibility requirements are age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, with a minimum of five years of service credited under the Defined Benefit Program, which can include service purchased from teaching in an out-of-state or foreign public school. Employees are eligible for service-related disability benefits after five years of service, unless the member is disabled due to an unlawful act of bodily injury committed by another person while working in CalSTRS covered employment, in which case the minimum is one year. Disability benefits are equal to fifty percent of final compensation regardless of age and service credit. Designated recipients of CalSTRS retired members receive a \$6,163 lump-sum death payment. There is a 2% simple increase each September 1 following the first anniversary of the date on which the monthly benefit began to accrue. The annual 2% increase is applied to all continuing benefits other than Defined Benefit Supplement annuities. However, if the member retires with a Reduced Benefit Election, the increase does not begin to accrue until the member reaches age 60 and is not payable until the member receives the full benefit. This increase is also known as the improvement factor.

CalPERS also provides retirement, disability, and death benefits. Retirement benefits are determined as 1.1% of final compensation for each year of credited service at age 50 for members under *2% at 55*, or 1.0% at age 52 for members under *2% at 62*, increasing to a maximum of 2.5% at age 63 for members under *2% at 55*, or age 67 for members under *2% at 62*. To be eligible for service retirement, members must be at least age 50 and have a minimum of five years of CalPERS-credited service. Members joining on or after January 1, 2013 must be at least age 52. Disability retirement has no minimum age requirement and the disability does not have to be job related. However, members must have a minimum of five years of CalPERS service credit.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

A. General Information about the Pension Plans (continued)

Benefits Provided (continued)

Pre-retirement death benefits range from a simple return of member contributions plus interest to a monthly allowance equal to half of what the member would have received at retirement paid to a spouse or domestic partner. To be eligible for any type of monthly pre-retirement death benefit, a spouse or domestic partner must have been either married to the member or legally registered before the occurrence of the injury or the onset of the illness that resulted in death, or for at least one year prior to death. Cost-of-living adjustments are provided by law and are based on the Consumer Price Index for all United States cities. Cost-of-living adjustments are paid the second calendar year of the member's retirement on the May 1 check and then every year thereafter. The standard cost-of-living adjustment is a maximum of 2 percent per year.

Contributions

Active CalSTRS plan members under 2% at 60 were required to contribute 10.25% and plan members under 2% at 62 were required to contribute 9.205% of their salary in 2016-17. The required employer contribution rate for fiscal year 2016-17 was 12.58% of annual payroll. The contribution requirements of the plan members are established by State statute. Active CalPERS plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The required employer contribution for fiscal year 2016-17 was 13.888%. The contribution requirements of the plan members are established by State statute.

For the fiscal year ended June 30, 2017, the contributions recognized as part of pension expense for each Plan were as follows:

	CalSTRS	CalPERS
Employer contributions	\$ 2,875,872	\$ 850,652
Employee contributions paid by employer	\$ -	\$ -
Employer contributions paid by State	\$ 1,641,796	\$ -

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
CalSTRS	\$ 32,352,400
CalPERS	\$ 6,952,022
Total Net Pension Liability	<u>\$ 39,304,422</u>

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2017***NOTE 11 – PENSION PLANS (continued)****B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)**

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2015 and 2016, was as follows:

	CalSTRS	CalPERS
Proportion - June 30, 2015	0.0420%	0.0323%
Proportion - June 30, 2016	0.0400%	0.0352%
Change - Increase (Decrease)	-0.0020%	0.0029%

For the year ended June 30, 2017, the District recognized pension expense of \$4,515,000. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,726,524	\$ -
Differences between actual and expected experience	299,004	(789,200)
Changes in assumptions	-	(208,867)
Adjustment due to differences in proportions	978,738	-
Net differences between projected and actual earnings on plan investments	4,337,275	(686,545)
	<u>\$ 9,341,541</u>	<u>\$ (1,684,612)</u>

The total amount of \$3,726,524 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Amount
2018	\$ 884,906
2019	725,118
2020	925,565
2021	165,625
2022	(323,991)
Thereafter	-

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2015, actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry age normal	Entry age normal
Actuarial Assumptions:		
Discount Rate	7.60%	7.65%
Inflation	3.00%	2.75%
Wage Growth	3.75%	Varies
Post-retirement Benefit Increase	2.00%	2.00%
Investment Rate of Return	7.60%	7.65%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis for more information. The underlying mortality assumptions and all other actuarial assumptions used in the CalPERS June 30, 2015, valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – for CalSTRS

The discount rate used to measure the total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60%) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate – for CalPERS

The discount rate used to measure the total pension liability for PERF B was 7.65%. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF B. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on CalPERS' website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Discount Rate – for CalPERS (continued)

In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

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

Asset Class	Target Allocation		Long-Term Expected Rate of Return	
	CalSTRS	CalPERS	CalSTRS	CalPERS
Global Equity	47%	51%	6.30%	5.71%
Global Debt Securities	N/A	20%	N/A	2.43%
Inflation Sensitive	4%	6%	3.80%	3.36%
Private Equity	13%	10%	9.30%	6.95%
Absolute Return/Risk Mitigating Strategies	9%	N/A	2.90%	N/A
Real Estate	13%	10%	5.20%	5.13%
Infrastructure and Forestland	N/A	2%	N/A	5.09%
Fixed Income	12%	N/A	0.30%	N/A
Cash/Liquidity	2%	1%	-1.00%	-1.05%
	100%	100%		

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

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

	CalSTRS	CalPERS
1% Decrease	6.60%	6.65%
Net Pension Liability	\$ 46,562,400	\$ 10,372,455
Current Discount Rate	7.60%	7.65%
Net Pension Liability	\$ 32,352,400	\$ 6,952,022
1% Increase	8.60%	8.65%
Net Pension Liability	\$ 20,550,400	\$ 4,103,838

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

C. Payable to the Pension Plans

At June 30, 2017, the District reported a payable of \$5,562 for the outstanding amount of contributions to the CalSTRS pension plan required for the fiscal year ended June 30, 2017.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

San Rafael City Elementary School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	77
Active plan members*	411
Total	<u>488</u>

* As of January 1, 2016, actuarial valuation

Eligibility

Employees are eligible for retiree health benefits if they satisfy the following requirements:

Classified	Retirees who are at least 55 and have at least 10 consecutive full-time years of service with the District.
Certificated	Retirees who are at least 55 and have at least 10 consecutive full-time years of service with the District.

District Benefits

Classified	The District will pay the minimum monthly premium amount specified by PEMHCA, and the retiree will pay the remaining premium amount. The minimum is \$100 per month for 2016.
Certificated	The District will pay the minimum monthly premium amount specified by PEMHCA, and the retiree will pay the remaining premium amount. The minimum is \$93.75 per month for 2016. In addition, the District will pay an additional \$230 per month toward the cost of medical and dental benefits for five years after retirement or until age 65, whichever comes first.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Survivor Benefits

District's contribution stops after retiree's death, surviving spouse may continue to pay the PEMHCA minimum monthly contribution amount to continue PEMHCA health coverage.

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2016-17, the District contributed \$157,702.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution (ARC)	\$	918,393
Interest on net OPEB obligation		171,890
Adjustment to ARC		(312,852)
Annual OPEB cost		<u>777,431</u>
Contributions made		<u>(157,702)</u>
Increase (decrease) in net OPEB obligation		619,729
Net OPEB liability - July 1, 2016		<u>4,911,156</u>
Net OPEB liability - June 30, 2017	\$	<u><u>5,530,885</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016-17 and the preceding two years are as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 795,234	11.3%	\$ 4,237,200
2016	\$ 771,141	12.6%	\$ 4,911,156
2017	\$ 777,431	20.3%	\$ 5,530,885

Funded Status and Funding Progress – OPEB Plans

As of January 1, 2016, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$6.1 million and the unfunded actuarial accrued liability (UAAL) was \$6.1 million.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress - OPEB Plans (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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 schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designated 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.

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	22 years
Asset Valuation	N/A
Actuarial assumptions:	
Investment rate of return	3.50%
Healthcare cost trend rate	8.0%

Required Supplementary Information

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SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual*	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
Revenues				
LCFF Sources	\$ 40,390,108	\$ 40,391,806	\$ 40,356,337	\$ (35,469)
Federal Sources	3,042,647	3,021,619	2,792,119	(229,500)
Other State Sources	3,170,694	4,875,621	4,882,250	6,629
Other Local Sources	7,106,310	7,332,634	7,267,534	(65,100)
Total Revenues	53,709,759	55,621,680	55,298,240	(323,440)
Expenditures				
Current:				
Certificated Salaries	22,931,621	24,035,145	23,567,217	467,928
Classified Salaries	6,257,847	6,384,604	5,789,247	595,357
Employee Benefits	9,582,261	11,034,796	10,386,797	647,999
Books and Supplies	4,504,114	4,424,373	2,725,397	1,698,976
Services and Other Operating Expenditures	10,178,160	10,462,471	9,118,022	1,344,449
Capital Outlay	407,975	418,526	294,665	123,861
Intergovernmental Transfers	644,870	691,584	652,315	39,269
Debt Service	307,017	307,017	25,283	281,734
Total Expenditures	54,813,865	57,758,516	52,558,943	5,199,573
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,104,106)	(2,136,836)	2,739,297	4,876,133
Other Financing Sources (Uses)				
Interfund Transfers In	20,000	20,000	20,000	-
Interfund Transfers Out	(1,070,377)	(1,070,377)	(1,070,445)	(68)
Total Other Financing Sources and Uses	(1,050,377)	(1,050,377)	(1,050,445)	(68)
Net Change in Fund Balance	(2,154,483)	(3,187,213)	1,688,852	4,876,065
Fund Balance, July 1, 2016	14,309,541	14,309,541	14,309,541	-
Fund Balance, June 30, 2017	\$ 12,155,058	\$ 11,122,328	\$ 15,998,393	\$ 4,876,065

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

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT*Schedule of Funding Progress**For the Fiscal Year Ended June 30, 2017*

Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2012	\$ -	\$ 5,462,058	\$ 5,462,058	0.0%	N/A	N/A
January 1, 2014	\$ -	\$ 6,168,215	\$ 6,168,215	0.0%	N/A	N/A
January 1, 2016	\$ -	\$ 6,103,316	\$ 6,103,316	0.0%	N/A	N/A

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2017

	Last Ten Fiscal Years*		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
CalSTRS			
District's proportion of the net pension liability	<u>0.0400%</u>	<u>0.0420%</u>	<u>0.0400%</u>
District's proportionate share of the net pension liability	<u>\$ 32,352,400</u>	<u>\$ 28,276,080</u>	<u>\$ 23,374,800</u>
State's proportionate share of the net pension liability associated with the District	<u>18,420,356</u>	<u>14,954,889</u>	<u>14,114,855</u>
Totals	<u>\$ 50,772,756</u>	<u>\$ 43,230,969</u>	<u>\$ 37,489,655</u>
District's covered-employee payroll	<u>\$ 20,804,418</u>	<u>\$ 19,561,948</u>	<u>\$ 18,306,909</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>155.51%</u>	<u>144.55%</u>	<u>127.68%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS			
District's proportion of the net pension liability	<u>0.0352%</u>	<u>0.0323%</u>	<u>0.0280%</u>
District's proportionate share of the net pension liability	<u>\$ 6,952,022</u>	<u>\$ 4,761,052</u>	<u>\$ 3,201,387</u>
District's covered-employee payroll	<u>\$ 5,534,819</u>	<u>\$ 5,046,173</u>	<u>\$ 4,311,248</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>125.61%</u>	<u>94.35%</u>	<u>74.26%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>79%</u>	<u>83%</u>

* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT*Schedule of Pension Contributions**For the Fiscal Year Ended June 30, 2017*

	Last Ten Fiscal Years*		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
Contractually required contribution	\$ 2,875,872	\$ 2,232,314	\$ 1,737,101
Contributions in relation to the contractually required contribution	<u>2,875,872</u>	<u>2,232,314</u>	<u>1,737,101</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 22,860,668</u>	<u>\$ 20,804,418</u>	<u>\$ 19,561,948</u>
Contributions as a percentage of covered-employee payroll	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS			
Contractually required contribution	\$ 850,652	\$ 655,710	\$ 593,985
Contributions in relation to the contractually required contribution	<u>850,652</u>	<u>655,710</u>	<u>593,985</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 6,125,086</u>	<u>\$ 5,534,819</u>	<u>\$ 5,046,173</u>
Contributions as a percentage of covered-employee payroll	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to the Required Supplementary Information

For the Fiscal Year Ended June 30, 2017

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

Schedule of Proportionate Share of the Net Pension Liability

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer's covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
- The pension plan's fiduciary net position as a percentage of the total pension liability

Schedule of Pension Contributions

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

NOTE 2 – SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS

Benefit Changes

There were no changes to benefit terms that applied to all members of the Schools Pool.

Changes of Assumptions

There were no changes of assumptions.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Notes to the Required Supplementary Information

For the Fiscal Year Ended June 30, 2017

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2017, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

General Fund:		
Interfund Transfers Out	\$	68

Supplementary Information

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SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Local Educational Agency Organization Structure

June 30, 2017

The San Rafael City Elementary School District was established in 1861. The District boundaries encompass the city of San Rafael, as well as small portions of the city of Larkspur and the town of Ross and some unincorporated areas of central Marin County. There were no changes in the boundaries of the District during the current year. The District is currently operating one middle school, seven elementary schools (K-5) and one K-8 school. Graduating eighth grade students attend high school in the San Rafael City High School District.

GOVERNING BOARD		
Member	Office	Term Expires
Rachel Kertz	President	November, 2018
Greg Knell	Vice President	November, 2020
Natu Tuatagaloa	Member	November, 2018
Maika Llorens Gulati	Member	November, 2020
Linda M. Jackson	Member	November, 2020

DISTRICT ADMINISTRATORS

Michael R. Watenpaugh, Ed.D.,
Superintendent

Dr. Mayra Perez,
Deputy Superintendent, Instruction

Amy Baer,
Assistant Superintendent, Human Resources

Doug Marquand,
Assistant Superintendent, Business Services

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT*Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2017*

	Second Period Report	Annual Report
	Certificate No. (E71F1AED)	Certificate No. (B536092C)
Regular & Extended Year ADA:		
Transitional Kindergarten through Third	2,174.77	2,179.92
Fourth through Sixth	1,530.18	1,531.37
Seventh through Eighth	899.54	900.02
Total Regular ADA	4,604.49	4,611.31
Special Education, Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	4.46	5.01
Fourth through Sixth	6.70	6.77
Seventh through Eighth	1.37	1.39
Total Special Education, Nonpublic, Nonsectarian Schools	12.53	13.17
Total ADA	4,617.02	4,624.48

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT*Schedule of Instructional Time**For the Fiscal Year Ended June 30, 2017*

<u>Grade Level</u>	<u>Required Minutes</u>	<u>2016-17 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	40,500	180	Complied
Grade 1	50,400	51,345	180	Complied
Grade 2	50,400	51,345	180	Complied
Grade 3	50,400	51,345	180	Complied
Grade 4	54,000	54,085	180	Complied
Grade 5	54,000	54,085	180	Complied
Grade 6	54,000	59,964	180	Complied
Grade 7	54,000	59,964	180	Complied
Grade 8	54,000	59,964	180	Complied

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Schedule of Financial Trends and Analysis

For the Fiscal Year Ended June 30, 2017

General Fund	(Budget) ² 2018	2017 ³	2016	2015
Revenues and other financing sources	\$ 54,623,413	\$ 55,318,240	\$ 53,709,319	\$ 44,691,143
Expenditures	53,317,490	52,558,943	48,710,497	42,879,307
Other uses and transfers out	1,042,185	1,070,445	910,082	1,040,082
Total Outgo	54,359,675	53,629,388	49,620,579	43,919,389
Change in fund balance (deficit)	263,738	1,688,852	4,088,740	771,754
Ending fund balance	\$ 16,262,131	\$ 15,998,393	\$ 14,309,541	\$ 10,220,801
Available Reserves ¹	\$ 13,706,429	\$ 9,508,635	\$ 8,758,518	\$ 5,541,763
Available Reserves as a percentage of Total Outgo	25.2%	17.7%	17.7%	12.6%
Total Long-Term Debt	\$ 135,667,173	\$ 141,146,574	\$ 136,330,700	\$ 104,554,283
Average Daily Attendance at P-2	4,619	4,617	4,611	4,481

The General Fund balance has increased by \$5,777,592 over the past two years. The fiscal year 2017-18 adopted budget projects a increase of \$263,738. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has not incurred an operating deficit in any of the past three years, nor do they anticipate incurring one during the 2017-18 fiscal year. Total long-term debt has increased by \$36,592,291 over the past two years.

Average daily attendance (ADA) has increased by 136 over the past two years. An additional increase of 2 ADA is anticipated during fiscal year 2017-18.

¹ Available reserves consist of all unassigned fund balances in the General Fund.

² As of September 2017.

³ The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund and Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
June 30, 2017*

*There were no differences between the Annual Financial and Budget Report and the
Audited Financial Statements in any funds.*

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Especially Needy	10.553	13526	\$ 256,514	
National School Lunch Program	10.555	13523	1,300,480	
Summer Food Service Program	10.559	13004	55,328	
USDA Donated Foods	10.555	N/A	140,980	
Total Child Nutrition Cluster				\$ 1,753,302
Child Care Food Program Cluster:				
CCFP Claims - Centers and Family Day Care	10.558	13393	274,983	
CCFP Cash in Lieu of Commodities	10.558	13389	19,791	
Total Child Care Food Program Cluster				294,774
Total U.S. Department of Agriculture				2,048,076
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind (NCLB):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		810,402
Title II, Part A, Supporting Effective Instruction	84.367	14341		81,576
Title II, Part B, CA Mathematics and Science Partnerships	84.366	14512		405,247
English Language Acquisition Grants Cluster:				
Title III, Immigrant Education Program	84.365	15146	19,796	
Title III, Limited English Proficiency	84.365	14346	294,774	
Total English Language Acquisition Grants Cluster				314,570
Individuals with Disabilities Education Act (IDEA):				
Passed through Marin County SELPA:				
Special Education Cluster:				
Local Assistance Entitlement	84.027	13379	936,088	
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	27,466	
Preschool Local Entitlement, Part B	84.027A	13682	168,133	
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	48,637	
Total Special Education Cluster				1,180,324
Total U.S. Department of Education				2,792,119
Total Expenditures of Federal Awards				\$ 4,840,195

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2017

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has not met its target funding. 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.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual financial report to the audited financial statements.

Schedule of Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity 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 the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

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Other Independent Auditors' Reports

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**INDEPENDENT AUDITORS' 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 Education
San Rafael City Elementary School District
San Rafael, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Rafael City Elementary School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise San Rafael City Elementary School District's basic financial statements, and have issued our report thereon dated December 5, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Rafael City Elementary School 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2017-001 and 2017-002.

San Rafael City Elementary School District's Responses to Findings

San Rafael City Elementary School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. San Rafael City Elementary School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Murrieta, California
December 5, 2017



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
San Rafael City Elementary School District
San Rafael, California

Report on State Compliance

We have audited San Rafael City Elementary School District's compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the San Rafael City Elementary School District's state government programs as noted on the following page for the fiscal year ended June 30, 2017.

Management's Responsibility

Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of San Rafael City Elementary School District's state programs based on our audit of the types of compliance requirements referred to on the following page. 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 *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about San Rafael City Elementary School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each state program. However, our audit does not provide a legal determination of San Rafael City Elementary School District's compliance.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes

Description	Procedures Performed
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Immunizations	Yes
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

Unmodified Opinion on Compliance with State Programs

In our opinion, San Rafael City Elementary School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2017.

Other Matter(s)

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to previously, which is required to be reported in accordance with the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which is described in the accompanying schedule of findings and questioned costs as Finding 2017-002. Our opinion on each state program is not modified with respect to these matters.

District's Response to Finding

San Rafael City Elementary School District's response to the compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. San Rafael City Elementary School District's response was not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the response.

Nigro+Nigro, PC

Murrieta, California
December 5, 2017



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Education
San Rafael City Elementary School District
San Rafael, California

Report on Compliance for Each Major Federal Program

We have audited San Rafael City Elementary School District's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of San Rafael City Elementary School District's major federal programs for the year ended June 30, 2017.

San Rafael City Elementary School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of San Rafael City Elementary School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about San Rafael City Elementary School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of San Rafael City Elementary School District's compliance.

Opinion on Each Major Federal Program

In our opinion, San Rafael City Elementary School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2017-001. Our opinion on each major federal program is not modified with respect to this matter.

San Rafael City Elementary School District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. San Rafael City Elementary School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of San Rafael City Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered San Rafael City Elementary School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Murrieta, California
December 5, 2017

Findings and Questioned Costs

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SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, Section 200.516?	<u>Yes</u>
Identification of major programs:	
CFDA Numbers Name of Federal Program or Cluster	
10.553, 10.555 National School Lunch Program (NSLP)	
84.010 Title I, Part A, Basic Grants	

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>
--	-------------------

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2016-17.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2017

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

Finding 2017-001: School-Wide Plans (50000)

Program Identification: Title I, Part A (CFDA No. 84.010)

Federal Agency: U.S. Department of Education

Pass-through Entity: California Department of Education

Criteria: Code of Federal Regulations (CFR) Title 34 – Education, Part 200, section 200.28(e), requires grantees and sub-grantees to complete a school-wide plan which contains certain required components, one of which is a transition plan for assisting preschool children in the successful transition to the schoolwide program.

Condition: The school-wide plans for Laurel Del Elementary and Venetia Valley lacked the required element regarding a transition plan for assisting preschool children in the successful transition to the schoolwide program.

Context: This condition was observed in both elementary school-wide plans selected for review. This is not a repeat finding.

Questioned Cost: Not applicable.

Effect: The Schools' school-wide plans are lacking one required component, which could affect the outcome or opinion of someone relying on the review of the school-wide plans.

Cause: This happened because the District experienced turnover and the section was overlooked.

Recommendation: The District should closely monitor the reporting of the school-wide plans and include a transition plan for assisting preschool children in the successful transition to the schoolwide program in its school-wide plans to ensure that all required elements are being addressed.

Views of Responsible Officials: The Preschool transition plans will be submitted for Board approval as an SPSA amendment for all applicable schools for the 2017-18 academic year. These transition plans will reflect all required elements. The Accountability Coordinator will closely monitor the preparation of the school-wide plans to ensure that the required components are included in the future. The District has modified the template being used and will ensure that the 2017-18 school-wide plans include a transition plan for assisting preschool children in the successful transition to a school-wide program.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2017

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Findings 2017-002 CAPADS Unduplicated Pupil Counts (40000)

Criteria: Supplemental and concentration grant amounts are calculated based on the percentage of “unduplicated pupils” enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:

- Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-priced meals under the National School Lunch Program, or (3) are foster youth. “Unduplicated count” means that each pupil is counted only once even if the pupil meets more than one of these criteria (EC section 2574(b)(2) and 42338.02(b)(1)).
- Divided by total enrollment in the LEA (EC sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certificated enrollment reported in the CALPADS as of Census Day.

Condition: During our testing of the English learners and free and reduced-price meal eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted 17 students selected in the English learner only category that should have been classified as English proficient based on the Student’s status in the District’s student information system. Additionally, we noted one pupil identified in the CALPADS report as being FRPM eligible who did not have a qualifying application on file. Lastly, we identified one pupil categorized as both EL and FRPM eligible that did not qualify in either category.

Context: We noted 17 English Learner only classification errors, one free or reduced meal classification only error, and one EL and FRPM pupil error at the schools tested, for a total of 19 misclassified pupils.

Cause: The District EL errors were caused by a combination of data errors at the school level. For each of the exceptions the District was unaware of the data errors or unable to communicate with CALPADS to affect changes to the data. The Free and Reduced Meal errors were caused by data entry errors that lead to the pupils being misclassified.

Questioned Costs: \$17,779. This amount was determined by calculating the difference between the District’s original total LCFF revenues and the LCFF revenues adjusted for the decrease in the unduplicated pupil counts.

Effect: The unduplicated pupil counts reported in the CALPADS 1.17 and 1.18 reports should be adjusted for the following changes as a result of the procedures performed:

School Site:	CALPADS Reported	Adjusted based on eligibility for:			Adjusted Total
		FRPM	EL	FRPM & EL	
Glenwood Elementary	439	-	(4)	-	435
Sun Valley Elementary	501	(1)	(3)	-	497
James B. Davidson Middle	1,201	-	(10)	(1)	1,190
Aggregate remaining school sites	2,617	-	-	-	2,617
District-wide	4,758	(1)	(17)	(1)	4,739

The Enrollment of 4,758 was not impacted as of a result of the procedures performed.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2017

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (continued)

Findings 2017-002 CAPADS Unduplicated Pupil Counts (40000) (continued)

Recommendation: We recommend that procedures are established to ensure that the student information system which is used for CALPADS reporting, is updated to reflect the changes and entries made in the student information system for English learners and FRPM eligible students prior to the submission of the CALPADS report.

Views of Responsible Officials: The District has worked with Aeries and local Aeries school districts to develop best practices to resolve these issues. Staff have attended training to restructure internal controls. District staff provided a training to site staff on August 15, 2017, to correct this finding. The District will follow-up with one-on-one training and will work closely with site personnel to ensure that pupils that are determined to be English proficient get updated in the student information system in a timely manner. In addition, the Child Nutrition Department will closely monitor all applications to ensure the income or categorical eligibility requirements for free or reduced-price meals have been met. To ensure accuracy, the District will strive to upload data more routinely to CALPADS and perform error checks. Also, the District will have an audit performed of the CALPADS submission information prior to the Fall 1 amendment deadline to ensure system reliability. Staff have worked with CALPADS to resolve the electronic communication issues.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2017

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2016-001: School Accountability Report Card</i>	<p>In accordance with Education Code §33126, the school is to provide an accountability report card to include safety, cleanliness, and adequacy of school facilities, to include any needed maintenance to ensure good repair. The condition reported should be supported by the school's Facilities Inspection Tool (FIT), School Facilities Condition Evaluation as required by Ed Code §17002. In addition, according to Education Code §35256, the governing board must publish the School Accountability Report Card (SARC) for each school by February 1st of each year.</p> <p>It was noted that the School Facility Repair Status on the SARC for Laurel Dell Elementary did not match the FIT form.</p>	72000	We recommend that an employee verify the information presented in the SARC. This information is essential to present the image of the school fairly to the public. In addition, the SARCs should be published on an annual basis by February 1st.	Implemented.
<i>Finding 2016-002: CALPADS Unduplicated Pupil Counts</i>	<p>Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:</p> <ul style="list-style-type: none">• Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (EC sections 2574(b)(2) and 42238.02(b)(1)).• Divided by total enrollment in the LEA (EC sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day.	40000	We recommend that procedures are established to ensure that the student information system which is used for CALPADS reporting, is updated to reflect the changes and entries made in the student information system for English learner students prior to the submission of the CALPADS report.	Not Implemented. See Finding 2017-002.

SAN RAFAEL CITY ELEMENTARY SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2017

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2016-002: CALPADS Unduplicated Pupil Counts (continued)</i>	During our testing of the free and reduced price meal eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted one student selected in our English Learner only category should have been classified as English only based on the student's status in the District's student information system.			