

**JOHN MUIR CHARTER SCHOOLS**

**FINANCIAL STATEMENTS**

June 30, 2018

JOHN MUIR CHARTER SCHOOLS  
FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2018  
(Continued)

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JOHN MUIR CHARTER SCHOOLS  
FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2018

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
John Muir Charter Schools  
Grass Valley, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of John Muir Charter Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise John Muir Charter Schools' 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.

### ***Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and the major fund of the John Muir Charter Schools, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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(Continued)

## 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 to 9 and the Required Supplementary Information, such as the General Fund Budgetary Comparison Schedule, the Schedule of the Charter School's Proportionate Share of the Net Pension Liability, and the Schedule of the Charter School's Contributions on pages 32 to 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the John Muir Charter Schools' basic financial statements. The supplementary information listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information as listed in the table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the Schedule of Financial Trends and Analysis, 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 supplementary information as listed in the table of contents, except for the Schedule of Financial Trends and Analysis, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Financial Trends and Analysis 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.

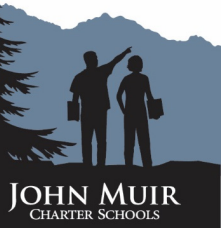
### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2018 on our consideration of John Muir Charter Schools' 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 John Muir Charter Schools' internal control over financial reporting and compliance.



Crowe LLP

Sacramento, California  
December 13, 2018



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## MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

### INTRODUCTION

Nevada County Superintendent of Schools (NCSOS) approved John Muir Charter Schools' Charter in 1999 and renewed it in 2004, 2009 and 2014. Muir is a non-profit 501(c)(3) public-benefit corporation and is governed by a five-member Board of Directors. The Charter School provides high school education services exclusively to the California Conservation Corps, Local Conservation Corps, Workforce Investment and Opportunity Act funded programs, and YouthBuild programs. These state, local, and federal programs serve students between the ages of 16 and 24. The programs combine work experience, life-skills development, and our high school program. During 2017-18, the Charter School served 2,336 different students at 41 sites, accounting for average daily attendance (ADA) of 719.

John Muir Charter Schools (JMCS) remains fiscally sound and continues to effectively use its resources to improve its academic programs. This document focuses on how JMCS maintains its sound fiscal position and how it employs its resources to ensure the best education possible for its students. Specifically, the document:

- Discusses the content and changes to the financial statements
- Describe the charter school's fiscal processes
- Summarizes enrollment trends
- Analyzes resource allocations

*Serving California Conservation Corps, Local Conservation Corps, YouthBuild, and  
Workforce Innovation and Opportunity Programs*

*CCSA Hart Vision Award Recipient, Charter School of the Year 2015*

## **FINANCIAL HIGHLIGHTS**

- P-2 average daily attendance (ADA) decreased by 172 from 2016-2017 to 2017-2018.
- General Fund revenues exceed expenditures by \$438 thousand, ending the year with available reserves of \$1,039,281.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual audit report consists of three parts – management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. These statements are designed to provide the reader with a complete financial picture of the organization as a whole. The information is followed by a breakdown of the details that contribute to the financial position of the organization.

### **Fund Financial Statements**

Fund Financial Statements are the standard financial statements: the balance sheet and the statement of revenues, expenditures and change in fund balance (the income statement). They provide the end result of the year’s activities as it relates to the schools financial position. In charter schools, there is only one governmental fund to report on – the general fund. Fund financial statements use the modified accrual basis of accounting. The statements report on the near term financial resources of the school.

### **Government-wide Financial Statements**

The government-wide financial statements are required by GASB 34, a requirement designed to provide an overview of the financial activities of the school in a format similar to a private sector business. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. In addition to the information included in the fund financial statements, the government-wide statements contain information regarding assets held and long term liabilities of the school. Government-wide statements use the accrual basis of accounting.

## Government-Wide Statement of Net Position.

Figure 1 shows the changes in the JMCS's Government-Wide Statement of Net Position as of June 30, 2018. This statement is slightly different from the balance sheet in that it includes the liability for compensated absences, or accrued vacation liability.

**Figure 1**

### John Muir Charter Schools

#### Government-Wide Statement of Net Position as of June 30, 2018

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Inc/(Dec)</u>
<b>ASSETS:</b>			
Cash and investments	\$ 1,518,853	\$ 920,700	598,153
Receivables	697,178	512,559	184,619
Prepaid expenses	24,542	65,912	(41,370)
Other current assets	21,806	53,090	(31,284)
Capital assets	0	0	0
Total assets	<u>2,262,379</u>	<u>1,552,261</u>	<u>710,118</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred outflows of resources - pension	<u>4,420,800</u>	<u>3,753,364</u>	<u>667,436</u>
<b>LIABILITIES:</b>			
Accounts payable	1,223,098	825,096	398,002
Unearned revenue	0	125,873	(125,873)
Long-term liabilities:			
Due within one year	50,000		50,000
Due after one year	<u>13,837,802</u>	<u>13,886,131</u>	<u>(48,329)</u>
Total liabilities	<u>15,110,900</u>	<u>14,837,100</u>	<u>273,800</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred inflows of resources - pensions	<u>2,926,000</u>	<u>1,440,000</u>	<u>1,486,000</u>
<b>NET POSITION:</b>			
Net Investment in Capital Assets			0
Restricted	-	-	0
Unrestricted	<u>(11,353,721)</u>	<u>(10,971,475)</u>	<u>(382,246)</u>
Total Net Position	<u>\$ (11,353,721)</u>	<u>\$ (10,971,475)</u>	<u>\$ (382,246)</u>



## Government-Wide Statement of Activities

The Government-Wide Statement of Activities differs from the Governmental Funds Statement of Revenues, Expenditures and Change in Fund Balance because the statement reports all expenses by their function rather than by their expense category. The function represents the general operational area within the charter school and groups related activities together. In addition, the Statement of Activities is adjusted for the changes in long-term assets and liabilities and is reported as a liability on the Statement of Net Position. Figure 2 summarizes the Government-Wide Statement of Activities for the year ended June 30, 2018.

**Figure 2**

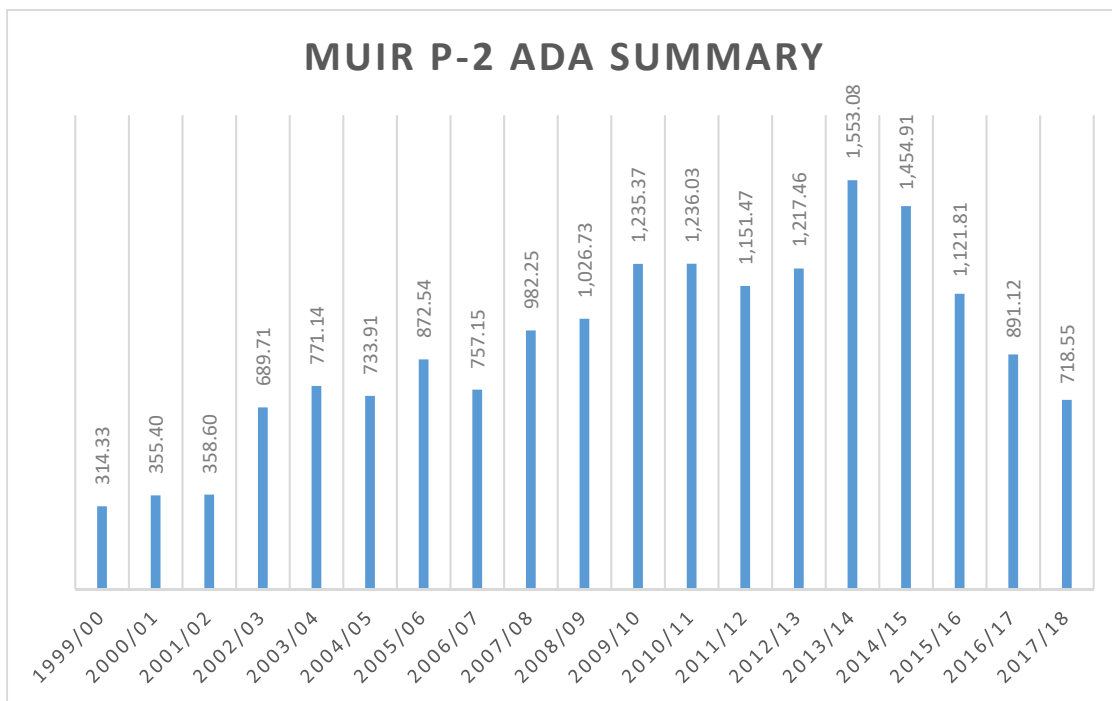
### John Muir Charter Schools Government-Wide Statement of Activities

	Governmental Activities		Increase/ (Decrease)
	June 30, 2018	June 30, 2017	
<b>REVENUES</b>			
Program revenues	\$ 515	\$ 2,048	\$ (1,533)
General revenues:			
Federal and State Aid not restricted to specific purposes	9,864,676	14,694,437	(4,829,761)
Interest and investment earnings	0	28	(28)
Miscellaneous	221,087	107,980	113,107
Total revenues	10,086,278	14,804,493	(4,718,215)
<b>EXPENSES</b>			
Instruction	7,165,673	11,017,117	(3,851,444)
Instruction related services:			
Supervision of instruction	615,583	2,127,250	(1,511,667)
Instructional library, media and technology	333,749	118,513	215,236
School site administration	1,911,058	2,415,499	(504,441)
General administration	382,053	510,770	(128,717)
Plant services	60,408	165,109	(104,701)
Total expenses	10,468,524	16,354,258	(5,885,734)
Decrease in net position	\$ (382,246)	\$ (1,549,765)	\$ 1,167,519

## Enrollment Declined in 2017-18

As Figure 3 shows, JMCS's average daily attendance (ADA) for 2017-2018 was 718.55. This is 173 ADA less than the 891.12 ADA generated in 2016-2017. JMCS expects enrollments to remain at or decrease from the 2017-2018 level in 2018-2019.

**Figure 3**  
**John Muir Charter Schools**  
**Average Daily Attendance**



## Analysis of Budget to Actuals for FY 2017-18

Figure 4 below contains the original budget, the final budget, and the actual results of operations for FY 17-18. The original budget was adopted by the board in June 2017 and was based upon projected P2 ADA of 939.43. The final budget was based upon actual P2 ADA of 718.55, which was used for the final budget. The decrease of 220.88 ADA for FY 17-18 has been a concern for JMCS's Administration and has resulted in significant budget reductions in 18-19.

The actuals contain a year-end entry to recognize the state's on-behalf contributions to CalSTRS. This contribution is recognized by crediting other state revenue and debiting the STRS expense category. The 2017-18 entry increased the charter school revenue and expense by \$440,079.

**Figure 4**  
**Budget to Actuals**  
**June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actuals</u>	<u>Increase/ (Decrease)</u>
<b>REVENUES</b>				
LCFF revenue	\$ 11,035,572	\$8,449,259	\$8,441,123	\$ (8,136)
Other state revenue	777,596	966,961	1,423,553	456,592
Other local revenue	<u>129,393</u>	<u>221,142</u>	<u>221,602</u>	<u>460</u>
Total revenues	<u>11,942,561</u>	<u>9,637,362</u>	<u>10,086,278</u>	<u>448,916</u>
<b>EXPENSES</b>				
Certificated salaries	4,728,047	4,194,259	4,181,058	(13,201)
Classified salaries	2,195,579	1,490,402	1,489,596	(806)
Employee benefits	2,093,079	1,695,796	2,109,042	413,246
Books and supplies	375,563	119,531	84,694	(34,837)
Services and other operating expenditures	<u>2,210,191</u>	<u>1,923,805</u>	<u>1,783,899</u>	<u>(139,906)</u>
Total expenses	<u>11,602,459</u>	<u>9,423,793</u>	<u>9,648,289</u>	<u>224,496</u>
Net change in fund balance	340,102	213,569	437,989	224,420
Beginning fund balance	<u>601,292</u>	<u>601,292</u>	<u>601,292</u>	<u>-</u>
Ending fund balance	<u>\$ 941,394</u>	<u>\$ 814,861</u>	<u>\$ 1,039,281</u>	<u>\$ 224,420</u>

## **John Muir Charter Schools Maintains a Sound Budget**

JMCS began 2017-2018 with reserves of \$601,292. Muir ended 2017-2018 with a fund balance of \$1,039,281, which is approximately 11 percent of expenditures during the year. JMCS intends to continue to build reserves, with a target reserve of 25 percent of expenditures.

JMCS continues to monitor its budget reserves to ensure that it can respond to unanticipated decreases in revenue due to funding cuts or enrollment decreases. The charter school ADA is subject to significant uncertainty for several reasons. JMCS's students typically have entered and left schools with higher-than-average frequency. Even small variations in average lengths of enrollment can significantly affect ADA. The client agencies are also vulnerable to fiscal challenges. While the charter school will respond to any ADA or school-funding reductions with appropriate and necessary cost reductions, an adequate reserve ensures that the JMCS budget remains properly balanced in times of uncertainty.

## **Fiscal Challenges for John Muir Charter Schools**

The 2017-18 fiscal year marked the charter school's first year of surplus spending. JMCS is primarily funded on ADA revenue, which means that the school is dependent on enrollment to generate funding. Beginning with the 2014-15 school year, the charter school began a trend of declining enrollment and deficit spending. While the hope was that this trend would end, it became evident that the trend was persisting and that the school must respond appropriately. The cycle of deficit spending ended with the 2017-18 fiscal year.

## **Conclusion**

In looking ahead to the 2018-2019 school year and beyond, JMCS will continue to improve its financial outlook. Current and future partnerships will require fiscal solvency to exist. The budget process has been revised to ensure that the charter school's commitments are managed appropriately and that the charter school will continue to grow its reserves.

John Muir Charter Schools is serving a population of students that have typically experienced struggles in both life and academics. By focusing on the charter school's mission and commitment to quality instructional programs, JMCS is successfully meeting the students' needs while insuring that the school will continue to be an option into the future.

## **BASIC FINANCIAL STATEMENTS**

JOHN MUIR CHARTER SCHOOLS  
STATEMENT OF NET POSITION  
June 30, 2018

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	Governmental Activities
<b>ASSETS</b>	
Cash and investments (Note 2)	\$ 1,518,853
Receivables	697,178
Prepaid expenses	24,542
Other current assets	<u>21,806</u>
Total assets	<u>2,262,379</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources - pensions (Notes 5 and 6)	<u>4,420,800</u>
<b>LIABILITIES</b>	
Accounts payable	1,223,098
Long-term liabilities (Note 3):	
Due within one year	50,000
Due after one year	<u>13,837,802</u>
Total liabilities	<u>15,110,900</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources - pensions (Notes 5 and 6)	<u>2,926,000</u>
<b>NET POSITION</b>	
Total net position - unrestricted	<u>\$ (11,353,721)</u>

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See accompanying notes to financial statements.

JOHN MUIR CHARTER SCHOOLS  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018

	Program Revenues			Net (Expense) Revenues and Changes in Net Position	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction	\$ 7,165,673	\$ -	\$ 64	\$ -	\$ (7,165,609)
Instruction-related services:					
Supervision of instruction	615,583	-	-	-	(615,583)
Instructional library, media and technology	333,749	-	-	-	(333,749)
School site administration	1,911,058	-	451	-	(1,910,607)
General administration:					
All other general administration	382,053	-	-	-	(382,053)
Plant services	60,408	-	-	-	(60,408)
Total governmental activities	\$ 10,468,524	\$ -	\$ 515	\$ -	(10,468,009)
General revenues:					
State aid not restricted to specific purposes					9,864,676
Miscellaneous					221,087
					Total general revenues
					10,085,763
					Change in net position
					(382,246)
					Net position, July 1, 2017
					(10,971,475)
					Net position, June 30, 2018
					\$ (11,353,721)

See accompanying notes to financial statements.

JOHN MUIR CHARTER SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2018

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	General Fund
<b>ASSETS</b>	
Cash and investments:	
Cash in banks	\$ 1,518,853
Receivables	697,178
Prepaid expenditures	24,542
Other current assets	<u>21,806</u>
Total assets	<u>\$ 2,262,379</u>
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities:	
Accounts payable	<u>\$ 1,223,098</u>
Fund balance:	
Nonspendable	24,542
Assigned	62,079
Unassigned	<u>952,660</u>
Total fund balance	<u>1,039,281</u>
Total liabilities and fund balance	<u>\$ 2,262,379</u>

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See accompanying notes to financial statements.



JOHN MUIR CHARTER SCHOOLS  
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2018

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Total fund balances - General Fund \$ 1,039,281

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

In government 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 (Notes 5 and 6):

Deferred outflows of resources relating to pensions	\$ 4,420,800	
Deferred inflows of resources relating to pensions	<u>(2,926,000)</u>	
		1,494,800

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2018 consisted of (Note 3):

Net pension liability (Notes 5 and 6)	(13,664,000)	
Compensated absences	<u>(223,802)</u>	
		<u>(13,887,802)</u>

Total net position - governmental activities		\$ <u>(11,353,721)</u>
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See accompanying notes to financial statements.

JOHN MUIR CHARTER SCHOOLS  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCE  
GOVERNMENTAL FUND  
For the Year Ended June 30, 2018

	<u>General Fund</u>
Revenues:	
Local Control Funding Formula (LCFF):	
State apportionment	\$ 3,030,887
Local sources	<u>5,410,236</u>
Total LCFF	8,441,123
Other state sources	1,423,553
Other local sources	<u>221,602</u>
Total revenues	<u>10,086,278</u>
Expenditures:	
Current:	
Certificated salaries	4,181,058
Classified salaries	1,489,596
Employee benefits	2,109,042
Books and supplies	84,694
Contract services and operating expenditures	<u>1,783,899</u>
Total expenditures	<u>9,648,289</u>
Net change in fund balance	437,989
Fund balance, July 1, 2017	<u>601,292</u>
Fund balance, June 30, 2018	<u><u>\$ 1,039,281</u></u>

See accompanying notes to financial statements.

JOHN MUIR CHARTER SCHOOLS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCE - GOVERNMENTAL FUND -  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018

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Net change in fund balance - General Fund	\$	437,989
Amounts reported for governmental activities in the statement of activities are different because:		
Pensions: In government 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 (Notes 5 and 6)		
	\$	(950,564)
In the statement of activities, expenses related to compensated absences are measured by the amounts earned during the year. In the governmental fund, expenditures are measured by the amount of financial resources used (Note 3).		
	<u>130,329</u>	<u>(820,235)</u>
Change in net position of governmental activities	\$	<u><u>(382,246)</u></u>

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See accompanying notes to financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

John Muir Charter Schools (the "Charter School") 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 Charter School 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.

Reporting Entity: On August 2, 1999, the State Board of Education granted charter school status to John Muir Charter Schools through the authority established in Education Code Section 47604 (Senate Bill 1448, Statutes of 1992, Chapter 781). The State Board of Education can revoke John Muir Charter Schools' charter if the Board of Education determines that the Charter School did any of the following:

- Committed a material violation of any of the conditions, standards, or procedures set forth in the charter petition.
- Failed to meet or pursue any of the pupil outcomes identified in the charter petition.
- Failed to meet generally accepted accounting standards of fiscal management.
- Violated any provision of law.

The Board of Directors is the level of government which has governance responsibilities over all activities related to public school education in the Charter School.

Basis of Presentation - Financial Statements: The basic financial statements include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Charter School's overall financial position and results of operations and financial statements prepared using full accrual accounting for all of the Charter School's activities, including infrastructure.

Basis of Presentation - Government-Wide Financial Statements: The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole.

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

*Program revenues*: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the Charter school's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the Charter School's general revenues.

*Allocation of indirect expenses*: The Charter School has no allocated expenses.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation - Fund Accounting: The accounts of the Charter School are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Charter School resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. Due to purpose, the Charter School's accounts are currently organized as one fund type:

Governmental Fund Type

1 - General Fund:

The General Fund is the general operating fund of the Charter School and accounts for all revenues and expenditures of the Charter School. All general tax revenues and other receipts are accounted for in this fund. General operating expenditures and the capital improvement costs are paid from the General Fund.

Basis of Accounting: Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Accrual: Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual: The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

Budgets and Budgetary Accounting: By state law, the Board of Directors must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Directors complied with these requirements.

Receivables: Receivables are made up principally of amounts due from the State of California for the Local Control Funding Formula and Categorical programs. The Charter School has determined that no allowance for doubtful accounts was needed as of June 30, 2018.

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of net position includes 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(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The Charter School has recognized a deferred outflow of resources related to recognition of the net pension liability reported in the statement of net position.

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(Continued)

JOHN MUIR CHARTER SCHOOLS  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The Charter School has recognized a deferred inflow of resources related to the recognition of the net pension liability reported which is in the statement of net position.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers' Retirement Plan (STRP) and Public Employers Retirement Fund B (PERF B) and additions to/deductions from STRP's and PERF B's fiduciary net position have been determined on the same basis as they are reported by STRP and PERF B. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Certain investments are reported at fair value.

The following is a summary of pension amounts in aggregate:

	<u>STRP</u>	<u>PERF B</u>	<u>Total</u>
Deferred outflows of resources	<u>\$ 2,632,888</u>	<u>\$ 1,787,912</u>	<u>\$ 4,420,800</u>
Deferred inflows of resources	<u>\$ 2,555,000</u>	<u>\$ 371,000</u>	<u>\$ 2,926,000</u>
Net pension liability	<u>\$ 9,147,000</u>	<u>\$ 4,517,000</u>	<u>\$ 13,664,000</u>
Pension expense	<u>\$ 1,025,875</u>	<u>\$ 1,241,568</u>	<u>\$ 2,267,443</u>

Compensated Absences: Compensated absences benefits in the amount \$223,802 are recorded as a long-term liability of the Charter School. The liability is for the earned but unused benefits.

Accumulated Sick Leave: Accumulated sick leave benefits are not recognized as liabilities of the Charter School. The Charter School's policy is to record sick leave as an operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain CalSTRS and CalPERS employees, when the employee retires.

Net Position: Net position is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent bond proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. There is no net position - net investment in capital assets for the year ended June 30, 2018.
2. Restricted Net Position - Restrictions of the ending net position indicate the portions of net position not appropriable for expenditure or amounts legally segregated for a specific future use. There are no restrictions on net position for the year ended June 30, 2018.
- 3.. Unrestricted Net Position – All other net position that do not meet the definitions of "restricted" or "net investment in capital assets".

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(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Balance Classifications:** Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

**A - Nonspendable Fund Balance:**

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as prepaid expenditures.

**B - Restricted Fund Balance:**

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide statements. It is the Charter School's policy to use restricted fund balances first when allowable expenditures are incurred. At June 30, 2018, the Charter School had no restricted fund balances.

**C - Committed Fund Balance:**

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Directors. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Directors is required to remove any commitment from any fund balance. At June 30, 2018, the Charter School had no committed fund balances.

**D - Assigned Fund Balance:**

The assigned fund balance classification reflects amounts that the Charter School's Board of Directors has approved to be used for specific purposes, based on the Charter School's intent related to those specific purposes. The Board of Directors can designate personnel with the authority to assign fund balances, however, as of June 30, 2018, no such designation has occurred.

**E - Unassigned Fund Balance:**

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

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(Continued)

JOHN MUIR CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Balance Policy: The Charter School has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require charter schools to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Directors. At June 30, 2018, the Charter School has not established a minimum fund balance policy nor has it established a stabilization arrangement.

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

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions 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 reporting period. Accordingly, actual results may differ from those estimates.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments at June 30, 2018 consisted of the following:

Cash in banks	<u>\$ 1,518,853</u>
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Deposits - Custodial Credit Risk: The Charter School limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution.

At June 30, 2018, the carrying amount of the Charter School's accounts was \$1,518,853 and the bank balance was \$1,663,175, \$250,000 of which was insured by the FDIC.

Interest Rate Risk: The Charter School does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2018, the Charter School had no significant interest rate risk related to cash and investments held.

Credit Risk: The Charter School does not have a formal investment policy that limits its investment choices other than the limitations of state law.

Concentration of Credit Risk: The Charter School does not place limits on the amount it may invest in any one issuer. At June 30, 2018, the Charter School had no concentration of credit risk.

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(Continued)



JOHN MUIR CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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**NOTE 3 – LONG-TERM LIABILITIES**

Changes in Long-Term Liabilities: A schedule of changes in long-term liabilities for the fiscal year ended June 30, 2018 is shown below:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2018</u>	<u>Amounts Due Within One Year</u>
Net pension liability (Notes 5 and 6) \$	13,532,000	\$ 132,000	\$ -	\$ 13,664,000	\$ -
Compensated absences	<u>354,131</u>	<u>-</u>	<u>130,329</u>	<u>223,802</u>	<u>50,000</u>
Total	<u>\$ 13,886,131</u>	<u>\$ 132,000</u>	<u>\$ 130,329</u>	<u>\$ 13,887,802</u>	<u>\$ 50,000</u>

**NOTE 4 – FUND BALANCES**

Fund balances, by category, at June 30, 2018 consisted of the following:

	<u>General Fund</u>
Nonspendable:	
Prepaid expenditures	<u>\$ 24,542</u>
Assigned:	
Career Pathways Trust Grant	<u>62,079</u>
Unassigned:	
Designated for economic uncertainties	289,449
Unassigned	<u>663,211</u>
Total unassigned	<u>952,660</u>
Total fund balance	<u>\$ 1,039,281</u>

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(Continued)

**NOTE 5 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN**

*General Information about the State Teachers' Retirement Plan*

Plan Description: Teaching-certified employees of the Charter School are provided with pensions through the State Teachers' Retirement Plan (STRP) – a cost-sharing multiple-employer defined benefit pension plan administered by the California State Teachers' Retirement System (CalSTRS). The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established this plan and CalSTRS as the administrator. The benefit terms of the plans may be amended through legislation. CalSTRS issues a publicly available financial report that can be obtained at <http://www.calstrs.com/comprehensive-annual-financial-report>.

Benefits Provided: The STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS.

The Defined Benefit (DB) Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas which are noted below.

*CalSTRS 2% at 60*

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

CalSTRS calculates retirement benefits based on a one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elected to pay the additional benefit cost prior to January 1, 2014. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months calculated by taking the creditable compensation that a member could earn in a school year while employed on a full time basis, for a position in which the person worked. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any three consecutive years of credited service.

*CalSTRS 2% at 62*

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for three consecutive years of credited service.

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(Continued)

JOHN MUIR CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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**NOTE 5 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN** (Continued)

Contributions: Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers’ Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

In general, member contributions cannot increase unless members are provided with some type of “comparable advantage” in exchange for such increases. Under previous law, the Legislature could reduce or eliminate the 2 percent annual increase to retirement benefits. As a result of AB 1469, effective July 1, 2014, the Legislature cannot reduce the 2 percent annual benefit adjustment for members who retire on or after January 1, 2014, and in exchange for this “comparable advantage,” the member contribution rates have been increased by an amount that covers a portion of the cost of the 2 percent annual benefit adjustment.

According to current law, the contribution rate for CalSTRS 2% at 62 members is adjusted if the normal cost increases or decreases by more than 1 percent since the last time the member contribution rate was set. Based on the June 30, 2017, valuation adopted by the board in May 2018, the increase in normal cost was greater than 1 percent. Therefore, contribution rates for CalSTRS 2% at 62 members will increase by 1 percent effective July 1, 2018.

*Employers* – 14.43 percent of applicable member earnings.

Pursuant to AB 1469, employer contributions will increase from a prior rate of 8.25 percent to a total of 19.1 percent of applicable member earnings phased in over seven years starting in 2014. The legislation also gives the CalSTRS board limited authority to adjust employer contribution rates from July 1, 2021 through June 2046 in order to eliminate the remaining unfunded actuarial obligation related to service credited to members prior to July 1, 2014. The CalSTRS board cannot adjust the rate by more than 1 percent in a fiscal year, and the total contribution rate in addition to the 8.25 percent cannot exceed 12 percent.

<u>Effective Date</u>	<u>Prior Rate</u>	<u>Increase</u>	<u>Total</u>
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2021 to			
June 30, 2046	8.25%	*	*
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

\* The Teachers’ Retirement Board (the “board”) cannot adjust the employer rate by more than 1 percent in a fiscal year, and the increase to the contribution rate above the 8.25 percent base contribution rate cannot exceed 12 percent for a maximum of 20.25 percent.

The Charter School contributed \$551,888 to the plan for the fiscal year ended June 30, 2018.

*State* - 9.328 percent of the members’ creditable earnings from the fiscal year ending in the prior calendar year.

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(Continued)

JOHN MUIR CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 5 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)**

Also as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2045-2046. The CalSTRS state contribution rates effective for fiscal year 2017-18 and beyond are summarized in the table below.

As shown in the subsequent table, the state rate will increase to 5.311 percent on July 1, 2018, to continue paying down the unfunded liabilities associated with the benefits structure that was in place in 1990 prior to certain enhancements in benefits and reductions in contributions.

<u>Effective Date</u>	<u>Base Rate</u>	<u>AB 1469 Increase For 1990 Benefit Structure</u>	<u>SBMA Funding(1)</u>	<u>Total State Appropriation to DB Program</u>
July 01, 2018	2.017%	5.311%(2)	2.50%	9.828%
July 01, 2019 to June 30, 2046	2.017%	(3)	2.50%	(3)
July 1, 2046 and thereafter	2.017%	(4)	2.50%	4.517%(3)

(1) This rate does not include the \$72 million reduction in accordance with Education Code Section 22954.

(2) In May 2018, the board of CalSTRS exercised its limited authority to increase the state contribution rate by 0.5 percent of the payroll effective July 1, 2018.

(3) The CalSTRS board has limited authority to adjust state contribution rates annually through June 30, 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure would be reduced to 0 percent.

(4) From July 1, 2046, and thereafter, the rates in effect prior to July 1, 2014, are reinstated, if necessary, to address any remaining 1990 unfunded actuarial obligation.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2018, the Charter School reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Charter School. The amount recognized by the Charter School as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Charter School were as follows:

Charter School's proportionate share of the net pension liability	\$ 9,147,000
State's proportionate share of the net pension liability associated with the Charter School	<u>5,412,000</u>
Total	<u><u>\$ 14,559,000</u></u>

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The Charter School's proportion of the net pension liability was based on the Charter School's share of contributions to the pension plan relative to the contributions of all participating school districts and the State. At June 30, 2017, the Charter School's proportion was 0.010 percent, which was a decrease of 0.001 percent from its proportion measured as of June 30, 2016.

(Continued)

JOHN MUIR CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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**NOTE 5 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN** (Continued)

For the year ended June 30, 2018, the Charter School recognized pension expense of \$1,025,875 and revenue of \$538,079 for support provided by the State. At June 30, 2018, the Charter School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 34,000	\$ 160,000
Changes of assumptions	1,695,000	-
Net differences between projected and actual earnings on investments	-	244,000
Changes in proportion and differences between Charter School contributions and proportionate share of contributions	352,000	2,151,000
Contributions made subsequent to measurement date	<u>551,888</u>	<u>-</u>
Total	<u>\$ 2,632,888</u>	<u>\$ 2,555,000</u>

\$551,888 reported as deferred outflows of resources related to pensions resulting from contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended <u>June 30,</u>	
2019	\$ (258,200)
2020	97,800
2021	(33,700)
2022	(272,033)
2023	(125,033)
2024	117,166

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of the June 30, 2017 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

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(Continued)

JOHN MUIR CHARTER SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

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**NOTE 5 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)**

**Actuarial Methods and Assumptions:** The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

During the 2016-17 measurement period, CalSTRS completed an experience study for the period starting July 1, 2010, and ending June 30, 2015. The experience study was adopted by the board in February 2017. As a result of the study, certain assumptions used in determining the NPL of the STRP changed, including the price inflation, wage growth, discount rate and the mortality tables used in the actuarial valuation of the NPL. The changes to the assumptions as a result of the experience study follow:

<u>Assumption</u>	<u>Measurement Period</u>	
	As of June 30, <u>2017</u>	As of June 30, <u>2016</u>
Consumer price inflation	2.75%	3.00%
Investment rate of return	7.10%	7.60%
Wage growth	3.50%	3.75%

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(Continued)

JOHN MUIR CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 5 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN** (Continued)

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. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the CalSTRS board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	6.30%
Fixed Income	12	0.30
Real Estate	13	5.20
Private Equity	13	9.30
Absolute Return / Risk Mitigating Strategies	9	2.90
Inflation Sensitive	4	3.80
Cash / Liquidity	2	(1.00)

\* 20-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.10 percent. 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 AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) 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.

Sensitivity of the Charter School’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the Charter School’s proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the Charter School’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Charter School’s proportionate share of the net pension liability	<u>\$ 13,431,000</u>	<u>\$ 9,147,000</u>	<u>\$ 5,671,000</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

(Continued)

**NOTE 6 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B**

*General Information about the Public Employer’s Retirement Fund B*

Plan Description: The schools cost-sharing multiple-employer defined benefit pension plan Public Employer’s Retirement Fund B (PERF B) is administered by the California Public Employees’ Retirement System (CalPERS). Plan membership consists of non-teaching and non-certified employees of public schools (K-12), community college districts, offices of education, charter and private schools (elective) in the State of California.

The Plan was established to provide retirement, death and disability benefits to non-teaching and non-certified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at:

<https://www.calpers.ca.gov/docs/forms-publications/cafr-2017.pdf>

Benefits Provided: The benefits for the defined benefit plans are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

Contributions: The benefits for the defined benefit pension plans are funded by contributions from members and employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the respective employer’s benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when districts first join PERF B, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of most active plan members are based on a percentage of salary in excess of a base compensation amount ranging from zero dollars to \$863 monthly.

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2018 were as follows:

*Members* - The member contribution rate was 6.50 or 7.50 percent of applicable member earnings for fiscal year 2017-18.

*Employers* - The employer contribution rate was 15.531 percent of applicable member earnings.

The Charter School contributed \$226,912 to the plan for the fiscal year ended June 30, 2018.

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(Continued)



JOHN MUIR CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 6 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B** (Continued)

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2018, the Charter School reported a liability of \$4,517,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The Charter School’s proportion of the net pension liability was based on the Charter School’s share of contributions to the pension plan relative to the contributions of all participating school districts. At June 30, 2017, the Charter School’s proportion was 0.019 percent, which was an increase of 0.002 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Charter School recognized pension expense of \$1,241,568. At June 30, 2018, the Charter School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 162,000	\$ -
Changes of assumptions	660,000	53,000
Net differences between projected and actual earnings on investments	156,000	-
Changes in proportion and differences between Charter School contributions and proportionate share of contributions	583,000	318,000
Contributions made subsequent to measurement date	<u>226,912</u>	<u>-</u>
Total	<u>\$ 1,787,912</u>	<u>\$ 371,000</u>

\$226,912 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended <u>June 30,</u>	
2019	\$ 599,417
2020	471,417
2021	204,916
2022	(85,750)

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2017 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

(Continued)

JOHN MUIR CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 6 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)**

Actuarial Methods and Assumptions: The total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	June 30, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.15%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS’ website.

During the 2016-17 measurement period, the financial reporting discount rate for the Plan was lowered from 7.65 percent to 7.15 percent.

The table below reflects 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.

<u>Asset Class</u>	<u>Long-Term* Assumed Asset Allocation</u>	<u>Expected Real Rate of Return Years 1 - 10 (1)</u>	<u>Expected Real Rate of Return Years 11+ (2)</u>
Global Equity	47%	4.90%	5.38%
Fixed Income	19	0.80	2.27
Inflation Assets	6	0.60	1.39
Private Equity	12	6.60	6.63
Real Estate	11	2.80	5.21
Infrastructure & Forestland	3	3.90	5.36
Liquidity	2	(0.40)	(0.90)

\* 10-year geometric average

(1) An expected inflation rate of 2.50% used for this period

(2) An expected inflation rate of 3.00% used for this period

(Continued)

JOHN MUIR CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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**NOTE 6 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B** (Continued)

Discount Rate: The discount rate used to measure the total pension liability was 7.15 percent. A projection of the expected benefit payments and contributions was performed to determine if 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 the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at 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.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected cash flows of the Plan. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan’s 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. The expected rate of return was set by calculating the rounded 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 adjusted to account for assumed administrative expenses.

Sensitivity of the Charter School’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the Charter School’s proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the Charter School’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Charter School’s proportionate share of the net pension liability	<u>\$ 6,646,000</u>	<u>\$ 4,517,000</u>	<u>\$ 2,751,000</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

**NOTE 7 – CONTINGENCIES**

The Charter School is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Charter School.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

JOHN MUIR CHARTER SCHOOLS  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2018

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
LCFF:				
State apportionment	\$ 4,659,170	\$ 3,165,135	\$ 3,030,887	\$ (134,248)
Local sources	<u>6,376,400</u>	<u>5,284,124</u>	<u>5,410,236</u>	<u>126,112</u>
Total LCFF	<u>11,035,570</u>	<u>8,449,259</u>	<u>8,441,123</u>	<u>(8,136)</u>
Other state sources	777,597	966,961	1,423,553	456,592
Other local sources	<u>129,393</u>	<u>221,142</u>	<u>221,602</u>	<u>460</u>
Total revenues	<u>11,942,560</u>	<u>9,637,362</u>	<u>10,086,278</u>	<u>448,916</u>
Expenditures:				
Current:				
Certificated salaries	4,728,047	4,194,259	4,181,058	13,201
Classified salaries	2,195,579	1,490,402	1,489,596	806
Employee benefits	2,093,079	1,695,796	2,109,042	(413,246)
Books and supplies	375,563	119,531	84,694	34,837
Contract services and operating expenditures	<u>2,210,191</u>	<u>1,923,805</u>	<u>1,783,899</u>	<u>139,906</u>
Total expenditures	<u>11,602,459</u>	<u>9,423,793</u>	<u>9,648,289</u>	<u>(224,496)</u>
Net change in fund balance	340,101	213,569	437,989	224,420
Fund balance, July 1, 2017	<u>601,292</u>	<u>601,292</u>	<u>601,292</u>	<u>-</u>
Fund balance, June 30, 2018	<u>\$ 941,393</u>	<u>\$ 814,861</u>	<u>\$ 1,039,281</u>	<u>\$ 224,420</u>

See accompanying note to required supplementary information.

JOHN MUIR CHARTER SCHOOLS  
SCHEDULE OF THE CHARTER SCHOOL'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
For the Year Ended June 30, 2018

State Teachers' Retirement Plan  
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Charter School's proportion of the net pension liability	0.013%	0.013%	0.011%	0.010%
Charter School's proportionate share of the net pension liability	\$ 7,596,810	\$ 8,888,000	\$ 9,291,000	\$ 9,147,000
State's proportionate share of the net pension liability associated with the Charter School	<u>4,579,000</u>	<u>4,701,000</u>	<u>5,290,000</u>	<u>5,412,000</u>
Total net pension liability	<u>\$ 12,175,810</u>	<u>\$ 13,589,000</u>	<u>\$ 14,581,000</u>	<u>\$ 14,559,000</u>
Charter School's covered-employee payroll	\$ 5,779,000	\$ 6,128,000	\$ 5,725,000	\$ 5,242,000
Charter School's proportionate share of the net pension liability as a percentage of its covered payroll	131.46%	145.04%	162.29%	174.49%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%	69.46%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

(Continued)

JOHN MUIR CHARTER SCHOOLS  
 SCHEDULE OF THE CHARTER SCHOOL'S PROPORTIONATE  
 SHARE OF THE NET PENSION LIABILITY  
 For the Year Ended June 30, 2018

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Public Employer's Retirement Fund B  
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Charter School's proportion of the net pension liability	0.010%	0.018%	0.021%	0.019%
Charter School's proportionate share of the net pension liability	\$ 1,101,186	\$ 2,654,000	\$ 4,241,000	\$ 4,517,000
Charter School's covered payroll	\$ 1,026,000	\$ 1,993,000	\$ 2,576,000	\$ 2,413,000
Charter School's proportionate share of the net pension liability as a percentage of its covered payroll	107.33%	133.17%	164.64%	187.19%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	74.02%	73.89%	71.87%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

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See accompanying note to required supplementary information.

JOHN MUIR CHARTER SCHOOLS  
 SCHEDULE OF THE CHARTER SCHOOL'S CONTRIBUTIONS  
 For the Year Ended June 30, 2018

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State Teachers' Retirement Plan  
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 544,133	\$ 614,305	\$ 659,444	\$ 551,888
Contributions in relation to the contractually required contribution	<u>(544,133)</u>	<u>(614,305)</u>	<u>(659,444)</u>	<u>(551,888)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Charter School's covered payroll	\$ 6,128,000	\$ 5,725,000	\$ 5,242,000	\$ 3,825,000
Contributions as a percentage of covered payroll	8.88%	10.73%	12.58%	14.43%

All years prior to 2015 are not available.

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(Continued)



JOHN MUIR CHARTER SCHOOLS  
SCHEDULE OF THE CHARTER SCHOOL'S CONTRIBUTIONS  
For the Year Ended June 30, 2018

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Public Employer's Retirement Fund B  
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 234,613	\$ 305,163	\$ 335,166	\$ 226,912
Contributions in relation to the contractually required contribution	<u>(234,613)</u>	<u>(305,163)</u>	<u>(335,166)</u>	<u>(226,912)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Charter School's covered payroll	\$ 1,993,000	\$ 2,576,000	\$ 2,413,000	\$ 1,461,000
Contributions as a percentage of covered payroll	11.77%	11.85%	13.89%	15.53%

All years prior to 2015 are not available.

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See accompanying note to required supplementary information.

JOHN MUIR CHARTER SCHOOLS  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2018

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**NOTE 1 – PURPOSE OF SCHEDULES**

A - Budgetary Comparison Schedule

The Charter School employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Directors to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

B - Schedule of the Charter School's Proportionate Share of the Net Pension Liability

The Schedule of the Charter School's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the Charter School's Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

C – Schedule of the Charter School's Contributions

The Schedule of the Charter School's Contributions is presented to illustrate the Charter School's required contributions relating to the pensions. There is a requirement to show information for 10 years. However, until a full 10- year trend is compiled, governments should present information for those years for which information is available.

D – Changes of Benefit Terms

There are no changes in benefit terms reported in the Required Supplementary Information.

E - Changes of Assumptions

The discount rate for Public Employer's Retirement Fund B was 7.50, 7.65, 7.65 and 7.15 percent in the June 30, 2013, 2014, 2015 and 2016 actuarial reports, respectively.

The following are the assumptions for State Teachers' Retirement Plan:

<u>Assumption</u>	<u>Measurement Period</u>		
	As of June 30, <u>2017</u>	As of June 30, <u>2016</u>	As of June 30, <u>2015</u>
Consumer price inflation	2.75%	3.00%	3.00%
Investment rate of return	7.10%	7.60%	7.60%
Wage growth	3.50%	3.75%	3.75%

**SUPPLEMENTARY INFORMATION**

JOHN MUIR CHARTER SCHOOLS  
ORGANIZATION  
June 30, 2018

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John Muir Charter Schools was established August 2, 1999, through authority established in Education Code Section 47604. John Muir Charter Schools filed Articles of Incorporation with the California Secretary of State's office on January 3, 2002, and is a non-profit public benefit corporation recognized by the State of California. John Muir Charter Schools is authorized by the Nevada County Board of Education and became their own fiscal agent at the beginning of 2015-16 fiscal year. The Charter School is currently operating to serve the unique educational needs of the youth of the California Conservation Corps, the Local Conservation Corps, Job Corps, YouthBuild and Workforce Investment and Opportunity Act funded programs.

**BOARD OF DIRECTORS**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Stanton Miller	President	December 2019
Michael Corbett	Vice President	December 2018
Len Eckhardt	Treasurer	December 2018
Sallie Wilson	Secretary	December 2020
Gil Botello	Officer	December 2018

**ADMINISTRATION**

RJ Guess  
Chief Executive Officer

Michael Wegner  
Chief Operations Officer

JOHN MUIR CHARTER SCHOOLS  
SCHEDULE OF AVERAGE DAILY ATTENDANCE  
For the Year Ended June 30, 2018

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	Second Period <u>Report</u>	Annual <u>Report</u>
Certificate Number -	34EBC204	1A4F425F
<u>John Muir Charter Schools - Classroom-Based</u>		
Ninth through Twelfth	<u>719</u>	<u>697</u>

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See accompanying notes to supplementary information.

JOHN MUIR CHARTER SCHOOLS  
SCHEDULE OF INSTRUCTIONAL TIME  
For the Year Ended June 30, 2018

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<u>Grade Level</u>	<u>Statutory Minutes Requirement</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Grade 9	64,800	65,820	180	In Compliance
Grade 10	64,800	65,820	180	In Compliance
Grade 11	64,800	65,820	180	In Compliance
Grade 12	64,800	65,820	180	In Compliance

JOHN MUIR CHARTER SCHOOLS  
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

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There were no audit adjustments proposed.

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See accompanying notes to supplementary information.

JOHN MUIR CHARTER SCHOOLS  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
For the Year Ended June 30, 2018  
(UNAUDITED)

<u>General Fund</u>	(Budget) <u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues	\$ 7,873,913	\$ 10,086,278	\$ 14,804,493	\$ 17,195,218
Expenditures	<u>7,039,633</u>	<u>9,648,289</u>	<u>15,749,794</u>	<u>17,384,373</u>
Change in fund balance	<u>\$ 834,280</u>	<u>\$ 437,989</u>	<u>\$ (945,301)</u>	<u>\$ (189,155)</u>
Ending fund balance	<u>\$ 1,873,561</u>	<u>\$ 1,039,281</u>	<u>\$ 601,292</u>	<u>\$ 1,546,593</u>
Available reserves	<u>\$ 1,649,142</u>	<u>\$ 952,660</u>	<u>\$ 455,922</u>	<u>\$ 449,230</u>
Designated for economic uncertainties	<u>\$ 703,963</u>	<u>\$ 289,449</u>	<u>\$ 455,922</u>	<u>\$ 449,230</u>
Undesignated fund balance	<u>\$ 945,179</u>	<u>\$ 663,211</u>	<u>\$ -</u>	<u>\$ -</u>
Available reserves as a percentage of expenditures	<u>23.43%</u>	<u>9.87%</u>	<u>2.89%</u>	<u>2.58%</u>
Total long-term liabilities	<u>\$ 13,837,802</u>	<u>\$ 13,887,802</u>	<u>\$ 13,886,131</u>	<u>\$ 12,006,438</u>
Average daily attendance at P-2	<u>586</u>	<u>719</u>	<u>891</u>	<u>1,122</u>

The General Fund fund balance has decreased by \$696,467 over the past three years. The Charter School projects an increase of \$834,280 for the fiscal year ending June 30, 2019.

The State of California has not established reserve requirements for Charter Schools.

The Charter School incurred an operating deficit in two of the past three years, and anticipates incurring an operating surplus during the 2018-2019 fiscal year.

Total long-term liabilities have increased by \$1,881,364 over the past two years.

Average daily attendance has decreased by 403 over the past two years. ADA is anticipated to decrease by 133 during the year ending June 30, 2019.

See accompanying notes to supplementary information.



JOHN MUIR CHARTER SCHOOLS  
SCHEDULE OF CHARTER SCHOOLS  
For the Year Ended June 30, 2018

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Charter Schools Chartered by Charter School

Included in Charter School  
Financial Statements, or  
Separate Report

The Charter School has not chartered any charter schools.

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See accompanying notes to supplementary information.

**NOTE 1 – PURPOSE OF SCHEDULES**

A - Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the Charter School. 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 and charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

B - Schedule of Instructional Time

The Charter School has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The Charter School neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of Education Code Sections 46201 through 46206.

C - Reconciliation of Unaudited Actual Financial Report with Audited General Purpose Financial Statements

This schedule provides the information necessary to reconcile the fund balance of the General Fund as reported on the Unaudited Actual Financial Report to the audited basic financial statements.

D - Schedule of Financial Trends and Analysis (Unaudited)

This schedule provides trend information on the Charter School's financial condition over the past three years and its anticipated condition for the 2018-2019 fiscal year.

E - Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by charter schools.

**NOTE 2 – EARLY RETIREMENT INCENTIVE PROGRAM**

Education Code Section 14502 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2018, the Charter School did not adopt this program.

INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Board of Directors  
John Muir Charter Schools  
Grass Valley, California

**Report on Compliance with State Laws and Regulations**

We have audited John Muir Charter Schools' compliance with the types of compliance requirements described in the State of California's *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (the "Audit Guide") applicable to the state laws and regulations listed below for the year ended June 30, 2018.

<u>Description</u>	<u>Procedures Performed</u>
<u>Local Education Agencies Other than Charter Schools:</u>	
Attendance	Not applicable
Teacher Certification and Misassignments	Not applicable
Kindergarten Continuance	Not applicable
Independent Study	Not applicable
Continuation Education	Not applicable
Instructional Time	Not applicable
Instructional Materials	Not applicable
Ratio of Administrative Employees to Teachers	Not applicable
Classroom Teacher Salaries	Not applicable
Early Retirement Incentive	Not applicable
Gann Limit Calculation	Not applicable
School Accountability Report Card	Not applicable
Juvenile Court Schools	Not applicable
Middle or Early College High Schools	Not applicable
K-3 Grade Span Adjustment	Not applicable
Transportation Maintenance of Effort	Not applicable
Apprenticeship: Related and Supplemental Instruction	Not applicable
<u>Schools Districts, County Office of Education and Charter Schools:</u>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After/Before School Education and Safety Program:	
General requirements	No, see below
After school	No, see below
Before school	No, see below
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	No, see below

(Continued)

Charter Schools:

Attendance, for charter schools	Yes
Mode of Instruction, for charter schools	Yes
Nonclassroom-Based Instruction/Independent Study, for charter schools	No, see below
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	No, see below
Annual Instructional Minutes Classroom-Based, for charter schools	Yes
Charter School Facility Grant Program	Yes

The Charter School did not have any expenditures from California Clean Energy Jobs Act funds, therefore, we did not perform any procedures related to California Clean Energy Jobs Act requirements.

The Charter School did not receive After/Before School Education and Safety funding in the current year; therefore, we did not perform any procedures related to After/Before School Education and Safety Program.

The Charter School did not offer an Independent Study-Course Based program; therefore, we did not perform any procedures related to this program.

We did not perform any procedures related to Nonclassroom-Based Instruction/ Independent Study for charter schools or Determination of Funding for Nonclassroom-Based Instruction for charter schools because John Muir Charter Schools has no Nonclassroom-Based/Independent Study students.

***Management's Responsibility***

Management is responsible for compliance with the requirements of state laws and regulations, as listed above.

***Auditor's Responsibility***

Our responsibility is to express an opinion on John Muir Charter Schools' compliance with state laws and regulations as listed above 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 *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide). Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on John Muir Charter Schools' compliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about John Muir Charter Schools' 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 with state laws and regulations. However, our audit does not provide a legal determination of John Muir Charter Schools' compliance.

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(Continued)

### ***Opinion on Compliance with State Laws and Regulations***

In our opinion, John Muir Charter Schools complied, in all material respects, with the compliance requirements referred to above that are applicable to the state laws and regulations referred to above for the year ended June 30, 2018.

### **Purpose of this Report**

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and somewhat stylized.

Crowe LLP

Sacramento, California  
December 13, 2018

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

Board of Directors  
John Muir Charter Schools  
Grass Valley, 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 and the major fund of John Muir Charter Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise John Muir Charter Schools' basic financial statements, and have issued our report thereon dated December 13, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered John Muir Charter Schools' 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 John Muir Charter Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of John Muir Charter Schools' 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 entity'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 John Muir Charter Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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(Continued)

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crowe LLP

Sacramento, California  
December 13, 2018

## **FINDINGS AND RECOMMENDATIONS**



JOHN MUIR CHARTER SCHOOLS  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2018

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SECTION I - SUMMARY OF AUDITORS' RESULTS

**FINANCIAL STATEMENTS**

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

**STATE AWARDS**

Type of auditors' report issued on compliance for state programs:	Unmodified
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(Continued)

JOHN MUIR CHARTER SCHOOLS  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2018

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SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

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(Continued)

JOHN MUIR CHARTER SCHOOLS  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2018

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SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**STATUS OF PRIOR YEAR  
FINDINGS AND RECOMMENDATIONS**

JOHN MUIR CHARTER SCHOOLS  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
June 30, 2018

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<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Charter School Explanation If Not Implemented</u>
<p><b>2017-001</b></p> <p><u>Condition:</u> Three students at John Muir Charter Schools were improperly included in the Free and Reduced Meal Program status on the 1.17 FRPM English Learner Count Report. Documentation provided indicated that the students were not eligible for Free and Reduced Meal Program status for the 2016-17 fiscal school year. One student was improperly included in the English Learner status on the 1.17 FRPM English Learner County Report. Documentation could not be provided supporting this student's status.</p> <p><u>Recommendation:</u> The Charter School should ensure that all appropriate documentation is retained and updated for all students receiving Free and Reduced lunches.</p>	Implemented.	