

JOHN MUIR CHARTER SCHOOLS

FINANCIAL STATEMENTS

June 30, 2016

JOHN MUIR CHARTER SCHOOLS
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016
(Continued)

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JOHN MUIR CHARTER SCHOOLS
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

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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, 2016, 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 John Muir Charter Schools, as of June 30, 2016, 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.

(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 4 to 10 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 34 to 38 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 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.

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016 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 Horwath LLP

Sacramento, California
December 14, 2016



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MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

INTRODUCTION

Nevada County Superintendent of Schools (NCSOS) approved John Muir Charter Schools' ("Muir") 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 25. The programs combine work experience, life-skills development, and our high school program. During 2015-16, the Charter School served 3,914 different students at 50 sites, accounting for average daily attendance (ADA) of 1,122.

John Muir Charter Schools remains fiscally sound and continues to effectively use its resources to improve its academic programs. This document focuses on how Muir 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 333 from 2014-2015 to 2015-2016.
- General Fund expenditures exceed revenues by \$189 thousand, ending the year with available reserves of \$449 thousand.
- In compliance with GASB 34, fixed assets are valued at historical cost. The total of Muir's fixed assets, land, site, buildings, and equipment, valued on an acquisition cost basis was \$29 thousand. After depreciation, the June 30, 2016 book value for fixed assets totaled \$12 thousand.

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 Charter School's Government-Wide Statement of Net Position as of June 30, 2016. 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, 2016

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Inc/(Dec)</u>
ASSETS:			
Cash and investments	\$ 3,645,981	\$ 3,028,908	\$ 617,073
Receivables	781,532	1,369,091	(587,559)
Prepaid expenses	153,356	215,278	(61,922)
Other current assets	45,964	45,964	-
Capital assets	11,667	17,501	(5,834)
Total assets	<u>4,638,500</u>	<u>4,676,742</u>	<u>(38,242)</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows of resources - pension	<u>2,154,468</u>	<u>778,746</u>	<u>1,375,722</u>
LIABILITIES:			
Accounts payable	1,174,510	1,127,769	46,741
Unearned revenue	1,905,730	1,795,724	110,006
Long-term liabilities:			
Due within one year	152,000	326,798	(174,798)
Due after one year	<u>11,854,438</u>	<u>8,697,996</u>	<u>3,156,442</u>
Total liabilities	<u>15,086,678</u>	<u>11,948,287</u>	<u>3,138,391</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows of resources - pensions	<u>1,128,000</u>	<u>2,249,080</u>	<u>(1,121,080)</u>
NET POSITION:			
Net Investment in Capital Assets	11,667	17,501	(5,834)
Restricted	-	209	(209)
Unrestricted	<u>(9,433,377)</u>	<u>(8,759,589)</u>	<u>(673,788)</u>
Total Net Position	<u>\$ (9,421,710)</u>	<u>\$ (8,741,879)</u>	<u>\$ (679,831)</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, 2016.

Figure 2

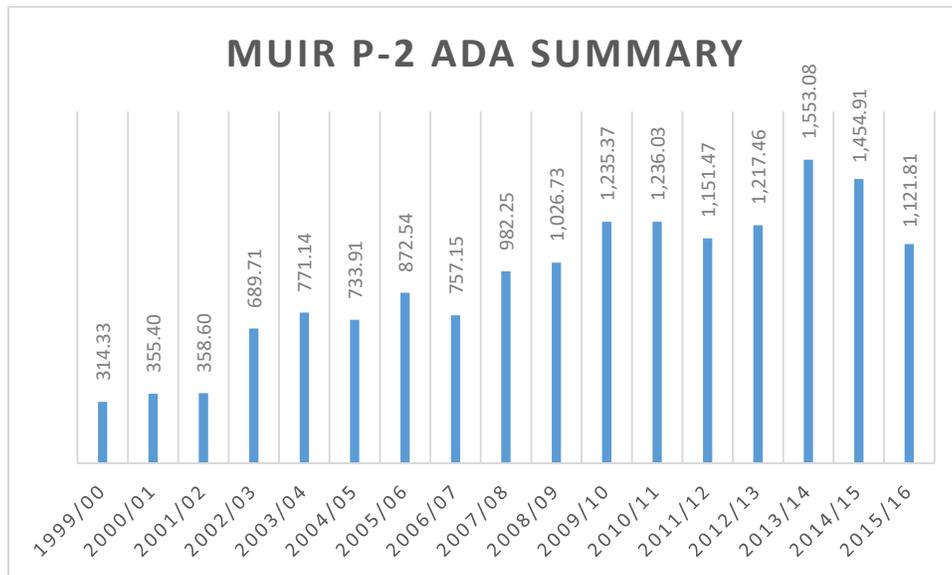
John Muir Charter Schools
Government-Wide Statement of Activities

	<u>Governmental Activities</u>		Increase/ (Decrease)
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	
REVENUES			
Program revenues	\$ 3,451,776	\$ 2,564,174	\$ 887,602
General revenues:			
Federal and State Aid not restricted to specific purposes	13,262,499	13,710,564	(448,065)
Interest and investment earnings	3,174	11,338	(8,164)
Miscellaneous	477,769	231,438	246,331
Total revenues	<u>17,195,218</u>	<u>16,517,514</u>	<u>677,704</u>
EXPENSES			
Instruction	12,388,194	12,043,896	344,298
Instruction related services:			
Supervision of instruction	2,212,575	2,397,631	(185,056)
Instructional library, media and technology	123,548	101,011	22,537
School site administration	2,297,684	656,510	1,641,174
General administration	606,312	1,891,617	(1,285,305)
Plant services	246,736	109,000	137,736
Total expenses	<u>17,875,049</u>	<u>17,199,665</u>	<u>675,384</u>
Decrease in net position	<u>\$ (679,831)</u>	<u>\$ (682,151)</u>	<u>\$ 2,320</u>

Enrollment Declined in 2015-16

As Figure 3 shows, Muir's average daily attendance (ADA) for 2015-2016 was 1,121.81. This is 333 ADA less than the 1,455 ADA generated in 2014-2015. Muir expects enrollments to remain at or exceed the 2015-2016 level in 2016-2017.

Figure 3
John Muir Charter Schools
Average Daily Attendance



Analysis of Budget to Actuals for FY 2015-16

Figure 4 below contains the original budget, the final budget, and the actual results of operations for FY 15-16. The original budget was adopted by the board in June 2015, and was based upon P2 ADA of 1,751. The P2 ADA used for the final budget was 1,125.66. The actuals were based upon a corrected P2 ADA of 1,121.81. The decrease of 629.19 ADA for FY 15-16 has been a concern for Muir's Administration and has resulted in significant budget reductions in 16-17.

The actuals contain a year-end entry to recognize the state's on-behalf contributions CalSTRS. This contribution is recognized by crediting other state revenue and debiting the STRS expense category. The 2015-16 entry increased the charter school revenue and expense by \$411,840.

Figure 4
Budget to Actuals
June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actuals</u>	<u>Increase/ (Decrease)</u>
REVENUES				
LCFF revenue	\$ 17,597,212	\$12,147,559	\$12,117,229	\$ (30,330)
Other state revenue	2,972,312	4,610,473	4,545,382	(65,091)
Other local revenue	186,813	508,684	532,607	23,923
Total revenues	<u>20,756,337</u>	<u>17,266,716</u>	<u>17,195,218</u>	<u>(71,498)</u>
EXPENSES				
Certificated salaries	7,061,283	6,392,706	6,339,625	(53,081)
Classified salaries	2,805,303	2,908,175	2,810,288	(97,887)
Employee benefits	2,757,831	2,469,010	2,695,156	226,146
Books and supplies	734,258	831,928	863,466	31,538
Services and other operating expenditures	4,472,896	4,980,494	4,675,838	(304,656)
Total expenses	<u>17,831,571</u>	<u>17,582,313</u>	<u>17,384,373</u>	<u>(197,940)</u>
Net change in fund balance	2,924,766	(315,597)	(189,155)	126,442
Beginning fund balance	<u>1,735,748</u>	<u>1,735,748</u>	<u>1,735,748</u>	<u>-</u>
Ending fund balance	<u>\$ 4,660,514</u>	<u>\$ 1,420,151</u>	<u>\$ 1,546,593</u>	<u>\$ 126,442</u>

John Muir Charter Schools Maintains a Sound Budget

John Muir Charter Schools began 2015-2016 with reserves of 1,735,748. Muir ended 2015-2016 with a fund balance of \$1,546,593, which is approximately 9 percent of expenditures during the year.

Muir continues to monitor its budget reserves to insure 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. Muir'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 Muir budget remains properly balanced in times of uncertainty.

John Muir Charter Schools Involves All Staff in Budgeting

John Muir Charter Schools' budget manager provides each client-agency site with a draft site budget in advance of each budget year. The Muir teacher at each site and the client-agency colleagues evaluate the expected enrollment counts and instructional needs. Based on this information, they collaborate with Muir Administration to ensure that the budget is properly structured to provide resources sufficient to meet the needs of the education program at each site. Muir managers continually communicate with each site to ensure that budget assumptions are accurate and that site expenditures are consistent with the approved budget. The budgets are amended frequently to reflect changes in ADA.

John Muir Charter Schools Business Services

John Muir Charter Schools has historically contracted with NCSOS for various administrative services, including budget management, accounting, personnel, managerial assistance, and curricular advice. These services were purchased by Muir at a rate of four percent of state revenue for these services. The charter school also pays NCSOS one percent of its state revenue as provided under state law for the oversight that NCSOS maintains over the charter. Muir has been pleased with the services it obtains from NCSOS, particularly its budget-management services.

With the beginning of the 2015-16 fiscal year, Muir expanded its scope by bringing business services in-house. This change in operations has been a benefit to Muir, both fiscally and functionally. Muir now only pays NCSOS 1% for oversight.

Conclusion

John Muir Charter Schools is serving a population of students that have typically experienced struggles in both life and academics. By including all interested parties in the budgeting process, and by emphasizing instructional programs, Muir is successfully meeting the students' needs, while maintaining more than adequate reserves.

BASIC FINANCIAL STATEMENTS

JOHN MUIR CHARTER SCHOOLS
STATEMENT OF NET POSITION
June 30, 2016

	Governmental <u>Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 3,645,981
Receivables	781,532
Prepaid expenses	153,356
Capital assets, net of accumulated depreciation (Note 3)	11,667
Other current assets	<u>45,964</u>
Total assets	<u>4,638,500</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pensions (Notes 6 and 7)	<u>2,154,468</u>
LIABILITIES	
Accounts payable	1,174,510
Unearned revenue	1,905,730
Long-term liabilities (Note 4):	
Due within one year	152,000
Due after one year	<u>11,854,438</u>
Total liabilities	<u>15,086,678</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions (Notes 6 and 7)	<u>1,128,000</u>
NET POSITION	
Net investment in capital assets	11,667
Unrestricted	<u>(9,433,377)</u>
Total net position	<u>\$ (9,421,710)</u>

See accompanying notes to financial statements.

JOHN MUIR CHARTER SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

		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	\$ 12,388,194	\$ -	\$ 2,716,736	\$ -	\$ (9,671,458)
Instruction-related services:					
Supervision of instruction	2,212,575	-	655,040	-	(1,557,535)
Instructional library, media and technology	123,548	-	-	-	(123,548)
School site administration	2,297,684	-	-	-	(2,297,684)
General administration:					
All other general administration	606,312	-	80,000	-	(526,312)
Plant services	<u>246,736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(246,736)</u>
Total governmental activities	<u>\$ 17,875,049</u>	<u>\$ -</u>	<u>\$ 3,451,776</u>	<u>\$ -</u>	<u>(14,423,273)</u>
General revenues:					
Federal and state aid not restricted to specific purposes					13,262,499
Interest and investment earnings					3,174
Miscellaneous					<u>477,769</u>
					<u>Total general revenues</u>
					<u>13,743,442</u>
					Change in net position
					(679,831)
					Net position, July 1, 2015
					<u>(8,741,879)</u>
					Net position, June 30, 2016
					<u>\$ (9,421,710)</u>

See accompanying notes to financial statements.

JOHN MUIR CHARTER SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016

	General Fund
ASSETS	
Cash and investments:	
Cash in banks	\$ 3,645,981
Receivables	781,532
Prepaid expenditures	153,356
Other current assets	<u>45,964</u>
Total assets	<u>\$ 4,626,833</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 1,174,510
Unearned revenue	<u>1,905,730</u>
Total liabilities	<u>3,080,240</u>
Fund balance:	
Nonspendable	153,356
Assigned	944,007
Unassigned	<u>449,230</u>
Total fund balance	<u>1,546,593</u>
Total liabilities and fund balance	<u>\$ 4,626,833</u>

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, 2016

Total fund balances - General Fund \$ 1,546,593

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

Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The costs of the assets is \$29,169 and the accumulated depreciation is \$17,502 (Note 3). 11,667

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 6 and 7):

Deferred outflows of resources relating to pensions	\$ 2,154,468	
Deferred inflows of resources relating to pensions	<u>(1,128,000)</u>	1,026,468

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, 2016 consisted of (Note 4):

Net pension liability (Notes 6 and 7)	(11,542,000)	
Compensated absences	<u>(464,438)</u>	<u>(12,006,438)</u>

Total net position - governmental activities		<u>\$ (9,421,710)</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, 2016

	<u>General Fund</u>
Revenues:	
Local Control Funding Formula (LCFF):	
State apportionment	\$ 5,686,778
Local sources	<u>6,430,451</u>
Total LCFF	<u>12,117,229</u>
Other state sources	4,545,382
Other local sources	<u>532,607</u>
Total revenues	<u>17,195,218</u>
Expenditures:	
Current:	
Certificated salaries	6,339,625
Classified salaries	2,810,288
Employee benefits	2,695,156
Books and supplies	863,466
Contract services and operating expenditures	<u>4,675,838</u>
Total expenditures	<u>17,384,373</u>
Net change in fund balance	(189,155)
Fund balance, July 1, 2015	<u>1,735,748</u>
Fund balance, June 30, 2016	<u>\$ 1,546,593</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, 2016

Net change in fund balance - General Fund	\$	(189,155)
Amounts reported for governmental activities in the statement of activities are different because:		
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 3).	\$	(5,834)
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 6 and 7)		(347,202)
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 4).		(137,640)
		<u>(490,676)</u>
Change in net position of governmental activities	\$	<u>(679,831)</u>

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 reports all direct expenses by function in the Statement of Activities. Charter School expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in direct expense of each function.

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, 2016.

Capital Assets: Capital assets purchased or acquired with an original cost of \$5,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at acquisition value for the contributed asset. Additions, improvements and other capital outlay that significantly extends the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using straight-line method over 5 years for equipment.

(Continued)

JOHN MUIR CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 pension liability reported in the statement of net position. Amortization for the year ended June 30, 2016 totaled \$387,500.

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 pension liability reported which is in the statement of net position. Amortization for the year ended June 30, 2016 totaled \$91,080.

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. 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	\$ 755,305	\$ 1,399,163	\$ 2,154,468
Deferred inflows of resources	<u>\$ 874,000</u>	<u>\$ 254,000</u>	<u>\$ 1,128,000</u>
Net pension liability	<u>\$ 8,888,000</u>	<u>\$ 2,654,000</u>	<u>\$ 11,542,000</u>
Pension expense	<u>\$ 1,702,419</u>	<u>\$ 569,045</u>	<u>\$ 2,271,464</u>

Compensated Absences: Compensated absences benefits in the amount \$152,000 are recorded as a long-term liability of the Charter School. The liability is for the earned but unused benefits. The amount to be provided by future operations represents the total amount that would be required to be provided from the general operating revenues of the Charter School if all the benefits were to be paid.

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.

Unearned Revenue: Revenues from federal, state, and local special projects and programs are recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as unearned revenue until earned.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.
2. Restricted Net Position - Restrictions of the ending net position indicate the portions of net position not appropriate for expenditure or amounts legally segregated for a specific future use. There are no restrictions on net position for the year ended June 30, 2016.
- 3.. Unrestricted Net Position – All other net position that do not meet the definitions of "restricted" or "net investment in capital assets".

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, 2016, 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, 2016, 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, 2016, no such designation has occurred.

(Continued)

JOHN MUIR CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2016, 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.

(Continued)

JOHN MUIR CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2016 consisted of the following:

Cash in banks	<u>\$ 3,645,981</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, 2016, the carrying amount of the Charter School's accounts was \$3,645,981 and the bank balance was \$4,012,769, \$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, 2016, 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, 2016, the Charter School had no concentration of credit risk.

NOTE 3 – CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2016 is shown below:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>
Depreciable: Equipment	\$ 29,169	\$ -	\$ -	\$ 29,169
Less accumulated depreciation: Equipment	<u>(11,668)</u>	<u>(5,834)</u>	<u>-</u>	<u>(17,502)</u>
Capital assets, net	<u>\$ 17,501</u>	<u>\$ (5,834)</u>	<u>\$ -</u>	<u>\$ 11,667</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	<u>\$ 5,834</u>
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(Continued)

JOHN MUIR CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 – LONG-TERM LIABILITIES

Changes in Long-Term Liabilities: A schedule of changes in long-term liabilities for the fiscal year ended June 30, 2016 is shown below:

	Balance July 1, <u>2015</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2016</u>	Amounts Due Within <u>One Year</u>
Net pension liability (Notes 6 and 7) \$	8,697,996	\$ 2,844,004	\$ -	\$ 11,542,000	\$ -
Compensated absences	<u>326,798</u>	<u>137,640</u>	<u>-</u>	<u>464,438</u>	<u>152,000</u>
Total	<u>\$ 9,024,794</u>	<u>\$ 2,981,644</u>	<u>\$ -</u>	<u>\$ 12,006,438</u>	<u>\$ 152,000</u>

NOTE 5 – FUND BALANCES

Fund balances, by category, at June 30, 2016 consisted of the following:

	<u>General Fund</u>
Nonspendable:	
Prepaid expenditures	<u>\$ 153,356</u>
Assigned:	
Career Pathways Trust Grant	<u>944,007</u>
Unassigned:	
Designated for economic uncertainties	<u>449,230</u>
Total fund balance	<u>\$ 1,546,593</u>

(Continued)

NOTE 6 – 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 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 fulltime 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.

(Continued)

JOHN MUIR CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 – 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:

Members - Under CalSTRS 2% at 60, the member contribution rate was 9.20 percent of applicable member earnings for fiscal year June 30, 2016. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 8.56 percent of applicable member earnings for fiscal year June 30, 2016.

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.

Effective July 1, 2014, with the passage of AB 1469, member contributions for those under the 2% at 60 benefit structure increase from 8.0 percent to a total of 10.25 percent of applicable member earnings, phased in over the next three years. For members under the 2% at 62 benefit structure, contributions will increase from 8.0 percent to 9.205 percent of applicable member earnings, again phased in over three years, if there is no change to normal cost.

Employers – 10.73 percent of applicable member earnings.

In accordance with AB 1469, employer contributions will increase from 8.25 percent to a total of 19.1 percent of applicable member earnings phased in over seven years starting in 2014. The new legislation also gives the 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 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.

The CalSTRS employer contribution rate increases effective for fiscal year 2015-16 through fiscal year 2045-46 are summarized in the table below:

<u>Effective Date</u>	<u>Prior Rate</u>	<u>Increase</u>	<u>Total</u>
July 01, 2015	8.25%	2.48%	10.73%
July 01, 2016	8.25%	4.33%	12.58%
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, 2046	8.25%	Increase from prior rate ceases in 2046-47	

The Charter School contributed \$614,305 to the plan for the fiscal year ended June 30, 2016.

(Continued)

JOHN MUIR CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

State - 7.391 percent of the members’ creditable earnings from the fiscal year ending in the prior calendar year.

Additionally, beginning October 1, 1998, a statutory contribution rate of 0.524 percent, adjustable annually in 0.25 percent increments up to a maximum of 1.505 percent, of the creditable earnings from the fiscal year ending in the prior calendar year per Education Code Section 22955(b). This contribution is reduced to zero if there is no unfunded actuarial obligation and no normal cost deficit for benefits in place as of July 1, 1990. Based on the actuarial valuation, as of June 30, 2012 there was no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state was required to make quarterly payments starting October 1, 2013, at an additional contribution rate of 1.024 percent. As of June 30, 2014, the state contributed \$200.7 million of the \$267.6 million total amount for fiscal year 2013-14. As a result of AB 1469, the fourth quarterly payment of \$66.9 million was included in an increased first quarter payment of \$94 million for the 2014-15 fiscal year, which was transferred on July 1, 2014.

In accordance with AB 1469, the portion of the state appropriation under Education Code Section 22955(b) that is in addition to the 2.017 percent has been replaced by section 22955.1(b) in order to fully fund the benefits in effect as of 1990 by 2046. The additional state contribution will increase from 1.437 percent in 2014-15 to 4.311 percent in 2016-17. The increased contributions end as of fiscal year 2046-2047.

The CalSTRS state contribution rates effective for fiscal year June 30, 2016 and beyond are summarized in the table below:

<u>Effective Date</u>	<u>Base Rate</u>	<u>AB 1469 Increase For 1990 Benefit Structure</u>	<u>SBMA Funding</u>	<u>Total State Appropriation to DB Program</u>
July 01, 2015	2.017%	2.874%	2.50%	7.391%
July 01, 2016	2.017%	4.311%	2.50%	8.828%
July 01, 2017 to June 30, 2046	2.017%	4.311%*	2.50%	8.828%*
July 01, 2046 and thereafter	2.017%	*	2.50%	4.517%*

* The new legislation also gives the board limited authority to adjust state contribution rates from July 1, 2017, through June 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 shall be reduced to 0 percent. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

(Continued)

JOHN MUIR CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

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

At June 30, 2016, 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	\$	8,888,000
State's proportionate share of the net pension liability associated with the Charter School		<u>4,701,000</u>
Total		<u>\$ 13,589,000</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. 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 Charter Schools and the State. At June 30, 2015 and 2014, the Charter School's proportion was 0.013 percent.

For the year ended June 30, 2016, the Charter School recognized pension expense of \$1,702,419 and revenue of \$1,004,796 for support provided by the State. At June 30, 2016, 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	\$ -	\$ 149,000
Changes of assumptions	-	-
Net differences between projected and actual earnings on investments	-	725,000
Changes in proportion and differences between Charter School contributions and proportionate share of contributions	141,000	-
Contributions made subsequent to measurement date	<u>614,305</u>	<u>-</u>
Total	<u>\$ 755,305</u>	<u>\$ 874,000</u>

(Continued)

JOHN MUIR CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

\$614,305 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, 2017. 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>	
2017	\$ (300,500)
2018	\$ (300,500)
2019	\$ (300,500)
2020	\$ 174,500
2021	\$ (500)
2022	\$ (5,500)

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, 2015 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.

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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 experience analysis for more information.

(Continued)

JOHN MUIR CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 – 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. Based on the model from CalSTRS consulting actuary’s investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are log normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-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%	4.50%
Private Equity	12	6.20
Real Estate	15	4.35
Inflation Sensitive	5	3.20
Fixed Income	20	0.20
Cash / Liquidity	1	0.00

* 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.60 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 Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 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 7.60 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 (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Charter School’s proportionate share of the net pension liability	<u>\$ 13,420,000</u>	<u>\$ 8,888,000</u>	<u>\$ 5,121,000</u>

(Continued)

NOTE 6 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

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

NOTE 7 – 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 noncertified 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-2015.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 agencies first join the PERF, 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, 2016 were as follows:

Members - The member contribution rate was 6.0 or 7.0 percent of applicable member earnings for fiscal year June 30, 2016.

Employers - The employer contribution rate was 11.847 percent of applicable member earnings.

The Charter School contributed \$305,163 to the plan for the fiscal year ended June 30, 2016.

(Continued)

JOHN MUIR CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – 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, 2016, the Charter School reported a liability of \$2,654,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. 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 Charter Schools. At June 30, 2015, the Charter School’s proportion was 0.018 percent, which was an increase of 0.008 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Charter School recognized pension expense of \$569,045. At June 30, 2016, 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	\$ 152,000	\$ -
Changes of assumptions	-	163,000
Net differences between projected and actual earnings on investments	-	91,000
Changes in proportion and differences between Charter School contributions and proportionate share of contributions	942,000	-
Contributions made subsequent to measurement date	<u>305,163</u>	<u>-</u>
Total	<u>\$ 1,399,163</u>	<u>\$ 254,000</u>

\$305,163 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, 2017. 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>	
2017	\$ 287,584
2018	\$ 287,584
2019	\$ 287,582
2020	\$ (22,750)

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, 2015 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, 2016

NOTE 7 – 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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.65%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 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, 2014 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.

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</u>
Global Equity	51%	5.25%
Global Fixed Income	19	0.99
Inflation Sensitive	6	0.45
Private Equity	10	6.83
Real Estate	10	4.50
Infrastructure & Forestland	2	4.50
Liquidity	2	(0.55)

* 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.65 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.

(Continued)

NOTE 7 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

The discount rate was 7.50 and 7.65 percent in the June 30, 2013 and June 30, 2014 actuarial reports, respectively.

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 single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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 7.65 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 (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease <u>(6.65%)</u>	Current Discount Rate <u>(7.65%)</u>	1% Increase <u>(8.65%)</u>
Charter School’s proportionate share of the net pension liability	<u>\$ 4,319,000</u>	<u>\$ 2,654,000</u>	<u>\$ 1,269,000</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 8 – 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, 2016

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
LCFF:				
State apportionment	\$ 12,202,099	\$ 5,521,694	\$ 5,686,778	\$ 165,084
Local sources	<u>5,395,113</u>	<u>6,625,865</u>	<u>6,430,451</u>	<u>(195,414)</u>
Total LCFF	<u>17,597,212</u>	<u>12,147,559</u>	<u>12,117,229</u>	<u>(30,330)</u>
Other state sources	2,972,312	4,610,473	4,545,382	(65,091)
Other local sources	<u>186,813</u>	<u>508,684</u>	<u>532,607</u>	<u>23,923</u>
Total revenues	<u>20,756,337</u>	<u>17,266,716</u>	<u>17,195,218</u>	<u>(71,498)</u>
Expenditures:				
Current:				
Certificated salaries	7,061,283	6,392,706	6,339,625	53,081
Classified salaries	2,805,303	2,908,175	2,810,288	97,887
Employee benefits	2,757,831	2,469,010	2,695,156	(226,146)
Books and supplies	734,258	831,928	863,466	(31,538)
Contract services and operating expenditures	<u>4,472,896</u>	<u>4,980,494</u>	<u>4,675,838</u>	<u>304,656</u>
Total expenditures	<u>17,831,571</u>	<u>17,582,313</u>	<u>17,384,373</u>	<u>197,940</u>
Net change in fund balance	2,924,766	(315,597)	(189,155)	126,442
Fund balance, July 1, 2015	<u>1,735,748</u>	<u>1,735,748</u>	<u>1,735,748</u>	<u>-</u>
Fund balance, June 30, 2016	<u>\$ 4,660,514</u>	<u>\$ 1,420,151</u>	<u>\$ 1,546,593</u>	<u>\$ 126,442</u>

See accompanying notes 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, 2016

State Teachers' Retirement Plan
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Charter School's proportion of the net pension liability	0.013%	0.013%
Charter School's proportionate share of the net pension liability	\$ 7,596,810	\$ 8,888,000
State's proportionate share of the net pension liability associated with the Charter School	<u>4,579,000</u>	<u>4,701,000</u>
Total net pension liability	<u>\$ 12,175,810</u>	<u>\$ 13,589,000</u>
Charter School's covered-employee payroll	\$ 5,779,000	\$ 6,128,000
Charter School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	131.46%	145.04%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%

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, 2016

Public Employer's Retirement Fund B
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Charter School's proportion of the net pension liability	0.010%	0.018%
Charter School's proportionate share of the net pension liability	\$ 1,101,186	\$ 2,654,000
Charter School's covered-employee payroll	\$ 1,026,000	\$ 1,993,000
Charter School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	107.33%	133.17%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	74.02%

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.

See accompanying notes to required supplementary information.

JOHN MUIR CHARTER SCHOOLS
SCHEDULE OF THE CHARTER SCHOOL'S CONTRIBUTIONS
For the Year Ended June 30, 2016

State Teachers' Retirement Plan
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 544,133	\$ 614,305
Contributions in relation to the contractually required contribution	<u>544,133</u>	<u>614,305</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Charter School's covered-employee payroll	\$ 6,128,000	\$ 5,725,000
Contributions as a percentage of covered-employee payroll	8.88%	10.73%

All years prior to 2015 are not available.

(Continued)

JOHN MUIR CHARTER SCHOOLS
SCHEDULE OF THE CHARTER SCHOOL'S CONTRIBUTIONS
For the Year Ended June 30, 2016

Public Employer's Retirement Fund B
Last 10 Fiscal Years

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

All years prior to 2015 are not available.

See accompanying notes to required supplementary information.

JOHN MUIR CHARTER SCHOOLS
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

NOTE 1 – PURPOSE OF SCHEDULE

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.

Excess of expenditures over appropriations for the year ended June 30, 2016 were as follows:

<u>General Fund</u>	<u>Excess Expenditures</u>
Employee benefits	\$ 226,146
Books and supplies	\$ 31,538

These excesses are not in accordance with Education Code 42600.

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 and 7.65 percent in the June 30, 2013 and June 30, 2014 actuarial reports, respectively. There are no changes in assumptions reported for the State Teachers' Retirement Plan.

SUPPLEMENTARY INFORMATION

JOHN MUIR CHARTER SCHOOLS
ORGANIZATION
June 30, 2016

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

Katherine DeVinna
Chief Operations Officer

Rachael Navarrete
Chief Financial Officer

JOHN MUIR CHARTER SCHOOLS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2016

	<u>Second Period Report</u>	<u>Revised Second Period Report*</u>	<u>Annual Report</u>
<u>Muir Charter School - Classroom-Based</u>			
Ninth through Twelfth	<u>1,127</u>	<u>1,122</u>	<u>1,078</u>

* Includes adjustments from the Charter School's internal inspection of attendance documents.

See accompanying notes to supplementary information.

JOHN MUIR CHARTER SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2016

<u>Grade Level</u>	<u>Statutory Minutes Requirement</u>	<u>2015-16 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Grade 9	64,800	65,093	180	In Compliance
Grade 10	64,800	65,093	180	In Compliance
Grade 11	64,800	65,093	180	In Compliance
Grade 12	64,800	65,093	180	In Compliance

See accompanying notes to supplementary information.

JOHN MUIR CHARTER SCHOOLS
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

There were no audit adjustments proposed.

See accompanying notes to supplementary information.

JOHN MUIR CHARTER SCHOOLS
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Year Ended June 30, 2016
(UNAUDITED)

<u>General Fund</u>	(Budget) <u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenues	\$ 17,512,801	\$ 17,195,218	\$ 16,194,735	\$ 14,147,964
Expenditures	<u>16,177,706</u>	<u>17,384,373</u>	<u>16,719,066</u>	<u>13,947,472</u>
Change in fund balance	<u>\$ 1,335,095</u>	<u>\$ (189,155)</u>	<u>\$ (524,331)</u>	<u>\$ 200,492</u>
Ending fund balance	<u>\$ 2,881,688</u>	<u>\$ 1,546,593</u>	<u>\$ 1,735,748</u>	<u>\$ 2,260,079</u>
Available reserves	<u>\$ 485,331</u>	<u>\$ 449,230</u>	<u>\$ 437,873</u>	<u>\$ 754,128</u>
Designated for economic uncertainties	<u>\$ 485,331</u>	<u>\$ 449,230</u>	<u>\$ 437,873</u>	<u>\$ 578,227</u>
Undesignated fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 175,901</u>
Available reserves as a percentage of expenditures	<u>3.00%</u>	<u>2.58%</u>	<u>2.60%</u>	<u>4.10%</u>
Total long-term liabilities	<u>\$ 11,854,438</u>	<u>\$ 12,006,438</u>	<u>\$ 8,697,996</u>	<u>\$ 269,232</u>
Average daily attendance at P-2	<u>1,197</u>	<u>1,122</u>	<u>1,455</u>	<u>1,553</u>

The General Fund fund balance has decreased by \$512,994 over the past three fiscal years. The Charter School projects an increase of \$1,335,095 for the fiscal year ending June 30, 2017.

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

The Charter School incurred operating deficits in two of the past three years, and anticipates incurring an operating surplus during the 2016-2017 fiscal year.

Total long-term liabilities have increased by \$11,737,206 over the past two years.

Average daily attendance has decreased by 431 over the past two years. ADA is anticipated to increase by 75 during the year ending June 30, 2017.

See accompanying notes to supplementary information.

JOHN MUIR CHARTER SCHOOLS
SCHEDULE OF CHARTER SCHOOLS
For the Year Ended June 30, 2016

Charter Schools Chartered by District

Included in District
Financial Statements, or
Separate Report

The Charter School has not chartered any charter schools.

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 2016-2017 fiscal year. The information in this schedule has been derived from audited information.

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, 2016, 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 *2015-16 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, 2016.

<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
K3 Grade Span Adjustment	Not applicable
Transportation Maintenance of Effort	Not applicable
Educator Effectiveness	Not applicable
<u>Schools Districts, County Office of Education and Charter Schools:</u>	
California Clean Energy Jobs Act	No, see below
After 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
Immunizations	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 School Education and Safety funding in the current year; therefore, we did not perform any procedures related to After 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.

The Charter School submitted all required immunization assessment reports to the California Department of Public Health; therefore, we did not perform any procedures related to this requirement.

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 *2015-16 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.

Basis for Qualified Opinion on Compliance with State Laws and Regulations

As described in Finding 2016-001 in the accompanying Schedule of Audit Findings and Questioned Costs, John Muir Charter Schools did not comply with the requirements regarding Unduplicated Local Control Funding Formula Pupil Counts. Compliance with such requirements is necessary, in our opinion, for John Muir Charter Schools to comply with the requirements applicable to the state laws and regulations applicable to Unduplicated Local Control Funding Formula Pupil Counts.

(Continued)

Qualified Opinion on Compliance with State Laws and Regulations

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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, 2016.

Other Matter

John Muir Charter Schools' response to the noncompliance finding identified in our audit is included in the accompanying Schedule of Audit Findings and Questioned Costs. John Muir Charter Schools' response was not subjected to the auditing procedures applied in the audit of State Compliance and, accordingly, we express no opinion on it.

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 *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.


Crowe Horwath LLP

Sacramento, California
December 14, 2016

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, 2016, 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 14, 2016.

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*.

(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 Horwath LLP

Sacramento, California
December 14, 2016

FINDINGS AND RECOMMENDATIONS

JOHN MUIR CHARTER SCHOOLS
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

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:	Qualified
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(Continued)

JOHN MUIR CHARTER SCHOOLS
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

(Continued)

JOHN MUIR CHARTER SCHOOLS
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2016

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

2016-001 DEFICIENCY – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

Criteria

Any student who meets the federal income eligibility criteria or is deemed to be categorically eligible for FRPM under the National School Lunch Program (NSLP) will be counted as FRPM-eligible. Except for directly certified and foster students identified through a statewide match, LEAs must submit the appropriate student program (SPRG) records to CALPADS in order for the students to be counted as FRPM-eligible. Authority cited: Section 14502.1, Education Code. Reference: Sections 14502.1, 14503, 2574(b)(3)(C), 44238.02(b)(3)(B), and 41020, Education Code.

Condition

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 2015-16 fiscal school year.

Effect

The effect of this finding is an extrapolated overstatement of 133 unduplicated pupil counts.

John Muir Charter Schools

	Unduplicated pupil count				<u>Total</u>
	<u>Enrollment</u>	<u>Free & Reduced Meal Program (FRPM)</u>	<u>English Learners (ELAS)</u>	<u>Both FRPM & ELAS</u>	
As certified on CalPADS	1,428	1,105	14	268	1,387
Audit adjustments	-	(133)	-	-	(133)
Adjusted counts	1,428	972	14	268	1,254

Cause

The errors were the result of clerical errors in processing the eligibility forms for unduplicated pupil counts.

Fiscal Impact

The Unduplicated Pupil Percentage for John Muir Charter Schools was originally reported at 93.73% and the revised Unduplicated Pupil Percentage should be revised to 91.12%; the fiscal impact is a reduction of LCFF revenues of approximately \$95,213.

(Continued)

JOHN MUIR CHARTER SCHOOLS
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

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

**2016-001 DEFICIENCY – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS
(40000) (Continued)**

Recommendation

The Charter School should ensure that all appropriate documentation is retained and updated for all students receiving Free and Reduced lunches.

Corrective Action Plan

The audit finding was a result of input error. The Charter School's process has been that the student completes the enroll form and the teacher or registrar would input the information into PowerSchool, our student information system (SIS). During the 16-17 fiscal year, the Charter School implemented InfoSnap, which is an online enrollment form that uploads the student information into our SIS. This new platform will eliminate the input errors that resulted in this finding.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

JOHN MUIR CHARTER SCHOOLS
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
June 30, 2016

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Charter School Explanation If Not Implemented</u>
2015-001 - Cash Disbursement - 30000	Implemented.	
<p><u>Condition:</u> It was found to be common practice for purchases to be made without advance approval. Purchases and employee reimbursements were approved before payment but after purchase. We did not note any inappropriate expenditures for 2014-2015 however, a system should be implemented that requires pre-approval of all expenditures.</p>		
<p><u>Recommendation:</u> To improve internal and budgetary controls, we recommend all Charter School expenditures be supported by a completed purchase requisition or purchase order prepared and approved in advance of the purchase.</p>		