

NOVATO UNIFIED SCHOOL DISTRICT

AUDIT REPORT
JUNE 30, 2018

San Diego

Los Angeles

San Francisco
Bay Area

christy  white
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**NOVATO UNIFIED SCHOOL DISTRICT
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JUNE 30, 2018**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Novato Unified School District
Novato, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Novato Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Novato Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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.

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State Board of Accountancy

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, the business-type activities, each major fund, and the aggregate remaining fund information of Novato Unified School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 10 to the financial statements, in 2018 Novato Unified School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of changes in total OPEB liability and related ratios, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Novato Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2018 on our consideration of Novato Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Novato Unified School District's 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 Novato Unified School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
November 14, 2018

**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

INTRODUCTION

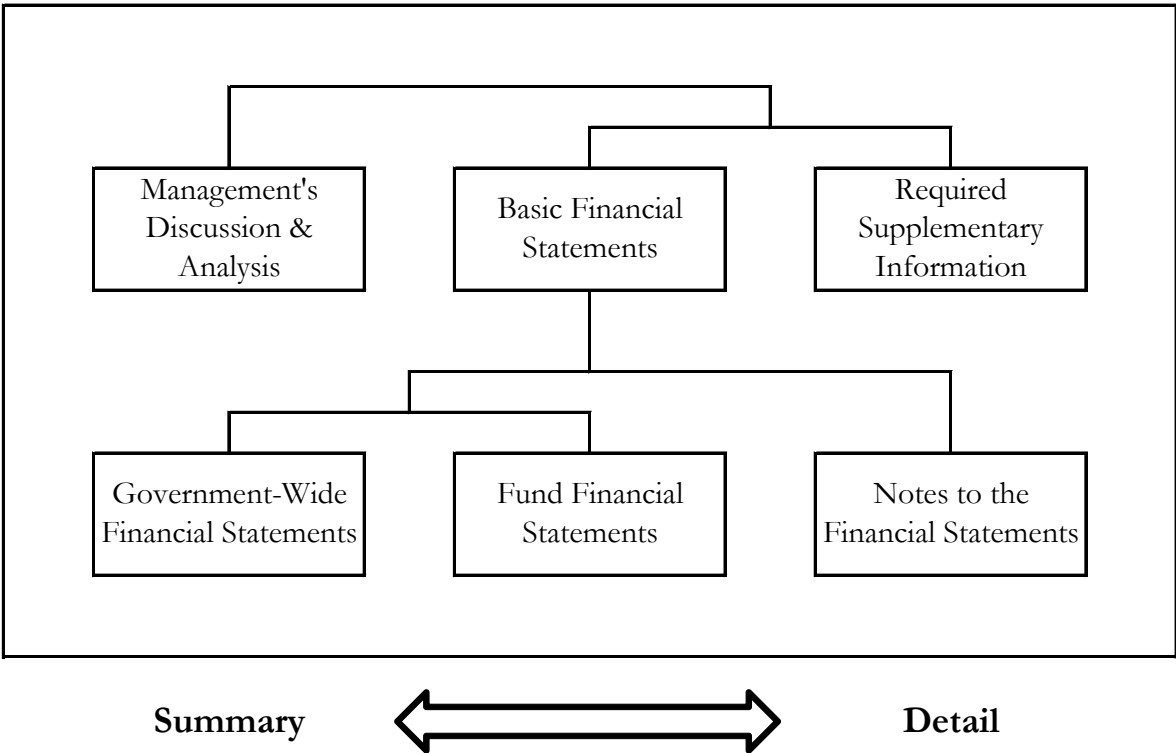
Our discussion and analysis of Novato Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ The District's combined net position was \$(18,304,806) at June 30, 2018. This was a decrease of \$4,258,831 from the prior year after restatement.
- ▶ Overall revenues were \$100,674,118 which were exceeded by expenses of \$104,932,949.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
 - ▶ **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.
 - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

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

The two government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was \$(18,304,806) at June 30, 2018, as reflected in the table below. Of this amount, \$(54,692,782) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities			Business-Type Activities		
	2018	2017	Net Change	2018	2017	Net Change
ASSETS						
Current and other assets	\$ 86,463,012	\$ 85,302,178	\$ 1,160,834	\$ 455	\$ -	\$ 455
Capital assets	101,896,425	105,300,321	(3,403,896)	-	-	-
Total Assets	188,359,437	190,602,499	(2,243,062)	455	-	455
DEFERRED OUTFLOWS OF RESOURCES	29,398,157	17,209,127	12,189,030	-	-	-
LIABILITIES						
Current liabilities	22,557,552	11,489,493	11,068,059	-	-	-
Long-term liabilities	209,749,162	206,520,077	3,229,085	-	-	-
Total Liabilities	232,306,714	218,009,570	14,297,144	-	-	-
DEFERRED INFLOWS OF RESOURCES	3,756,141	2,670,296	1,085,845	-	-	-
NET POSITION						
Net investment in capital assets	19,774,610	24,096,603	(4,321,993)	-	-	-
Restricted	16,613,366	11,577,049	5,036,317	-	-	-
Unrestricted	(54,693,237)	(48,541,892)	(6,151,345)	455	-	455
Total Net Position	\$ (18,305,261)	\$ (12,868,240)	\$ (5,437,021)	\$ 455	\$ -	\$ 455

**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The table below takes the information from the Statement and rearranges it slightly, so you can see our total revenues, expenses, and special items for the year.

	Governmental Activities			Business-Type Activities		
	2018	2017	Net Change	2018	2017	Net Change
REVENUES						
Program revenues						
Charges for services	\$ 950,576	\$ 925,495	\$ 25,081	\$ -	\$ -	\$ -
Operating grants and contributions	15,578,407	15,080,083	498,324	-	-	-
General revenues						
Property taxes	48,598,665	46,890,479	1,708,186	-	-	-
Unrestricted federal and state aid	36,017,635	30,566,725	5,450,910	-	-	-
Other	(471,620)	4,896,702	(5,368,322)	455	1,091	(636)
Total Revenues	100,673,663	98,359,484	2,314,179	455	1,091	(636)
EXPENSES						
Instruction	54,077,230	56,938,222	(2,860,992)	-	-	-
Instruction-related services	11,261,821	11,924,535	(662,714)	-	-	-
Pupil services	9,227,174	8,805,999	421,175	-	-	-
General administration	5,522,675	5,762,180	(239,505)	-	-	-
Plant services	9,804,229	6,490,861	3,313,368	-	-	-
Ancillary and community services	766,688	893,315	(126,627)	-	-	-
Debt service	4,027,482	3,392,344	635,138	-	-	-
Other outgo	1,862,032	1,644,327	217,705	-	-	-
Depreciation	8,383,618	8,257,229	126,389	-	-	-
Total Expenses	104,932,949	104,109,012	823,937	-	-	-
Transfers & special items	-	(12,955)	12,955	-	(87,045)	87,045
Change in net position	(4,259,286)	(5,762,483)	1,503,197	455	(85,954)	86,409
Net Position - Beginning, as Restated*	(14,045,975)	(7,105,757)	(6,940,218)	-	85,954	(85,954)
Net Position - Ending	\$ (18,305,261)	\$ (12,868,240)	\$ (5,437,021)	\$ 455	\$ -	\$ 455

* Beginning Net Position for Governmental Activities was restated for the 2018 year only

The cost of all our governmental activities this year was \$104,932,949 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only \$48,598,665 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions (\$15,578,407).

**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

In the table below, we have presented the net cost of each of the District's functions. Net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

	Net Cost of Services	
	2018	2017
Instruction	\$ 43,831,565	\$ 47,914,018
Instruction-related services	9,881,717	10,298,713
Pupil services	5,703,312	5,056,722
General administration	5,096,593	5,447,432
Plant services	9,774,820	6,056,227
Ancillary and community services	537,546	643,640
Debt service	4,027,482	3,392,344
Transfers to other agencies	1,167,313	1,037,109
Depreciation	8,383,618	8,257,229
Total Expenses	\$ 88,403,966	\$ 88,103,434

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$77,907,493, which is less than last year's ending fund balance of \$80,202,638. The District's General Fund had \$2,122,580 less in operating revenues than expenditures for the year ended June 30, 2018. The Building Fund had \$5,788,136 less in operating revenues than expenditures for the year ended June 30, 2018 and the Bond Interest and Redemption Fund had \$5,416,491 more in operating revenues than expenditures for the year ended June 30, 2018.

CURRENT YEAR BUDGET 2017-2018

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a frequent basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-2018 the District had invested \$101,896,425 in capital assets, net of accumulated depreciation. There were no capital assets related to Business-Type Activities for the year ended June 30, 2018.

	Governmental Activities		
	2018	2017	Net Change
CAPITAL ASSETS			
Land	\$ 8,431,737	\$ 8,431,737	\$ -
Construction in progress	5,882,968	1,982,049	3,900,919
Land improvements	34,371,401	33,464,353	907,048
Buildings & improvements	181,491,113	181,491,113	-
Furniture & equipment	9,337,280	9,165,525	171,755
Accumulated depreciation	(137,618,074)	(129,234,456)	(8,383,618)
Total Capital Assets	\$101,896,425	\$105,300,321	\$ (3,403,896)

Long-Term Debt

At year-end, the District had \$209,749,162 in long-term debt related to Governmental Activities, an increase of 1.56% from last year – as shown in the table below. There was no long-term debt related to Business-Type Activities for the year ended June 30, 2018. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities		
	2018	2017	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$130,377,536	\$134,562,204	\$ (4,184,668)
Claims payable	200,000	200,000	-
Compensated absences	575,956	574,830	1,126
Total OPEB liability*	1,387,910	111,114	1,276,796
Net pension liability	89,456,283	75,834,205	13,622,078
Less: current portion of long-term debt	(12,248,523)	(4,762,276)	(7,486,247)
Total Long-term Liabilities	\$209,749,162	\$206,520,077	\$ 3,229,085

*The beginning total OPEB liability for 2018 was restated in order to record the District's total OPEB liability in accordance with GASB Statement No. 75 which supersedes GASB Statement No. 45 for the year ended June 30, 2018.

**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

The State's economy continues to be strong but a new governor could change the fiscal policy for the funding of public education, within the boundaries of Proposition 98. Past fiscal allocations had included higher than expected funding but on-going funding may not be as strong. The UCLA Anderson Forecast (June 2018) noted that the "era of ultra-low interest rates has passed and the economy is at full employment," which creates difficulty sustaining continued growth at the rate recently experienced. And, according to the California Legislative Analyst's Office, there are concerns about a possible mild recession.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The 2018-19 adopted State Budget fully funded the LCFF funding gap two years ahead of schedule.

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2018. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2018-19 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Business Office at the Novato Unified School District, 1015 Seventh Street, Novato, CA, 94945.

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 81,027,033	\$ 455	\$ 81,027,488
Accounts receivable	5,272,759	-	5,272,759
Inventory	67,875	-	67,875
Prepaid expenses	95,345	-	95,345
Capital assets, not depreciated	14,314,705	-	14,314,705
Capital assets, net of accumulated depreciation	87,581,720	-	87,581,720
Total Assets	188,359,437	455	188,359,892
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	27,477,314	-	27,477,314
Deferred amount on refunding	1,920,843	-	1,920,843
Total Deferred Outflows of Resources	29,398,157	-	29,398,157
LIABILITIES			
Accrued liabilities	9,267,286	-	9,267,286
Unearned revenue	1,041,743	-	1,041,743
Long-term liabilities, current portion	12,248,523	-	12,248,523
Long-term liabilities, non-current portion	209,749,162	-	209,749,162
Total Liabilities	232,306,714	-	232,306,714
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	3,756,141	-	3,756,141
Total Deferred Inflows of Resources	3,756,141	-	3,756,141
NET POSITION			
Net investment in capital assets	19,774,610	-	19,774,610
Restricted:			
Capital projects	1,278,168	-	1,278,168
Debt service	11,226,584	-	11,226,584
Educational programs	3,979,273	-	3,979,273
All others	129,341	-	129,341
Unrestricted	(54,693,237)	455	(54,692,782)
Total Net Position	\$ (18,305,261)	\$ 455	\$ (18,304,806)

The accompanying notes are an integral part of these financial statements.

**NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Function/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES						
Instruction	\$ 54,077,230	\$ 117,127	\$ 10,128,538	\$ (43,831,565)		
Instruction-related services						
Instructional supervision and administration	3,977,086	32,627	743,571	(3,200,888)		
Instructional library, media, and technology	1,400,609	3,570	236,876	(1,160,163)		
School site administration	5,884,126	238	363,222	(5,520,666)		
Pupil services						
Home-to-school transportation	2,390,848	-	-	(2,390,848)		
Food services	2,329,427	696,031	1,371,371	(262,025)		
All other pupil services	4,506,899	58,325	1,398,135	(3,050,439)		
General administration						
Centralized data processing	1,575,467	85	5,593	(1,569,789)		
All other general administration	3,947,208	26,652	393,752	(3,526,804)		
Plant services	9,804,229	2,551	26,858	(9,774,820)		
Ancillary services	766,688	3,138	226,004	(537,546)		
Interest on long-term debt	4,027,482	-	-	(4,027,482)		
Other outgo	1,862,032	10,232	684,487	(1,167,313)		
Depreciation (unallocated)	8,383,618	-	-	(8,383,618)		
Total Governmental Activities	\$ 104,932,949	\$ 950,576	\$ 15,578,407	(88,403,966)		
General revenues						
Taxes and subventions						
Property taxes, levied for general purposes				29,956,941	-	29,956,941
Property taxes, levied for debt service				14,125,413	-	14,125,413
Property taxes, levied for other specific purposes				4,516,311	-	4,516,311
Federal and state aid not restricted for specific purposes				36,017,635	-	36,017,635
Interest and investment earnings				713,876	5	713,881
Interagency revenues				10,836	-	10,836
Miscellaneous				(1,196,332)	450	(1,195,882)
Subtotal, General Revenue				84,144,680	455	84,145,135
CHANGE IN NET POSITION						
				(4,259,286)	455	(4,258,831)
Net Position - Beginning, as Restated				(14,045,975)	-	(14,045,975)
Net Position - Ending				\$ (18,305,261)	\$ 455	\$ (18,304,806)

The accompanying notes are an integral part of these financial statements.

**NOVATO UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 14,271,174	\$ 49,574,133	\$ 13,418,133	\$ 3,287,500	\$ 80,550,940
Accounts receivable	5,007,423	47,522	-	217,814	5,272,759
Due from other funds	165,233	328,235	-	5,710	499,178
Stores inventory	37,380	-	-	30,495	67,875
Prepaid expenditures	95,345	-	-	-	95,345
Total Assets	\$ 19,576,555	\$ 49,949,890	\$ 13,418,133	\$ 3,541,519	\$ 86,486,097
LIABILITIES					
Accrued liabilities	\$ 3,558,368	\$ 3,415,012	\$ -	\$ 64,303	\$ 7,037,683
Due to other funds	333,945	-	-	165,233	499,178
Unearned revenue	989,144	-	-	52,599	1,041,743
Total Liabilities	4,881,457	3,415,012	-	282,135	8,578,604
FUND BALANCES					
Nonspendable	157,925	-	-	30,495	188,420
Restricted	3,866,091	46,534,878	13,418,133	1,534,257	65,353,359
Committed	-	-	-	1,694,632	1,694,632
Assigned	8,051,945	-	-	-	8,051,945
Unassigned	2,619,137	-	-	-	2,619,137
Total Fund Balances	14,695,098	46,534,878	13,418,133	3,259,384	77,907,493
Total Liabilities and Fund Balances	\$ 19,576,555	\$ 49,949,890	\$ 13,418,133	\$ 3,541,519	\$ 86,486,097

The accompanying notes are an integral part of these financial statements.

NOVATO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION
JUNE 30, 2018

Total Fund Balance - Governmental Funds \$ 77,907,493

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets:

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

Capital assets	\$ 239,514,499	
Accumulated depreciation	(137,618,074)	101,896,425

Deferred amount on refunding:

In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements:

1,920,843

Unmatured interest on long-term debt:

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

(2,205,115)

Long-term liabilities:

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

Total general obligation bonds	\$ 130,377,536	
Claims payable	200,000	
Compensated absences	575,956	
Total OPEB liability	1,387,910	
Net pension liability	89,456,283	(221,997,685)

Deferred outflows and inflows of resources relating to pensions:

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

Deferred outflows of resources related to pensions	\$ 27,477,314	
Deferred inflows of resources related to pensions	(3,756,141)	23,721,173

Internal service funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position.

Net position (excluding claims payable) for internal service funds is: 451,605

Total Net Position - Governmental Activities \$ (18,305,261)

The accompanying notes are an integral part of these financial statements.

**NOVATO UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 63,140,062	\$ -	\$ -	\$ 262,484	\$ 63,402,546
Federal sources	3,079,397	-	-	1,309,263	4,388,660
Other state sources	6,614,055	-	95,306	242,145	6,951,506
Other local sources	11,975,839	801,549	14,118,446	1,098,732	27,994,566
Total Revenues	84,809,353	801,549	14,213,752	2,912,624	102,737,278
EXPENDITURES					
Current					
Instruction	54,110,157	-	-	289,681	54,399,838
Instruction-related services					
Instructional supervision and administration	3,848,678	-	-	49,727	3,898,405
Instructional library, media, and technology	1,279,333	-	-	-	1,279,333
School site administration	5,762,599	-	-	96	5,762,695
Pupil services					
Home-to-school transportation	2,230,905	-	-	-	2,230,905
Food services	32,674	-	-	2,178,439	2,211,113
All other pupil services	4,398,358	-	-	80,003	4,478,361
General administration					
Centralized data processing	1,458,144	-	-	-	1,458,144
All other general administration	3,675,915	-	-	71,921	3,747,836
Plant services					
Facilities acquisition and maintenance	29,044	6,589,685	-	186,823	6,805,552
Ancillary services	770,811	-	-	-	770,811
Transfers to other agencies	1,862,032	-	-	-	1,862,032
Debt service					
Principal	-	-	3,660,000	-	3,660,000
Interest and other	-	-	5,137,261	-	5,137,261
Total Expenditures	86,931,933	6,589,685	8,797,261	2,877,715	105,196,594
Excess (Deficiency) of Revenues Over Expenditures	(2,122,580)	(5,788,136)	5,416,491	34,909	(2,459,316)
Other Financing Sources (Uses)					
Transfers in	93,312	328,235	-	44,385	465,932
Other sources	-	-	13,917,412	-	13,917,412
Transfers out	(372,620)	-	-	(93,312)	(465,932)
Other uses	-	-	(13,753,241)	-	(13,753,241)
Net Financing Sources (Uses)	(279,308)	328,235	164,171	(48,927)	164,171
NET CHANGE IN FUND BALANCE	(2,401,888)	(5,459,901)	5,580,662	(14,018)	(2,295,145)
Fund Balance - Beginning	17,096,986	51,994,779	7,837,471	3,273,402	80,202,638
Fund Balance - Ending	\$ 14,695,098	\$ 46,534,878	\$ 13,418,133	\$ 3,259,384	\$ 77,907,493

The accompanying notes are an integral part of these financial statements.

**NOVATO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balances - Governmental Funds \$ (2,295,145)

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

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

Expenditures for capital outlay:	\$	4,979,722	
Depreciation expense:		<u>(8,383,618)</u>	(3,403,896)

Debt service:

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

15,850,000

Debt proceeds:

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(13,917,412)

Deferred amounts on refunding:

In governmental funds, deferred amounts on refunding are recognized in the period they are incurred. In the government-wide statements, the deferred amounts on refunding are amortized over the life of the debt. The net effect of the deferred amounts on refunding during the period was:

557,136

Unmatured interest on long-term debt:

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

(136,197)

Compensated absences:

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

(1,126)

(Continued on the following page)

**NOVATO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2018**

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was: (99,061)

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (3,076,028)

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: 2,252,080

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: 10,363

Change in Net Position of Governmental Activities \$ (4,259,286)

NOVATO UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>General Education Preschool Fund</u>	<u>Self-Insurance</u>
ASSETS		
Current assets		
Cash and investments	\$ 455	\$ 476,093
Total Assets	<u>455</u>	<u>476,093</u>
LIABILITIES		
Current liabilities		
Accrued liabilities	-	24,488
Total current liabilities	<u>-</u>	<u>24,488</u>
Non-current liabilities	-	200,000
Total Liabilities	<u>-</u>	<u>224,488</u>
NET POSITION		
Restricted	455	251,605
Total Net Position	<u>\$ 455</u>	<u>\$ 251,605</u>

The accompanying notes are an integral part of these financial statements.

NOVATO UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>Business-Type</u>	<u>Governmental</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>General Education</u>	
	<u>Preschool Fund</u>	<u>Self-Insurance</u>
OPERATING REVENUE		
Other local revenues	\$ 450	\$ 71,608
Total operating revenues	450	71,608
OPERATING EXPENSE		
Professional services	-	65,426
Total operating expenses	-	65,426
Operating income	450	6,182
NON-OPERATING REVENUES/(EXPENSES)		
Interest income	5	4,181
Total non-operating revenues	5	4,181
CHANGE IN NET POSITION	455	10,363
Net Position - Beginning	-	241,242
Net Position - Ending	\$ 455	\$ 251,605

The accompanying notes are an integral part of these financial statements.

**NOVATO UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type		Governmental	
	Enterprise Fund		Internal Service Fund	
	General Education		Self-Insurance	
	Preschool Fund			
Cash flows from operating activities				
Cash received from user charges	\$	450	\$	71,608
Cash received (paid) from assessments made to (from) other funds		(545)		100,000
Cash payments for payroll, insurance, and operating costs		-		(90,964)
Net cash provided by (used for) operating activities		(95)		80,644
Cash flows from investing activities				
Interest received		5		4,181
Net cash provided by (used for) investing activities		5		4,181
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(90)		84,825
CASH AND CASH EQUIVALENTS				
Beginning of year		545		391,268
End of year	\$	455	\$	476,093
Reconciliation of operating income (loss) to cash provided by (used for) operating activities				
Operating income	\$	450	\$	6,182
Changes in assets and liabilities:				
(Increase) decrease in due from other funds		(545)		100,000
Decrease in accounts payable		-		(25,538)
Net cash provided by (used for) operating activities	\$	(95)	\$	80,644

The accompanying notes are an integral part of these financial statements.

NOVATO UNIFIED SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	Agency Funds		
	Payroll Revolving Fund	Novato Public Access TV Fund	Student Body Fund
ASSETS			
Cash and investments	\$ 134,583	\$ 16,460	\$ 182,040
Total Assets	\$ 134,583	\$ 16,460	\$ 182,040
LIABILITIES			
Accrued liabilities	\$ 134,583	\$ 16,460	\$ -
Due to student groups	-	-	182,040
Total Liabilities	\$ 134,583	\$ 16,460	\$ 182,040

The accompanying notes are an integral part of these financial statements.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization’s relationship with the District is such that exclusion would cause the District’s financial statements to be misleading or incomplete. The District has no such component units.

C. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code Section 15146*) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section 17462*) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section 41003*).

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125–15262*). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

Adult Education Fund: This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (*Education Code Sections 52616[b] and 52501.5[a]*).

Child Development Fund: This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the District for, or from the operation of, child development services covered under the Child Care and Development Services Act (*Education Code Section 8200 et seq.*) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (*Education Code Section 8328*).

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections 38091 and 38100*).

Deferred Maintenance Fund: This fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code Sections 17582–17587*). In addition, whenever the state funds provided pursuant to *Education Code Sections 17584 and 17585* (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the District (*Education Code Sections 17582 and 17583*).

Capital Project Funds: Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Capital Project Funds (continued)

County School Facilities Fund: This fund is established pursuant to *Education Code Section 17070.43* to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code Section 17070 et seq.*).

Special Reserve Fund for Capital Outlay Projects: This fund exists primarily to provide for the accumulation of General Fund moneys for capital outlay purposes (*Education Code Section 42840*).

Debt Service Funds: Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Debt Service Fund: This fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term debt.

Proprietary Funds

Enterprise Funds: Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

General Education Preschool Fund: This fund accounts for the before and after school childcare program funded by parent fees.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Proprietary Funds (continued)

Internal Service Funds: Internal service funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

Self-Insurance Fund: Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code Section 17566*).

Fiduciary Funds

Trust and Agency Funds: Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Payroll Revolving Fund: This fund exists to account for assets held by the District in a trustee capacity for other governmental agencies.

Novato Public Access TV Fund: This fund exists to account for activities of the non-profit organization.

Student Body Fund: The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections 48930–48938*).

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. **Basis of Accounting – Measurement Focus**

Government-Wide, Proprietary, and Fiduciary Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

Governmental Funds

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

Revenues – Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. **Basis of Accounting – Measurement Focus**

Revenues – Exchange and Non-Exchange Transactions, continued

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue

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

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$10,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

Asset Class	Examples	Estimated Useful Life
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing	20
School buildings	N/A	50
Portable classrooms	N/A	25
HVAC systems	Heating, ventilation, and air conditioning systems	20
Roofing	N/A	20
Interior construction	N/A	25
Carpet replacement	N/A	7
Electrical/plumbing	N/A	30
Sprinkler/fire system	Fire suppression system	25
Outdoor equipment	Playground, radio towers, fuel tanks, Pumps	20
Machinery and tools	Shop and maintenance equipment, tools	15
Kitchen equipment	Appliances	15
Custodial equipment	Floor scrubbers, vacuums, other	15
Science and engineering	Lab equipment, scientific apparatus	10
Furniture and accessories	Classroom and other furniture	20
Business machines	Fax, duplicating and printing equipment	10
Copiers	N/A	5
Communication equipment	Mobile, portable radios, non-computerized	10

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital Assets (continued)

Asset Class	Examples	Estimated Useful Life
Computer hardware	PCs, printers, network hardware	5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative long-term	10 to 20
Audio visual equipment	Projectors, cameras (still and digital)	10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical instruments	Pianos, strings, brass, percussion	10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	8 to 10
Contractors equipment	Front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

Premiums and Discounts

In the government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB, and OPEB expense have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 – June 30, 2018

Gains and losses related to changes in total OPEB liability are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

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 defined benefit pension plans (the Plans) of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. 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.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - 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.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. 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. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - 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. 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.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

G. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

H. Budgetary Data

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

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

I. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 75 for the year ended June 30, 2018.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This standard's primary objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement is effective for periods beginning after December 15, 2018. The District has not yet determined the impact on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This standard's primary objective is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 85 for the year ended June 30, 2018.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. This standard's primary objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement is effective for periods beginning after December 15, 2019. The District has not determined the impact on the financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard's primary objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The statement is effective for periods beginning after June 15, 2018. The District has not determined the impact on the financial statements.

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Internal Service Funds	Governmental Activities	Business-Type Activities	Fiduciary Funds
Investment in county treasury	\$ 80,507,103	\$ 476,093	\$ 80,983,196	\$ 455	\$ 151,043
Cash on hand and in banks	18,637	-	18,637	-	182,040
Cash in revolving fund	25,200	-	25,200	-	-
Total cash and investments	\$ 80,550,940	\$ 476,093	\$ 81,027,033	\$ 455	\$ 333,083

B. Policies and Practices

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

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Marin County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is based upon the District’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$81,221,995 and an amortized book value of \$81,134,694. The average weighted maturity for this pool is 211 days.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2018, the pooled investments in the County Treasury were rated not rated.

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance was not exposed to custodial credit risk.

G. Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Marin County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements at June 30, 2018 were as follows:

	<u>Uncategorized</u>
Investment in county treasury	\$ 81,221,995
Total fair market value of investments	<u>\$ 81,221,995</u>

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 1,009,384	\$ -	\$ 183,368	\$ 1,192,752
State Government				
Apportionment	1,153,539	-	-	1,153,539
Categorical aid	105,107	-	25,786	130,893
Lottery	311,583	-	-	311,583
Local Government				
Other local sources	2,427,810	47,522	8,660	2,483,992
Total	\$ 5,007,423	\$ 47,522	\$ 217,814	\$ 5,272,759

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 8,431,737	\$ -	\$ -	\$ 8,431,737
Construction in progress	1,982,049	4,444,331	543,412	5,882,968
Total Capital Assets not Being Depreciated	10,413,786	4,444,331	543,412	14,314,705
Capital assets being depreciated				
Land improvements	33,464,353	907,048	-	34,371,401
Buildings & improvements	181,491,113	-	-	181,491,113
Furniture & equipment	9,165,525	171,755	-	9,337,280
Total Capital Assets Being Depreciated	224,120,991	1,078,803	-	225,199,794
Less Accumulated Depreciation				
Land improvements	23,173,215	825,018	-	23,998,233
Buildings & improvements	100,071,873	6,779,704	-	106,851,577
Furniture & equipment	5,989,368	778,896	-	6,768,264
Total Accumulated Depreciation	129,234,456	8,383,618	-	137,618,074
Governmental Activities				
Capital Assets, net	\$ 105,300,321	\$ (2,860,484)	\$ 543,412	\$ 101,896,425

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2018 were as follows:

Due To Other Funds	Due From Other Funds			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 328,235	\$ 5,710	\$ 333,945
Non-Major Governmental Funds	165,233	-	-	165,233
Total Due From Other Funds	\$ 165,233	\$ 328,235	\$ 5,710	\$ 499,178

Due from General Fund to the Non-Major Cafeteria Fund for transfer of unclaimed meals	\$ 5,710
Due from General Fund to the Building Fund for transfer of RDA costs	328,235
Due from Non-Major Adult Education Fund to the General Fund to correct prior year transfer and indirect costs	102,366
Due from Non-Major Cafeteria Fund to the General Fund for indirect costs	62,867
Total	\$ 499,178

B. Operating Transfers

Interfund transfers for the year ended June 30, 2018 consisted of the following:

Interfund Transfers Out	Interfund Transfers In			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 328,235	\$ 44,385	\$ 372,620
Non-Major Governmental Funds	93,312	-	-	93,312
Total Interfund Transfers	\$ 93,312	\$ 328,235	\$ 44,385	\$ 465,932

Transfer from the General Fund to the Non-Major Cafeteria Fund to offset the difference in cost for students qualifying for FRMP	\$ 44,385
Transfer from the General Fund to the Building Fund for RDA facility fund transfer	328,235
Transfer from the Non-Major Adult Education Fund to the General Fund to correct prior year transfer	93,312
Total	\$ 465,932

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2018 consisted of the following:

			Non-Major				Total		Total Fiduciary
	General Fund	Building Fund	Governmental Funds	Internal Service Funds	District-Wide	Governmental Activities			
Payroll	\$ 1,100,942	\$ 18,237	\$ 19,055	\$ -	\$ -	\$ -	\$ 1,138,234	\$ -	
Construction	-	3,396,775	-	-	-	-	3,396,775	-	
Vendors payable	2,457,426	-	45,248	24,488	-	-	2,527,162	-	
Unmatured interest	-	-	-	-	2,205,115	-	2,205,115	-	
Other liabilities	-	-	-	-	-	-	-	151,043	
Total	\$ 3,558,368	\$ 3,415,012	\$ 64,303	\$ 24,488	\$ 2,205,115	\$ -	\$ 9,267,286	\$ 151,043	

NOTE 7 – UNEARNED REVENUE

Unearned revenue at June 30, 2018 consisted of the following:

	Non-Major		Total	
	General Fund	Governmental Funds	Governmental Activities	
Federal sources	\$ 32,433	\$ 3,088	\$ 35,521	
State categorical sources	956,711	49,511	1,006,222	
Total	\$ 989,144	\$ 52,599	\$ 1,041,743	

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2018 consisted of the following:

	Restated			Balance June 30, 2018	Balance Due In One Year
	Balance July 01, 2017	Additions	Deductions		
Governmental Activities					
General obligation bonds	\$ 121,295,000	\$ 11,445,000	\$ 15,850,000	\$ 116,890,000	\$ 10,870,000
Unamortized premium	13,267,204	2,472,412	2,252,080	13,487,536	1,378,523
Total general obligation bonds	134,562,204	13,917,412	18,102,080	130,377,536	12,248,523
Claims payable	200,000	-	-	200,000	-
Compensated absences	574,830	1,126	-	575,956	-
Total OPEB liability	1,288,849	99,061	-	1,387,910	-
Net pension liability	75,834,205	13,622,078	-	89,456,283	-
Total	\$ 212,460,088	\$ 27,639,677	\$ 18,102,080	\$ 221,997,685	\$ 12,248,523

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.
- Payments for claims liability are made from the Self Insurance Fund.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (continued)

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2018 amounted to \$575,956. This amount is included as part of long-term liabilities in the government-wide financial statements.

B. General Obligation Bonds

The County of Marin, California, (the County), on behalf of the District issued (in the aggregate principal amount) \$24,290,000 of General Obligation Bonds designated as "Novato Unified School District 2011 General Obligation Refunding Bonds" on September 22, 2011. The 2011 bonds were issued at a premium of \$3,118,323. As of June 30, 2018, the unamortized premium was \$827,140. The purpose of these bonds were to provide funds to refund all of the remaining outstanding Novato Unified School District General Obligation Bonds, Election of 2001, Series 2002 and to pay costs of issuance of the Bonds. On October 4, 2017, these bond were partially refunded with the 2017 General Obligation Refunding Bonds. As of June 30, 2018, the unrefunded outstanding principal balance was \$6,220,000.

The County of Marin, California, (the County), on behalf of the District issued (in the aggregate principal amount) \$53,630,000 of General Obligation Bonds designated as "Novato Unified School District 2014 General Obligation Refunding Bonds" on September 23, 2014. The 2014 bonds were issued at a premium of \$10,263,805. As of June 30, 2018, the unamortized premium was \$7,670,043. The purpose of these bonds were to provide funds to refund all of the remaining outstanding Novato Unified School District General Obligation Bonds, Election of 2001, Series 2005 and Series 2006 and to pay costs of issuance of the Bonds. As of June 30, 2018, the outstanding principal balance was \$48,225,000.

On March 16, 2017, the District issued \$47,000,000 of General Obligation Bonds, 2016 Election, 2017 Series A and \$4,000,000 of General Obligation Bonds, 2016 Election, 2017 Series A-1, which were authorized at an election held in the District on November 8, 2016. The bonds were issued at a premium of \$2,712,509 for Series A and \$359,227 for Series A-1. As of June 30, 2018, the unamortized premiums were \$2,570,528 and \$223,659, respectively. The net proceeds of the Bonds will be used to finance certain capital improvements for the District which includes upgrading classrooms, science labs, libraries and facilities to meet current academic/safety standards, providing dedicated space for science, math, engineering, arts and music instruction and improving student access to modern instructional technology. As of June 30, 2018, the outstanding principal balance of was \$47,000,000 for Series A and \$4,000,000 for Series A-1.

On October 4, 2017, the District issued 2017 General Obligation Refunding Bonds in the amount of \$11,445,000 to refund a portion of the District's 2011 General Obligation Refunding Bonds and to pay the costs of issuance associated with the bonds. The bonds were issued at a premium of \$2,472,412. As of June 30, 2018, the unamortized premium was \$2,196,165 with an outstanding principal balance of \$11,445,000.

**NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018**

NOTE 8 – LONG-TERM DEBT (continued)

B. General Obligation Bonds (continued)

The outstanding general obligation bonded debt of the Novato Unified School District, as of June 30, 2018, is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2018
					Outstanding July 01, 2017	Additions	Deductions	
2011	9/22/2011	8/1/2026	2.0% - 5.0%	\$ 24,290,000	\$ 19,605,000	\$ -	\$ 13,385,000	\$ 6,220,000
2014	9/23/2014	8/1/2029	2.0% - 5.0%	53,630,000	50,690,000	-	2,465,000	48,225,000
2017 Series A	3/16/2017	8/1/2041	3.25%-5.00%	47,000,000	47,000,000	-	-	47,000,000
2017 Series A-1	3/16/2017	8/1/2020	5.0%	4,000,000	4,000,000	-	-	4,000,000
2017 Refunding	10/4/2017	8/1/2026	5.0%	11,445,000	-	11,445,000	-	11,445,000
					<u>\$ 121,295,000</u>	<u>\$ 11,445,000</u>	<u>\$ 15,850,000</u>	<u>\$ 116,890,000</u>

The following table summarizes the annual debt service requirements of the District for the bonds:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 10,870,000	\$ 5,306,125	\$ 16,176,125
2020	10,245,000	4,798,381	15,043,381
2021	8,100,000	4,309,631	12,409,631
2022	6,175,000	3,928,631	10,103,631
2023	6,895,000	3,637,756	10,532,756
2024 - 2028	35,975,000	12,463,905	48,438,905
2029 - 2033	14,845,000	5,845,830	20,690,830
2034 - 2038	10,580,000	3,737,296	14,317,296
2039 - 2042	13,205,000	1,371,800	14,576,800
Total	<u>\$ 116,890,000</u>	<u>\$ 45,399,355</u>	<u>\$ 162,289,355</u>

C. Claims Payable

As of June 30, 2018, a claims liability of \$200,000 has been accrued in the accompanying government-wide and fund financial statements. The District's liability for claims payable is based on claims reserves established by the claims administrators and actuarial studies. The claims liability includes an allowance for incurred, but not reported losses.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (continued)

D. Other Postemployment Benefits

The District’s restated beginning total OPEB liability was \$1,288,849 and increased by \$99,061 during the year ended June 30, 2018. The ending total OPEB liability at June 30, 2018 was \$1,387,910. See Note 10 for additional information regarding the total OPEB liability.

E. Net Pension Liability

The District’s beginning net pension liability was \$75,834,205 and increased by \$13,622,078 during the year ended June 30, 2018. The ending net pension liability at June 30, 2018 was \$89,456,283. See Note 11 for additional information regarding the net pension liability.

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2018:

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	\$ 25,200	\$ -	\$ -	\$ -	\$ 25,200
Stores inventory	37,380	-	-	30,495	67,875
Prepaid expenditures	95,345	-	-	-	95,345
Total non-spendable	157,925	-	-	30,495	188,420
Restricted					
Educational programs	3,866,091	-	-	113,182	3,979,273
Capital projects	-	46,534,878	-	1,278,168	47,813,046
Debt service	-	-	13,418,133	13,566	13,431,699
All others	-	-	-	129,341	129,341
Total restricted	3,866,091	46,534,878	13,418,133	1,534,257	65,353,359
Committed					
Other commitments	-	-	-	1,694,632	1,694,632
Total committed	-	-	-	1,694,632	1,694,632
Assigned					
Special reserve for other than capital outlay	2,117,236	-	-	-	2,117,236
Other assignments	5,934,709	-	-	-	5,934,709
Total assigned	8,051,945	-	-	-	8,051,945
Unassigned					
Reserve for economic uncertainties	2,619,137	-	-	-	2,619,137
Total unassigned	2,619,137	-	-	-	2,619,137
Total	\$ 14,695,098	\$ 46,534,878	\$ 13,418,133	\$ 3,259,384	\$ 77,907,493

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District’s Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 3 percent of General Fund expenditures and other financing uses.

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

The District's health care plan (Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides health benefits to eligible retirees based on agreements entered into with the Novato Federation of Teachers/CFT/AFT and the local California Service Employees Association (CSEA). The District provides medical, dental and vision benefits to retirees and their covered eligible dependents. The District pays a portion of the medical costs for eligible retirees only. Retirees must pay the entire cost for dental, vision, and dependent medical benefits. All active employees who retire directly from the District and meet the eligibility criteria may participate.

B. Benefits Provided

The eligibility requirements and benefits provided by the Plan are described below. (Some grandfathered certificated retirees receive additional benefits under a recent retirement incentive.)

	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Benefit types provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Duration of Benefits	To age 65	To age 65	To age 65
Required Service	5 years	5 years	5 years
	Prorated for 5 to 10 years	Prorated for 5 to 15 years	Prorated for 5 to 15 years
Minimum Age	55	55	55
Dependent Coverage	Yes	Yes	Yes
District Contribution %	100% to cap	100% to cap	100% to cap
District Cap	\$200 per month	\$200 per month	\$200 per month

C. Contributions

The contribution requirements of Plan members and the Novato Unified School District are established and may be amended by the Novato Unified School District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Plan Membership

Membership of the Plan consisted of the following:

	<u>Number of participants</u>
Inactive employees receiving benefits	28
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	<u>616</u>
Total number of participants**	<u>644</u>

*Information not provided

**As of the June 30, 2018 valuation date

E. Total OPEB Liability

The Novato Unified School District’s total OPEB liability of \$1,387,910 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

F. Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Economic assumptions:

Inflation	2.75%
Salary increases	2.75%
Investment rate of return	3.80%
Healthcare cost trend rates	4.00%

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

G. Actuarial Assumptions and Other Inputs (continued)

Non-economic assumptions:

Mortality:

Certificated	2009 CalSTRS Mortality Table
Classified	2014 CalPERS Active Mortality for Miscellaneous Employees Table

Retirement rates:

Certificated	2009 CalSTRS Retirement Rates Table
Classified	2009 CalPERS Retirement Rates for School Employees Table 2009 CalPERS Retirement Rates for Miscellaneous Employees

Service Requirement

Certificated	70% at 7 years + 10%/year to 100% at 10 years
Classified	50% at 10 years + 10%/year to 100% at 15 years

The discount rate was based on the Bond Buyer 20 Bond Index. The actuary assumed contributions would be sufficient to fully fund the obligation over a period not to exceed thirty years.

H. Changes in Total OPEB Liability

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 100,532
Interest on total OPEB liability	49,859
Benefits payments	<u>(51,330)</u>
Net change in total OPEB liability	99,061
Total OPEB liability - beginning	<u>1,288,849</u>
Total OPEB liability - ending	<u>\$ 1,387,910</u>
 Covered payroll	 \$ 43,782,899
 District's total OPEB liability as a percentage of covered payroll	 3.17%

The Novato Unified School District has invoked Paragraph 244 of GASB Statement 75 for the transition due to cost constraints. Consequently, in order to determine the beginning total OPEB liability, a “roll-back” technique has been used.

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

I. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Novato Unified School District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.80 percent) or one percentage point higher (4.80 percent) than the current discount rate:

	1% Decrease (2.8%)	Valuation Discount Rate (3.8%)	1% Increase (4.8%)
Total OPEB liability	\$ 1,495,611	\$ 1,387,910	\$ 1,292,712

J. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the Novato Unified School District, as well as what the District’s total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (3.00 percent) or one percentage point higher (5.00 percent) than the current healthcare cost trend rate:

	1% Decrease (3.0%)	Valuation Trend Rate (4.0%)	1% Increase (5.0%)
Total OPEB liability	\$ 1,324,605	\$ 1,387,910	\$ 1,455,586

K. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the Novato Unified School District recognized OPEB expense of \$150,391. At June 30, 2018, the Novato Unified School District reported no deferred outflows of resources related to OPEB or deferred inflows of resources related to OPEB.

Prior periods of deferred outflows and deferred inflows of resources were not restated due to the fact that prior valuations were not rerun in accordance with Paragraph 244 of GASB Statement 75. It was determined the time and expense necessary to rerun prior valuations and to restate prior financial statements was not justified. In the future, gains and losses related to changes in total OPEB liability will be recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 11 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	\$ 66,341,611	\$ 19,464,549	\$ 3,464,968	\$ 6,797,597
PERS Pension	23,114,672	8,012,765	291,173	3,837,800
Total	\$ 89,456,283	\$ 27,477,314	\$ 3,756,141	\$ 10,635,397

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Benefits Provided

The CalSTRS defined benefit plan has two benefit formulas:

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

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

A. California State Teachers’ Retirement System (CalSTRS) (continued)

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 9.205% of their salary for fiscal year 2018, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers’ Retirement Board. The required employer contribution rate for fiscal year 2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$5,588,967 for the year ended June 30, 2018.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$3,191,640 to CalSTRS.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District 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 District were as follows:

District's proportionate share of the net pension liability	\$ 66,341,611
State's proportionate share of the net pension liability associated with the District	39,247,456
Total	\$ 105,589,067

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District’s proportion was .072 percent, which was an increase of .001 percent from its proportion measured as of June 30, 2016.

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

A. California State Teachers’ Retirement System (CalSTRS) (continued)

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

For the year ended June 30, 2018, the District recognized pension expense of \$6,797,597. In addition, the District recognized pension expense and revenue of \$1,128,025 for support provided by the State. At June 30, 2018, the District 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>
Differences between projected and actual earnings on plan investments	\$ -	\$ 1,766,862
Differences between expected and actual experience	245,337	1,157,105
Changes in assumptions	12,290,558	
Changes in proportion and differences between District contributions and proportionate share of contributions	1,339,687	541,001
District contributions subsequent to the measurement date	5,588,967	-
	<u>\$ 19,464,549</u>	<u>\$ 3,464,968</u>

The \$5,588,967 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 2,344,625	\$ 1,862,800
2020	2,344,625	(719,110)
2021	2,344,625	233,941
2022	2,344,627	1,965,026
2023	2,321,795	122,311
2024	2,175,285	-
	<u>\$ 13,875,582</u>	<u>\$ 3,464,968</u>

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

A. California State Teachers’ Retirement System (CalSTRS) (continued)

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Rate of Return*	7.10%
Wage Inflation	3.50%

* Net of investment expenses, but gross of administrative expenses.

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on MP-2016 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010–June 30, 2015.

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 (Pension Consulting Alliance–PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return*
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%
	100%	

*20-year geometric average

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

A. California State Teachers’ Retirement System (CalSTRS) (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan’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 District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	\$ 97,410,546	\$ 66,341,611	\$ 41,127,064

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees' Retirement System (CalPERS)

Plan Description

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

Benefits Provided

The benefits for the defined benefit plan 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 of credited service.

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.5% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2018 was 15.531% of annual payroll. Contributions to the plan from the District were \$1,970,402 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$23,114,672 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.097 percent, which was an increase of 0.004 percent from its proportion measured as of June 30, 2016.

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees’ Retirement System (CalPERS) (continued)

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

For the year ended June 30, 2018, the District recognized pension expense of \$3,837,800. At June 30, 2018, the District 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>
Differences between projected and actual earnings on plan investments	\$ 799,610	\$ -
Differences between expected and actual experience	828,103	-
Changes in assumptions	3,376,261	272,147
Changes in proportion and differences between District contributions and proportionate share of contributions	1,038,389	19,026
District contributions subsequent to the measurement date	1,970,402	-
	<u>\$ 8,012,765</u>	<u>\$ 291,173</u>

The \$1,970,402 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 1,991,400	\$ 291,173
2020	2,602,092	-
2021	1,886,736	-
2022	(437,865)	-
	<u>\$ 6,042,363</u>	<u>\$ 291,173</u>

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees’ Retirement System (CalPERS) (continued)

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Discount Rate	7.15%
Salary Increases	Varies by Entry Age and Service

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS’ membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

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

NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees’ Retirement System (CalPERS) (continued)

Actuarial Assumptions (continued)

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. These geometric rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Real Return Years 1 – 10*	Real Return Years 11+**
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
	100.0%		

*An expected inflation of 2.50% used for this period.

**An expected inflation of 3.00% used for this period.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

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

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	\$ 34,009,089	\$ 23,114,672	\$ 14,076,840

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees’ Retirement System (CalPERS) (continued)

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 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

C. Construction Commitments

As of June 30, 2018, the District had commitments with respect to unfinished capital projects of \$4,579,879.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in two joint ventures under joint powers authorities (JPAs), the Marin School Insurance Authority and Northern California Regional Excess Liability Fund (NorCal ReLiEF). The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member units, and their financial statements are not presented in these financial statements. However, fund transactions between the JPAs and the District are included in these statements. The audited financial statements are generally available from the respective entities.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 14 - DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts are solely the property and rights of the District until paid or made available to the employee or their beneficiary, subject only to the claims of the District's general creditors. Participants' rights under the plan are equal to those of general creditors of the District in an amount equal to the fair market value of the deferred account for each participant.

The funds are currently on deposit in a financial institution with separate accounts established for each participating employee.

NOTE 15 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Refunded Debt

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows or inflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District's long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2018, the deferred amount on refunding was \$1,920,843.

B. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 11. At June 30, 2018, total deferred outflows related to pensions was \$27,477,314 and total deferred inflows related to pensions was \$3,756,141.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2018

NOTE 16 – RESTATEMENT OF NET POSITION

The beginning net position of Governmental Activities has been restated in order to record the District's total OPEB liability in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The effect on beginning net position is presented as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	\$ (12,868,240)
Restatement	(1,177,735)
Net Position - Beginning, as Restated	<u>\$ (14,045,975)</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

**NOVATO UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 62,752,053	\$ 63,127,018	\$ 63,140,062	\$ 13,044
Federal sources	2,848,814	3,286,279	3,079,397	(206,882)
Other state sources	4,907,970	7,052,655	6,614,055	(438,600)
Other local sources	10,220,624	11,291,082	11,956,776	665,694
Total Revenues	80,729,461	84,757,034	84,790,290	33,256
EXPENDITURES				
Certificated salaries	39,162,945	39,846,382	39,699,888	146,494
Classified salaries	12,543,771	12,889,383	12,858,569	30,814
Employee benefits	19,228,077	19,756,257	19,763,598	(7,341)
Books and supplies	1,604,967	4,546,481	2,353,543	2,192,938
Services and other operating expenditures	9,376,357	10,678,779	10,271,596	407,183
Capital outlay	14,300	209,086	194,628	14,458
Other outgo				
Excluding transfers of indirect costs	1,699,186	1,966,296	1,862,032	104,264
Transfers of indirect costs	-	-	(71,921)	71,921
Total Expenditures	83,629,603	89,892,664	86,931,933	2,960,731
Excess (Deficiency) of Revenues				
Over Expenditures	(2,900,142)	(5,135,630)	(2,141,643)	2,993,987
Other Financing Sources (Uses)				
Transfers in	-	-	93,312	93,312
Transfers out	(40,000)	(73,000)	(465,932)	(392,932)
Net Financing Sources (Uses)	(40,000)	(73,000)	(372,620)	(299,620)
NET CHANGE IN FUND BALANCE	(2,940,142)	(5,208,630)	(2,514,263)	2,694,367
Fund Balance - Beginning	15,092,125	15,092,125	15,092,125	-
Fund Balance - Ending	\$ 12,151,983	\$ 9,883,495	\$ 12,577,862	\$ 2,694,367

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reasons:

- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 100,532
Interest on total OPEB liability	49,859
Benefits payments	<u>(51,330)</u>
Net change in total OPEB liability	99,061
Total OPEB liability - beginning	<u>1,288,849</u>
Total OPEB liability - ending	<u>\$ 1,387,910</u>
Covered payroll	\$ 43,782,899
District's total OPEB liability as a percentage of covered payroll	3.17%

See accompanying note to required supplementary information.

**NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.072%	0.071%	0.070%	0.071%
District's proportionate share of the net pension liability	\$ 66,341,611	\$ 57,429,384	\$ 46,924,828	\$ 41,490,270
State's proportionate share of the net pension liability associated with the District	39,247,456	32,698,338	24,823,123	25,053,616
Total	<u>\$ 105,589,067</u>	<u>\$ 90,127,722</u>	<u>\$ 71,747,951</u>	<u>\$ 66,543,886</u>
District's covered payroll	\$ 38,255,933	\$ 34,009,336	\$ 31,797,321	\$ 31,827,394
District's proportionate share of the net pension liability as a percentage of its covered payroll	173.4%	168.9%	147.6%	130.4%
Plan fiduciary net position as a percentage of the total pension liability	69.5%	70.0%	74.0%	76.5%

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

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALPERS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.097%	0.093%	0.093%	0.091%
District's proportionate share of the net pension liability	\$ 23,114,672	\$ 18,404,821	\$ 13,661,123	\$ 10,296,658
District's covered payroll	\$ 11,862,305	\$ 10,791,726	\$ 9,915,349	\$ 9,519,402
District's proportionate share of the net pension liability as a percentage of its covered payroll	194.9%	170.5%	137.8%	108.2%
Plan fiduciary net position as a percentage of the total pension liability	71.9%	73.9%	79.4%	83.4%

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

**NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 5,588,967	\$ 4,814,359	\$ 3,846,124	\$ 3,020,029
Contributions in relation to the contractually required contribution*	(5,588,967)	(4,814,359)	(3,846,124)	(3,020,029)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 38,751,930	\$ 38,255,933	\$ 34,009,336	\$ 31,797,321
Contributions as a percentage of covered payroll	14.42%	12.58%	11.31%	9.50%

*Amounts do not include on-behalf contributions

**NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 1,970,402	\$ 1,654,964	\$ 1,277,192	\$ 1,130,750
Contributions in relation to the contractually required contribution	(1,970,402)	(1,654,964)	(1,277,192)	(1,130,750)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 12,691,907	\$ 11,862,305	\$ 10,791,726	\$ 9,915,349
Contributions as a percentage of covered payroll	15.52%	13.95%	11.83%	11.40%

See accompanying note to required supplementary information.

**NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Changes in Total OPEB Liability and Related Ratios

This 10-year schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 75 was applicable. The schedule presents the sources of change in the total OPEB liability, and the components of the total OPEB liability and related ratios, including the total OPEB liability as a percentage of covered-employee payroll.

Schedule of the District's Proportionate Share of the Net Pension Liability

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuations for CalSTRS and CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

**NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
 FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of District Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District’s statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District’s covered payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District’s covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2018, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Employee benefits	\$ 19,756,257	\$ 19,763,598	\$ 7,341

**SUPPLEMENTARY
INFORMATION**

**NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 636,588
Title II, Part A, Teacher Quality	84.367	14341	154,090
Title III			
Title III, English Learner Student Program	84.365	14346	177,750
Title III, Immigrant Education Program	84.365	15146	9,684
Subtotal Title III			187,434
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	1,325,088
IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	84,578
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	80,811
IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	84.027A	13682	238,619
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	6,171
Subtotal Special Education Cluster			1,735,267
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14893	41,939
Advanced Placement and International Baccalaureate Test Fee Reimbursement	84.330B	14831	1,016
Total U. S. Department of Education			2,756,334
U. S. DEPARTMENT OF DEFENSE:			
Air Force Junior ROTC Program	12.UNK	*	88,790
Total U. S. Department of Defense			88,790
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster [1]			
School Breakfast Program - Needy	10.553	13526	370,772
National School Lunch Program	10.555	13391	773,929
USDA Commodities [2]	10.555	*	105,201
Summer Food Service Program for Children	10.559	13004	18,812
Subtotal Child Nutrition Cluster			1,268,714
CACFP Claims - Centers and Family Day Care	10.558	13393	40,549
Total U. S. Department of Agriculture			1,309,263
<i>Passed through California Department of Health Services:</i>			
Medi-Cal Billing Option	93.778	10013	301,566
Total U. S. Department of Health & Human Services			301,566
Total Federal Expenditures			\$ 4,455,953

[1] - Major Program

[2] - In-Kind Contribution

* - Pass-Through Entity Identifying Number not available or not applicable

**NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2018**

	Second Period Report 37C333D7	Annual Report 1C3C247A
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	2,026.93	2,030.71
Extended Year Special Education	1.99	1.99
Special Education - Nonpublic Schools	0.95	0.95
Extended Year Special Education - Nonpublic Schools	0.03	0.03
Total TK/K through Third	2,029.90	2,033.68
Fourth through Sixth		
Regular ADA	1,618.98	1,619.64
Extended Year Special Education	1.61	1.61
Special Education - Nonpublic Schools	4.43	4.43
Extended Year Special Education - Nonpublic Schools	0.71	0.71
Total Fourth through Sixth	1,625.73	1,626.39
Seventh through Eighth		
Regular ADA	1,086.40	1,092.03
Extended Year Special Education	0.69	0.69
Special Education - Nonpublic Schools	6.69	6.68
Extended Year Special Education - Nonpublic Schools	0.74	0.74
Community Day School	3.74	3.89
Total Seventh through Eighth	1,098.26	1,104.03
Ninth through Twelfth		
Regular ADA	2,518.01	2,504.92
Extended Year Special Education	0.35	0.35
Special Education - Nonpublic Schools	18.17	18.18
Extended Year Special Education - Nonpublic Schools	3.95	3.95
Total Ninth through Twelfth	2,540.48	2,527.40
TOTAL SCHOOL DISTRICT	7,294.37	7,291.50

**NOVATO UNIFIED SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2018**

Grade Level	Minutes Requirement	2017-18 Actual Minutes	Number of Days	Status
Kindergarten	36,000	42,920	180	Complied
Grade 1	50,400	53,660	180	Complied
Grade 2	50,400	53,660	180	Complied
Grade 3	50,400	53,660	180	Complied
Grade 4	54,000	54,500	180	Complied
Grade 5	54,000	54,500	180	Complied
Grade 6	54,000	57,327	180	Complied
Grade 7	54,000	57,327	180	Complied
Grade 8	54,000	57,327	180	Complied
Grade 9	64,800	65,040	180	Complied
Grade 10	64,800	65,040	180	Complied
Grade 11	64,800	65,040	180	Complied
Grade 12	64,800	65,040	180	Complied

**NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

	2019 (Budget)	2018	2017	2016
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 87,545,248	\$ 84,883,602	\$ 84,525,997	\$ 84,001,855
Expenditures And Other Financing Uses	88,245,875	87,397,865	86,343,348	80,801,357
Net change in Fund Balance	\$ (700,627)	\$ (2,514,263)	\$ (1,817,351)	\$ 3,200,498
Ending Fund Balance	\$ 11,877,235	\$ 12,577,862	\$ 15,092,125	\$ 17,909,561
Available Reserves*	\$ 2,647,377	\$ 2,619,137	\$ 2,590,301	\$ 6,496,199
Available Reserves As A Percentage Of Outgo	3.00%	3.00%	3.00%	8.04%
Long-term Debt	\$ 209,749,162	\$ 221,997,685	\$ 211,282,353	\$ 147,245,061
Average Daily Attendance At P-2	7,210	7,294	7,332	7,421

The General Fund balance has decreased by \$5,331,699 over the past two years. The fiscal year 2018-19 budget projects a further decrease of \$700,627. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two out of the three past years and anticipates incurring an operating deficit during the 2018-19 fiscal year. Total long-term obligations have increased by \$74,752,624 over the past two years.

Average daily attendance has decreased by 127 ADA over the past two years and a further decrease of 84 ADA is anticipated during the 2018-19 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund.

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

**NOVATO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects
June 30, 2018, annual financial and budget report fund balance	\$ 12,577,862	\$ 2,117,236
Adjustments and reclassifications:		
Increase (decrease) in total fund balances:		
Fund balance transfer (GASB 54)	2,117,236	(2,117,236)
Net adjustments and reclassifications	2,117,236	(2,117,236)
June 30, 2018, audited financial statement fund balance	<u>\$ 14,695,098</u>	<u>\$ -</u>

**NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018**

Charter #	Charter School	Status	Included in Audit Report
0098	Novato Charter School	Active	No

See accompanying note to supplementary information.

**NOVATO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Non-Major Governmental Funds
ASSETS									
Cash and investments	\$ 226,441	\$ 71,101	\$ 1,585	\$ 1,695,232	\$ 263,070	\$ 1	\$ 1,016,504	\$ 13,566	\$ 3,287,500
Accounts receivable	4,048	11,134	202,632	-	-	-	-	-	217,814
Due from other funds	-	-	5,710	-	-	-	-	-	5,710
Stores inventory	-	-	30,495	-	-	-	-	-	30,495
Total Assets	\$ 230,489	\$ 82,235	\$ 240,422	\$ 1,695,232	\$ 263,070	\$ 1	\$ 1,016,504	\$ 13,566	\$ 3,541,519
LIABILITIES									
Accrued liabilities	\$ 14,941	\$ 32,724	\$ 14,631	\$ 600	\$ 1,407	\$ -	\$ -	\$ -	\$ 64,303
Due to other funds	102,366	-	62,867	-	-	-	-	-	165,233
Unearned revenue	-	49,511	3,088	-	-	-	-	-	52,599
Total Liabilities	117,307	82,235	80,586	600	1,407	-	-	-	282,135
FUND BALANCES									
Non-spendable	-	-	30,495	-	-	-	-	-	30,495
Restricted	113,182	-	129,341	-	261,663	1	1,016,504	13,566	1,534,257
Committed	-	-	-	1,694,632	-	-	-	-	1,694,632
Total Fund Balances	113,182	-	159,836	1,694,632	261,663	1	1,016,504	13,566	3,259,384
Total Liabilities and Fund Balance	\$ 230,489	\$ 82,235	\$ 240,422	\$ 1,695,232	\$ 263,070	\$ 1	\$ 1,016,504	\$ 13,566	\$ 3,541,519

See accompanying note to supplementary information.

**NOVATO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Non-Major Governmental Funds
REVENUES									
LCFF sources	\$ -	\$ -	\$ -	\$ 262,484	\$ -	\$ -	\$ -	\$ -	\$ 262,484
Federal sources	-	-	1,309,263	-	-	-	-	-	1,309,263
Other state sources	14,171	131,146	96,828	-	-	-	-	-	242,145
Other local sources	192,796	1,015	741,404	13,890	139,721	1	9,777	128	1,098,732
Total Revenues	206,967	132,161	2,147,495	276,374	139,721	1	9,777	128	2,912,624
EXPENDITURES									
Current									
Instruction	157,520	132,161	-	-	-	-	-	-	289,681
Instruction-related services									
Instructional supervision and administration	49,727	-	-	-	-	-	-	-	49,727
School site administration	96	-	-	-	-	-	-	-	96
Pupil services									
Food services	-	-	2,178,439	-	-	-	-	-	2,178,439
All other pupil services	80,003	-	-	-	-	-	-	-	80,003
General administration									
All other general administration	9,054	-	62,867	-	-	-	-	-	71,921
Plant services	-	-	7,787	8,124	5,114	-	-	-	21,025
Facilities acquisition and maintenance	-	-	-	55,640	125,701	-	5,482	-	186,823
Total Expenditures	296,400	132,161	2,249,093	63,764	130,815	-	5,482	-	2,877,715
Excess (Deficiency) of Revenues									
Over Expenditures	(89,433)	-	(101,598)	212,610	8,906	1	4,295	128	34,909
Other Financing Sources (Uses)									
Transfers in	-	-	44,385	-	-	-	-	-	44,385
Transfers out	(93,312)	-	-	-	-	-	-	-	(93,312)
Net Financing Sources (Uses)	(93,312)	-	44,385	-	-	-	-	-	(48,927)
NET CHANGE IN FUND BALANCE	(182,745)	-	(57,213)	212,610	8,906	1	4,295	128	(14,018)
Fund Balance - Beginning	295,927	-	217,049	1,482,022	252,757	-	1,012,209	13,438	3,273,402
Fund Balance - Ending	\$ 113,182	\$ -	\$ 159,836	\$ 1,694,632	\$ 261,663	\$ 1	\$ 1,016,504	\$ 13,566	\$ 3,259,384

See accompanying note to supplementary information.

**NOVATO UNIFIED SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2018**

The Novato Unified School District was established on July 1, 1965, and is comprised of an area of approximately 70 square miles located in the northern part of Marin County. There were no changes in the boundaries of the District during the current year. The District is operating 7 elementary schools, 1 K-8 school, 2 middle schools, 2 high schools, a community day school, and an Education Center housing a continuation school and independent study program.

GOVERNING BOARD

Member	Office	Term Expires
Debbie Butler	President	2020
Shelly Scott	Vice President	2018
Thomas Cooper	Trustee	2020
Maria Aguila	Trustee	2018
Derek Knell	Trustee	2018
Greg Mack	Trustee	2020
Ross Millerick	Trustee	2020

DISTRICT ADMINISTRATORS

Jim Hogeboom
Superintendent

Yancy Hawkins
Assistant Superintendent, Business & Operations

Kris Cosca
Assistant Superintendent, Human Resources

**NOVATO UNIFIED SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 JUNE 30, 2018**

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2018 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2018.

	CFDA	
	Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 4,388,660
Medi-Cal Billing Option	93.778	<u>67,293</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$ 4,455,953</u>

The District has not elected to use the 10 percent de minimis indirect cost rate.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections 46200 through 46208*. During the year ended June 30, 2018, the District participated in the Longer Day incentive funding program. As of June 30, 2018, the District had not yet met its target funding.

Schedule of Financial Trends and Analysis

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

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Schedule of Charter Schools

This schedule lists all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

Combining Statements – Non-Major Funds

These statements provide information on the District's non-major funds.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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*Licensed by the California
State Board of Accountancy*

Governing Board
Novato Unified School District
Novato, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Novato Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Novato Unified School District's basic financial statements, and have issued our report thereon dated November 14, 2018.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 Novato Unified School District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
November 14, 2018

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Governing Board
Novato Unified School District
Novato, California

Report on Compliance for Each Major Federal Program

We have audited Novato Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Novato Unified School District's major federal programs for the year ended June 30, 2018. Novato Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Each Major Federal Program

In our opinion, Novato Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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



San Diego, California
November 14, 2018

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
Novato Unified School District
Novato, California

Report on State Compliance

We have audited Novato Unified School District's compliance with the types of compliance requirements described in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810, that could have a direct and material effect on each of Novato Unified School District's state programs for the fiscal year ended June 30, 2018, as identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Novato Unified School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Novato Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Novato Unified School District's compliance with those requirements.

Opinion on State Compliance

In our opinion, Novato Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2018.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as item #2018-001. Our opinion on state compliance is not modified with respect to these matters.

Novato Unified School District’s response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Novato Unified School District’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Procedures Performed

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

<u>PROGRAM NAME</u>	<u>PROCEDURES PERFORMED</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

PROGRAM NAME	PROCEDURES PERFORMED
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

Christy White Associates

San Diego, California
November 14, 2018

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**NOVATO UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555, 10.559</u>	<u>Child Nutrition Cluster</u>

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

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

NOVATO UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

There were no financial statement findings for the year ended June 30, 2018.

NOVATO UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

FIVE DIGIT CODE
50000

AB 3627 FINDING TYPE
Federal Compliance

There were no federal award findings or question costs for the year ended June 30, 2018.

**NOVATO UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINDING #2018-001: UNDUPLICATED PUPIL COUNT (40000)

Criteria: Students classified as Free or Reduced Priced Meal (FRPM) eligible, who are not directly certified on the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List report, must have supporting documentation that indicates the student was eligible for this designation. The unduplicated local control funding formula pupil count affects the percentage used as data in calculating Local Control Funding Formula (LCFF) apportionment. Auditors are required to verify compliance with California Education Code Section 42238.02(b)(3)(B).

Condition: One (1) out of sixty (60) students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who were classified as FRPM did not have proper supporting documentation to justify their designation. Upon further review of 100% of the NSLP Income Verification sample selected for 2017-18, we identified eleven (11) additional students that were incorrectly classified.

Cause: The CALPADS reports were not updated in a timely manner to correct student changes in the 2017-18 year.

Effect: The District is not in compliance with State requirements.

Questioned Cost: \$2,560. This was determined by taking the difference between the District’s original total LCFF revenues and the LCFF revenues adjusted for the decrease in the unduplicated pupil count as calculated below:

CalPADS		Revised
Unduplicated	Audit	Unduplicated
Pupil Count	Adjustment	Pupil Count
8,851	(12)	8,839

Recommendation: We recommend the District work to ensure that all changes in FRPM eligibility based on outcome of NSLP Income Verification are accurately reflected in the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report following the completion of procedures and prior to the close of the fall amendment window.

District Response: The Food and Nutritional Services Department will collaborate with Student Information staff to verify the CALPADS list against the list FRPM list generated by the Food Services that is based on NSLP Income Verification. This will ensure that all students not directly certified on CALPADS have supporting documentation that indicates the student was eligible for this designation. This procedure will be completed prior to the close of the fall amendment window.

**NOVATO UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

FINDING #2017-001: ASSOCIATED STUDENT BODY (ASB) FUNDS (30000)

Criteria: Maintaining sound internal control procedures over cash receipts, cash disbursements, bank reconciliations and minutes of council meetings reduces the opportunity for irregularities to go undetected. The Fiscal Crisis & Management Assistance Team (FCMAT) Associated Student Body Accounting Manual & Desk Reference outlines proper internal control procedures for associated student body accounts to follow.

Condition: Through our testing of the school site ASB accounts, we noted the following internal control deficiencies:

SINALOA MIDDLE SCHOOL

- 5 out 5 cash disbursements tested did not obtain approval from the three required representatives. All purchases written approval from the ASB advisor, student council representative and site administrator.
- Checks written from the ASB account did not require double signature.
- 2 out 3 cash receipts tested were not deposited timely after the fundraising activity.

SAN MARIN HIGH SCHOOL

1 out 10 cash receipt tested did not have adequate supporting documentation to reconcile the sales or collections to the amount deposited.

Cause: Insufficient controls over student body activities.

Effect: The potential for irregularities in accounting to go undetected.

Perspective: Testing was performed at a sample of the District's student body accounts.

Recommendation: We recommend that all ASB checks require a double signature. In addition, all purchase approval forms should be signed by the ASB advisor, student council representative, and site administrator. We recommend that the District implement procedures to ensure that adequate supporting documentation is maintained for ASB cash collections. The District should provide each student body account clerk with the latest FCMAT Associated Student Body Accounting Manual & Desk Reference and reinforce the importance for sound internal control procedures to be implemented.

District Response: The District concurs with the recommendations and will work closely with staff to correct the deficiencies

Current Status: Implemented

**NOVATO UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

FINDING#2017-002: SCHOOL ACCOUNTABILITY REPORT CARD (72000)

Criteria: School Accountability Report Cards (SARCs), prepared on annual basis for each school site within the District and posted in February, should contain information regarding school facilities conditions, as indicated in the most recently prepared facility inspection tool (FIT) form developed by the Office of Public School Construction and approved by the State Allocation Board, or local evaluation instruments that meet the same criteria, as per Education Code Sections 33126(b)(8) and 17002(d).

Condition: During testing of a representative sample of 2015-16 SARCs posted in 2016-17, the following issues were noted regarding facilities conditions:

For San Ramon Elementary, the FIT form provided included discrepancies in which the structural information reported on FIT forms (poor) did not accurately trace to structural information reported in the SARC (good).

Cause: Clerical errors in posting the SARC.

Questioned Costs: Not applicable.

Effect: The SARCs were not accurate.

Recommendation: We recommend that the District implement a process to accurately compile information included in the most recently prepared FITs.

District Response: The District concurs with the recommendations and will work closely with staff to correct the deficiencies.

Current Status: Implemented