

**NOVATO UNIFIED  
SCHOOL DISTRICT  
COUNTY OF MARIN  
NOVATO, CALIFORNIA**

AUDIT REPORT  
June 30, 2007

# NOVATO UNIFIED SCHOOL DISTRICT

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## FINANCIAL SECTION



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# MOSS, LEVY & HARTZHEIM LLP

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## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Novato Unified School District  
Novato, California

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Novato Unified School District as of and for the fiscal year ended June 30, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Novato Unified School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable thereof, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 12, and the budgetary comparison schedule for the General Fund on page 49 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 20, 2008, on our consideration of the Novato Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Novato Unified School District's basic financial statements. The accompanying combining and individual fund financial statements and schedules, financial , and statistical information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Novato Unified School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Moss, Levy & Hartzheim*

MOSS, LEVY & HARTZHEIM, LLP  
Beverly Hills, California  
January 20, 2008

The discussion and analysis of Novato Unified School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report on page 1, notes to the basic financial statements, and the District's financial statements.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information is required to be presented in the MD&A.

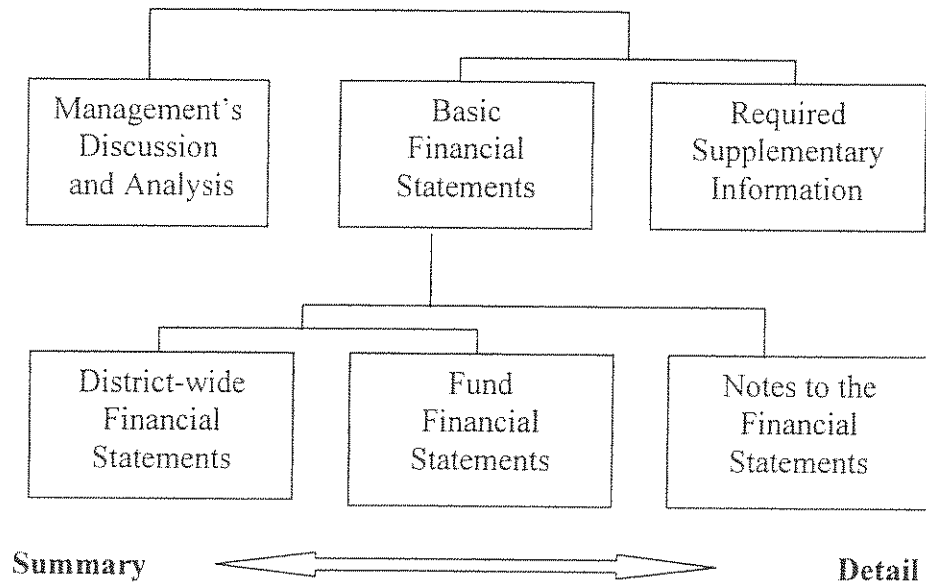
### **FINANCIAL HIGHLIGHTS**

- General Fund revenues increased by 13.3% from 2005-06 to 2006-07, funded largely by a 5.92% COLA, while expenditures increased 10.0% for the same period. These percentages compare to an increase of 9.7% for revenue and 9.2% for expenditures from 2004-05 to 2005-06.
- General Fund revenues and other sources exceeded expenditures and other uses by \$4,755,376; the District ended the year with available reserves of \$3.4 million which is a 5.55% reserve compared to the State recommended reserve level of 3%.
- In complying with GASB 34, fixed assets were valued and reported at historical cost. The total of the District's fixed assets, land, site, buildings, and equipment, valued on an acquisition cost basis was \$160.1 million. After depreciation, the June 30, 2007 book value for fixed assets totaled \$106.1 million.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – Management’s Discussion and Analysis (this section), the basic financial statements, and required supplementary information. These statements are organized so the reader can understand the Novato Unified School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

### Components of the Financial Section



The first two statements are *district-wide financial statements*, the Statement of Net Assets and Statement of Activities. These statements provide information about the activities of the whole School District, presenting both an aggregate view of the District’s finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District’s more significant funds with all other non-major funds presented in total in one column. A comparison of the District’s general fund budget is included.



## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### Components of the Financial Section (Concluded)

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

### Reporting the School District as a Whole

#### *Statement of Net Assets and the Statement of Activities*

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the District as a whole and its activities in a way that helps answer the question, "how did we do financially during 2006-07?"

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net assets, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools to assess the overall health of the District.

- ◆ Increases or decreases in the net assets of the District over time are indications of whether its financial position is improving or deteriorating, respectively.
- ◆ Additional non-financial factors such as condition of school buildings and other facilities, and changes to the property tax base of the District need to be considered in assessing the overall health of the District.

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

### Reporting the School District's Most Significant Funds

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

#### ◆ Governmental Funds

Most of the School District's activities are reported in governmental funds. The major governmental funds of the District are the General Fund, Capital Facilities Fund, County School Facilities Fund, and the Building Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services that help 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

Proprietary funds use the full accrual basis of accounting, the same as the District-wide statements. The District currently has two types of proprietary funds, an internal service fund and an enterprise fund. The internal service fund of the District is the Self Insurance Fund used to account for the District's self-insured plan. The enterprise fund of the District is the Nutritional Services Fund used to account for the District's nutritional services program.

#### ◆ Fiduciary Funds

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

### *The School District as a Whole*

The District's net assets were \$60.2 million at June 30, 2007. Of this amount -\$20.7 million was unrestricted. Investments in capital assets, net of related debt, account for \$33.0 million of the total net assets. A comparative analysis of government-wide data is presented in Table I.

**(Table I)**  
**Comparative Statement of Net Assets**

	2006-07			2005-06
	Governmental Activities	Business- Type Activities	Total	Total
<b>Assets</b>				
Cash and investments	\$ 55,587,514	\$ 253,803	\$ 55,841,317	\$ 33,382,022
Receivables	8,935,959	214,954	9,150,913	9,964,427
Due from other funds	417,241		417,241	438,996
Stores and prepaid expenses	347,035	20,655	367,690	123,801
Capital assets (net of depreciation)	106,069,312	64,806	106,134,118	89,893,328
Total Assets	\$ 171,357,061	\$ 554,218	\$ 171,911,279	\$ 133,802,574
<b>Liabilities</b>				
Accounts payable and other current liabilities	\$ 6,181,292	\$ 3,692	\$ 6,184,984	\$ 9,610,961
Due to other funds		417,241	417,241	438,996
Deferred revenue	66,665		66,665	207,955
Long-term liabilities	104,950,472	30,448	104,980,920	63,826,057
Total Liabilities	\$ 111,198,429	\$ 451,381	\$ 111,649,810	\$ 74,083,969
<b>Net Assets</b>				
Invested in capital assets, net of related debt	\$ 33,033,333	\$ 34,358	\$ 33,067,691	\$ 33,637,863
Restricted	6,419,995		6,419,995	28,605,675
Unrestricted	20,705,304	68,479	20,773,783	(2,524,933)
Total Net Assets	\$ 60,158,632	\$ 102,837	\$ 60,261,469	\$ 59,718,605

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS  
(CONTINUED)**

The District's net asset position increased \$184,882 this fiscal year (See Table 2).

**Governmental Activities**

The District's expenses for instructional and pupil services represented 67 percent of total expenses. The purely administrative activities of the District accounted for just 5 percent of total costs. The remaining 28 percent was spent in the areas of plant services and other expenses, interest on long-term debt and other outgo. (See Figure 2).

**(Table 2)  
Comparative Statement of Change in Net Assets**

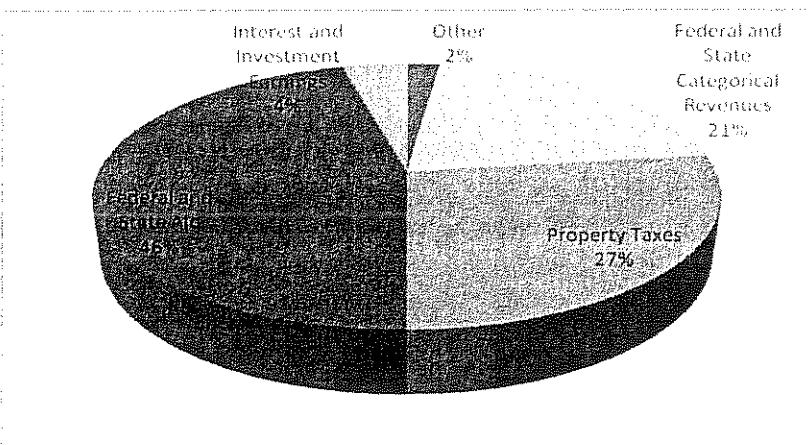
		2006-07		2005-06
	Governmental	Business-	Total	Total
	Activities	Type		
		Activities		
<b>Revenues</b>				
Program revenues	\$ 13,763,500	\$ 2,062,571	\$ 15,826,071	\$ 12,247,744
General revenues				
Taxes levied for general purpose	12,612,324		12,612,324	12,124,081
Taxes levied for debt services	5,442,184		5,442,184	4,098,134
Taxes levied other purposes	2,786,892		2,786,892	2,760,330
Federal and State Aid not restricted to specific purposes	35,617,084		35,617,084	30,103,845
Interest and investment earnings	3,094,126		3,094,126	1,521,772
Miscellaneous and internal transfers	1,542,736		1,542,736	1,982,182
Total Revenues	<u>74,858,846</u>	<u>2,062,571</u>	<u>76,921,417</u>	<u>64,838,088</u>
<b>Expenses</b>				
Instruction	36,788,874		36,788,874	33,124,021
Instruction related services	8,721,605		8,721,605	8,060,850
Pupil support services	3,890,903	1,988,515	5,879,418	3,439,317
General administration	3,821,648	102,550	3,924,198	4,235,613
Plant services	14,424,304		14,424,304	5,263,606
Other	6,998,136		6,998,136	8,415,213
Total Expenses	<u>74,645,470</u>	<u>2,091,065</u>	<u>76,736,535</u>	<u>62,538,620</u>
Change in Net Assets	\$ <u>213,376</u>	\$ <u>(28,494)</u>	\$ <u>184,882</u>	\$ <u>2,299,468</u>

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS  
(CONCLUDED)**

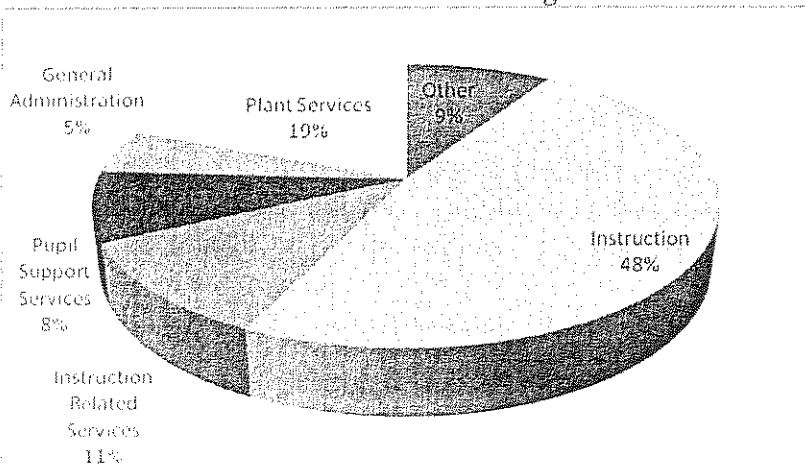
**Governmental Activities (Concluded)**

As reported in the Statement of Activities, the cost of all of the District’s governmental activities this year was \$74.6 million. The amount that our local taxpayers financed for these activities through property taxes was \$20.8 million. Federal and State aid not restricted to specific purposes totaled \$35.6 million. State and Federal Categorical revenue totaled over \$4.6 million (See Figure 1).

**Sources of Revenue for the 2006-07 Fiscal Year-Governmental Activities  
Figure 1**



**Expenses for the Fiscal Year 2006-07 - Governmental Activities  
Figure 2**



## **FINANCIAL ANALYSIS OF THE FUND STATEMENTS**

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of \$60.6 million, an increase of \$25.8 million from the previous fiscal year's combined ending balance of \$34.8 million. This increase is mainly reflected in the Building Fund. The General Fund balance increased \$4.8 million.

### **General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget monthly. The significant budget adjustments fell into the following categories:

- ◆ Budget revisions to the adopted budget required after approval of the State budget.
- ◆ Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollments.
- ◆ Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

The final revised budget for the General Fund reflected a net increase to the ending balance of \$1.7 million.

The District ended the year by increasing 4.9 million to the general fund ending balance. The State recommends an ending reserve for economic uncertainties of 3%. The District's ending reserve was 3.74%.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets - Governmental Activities**

By the end of the 2006-07 fiscal year, the District had invested \$160.1 million in a broad range of capital assets, including school buildings, athletic facilities, administrative buildings, site improvements, vehicles, and equipment. The capital assets net of depreciation were \$106.1 million at June 30, 2007, which is an increase of \$16.2 million from the previous year due to building and site improvements.

## CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

### Capital Assets (Concluded)

Table 3  
Comparative Schedule of Capital Assets - Governmental Activities  
(net of depreciation)  
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Difference</u>	<u>Total Percent Change</u>
Land	\$ 8,431,737	\$ 8,431,737	\$ 0	
Site Improvement	21,976,853	18,412,175	3,564,678	19.4 %
Buildings	119,327,883	75,789,038	43,538,845	57.4 %
Machinery & Equipment	2,897,827	2,867,961	29,866	1%
Work In Progress	7,418,954	32,086,162	(24,667,208)	(76.9%)
Total	\$ 160,053,254	\$137,587,073	\$22,466,181	16.3 %

The primary increase in capital assets occurred in buildings, which include construction projects for site improvements and modernization of existing buildings. This year's major capital asset additions included:

- Completion of Phase I Modernization at Hamilton Elementary School
- Completion of Phase I and Phase II Modernization at Loma Verde Elementary School
- Completion of Phase I Modernization at Lu Sutton Elementary School
- Completion of Phase II Modernization at Olive Elementary School
- Upgrade of HVAC System at Olive Elementary School
- Athletic Field Renovation at Pleasant Valley Elementary School
- Completion of Phase I Modernization at Pleasant Valley Elementary School
- Completion of Phase II Modernization at Rancho Elementary School
- Athletic Field Renovation at San Ramon Elementary School
- Replacement of roof and HVAC at San Ramon Elementary School
- Replacement of roof at Hill Middle School
- Completion of Phase II Modernization at San Jose Middle School
- Completion of Phase I and II Modernization at Sinaloa Middle School
- Completion of Phase I Classroom Modernization at Sinaloa Middle School
- Completion of Phase II, III and IV Modernization at Novato High School
- Completion of Phase II Modernization at San Marin High School
- Completion of Phase I Classroom Modernization at San Marin High School
- Athletic and Football Field Renovation at San Marin High School

## CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

### Long-Term Debt

At June 30, 2007, the District had \$104.8 million in long-term debt outstanding.

Table 4  
Comparative Schedule of Outstanding Debt  
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Certificates of Participation	\$ 1,340,000	\$ 1,525,000
General Obligation Bonds	99,575,000	60,360,000
General Obligation Bond Premium	2,300,376	523,688
Other Post Employment Benefits	540,172	772,424
Capital Lease Obligations	281,036	393,466
Compensated Absences	220,005	251,479
Claims Payable	200,000	542,827
Loan Payable	493,883	0
<b>TOTAL</b>	<b>\$ 104,950,472</b>	<b>\$ 64,368,884</b>

The long-term debt paid by the District was approximately \$1.7 million in 2007.

### FACTORS BEARING ON THE DISTRICT'S FUTURE

The State's economic downturn is a major factor affecting the District's future. The financial well being of the District is tied in large measure to the state funding formula. In the 2008/2009 fiscal year, the District expects to receive a 4.94% COLA with a 6.99% deficit, for a net negative COLA of 2.05%. It is anticipated that further reductions in future years funding may be forthcoming.

A bright and important point for the District is its small but steady student enrollment increase since the beginning of the 2005/2006 fiscal year. Since student enrollment and attendance are primary factors in the computation of most funding formulas for public schools in the State of California, declining enrolment can have a significant impact on school district revenues. The District will continue to diligently monitor its student enrollment and attendance practices to help ensure fiscal solvency.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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



**NOVATO UNIFIED SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS**

June 30, 2007

<b>Assets</b>	Governmental Activities	Business-type Activities	Totals
Cash in County treasury	\$ 55,302,240	\$ 253,723	\$ 55,555,963
Cash on hand and in banks	2,500		2,500
Revolving cash fund	5,200	80	5,280
Cash with fiscal agents	277,574		277,574
Accounts receivable	8,935,959	214,954	9,150,913
Internal balances	417,241	(417,241)	
Inventories, at cost	19,573	20,655	40,228
Prepaid items	86,450		86,450
Deferred charges, net of accumulated amortization	241,012		241,012
Land	8,431,737		8,431,737
Work in progress	7,418,954		7,418,954
Site improvements	21,976,853		21,976,853
Buildings and improvements	119,327,883		119,327,883
Machinery and equipment	2,897,827	74,776	2,972,603
Less: accumulated depreciation	(53,983,942)	(9,970)	(53,993,912)
<b>Total Assets</b>	<b>171,357,061</b>	<b>136,977</b>	<b>171,494,038</b>
<b>Liabilities</b>			
Accounts payable	4,164,966	3,692	4,168,658
Interest payable	2,016,326		2,016,326
Deferred revenue	66,665		66,665
Long-term liabilities:			
Due within one year	2,453,825	14,933	2,468,758
Due in more than one year	102,496,647	15,515	102,512,162
<b>Total Liabilities</b>	<b>111,198,429</b>	<b>34,140</b>	<b>111,232,569</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	33,033,333	34,358	33,067,691
Restricted for:			
Debt service	3,664,207		3,664,207
Educational programs	2,755,788		2,755,788
Unrestricted	20,705,304	68,479	20,773,783
<b>Total net assets</b>	<b>\$ 60,158,632</b>	<b>\$ 102,837</b>	<b>\$ 60,261,469</b>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2007

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 36,788,874	\$ 118,123	\$ 8,932,906	\$ -
Instruction-related services:				
Instructional supervision and administration	2,543,428	2,354	1,392,219	
Instructional library, media, and technology	1,192,510	67,963	255,228	
School site administration	4,985,667	216	212,443	
Pupil services:				
Home-to-school transportation	2,068,365	257,479	804,420	
Food services	(1,551)			
All other pupil services	1,824,089	20,071	643,715	
General administration:				
Centralized data processing	607,359	3	18,346	
All other general administration	3,214,289	16,519	219,359	
Plant services	14,424,304	292	479,603	
Ancillary services	339,816	1,524	2,700	
Community services	179,365	6,455	71,189	
Interest on long-term debt	4,547,453			
Other outgo	1,931,502	81,220	159,153	
Total governmental activities	<u>74,645,470</u>	<u>572,219</u>	<u>13,191,281</u>	
Business-type activities				
Food services	<u>2,091,065</u>	<u>1,017,168</u>	<u>1,045,403</u>	
Total business-type activities	<u>2,091,065</u>	<u>1,017,168</u>	<u>1,045,403</u>	
Total government	<u>\$ 76,736,535</u>	<u>\$ 1,589,387</u>	<u>\$ 14,236,684</u>	<u>\$ -</u>

General revenues:  
Taxes and subventions:  
  Taxes levied for general purposes  
  Taxes levied for debt service  
  Tax levied for other specific purposes  
Federal and state aid not restricted to specific purposes  
Interest and investment earnings  
Interagency revenues  
Miscellaneous  
Total general revenues

Change in net assets

Net assets beginning of fiscal year  
Prior period adjustments  
Net assets beginning of fiscal year, restated

Net assets end of fiscal year

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (27,737,845)	\$ -	\$ (27,737,845)
(1,148,855)		(1,148,855)
(869,319)		(869,319)
(4,773,008)		(4,773,008)
(1,006,466)		(1,006,466)
1,551		1,551
(1,160,303)		(1,160,303)
(589,010)		(589,010)
(2,978,411)		(2,978,411)
(13,944,409)		(13,944,409)
(335,592)		(335,592)
(101,721)		(101,721)
(4,547,453)		(4,547,453)
(1,691,129)		(1,691,129)
(60,881,970)		(60,881,970)
	(28,494)	(28,494)
	(28,494)	(28,494)
(60,881,970)	(28,494)	(60,910,464)
12,612,324		12,612,324
5,442,184		5,442,184
2,786,892		2,786,892
35,617,084		35,617,084
3,094,126		3,094,126
370,972		
1,171,764		1,171,764
61,095,346		61,095,346
213,376	(28,494)	184,882
59,587,274	131,331	59,718,605
357,982		357,982
59,945,256	131,331	60,076,587
\$ 60,158,632	\$ 102,837	\$ 60,261,469

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
June 30, 2007

	General Fund	Building Fund	Capital Facilities Fund
<b>Assets</b>			
Cash in County treasury	\$ 6,886,008	\$ 30,950,215	\$ 7,917,938
Cash on hand and in banks	2,500		
Cash in revolving fund	5,200		
Cash with fiscal agent			
Accounts receivable	8,050,833	645,837	98,807
Due from other funds	480,388	2,372	
Inventory, at cost	19,573		
Prepaid items	86,450		
	<u>15,530,952</u>	<u>31,598,424</u>	<u>8,016,745</u>
Total assets	<u>\$ 15,530,952</u>	<u>\$ 31,598,424</u>	<u>8,016,745</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 3,267,929	\$ 885,039	\$ 1,125
Due to other funds	4,777	81	
Deferred revenue	64,168		
	<u>3,336,874</u>	<u>885,120</u>	<u>1,125</u>
Total liabilities	<u>3,336,874</u>	<u>885,120</u>	<u>1,125</u>
Fund balances:			
Reserved fund balances:			
Reserved for revolving fund	5,200		
Reserved for inventory	19,573		
Reserved for prepaid expenditures	86,450		
Reserved for legally restricted balance	2,755,788		
Designated fund balances:			
Designated for economic uncertainties	2,303,688		
Other designations	5,901,603		
Undesignated	1,121,776	30,713,304	8,015,620
	<u>12,194,078</u>	<u>30,713,304</u>	<u>8,015,620</u>
Total fund balances	<u>12,194,078</u>	<u>30,713,304</u>	<u>8,015,620</u>
Total liabilities and fund balances	<u>\$ 15,530,952</u>	<u>\$ 31,598,424</u>	<u>\$ 8,016,745</u>

See notes to basic financial statements

Other Governmental Funds	Total Governmental Funds
\$ 9,349,769	\$ 55,103,930
	2,500
	5,200
277,574	277,574
102,328	8,897,805
6	482,766
	19,573
	86,450
<u>\$ 9,729,677</u>	<u>\$ 64,875,798</u>

\$ 9,175	\$ 4,163,268
60,667	65,525
2,497	66,665
<u>72,339</u>	<u>4,295,458</u>

	5,200
	19,573
	86,450
	2,755,788
	2,303,688
	5,901,603
<u>9,657,338</u>	<u>49,508,038</u>
<u>9,657,338</u>	<u>60,580,340</u>
<u>\$ 9,729,677</u>	<u>\$ 64,875,798</u>

See notes to basic financial statements

**NOVATO UNIFIED SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
June 30, 2007

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Total fund balances - governmental funds	\$	60,580,340
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In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	\$	160,053,254	
Accumulated depreciation		<u>(53,983,942)</u>	
Net			106,069,312

In governmental funds, bond premiums are recognized as other financing sources and debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, both premiums and debt issue costs are amortized over the life of the debt.

Unamortized bond premiums	\$	(2,300,376)	
Unamortized deferred charges		<u>241,012</u>	(2,059,364)

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred.

(2,016,326)

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

General obligation bonds payable	\$	(99,575,000)	
Certificates of participation		(1,340,000)	
Capital leases		(281,036)	
Loan payable		(493,883)	
Other post employment benefits		(540,172)	
Compensated absences		<u>(220,005)</u>	
Total			(102,450,096)

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

		<u>34,766</u>
Total net assets, governmental activities	\$	<u><u>60,158,632</u></u>

See notes to basic financial statements

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Fiscal Year Ended June 30, 2007

	General Fund	Building Fund	Capital Facilities Fund	Other Governmental Funds
<b>Revenues:</b>				
Revenue Limit Sources:				
State apportionments	\$ 29,600,673	\$ -	\$ -	\$ 72,656
Local sources	12,871,050			
Federal	2,169,182			
Other state	11,693,057			342,199
Other local	9,615,500	1,740,989	739,341	5,990,342
	<u>65,949,462</u>	<u>1,740,989</u>	<u>739,341</u>	<u>6,405,197</u>
Total revenues				
<b>Expenditures:</b>				
Certificated salaries	29,546,562			47,598
Classified salaries	9,914,716	402,433	135	5,985
Employee benefits	10,094,421	124,175	15	5,719
Books and supplies	2,812,979	3,970	17,587	4,707
Contracted services and other operating expenditures	6,831,022	151,652	169,789	159,636
Capital outlay	557,495	22,570,394	366,407	923,125
Other outgo	1,829,089			3,178
Debt service				
Principal	69,921		185,000	1,033,626
Interest and fiscal charges	19,324		67,047	3,739,940
Issuance costs		186,100		
	<u>61,675,529</u>	<u>23,438,724</u>	<u>805,980</u>	<u>5,923,514</u>
Total expenditures				
Excess of revenues over (under) expenditures	<u>4,273,933</u>	<u>(21,697,735)</u>	<u>(66,639)</u>	<u>481,683</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds from long term debt	500,000	40,200,000		
Premium on long term debt				1,885,746
Discount on long term debt		(66,489)		
Transfers in	349,794	5,686,018		295,496
Transfers out	(368,351)		(9,750)	(5,686,018)
	<u>481,443</u>	<u>45,819,529</u>	<u>(9,750)</u>	<u>(3,504,776)</u>
Total other financing sources (uses)				
Net change in fund balances	<u>4,755,376</u>	<u>24,121,794</u>	<u>(76,389)</u>	<u>(3,023,093)</u>
Fund balances, July 1, 2006	7,449,793	6,591,510	8,092,009	12,654,185
Prior period adjustments	(11,091)			26,246
Fund balances, July 1, 2006, restated	<u>7,438,702</u>	<u>6,591,510</u>	<u>8,092,009</u>	<u>12,680,431</u>
Fund balances, June 30, 2007	<u>\$ 12,194,078</u>	<u>\$ 30,713,304</u>	<u>\$ 8,015,620</u>	<u>\$ 9,657,338</u>

See notes to basic financial statements

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Total  
Governmental  
Funds

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\$ 29,673,329  
12,871,050  
2,169,182  
12,035,256  
18,086,172

74,834,989

29,594,160  
10,323,269  
10,224,330  
2,839,243

7,312,099  
24,417,421  
1,832,267

1,288,547  
3,826,311  
186,100

91,843,747

(17,008,758)

40,700,000  
1,885,746  
(66,489)  
6,331,308  
(6,064,119)

42,786,446

25,777,688

34,787,497  
15,155  
34,802,652

\$ 60,580,340

See notes to basic financial statements



**NOVATO UNIFIED SCHOOL DISTRICT****RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2007

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Total net change in fund balances - governmental funds	\$ 25,777,688
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$22,466,181 exceeds depreciation expense (\$6,220,406) in the period.	16,245,775
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.	1,288,547
In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as additions to long-term debt.	(40,700,000)
In governmental funds, deferred charges and bond premiums are recognized in the period they are incurred. In the government-wide statements, deferred charges and bond premiums are amortized over the life of the debt. This represents the net amount of amortization and capitalized.	(1,535,676)
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was:	(818,623)
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). The difference between compensated absences paid and compensated absences earned was:	31,474
In the statement of activities, postemployment benefits are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, benefits used exceed the amounts earned was:	232,252
Internal service fund is used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because the internal service fund is presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in the internal service fund was:	<u>(308,061)</u>
Changes in net assets of governmental activities	<u>\$ 213,376</u>

See notes to basic financial statements

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
June 30, 2007

	Enterprise Fund <u>Cafeteria Enterprise Fund</u>	Governmental Activities Internal Service Fund Self-Insurance Fund
<b>Assets:</b>		
Current assets:		
Cash in County treasury	\$ 253,723	\$ 198,310
Cash in revolving fund	80	
Accounts receivable	214,954	38,154
Due from other funds	2,399	
Inventory, at cost	20,655	
	<u>491,811</u>	<u>236,464</u>
Total current assets		
Non-current assets:		
Capital assets, net	74,776	
Less: accumulated depreciation	(9,970)	
	<u>64,806</u>	
Total non-current assets		
	<u>556,617</u>	<u>236,464</u>
Total assets		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	3,692	1,698
Due to other funds	419,640	
Capital leases payable - current	14,933	
Claims payable		
	<u>438,265</u>	<u>1,698</u>
Total current liabilities		
Noncurrent liabilities:		
Capital leases payable	15,515	
Claims payable		200,000
	<u>15,515</u>	<u>200,000</u>
Total noncurrent liabilities		
	<u>453,780</u>	<u>201,698</u>
Total liabilities		
<b>Net assets</b>		
Invested in capital assets, net of related debt	34,358	
Unrestricted	68,479	34,766
	<u>102,837</u>	<u>34,766</u>
Total net assets		
	<u>\$ 102,837</u>	<u>\$ 34,766</u>

See notes to basic financial statements

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
For Fiscal Year Ended June 30, 2007

	Enterprise Fund	Governmental Activities Internal Service Fund
	Cafeteria Enterprise Fund	Self-Insurance Fund
<b>Operating Revenues:</b>		
Federal revenue	\$ 941,474	\$ -
Other state revenue	95,685	
Other local revenue	1,027,266	66,469
Total revenues	<u>2,064,425</u>	<u>66,469</u>
<b>Operating Expenses:</b>		
Classified salaries	860,677	
Employee benefits	293,892	
Books and supplies	784,896	14,097
Contracted services and other operating expenses	45,635	117,101
Depreciation	4,985	
Other outgo	99,235	
Total expenses	<u>2,089,320</u>	<u>131,198</u>
Operating income (loss)	<u>(24,895)</u>	<u>(64,729)</u>
<b>Non-Operating Revenues (Expenses):</b>		
Interest income		23,857
Interest expense	(3,599)	
Total non-operating revenues (expenses)	<u>(3,599)</u>	<u>23,857</u>
Income before transfers	(28,494)	(40,872)
Transfer in		72,855
Transfer out		(340,044)
Change in net assets	<u>(28,494)</u>	<u>(308,061)</u>
Net assets, July 1, 2006	131,331	
Prior period adjustments		342,827
Net assets, July 1, 2006, restated	<u>131,331</u>	<u>342,827</u>
Net assets, June 30, 2007	<u>\$ 102,837</u>	<u>\$ 34,766</u>

See notes to basic financial statements

**NOVATO UNIFIED SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUNDS**

For Fiscal Year Ended June 30, 2007

	Enterprise Fund	Governmental Activities Internal Service Fund
	Cafeteria Enterprise Fund	Self-Insurance Fund
Cash flows from operating activities:		
Cash received from Federal and State nutrition programs	\$ 1,086,537	\$ -
Cash received from customers	957,423	
Cash received from insurance premiums		35,077
Cash received from other funds	252,447	
Cash paid for salaries and benefits	(1,155,333)	
Cash paid for books and supplies	(784,896)	(14,097)
Cash paid for contracted services and other operating expenses	(40,810)	(115,700)
Cash paid for other outgo	(99,235)	
Net cash provided (used) by operating activities	<u>216,133</u>	<u>(94,720)</u>
Cash flows from investing activities:		
Interest received		18,487
Interest paid	(1,663)	
Net cash provided (used) by investing activities	<u>(1,663)</u>	<u>18,487</u>
Cash flows from noncapital and related financing activities		
Transfer to other funds		<u>(267,189)</u>
Cash flows from capital and related financing activities:		
Interest paid	(1,744)	
Capital lease principal payments	(14,373)	
Net cash provided (used) by capital and related financing activities	<u>(16,117)</u>	
Net increase (decrease) in cash and cash equivalents	198,353	(343,422)
Cash and cash equivalents at July 1, 2006	<u>55,450</u>	<u>541,732</u>
Cash and cash equivalents at June 30, 2007	<u>\$ 253,803</u>	<u>\$ 198,310</u>
Reconciliation to Statement of Net Assets:		
Cash in County treasury	\$ 253,723	\$ 198,310
Cash in revolving fund	<u>80</u>	
	<u>\$ 253,803</u>	<u>\$ 198,310</u>

See notes to basic financial statements

Continued

**NOVATO UNIFIED SCHOOL DISTRICT**

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Continued)

For Fiscal Year Ended June 30, 2007

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Reconciliation of Operating Income (Loss) to Net Cash  
Provided (Used) by Operating Activities

Operating income (loss)	\$ (24,895)	\$ (64,729)
Adjustments to reconcile operating income to net cash provided (used)		
Depreciation	4,985	
(Increase) decrease in operating assets:		
Accounts receivable	(20,465)	(31,392)
Inventory	4,733	
Due from other funds	134,702	
Increase (decrease) in operating liabilities:		
Accounts payable	(672)	1,401
Due to other funds	117,745	
Net cash provided (used) by operating activities	<u>\$ 216,133</u>	<u>\$ (94,720)</u>

See notes to basic financial statements

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
June 30, 2007

	Agency Funds				Totals
	CSIS Fund	Payroll Revolving Fund	Novato Public Access TV Fund	Student Body Funds	
<b>Assets</b>					
Cash in County treasury	\$ 220,839	\$ (51,009)	\$ 132	\$ -	\$ 169,962
Cash on hand and in banks				148,386	148,386
Accounts receivable	2,608	5,144	46,382	6,405	60,539
Prepaid items		45,865			45,865
<b>Total assets</b>	<u>\$ 223,447</u>	<u>\$ -</u>	<u>\$ 46,514</u>	<u>\$ 154,791</u>	<u>\$ 424,752</u>
<b>Liabilities</b>					
Accounts payable	\$ 223,447	\$ -	\$ 46,514	\$ 27,301	\$ 297,262
Due to student groups				127,490	127,490
<b>Total liabilities</b>	<u>\$ 223,447</u>	<u>\$ -</u>	<u>\$ 46,514</u>	<u>\$ 154,791</u>	<u>\$ 424,752</u>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

The reporting entity is the Novato Unified School District. There are no component units included in this report which meet the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39.

C. Basis of Presentation

*Government-wide Financial Statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. Internal Service Fund activity is eliminated to avoid doubling revenues and expenses.

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

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

*Fund Financial Statements:*

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

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

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets for proprietary funds present increases (i.e., revenues) and decrease (i.e. expenses) in the net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from 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.

Fiduciary funds are reported using the economic resources measurement focus.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). For proprietary fund type activities, the District has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "Available" means collectible within the current period or within 60 days after fiscal year end.

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

*Deferred revenue:*

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

*Expenses/expenditures:*

On 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 expenditure 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.



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting

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

*Major Governmental Funds:*

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The Charter School Fund is included with the General Fund.

The Building Fund is used to account for the acquisition of major capital facilities and buildings from the sale of bond proceeds.

The Capital Facilities Fund is used to account for resources received from developers impact fees assessed under the provision the California Environmental Quality Act (CEQA).

*Nonmajor Governmental Funds:*

**Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains three nonmajor special revenue funds:

1. The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.
2. The Deferred Maintenance Fund is used for the purpose of major repair or replacement of the District's property.
3. The Retiree Benefits Fund accumulates funds to pay retirees' health care premiums in accordance with District employment contracts.

**Debt Service Funds** are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs. The District maintains two nonmajor debt service funds:

1. The Bond Interest and Redemption Fund is used to account for general obligation bond interest and redemption of bond principal.
2. The Debt Service Fund is used to account for the interest and redemption of debts issued by the Districts.

**Capital Projects Funds** are used to account for the acquisition and/or construction of governmental capital assets. The District maintains two nonmajor capital projects funds:

1. The County School Facilities Fund is used to account for apportionments from the State School Facilities Fund authorized by the State Allocation Board for new school facility construction, modernization projects and facility hardship grants.
2. The Special Reserve for Capital Outlay Projects Fund is used to account for the following:
  - A. Hamilton Renovation Fund (Fund #41) is used to account for expenditures incurred in the renovation of Hamilton School and other Board approved capital projects
  - B. George Roth Fund (Fund #47) was established during 1999-2000 to account for income from property donated by George Roth and expenditures for District capital projects.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting (Continued)

*Proprietary Funds:*

Major Proprietary Fund

**Enterprise Fund** is established to account for operations that are financed and operated in a manner similar to private business enterprises, whereas the intent is that the costs of providing services on a continuing basis be financed or recovered primarily through user charges. The District maintains one major enterprise fund.

The Cafeteria Enterprise Fund is used to account for revenues received and expenses incurred to operate the District's nutritional service program.

The **Internal Service Fund** is used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund:

The Self-Insurance Fund, which is used to account for resources committed to the District's self-insurance program for property and liability.

*Fiduciary Funds:*

**Agency Funds** are used to account for assets of others for which the District acts as an agent. The District maintains six agency funds for the student body accounts. The funds are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The District also maintains three other agency funds.

1. California School Information Services Fund (CSIS) is used to account for activities as a California public school agency to develop and operate a statewide system for the electronic transfer of student and other information to among agencies.
2. Novato Public Television Access Fund (NPAT) is used to account for activities of the non-profit organization.
3. Payroll Revolving Fund is used to account for assets held by the District in a trustee capacity for other governmental agencies.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. By State law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and District Superintendent during the fiscal year to give consideration to unanticipated income and expenditures. The original and final revised are presented for the General Fund as required supplementary information in the financial statements.

Formal budgetary integration was employed as a management control device during the fiscal year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

G. Encumbrances

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Statement of Cash Flows

For the purposes of the statement of cash flows, the enterprise fund considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

I. Assets, Liabilities, and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

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

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The funds maintained by the County are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with the Marin County Treasury was not available.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. However, the District's financial statements do not reflect the fair value of investments as the differences between total investment cost and fair value has been determined to be immaterial.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/payables.

3. Inventories and Prepaid Items

Inventory is recorded using the consumption method in that acquisitions are initially recorded in inventory (asset) account, and are charged as expenditures when used. Inventory is valued at the lower of cost (first-in, first out) or market and consists of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure in the period its benefits.

4. Amortization of Bonds Issuance Expense and Related Premium and Discounts

The cost of issuance of debts and related discounts refer as deferred charges are being amortized on the straight line method over the life of the debts on the government-wide statements.

5. Capital Assets

Capital assets are those purchased or acquired with original costs of \$10,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the capital assets or materially extend the capital asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using the straight-line basis over the following estimated useful lives.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Assets, Liabilities, and Equity (Continued)

5. Capital Assets (Continued)

Asset Class	Examples	Estimated Useful Life in Years
Land		N/A
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School buildings		50
Portable classrooms		25
HVAC systems	Heating, ventilation, and air conditioning Systems	20
Roofing		20
Interior construction		25
Carpet replacement		7
Electrical/plumbing		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		5
Communication equipment	Mobile, portable radios, non-computerized	10
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
Contractors equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

6. Deferred Revenue

Cash is received for federal and state special projects and programs are recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

7. Compensated Absences

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Assets, Liabilities, and Equity (Continued)

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

9. Net Assets

The government-wide, proprietary funds, and fiduciary funds financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted, and unrestricted.

*Invested In Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

*Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Assets* – This category represents net assets of the District, not restricted for any project or other purpose.

10. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted net assets.

11. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The Reserve for Revolving Fund, Reserve for Inventory, and Reserve for Prepaid Expenditures reflect the portions of the fund balances represented by revolving fund cash, stores inventory, and prepaid respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

12. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The County is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the County. The levy is based on the assessed values of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The County apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each fiscal year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

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

I. Assets, Liabilities, and Equity (Continued)

12. Revenue Limit/Property Tax (Continued)

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the State General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

J. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - CASH AND INVESTMENTS**

The District's cash and investments at June 30, 2007, consisted of the following:

Cash on hand and in banks	\$ 156,166
Cash and investments with County Treasurer	55,725,925
Cash and investments with fiscal agent	<u>277,574</u>
Total cash and investments	<u>\$ 56,159,665</u>

Cash and investments are presented on the accompanying basic financial statements, as follows:

Cash in County Treasury, statement of net assets	\$ 55,555,963
Cash on hand and in banks, statement of net assets	2,500
Cash in revolving fund, statement of net assets	5,280
Cash and investments with fiscal agent, statement of net assets	277,574
Cash in County Treasury, statement of fiduciary net assets	169,962
Cash on hand and in banks, statement of fiduciary of net assets	<u>148,386</u>
Total cash and investments	<u>\$ 56,159,665</u>

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Marin County Treasury as part of the common investment pool (\$55,725,925 as of June 30, 2007). The fair value of this pool as of that date, as provided by the plan sponsor, was \$55,725,925. The District is considered to be an involuntary participant in the external pool. Interest is deposited in the participating funds. The County is restricted by Government Code Section 53635, pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Cash on Hand, in Banks, and in Revolving Fund

Cash balance on hand and in banks (\$150,886 as of June 30, 2007) and in the revolving fund (\$5,280) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

Investments Authorized by the District's Investment Policy

The District's investment policy only authorizes investment in the local government investment pool administered by the County of Marin. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by trustee are governed by the provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Certificates of Deposit with Bank of Savings & Loans (at least A-1+)	1 Year	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Municipal Obligations	None	None	None
Federal Funds or Bankers Acceptances (at least A-1+)	1 Year	None	None
Money Market Mutual Funds, (at least Aam)	N/A	None	None
Investment Agreements	None	None	None
Guaranteed Investment Contracts (at least A-1+)	None	None	None
Local Agency Investment Fund (State Pool)	None	None	None

Disclosures Relating to 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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by fiscal agents) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Carrying Amount	Remaining maturity (in Months)			
		12 Months or Less	13 to 24 Months	25-60 Months	More Than 60 Months
Marin County Investment Pool Held by COP Trustees:	\$ 55,725,925	\$ 55,725,925	\$ -	\$ -	\$ -
First American Treasury Obligation Money Market Fund	277,574	277,574			
<b>Total</b>	<b>\$ 56,003,499</b>	<b>\$ 56,003,499</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

NOTE 2 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, 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 rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Marin County Investment Pool	\$ 55,725,925	N/A	\$ -	\$ -	\$ -	\$ -	\$ 55,725,925
Held by COP Trustees: First American Treasury Obligation Money Market Fund	277,574						277,574
<b>Total</b>	<b>\$ 56,003,499</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 56,003,499</b>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, none of the District's deposits with financial institutions in excess of the Federal Depository Insurance Corporation limits were held in collateralized accounts.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as Marin County Investment Pool).



**NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The District's expenditures exceeded appropriations in individual funds are as follows:

Fund	Excess Expenditures
Major Fund:	
General Fund	
Capital Outlay	\$ 504,781
Nonmajor Governmental Funds	
Adult Education Fund	
Contracted Services and Other Operating Expenditures	153
Bond Interest and Redemption Fund	
Debt Service:	
Interest and Fiscal Charges	896,604
Debt Service Fund	
Debt Service:	
Interest and Fiscal Charges	9,310
Special Reserve for Capital Outlay Project Fund	
Contracted Services and Other Operating Expenditures	75,978

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2007, consist of the following:

	General Fund	Building Fund	Capital Facilities Fund	Other Governmental Funds	Cafeteria Enterprise Fund	Self-Insurance Fund	Fiduciary Funds
Federal Government							
Categorical Aid Program	\$ 900,418	\$ -	\$ -	\$ -	\$ 169,843	-	-
State Government							
Categorical Aid Program	1,259,035				15,334		
Lottery	585,138						
Revenue Limit	4,796,610						
Local Government							
Fees					29,685		
Interest	188,828	645,837	98,807	102,328		5,565	7,752
Miscellaneous	320,804				92	32,589	52,787
Total Accounts Receivable	<u>\$ 8,050,833</u>	<u>\$ 645,837</u>	<u>\$ 98,807</u>	<u>\$ 102,328</u>	<u>\$ 214,954</u>	<u>38,154</u>	<u>60,539</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

NOTE 5 - INTERFUND TRANSACTIONS (Continued)

Due From/Due To Other Funds

Individual fund receivable and payable balances at June 30, 2007, are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General Fund	\$ 480,388	\$ 4,777
Building Fund	2,372	81
Major Enterprise Fund		
Cafeteria Enterprise Fund	2,399	419,640
Nonmajor Governmental Funds:		
Adult Education Fund	6	3,183
Special Reserve for Capital Outlay Projects Fund		57,484
	<u>\$ 485,165</u>	<u>\$ 485,165</u>

Interfund Transfers

Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2006-2007 fiscal year, are as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General Fund	\$ 349,794	\$ 368,351
Building Fund	5,686,018	
Capital Facilities Fund		9,750
Nonmajor Governmental Funds:		
Deferred Maintenance Fund	295,496	
Bond Interest and Redemption Fund		252,589
County School Facilities Fund		5,433,429
Proprietary Fund:		
Self-Insurance Fund	72,855	340,044
Total	<u>\$ 6,404,163</u>	<u>\$ 6,404,163</u>

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital assets activity for the fiscal year ended June 30, 2007, is shown below:

Governmental Activities:

	Balance, July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 8,431,737	\$ -	\$ -	\$ 8,431,737
Work in progress	32,086,162	21,936,315	46,603,523	7,418,954
Total capital assets, not being depreciated	<u>40,517,899</u>	<u>21,936,315</u>	<u>46,603,523</u>	<u>15,850,691</u>
Capital assets, being depreciated:				
Site improvements	18,412,175	3,564,678		21,976,853
Buildings and improvements	75,789,038	43,538,845		119,327,883
Machinery and equipment	2,867,961	29,866		2,897,827
Total capital assets, being depreciated	<u>97,069,174</u>	<u>47,133,389</u>		<u>144,202,563</u>
Less accumulated depreciation for:				
Site improvements	(12,232,767)	(1,327,380)		(13,560,147)
Buildings and improvements	(33,504,115)	(4,733,847)		(38,237,962)
Machinery and equipment	(2,026,654)	(159,179)		(2,185,833)
Total accumulated depreciation	<u>(47,763,536)</u>	<u>(6,220,406)</u>		<u>(53,983,942)</u>
Total capital assets, being depreciated, net	<u>49,305,638</u>	<u>40,912,983</u>		<u>90,218,621</u>
Governmental activity capital assets, net	<u>\$ 89,823,537</u>	<u>\$ 62,849,298</u>	<u>\$ 46,603,523</u>	<u>\$ 106,069,312</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 5,092
Instructional library, media, and technology	2,464
School site administration	7,518
Home-to-school transportation	101,833
All other general administration	10,223
Centralized data processing	600
Plant service	6,092,676
Total	<u>\$ 6,220,406</u>

Business-type Activities:

	Balance, July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets, being depreciated:				
Machinery and equipment	\$ 74,776	\$ -	\$ -	\$ 74,776
Total capital assets, being depreciated	<u>74,776</u>			<u>74,776</u>
Less accumulated depreciation for:				
Machinery and equipment	(4,985)	(4,985)		(9,970)
Total accumulated depreciation	<u>(4,985)</u>	<u>(4,985)</u>		<u>(9,970)</u>
Total capital assets, being depreciated, net	<u>69,791</u>	<u>(4,985)</u>		<u>64,806</u>
Business-type activity capital assets, net	<u>\$ 69,791</u>	<u>\$ (4,985)</u>	<u>\$ -</u>	<u>\$ 64,806</u>

Depreciation expense was charged to business-type activities as follows:

Food services	<u>\$ 4,985</u>
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**NOTE 7 – GENERAL OBLIGATION BONDS**

The County of Marin, California, (the County), on behalf of the District issued (in the aggregate principal amount) \$36,800,000 of General Obligation Bonds designated as "Novato Unified School District General Obligation Bonds, Election of 2001, Series 2002" on February 26, 2003.

The County of Marin, California, (the County), on behalf of the District issued (in the aggregate principal amount) \$30,000,000 of General Obligation Bonds designated as "Novato Unified School District General Obligation Bonds, Election of 2001, Series 2005" on March 23, 2006. The Series 2005 bonds were issued at a premium of \$549,682. As of June 30, 2007, the unamortized premium balance was \$501,060.

The County of Marin, California, (the County), on behalf of the District issued (in the aggregate principal amount) \$40,200,000 of General Obligation Bonds designated as "Novato Unified School District General Obligation Bonds, Election of 2001, Series 2006" on July 14, 2006. The Series 2006 bonds were issued at a premium of \$1,885,746. As of June 30, 2007, the unamortized premium was \$1,799,316.

The bonds were authorized at a special election held on November 6, 2001, at which 55% of the voters voting on the proposition voted to authorize the issuance and sale of not to exceed \$107,000,000 principal amount of general obligation bonds of the District to finance the repair and renovation of existing schools and to make improvements to school sites and buildings.

The outstanding general obligation bonded debt of the Novato Unified School District at June 30, 2007, is:

Bond Issue	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Balance Outstanding July 1, 2006	Issue Current Fiscal Year	Redeemed Current Fiscal Year	Balance Outstanding June 30, 2007
2002 Series	2/26/03	3.0-5.25	8/1/26	\$ 36,800,000	\$ 30,360,000	\$ -	\$ 735,000	\$ 29,625,000
2005 Series	3/23/06	3.0-5.125	8/1/29	30,000,000	30,000,000		250,000	29,750,000
2006 Series	7/14/06	4.0-5.0	8/1/26	40,200,000		40,200,000		40,200,000
				<u>\$ 107,000,000</u>	<u>\$ 60,360,000</u>	<u>\$ 40,200,000</u>	<u>\$ 985,000</u>	<u>\$ 99,575,000</u>

The annual requirements to amortize general obligation bonds payable outstanding as of June 30, 2007, are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2008	\$ 1,845,000	\$ 4,742,418	\$ 6,587,418
2009	1,065,000	4,694,628	5,759,628
2010	685,000	4,663,823	5,348,823
2011	960,000	4,632,027	5,592,027
2012	1,270,000	4,588,008	5,858,008
2013-2017	12,100,000	21,653,342	33,753,342
2018-2022	25,110,000	17,313,015	42,423,015
2023-2027	43,835,000	9,016,855	52,851,855
2028-2030	12,705,000	1,008,406	13,713,406
Totals	<u>\$ 99,575,000</u>	<u>\$ 72,312,522</u>	<u>\$ 171,887,522</u>

**NOTE 8 – CERTIFICATES OF PARTICIPATION**

In April 1997, the District issued \$2,745,000 of Certificates of Participation (COPs) with interest rates ranging from 3.8 to 5.5 percent for the purpose of defeasing the 1992 issue and providing resources for specific capital projects. At June 30, 2007, the principal balance outstanding for the 1997 COPs was \$1,340,000.

**NOTE 8 – CERTIFICATES OF PARTICIPATION (Continued)**

The annual requirements to amortize certificates of participation payable outstanding as of June 30, 2007, are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2008	\$ 195,000	\$ 66,390	\$ 261,390
2009	205,000	55,939	260,939
2010	215,000	44,860	259,860
2011	230,000	33,010	263,010
2012	240,000	20,377	260,377
2013	255,000	6,948	261,948
Totals	<u>\$ 1,340,000</u>	<u>\$ 227,524</u>	<u>\$ 1,567,524</u>

**NOTE 9 - CAPITAL LEASES PAYABLE**

The District is leasing equipment under agreements, which provides for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Governmental Activities:

Fiscal Years Ending June 30,	Lease Payment
2008	\$ 77,225
2009	77,225
2010	77,225
2011	77,225
Totals	308,900
Less amounts representation interest	<u>(27,864)</u>
Present value of net minimum lease payments	<u>\$ 281,036</u>

Business-type Activities:

Fiscal Years Ending June 30,	Lease Payment
2008	\$ 16,118
2009	16,118
Totals	32,236
Less amounts representation interest	<u>(1,788)</u>
Present value of net minimum lease payments	<u>\$ 30,448</u>

**NOTE 10 – LOAN PAYABLE**

Marin Community Foundation Loan

On April 16, 2007, the Novato Charter School received a \$500,000 loan from the Marin Community Foundation to purchase seven portable buildings. Interest rate on the loan is 6% and the school is to make monthly payments of \$5,551 beginning on June 1, 2007 with a final payment of \$287,130 due on April 16, 2012. Balance of the loan at June 30, 2007, was \$493,883.

**NOTE 10 – LOAN PAYABLE (Continued)**

Marin Community Foundation Loan (Continued)

Future loan payments are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2008	\$ 38,013	\$ 28,600	\$ 66,613
2009	40,358	26,254	66,612
2010	42,846	23,766	66,612
2011	45,491	21,121	66,612
2012	327,175	15,466	342,641
Totals	\$ 493,883	\$ 115,207	\$ 609,090

**NOTE 11 – OTHER POST-EMPLOYMENT BENEFIT**

The District provides an early retirement plan whereby the District will continue retirees' health benefits until age 65 for individuals that qualify. To qualify for the plan, the retiree must be at least 55 years old and have been an employee of the District for the ten years immediately preceding retirement. The benefits consist of up to \$160 per month to be paid towards health benefits for employees retiring in 1994-95, \$180 per month for employees retiring in 1995-96, and \$200 per month for employees retiring in 1998-99 and later. Under this plan, the District has agreed to continue to provide these benefits without any additional performance from the retirees.

The estimated future obligation under this plan is \$540,172.

**NOTE 12 – CLAIMS PAYABLE**

As June 30, 2007, claims liability of \$200,000 has been accrued in the accompanying government-wide 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.

**NOTE 13 – LONG-TERM DEBT**

A schedule of changes in long-term debt for the fiscal year ended June 30, 2007, is shown below:

Governmental Activities:

	Balance July 1, 2006	Prior Period Adjustments	Additions	Deductions	Balance June 30, 2007	Due Within One Year
General Obligation Bonds	\$ 60,360,000	\$ -	\$ 40,200,000	\$ 985,000	\$ 99,575,000	\$ 1,845,000
Bond Premiums	523,688		1,885,746	109,058	2,300,376	116,916
Certificates of Participation	1,525,000			185,000	1,340,000	195,000
Capital Lease Payable	393,466			112,430	281,036	66,288
Loan Payable			500,000	6,117	493,883	38,013
Other Postemployment Benefits	772,424			232,252	540,172	192,608
Claims Payable	542,827	(342,827)			200,000	
Compensated Absences	251,479			31,474	220,005	
	\$ 64,368,884	\$ (342,827)	\$ 42,585,746	\$ 1,661,331	\$ 104,950,472	\$ 2,453,825

**NOTE 13 – LONG-TERM DEBT (Continued)**

A schedule of changes in long-term debt for the fiscal year ended June 30, 2007, is shown below (Continued):

Business-type Activities:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007	Due Within One Year
Capital Lease Payable	\$ 44,821	\$ -	\$ 14,373	\$ 30,448	\$ 14,933
	<u>\$ 44,821</u>	<u>\$ -</u>	<u>\$ 14,373</u>	<u>\$ 30,448</u>	<u>\$ 14,933</u>

**NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS**

**State Teachers' Retirement System (STRS)**

Plan Description

The Novato Unified School District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The Plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS' annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the Novato Unified School District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2006-2007 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The Novato Unified School District's contributions to STRS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$2,339,091, \$2,115,828, and \$1,990,193, respectively, and equal 100% of the required contributions for each fiscal year.

**California Public Employees' Retirement System (CalPERS)**

Plan Description

The Novato Unified School District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the Novato Unified School 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 the fiscal year 2006-2007, was 9.124% of annual payroll. The contribution requirements of the plan members are established by State statute. The Novato Unified School District's contributions to CalPERS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$840,658, \$768,289, and \$740,944, respectively, and equal 100% of the required contributions for each fiscal year.

#### NOTE 15 – STUDENT BODY FUNDS

The Student Body Funds often engage in activities, which involve cash transactions. These transactions are not subject to adequate internal accounting control prior to deposits being recorded in the bank accounts. It has been determined on a cost benefit basis that providing increased internal control in this area does not justify the additional costs that would be necessary to control receipts prior to the point of deposit.

#### NOTE 16 - COMMITMENTS AND CONTINGENCIES

##### State and Federal Allowances, Awards, and Grants

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

##### Litigation

According to the District's staff and attorney, no contingent liabilities are outstanding, and no lawsuits are pending of any real financial consequence.

#### NOTE 17 – JOINT VENTURES (JOINT POWER AGREEMENTS)

##### Joint Ventures

The District participates in a joint power agreement (JPA) with Marin School Insurance Authority (MSIA) for the worker's compensation insurance. The relationship between the District and the JPA is such that JPA is not a component unit of the District for financial reporting purposes.

MSIA arranges for and/ or provides coverage for its members. MSIA is governed by a board consisting of a representative from each member district. The board controls the operations of MSIA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member districts pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in MSIA.

#### NOTE 18 – FISCAL INDEPENDENCE

Novato Unified School District was granted permission under Education Code Section 42647 to become fiscally independent. This means that the District may write their own warrants on the County Treasury for payment of all bills. The County Superintendent no longer audits all the warrants of the District.

#### NOTE 19 – 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 20 – PRIOR PERIOD ADJUSTMENTS

Government-wide and fund financial statements

Prior period adjustments of \$357,982 were due to overstatement of cash in bank in the amount of \$11,091, overstatement of accounts payable in the amount of \$26,246, and overstatement of claims payable in the amount of \$342,827



REQUIRED SUPPLEMENTARY INFORMATION SECTION

NOVATO UNIFIED SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Revenue Limit Sources:				
State apportionments	\$ 28,432,824	\$ 26,633,359	\$ 29,600,673	\$ 2,967,314
Local sources	14,136,468	15,859,895	12,871,050	(2,988,845)
Federal	2,111,951	2,493,241	2,169,182	(324,059)
Other state	7,896,091	10,862,067	11,693,057	830,990
Other local	8,133,266	9,138,349	9,615,500	477,151
Total revenues	<u>60,710,600</u>	<u>64,986,911</u>	<u>65,949,462</u>	<u>962,551</u>
<b>Expenditures:</b>				
Certificated salaries	28,264,063	29,888,476	29,546,562	341,914
Classified salaries	9,538,434	10,238,908	9,914,716	324,192
Employee benefits	11,014,200	10,498,145	10,094,421	403,724
Books and supplies	2,542,504	5,947,990	2,812,979	3,135,011
Contracted services and other operating expenditures	5,888,894	7,203,865	6,831,022	372,843
Capital outlay		52,714	557,495	(504,781)
Other outgo	1,900,472	2,091,264	1,829,089	262,175
Debt service:				
Principal	174,873	180,990	69,921	111,069
Interest and fiscal charges	31,977	37,879	19,324	18,555
Total expenditures	<u>59,355,417</u>	<u>66,140,231</u>	<u>61,675,529</u>	<u>4,464,702</u>
Excess of revenues over (under) expenditures	<u>1,355,183</u>	<u>(1,153,320)</u>	<u>4,273,933</u>	<u>5,427,253</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds from long term debt			500,000	500,000
Transfers in	9,750	349,794	349,794	
Transfers out	(375,010)	(441,042)	(368,351)	72,691
Total other financing sources (uses)	<u>(365,260)</u>	<u>(91,248)</u>	<u>481,443</u>	<u>572,691</u>
Net change in fund balance	<u>989,923</u>	<u>(1,244,568)</u>	<u>4,755,376</u>	<u>5,999,944</u>
Fund balance, July 1, 2006	7,449,793	7,449,793	7,449,793	
Prior period adjustments			(11,091)	(11,091)
Fund balance, July 1, 2006, restated	<u>7,449,793</u>	<u>7,449,793</u>	<u>7,438,702</u>	<u>(11,091)</u>
Fund balance, June 30, 2007	<u>\$ 8,439,716</u>	<u>\$ 6,205,225</u>	<u>\$ 12,194,078</u>	<u>\$ 5,988,853</u>

SUPPLEMENTARY INFORMATION SECTION

NOVATO UNIFIED SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 June 30, 2007

	Adult Education Fund	Deferred Maintenance Fund	Retiree Benefit Fund	Totals
<b>Assets</b>				
Cash in County treasury	\$ 93,085	\$ 1,632,863	\$ 600	\$ 1,726,548
Accounts receivable	1,182	17,647	7	18,836
Due from other funds	6			6
<b>Total assets</b>	<b>\$ 94,273</b>	<b>\$ 1,650,510</b>	<b>\$ 607</b>	<b>\$ 1,745,390</b>
 <b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 6,842	\$ -	\$ -	\$ 6,842
Due to other funds	3,183			3,183
Deferred revenue	2,497			2,497
<b>Total liabilities</b>	<b>12,522</b>			<b>12,522</b>
Fund balances:				
Undesignated	81,751	1,650,510	607	1,732,868
<b>Total fund balances</b>	<b>81,751</b>	<b>1,650,510</b>	<b>607</b>	<b>1,732,868</b>
<b>Total liabilities and fund balances</b>	<b>\$ 94,273</b>	<b>\$ 1,650,510</b>	<b>\$ 607</b>	<b>\$ 1,745,390</b>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
For the Fiscal Year Ended June 30, 2007

	Adult Education Fund	Deferred Maintenance Fund	Retiree Benefit Fund	Totals
<b>Revenues:</b>				
Revenue from revenue limit:				
State apportionment	\$ 72,656	\$ -	\$ -	\$ 72,656
Other state		289,231		289,231
Other local	7,471	68,868	28	76,367
	<u>80,127</u>	<u>358,099</u>	<u>28</u>	<u>438,254</u>
Total revenues				
<b>Expenditures:</b>				
Certificated salaries	47,598			47,598
Classified salaries	5,985			5,985
Employee benefits	5,719			5,719
Books and supplies	4,707			4,707
Contracted services and other operating expenditures	590			590
Capital outlay		889,968		889,968
Other outgo	3,178			3,178
	<u>67,777</u>	<u>889,968</u>		<u>957,745</u>
Total expenditures				
Excess of revenues over (under) expenditures	12,350	(531,869)	28	(519,491)
<b>Other Financing Sources (Uses):</b>				
Transfers in		295,496		295,496
Total other financing sources (uses)		<u>295,496</u>		<u>295,496</u>
Net change in fund balances	12,350	(236,373)	28	(223,995)
Fund balances, July 1, 2006	69,401	1,886,883	579	1,956,863
Fund balances, June 30, 2007	<u>\$ 81,751</u>	<u>\$ 1,650,510</u>	<u>\$ 607</u>	<u>\$ 1,732,868</u>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2007

	Adult Education Fund		
	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Revenue from revenue limit:			
State apportionment	\$ 76,152	\$ 72,656	\$ (3,496)
Other state			
Other local	4,095	7,471	3,376
Total revenues	80,247	80,127	(120)
<b>Expenditures:</b>			
Certificated salaries	49,473	47,598	1,875
Classified salaries	8,233	5,985	2,248
Employee benefits	7,486	5,719	1,767
Books and supplies	7,421	4,707	2,714
Contracted services and other operating expenditures	437	590	(153)
Capital outlay			
Other outgo	3,478	3,178	300
Total expenditures	76,528	67,777	8,751
Excess of revenues over (under) expenditures	3,719	12,350	8,631
<b>Other Financing Sources (Uses):</b>			
Transfers in			
Total other financing sources (uses)			
Net change in fund balances	3,719	12,350	8,631
Fund balances, July 1, 2006	69,401	69,401	
Fund balances, June 30, 2007	\$ 73,120	\$ 81,751	\$ 8,631

Deferred Maintenance Fund			Retiree Benefit Fund		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
302,155	289,231	(12,924)			
34,717	68,868	34,151		28	28
336,872	358,099	21,227		28	28
1,893,992	889,968	1,004,024			
1,893,992	889,968	1,004,024			
(1,557,120)	(531,869)	1,025,251		28	28
302,155	295,496	(6,659)			
302,155	295,496	(6,659)			
(1,254,965)	(236,373)	1,018,592		28	28
1,886,883	1,886,883		579	579	
\$ 631,918	\$ 1,650,510	\$ 1,018,592	\$ 579	\$ 607	\$ 28

(Continued)

NOVATO UNIFIED SCHOOL DISTRICT  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (Continued)  
For the Fiscal Year Ended June 30, 2007

	Totals		
	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Revenue from revenue limit:			
State apportionment	\$ 76,152	\$ 72,656	\$ (3,496)
Other state	302,155	289,231	(12,924)
Other local	38,812	76,367	37,555
Total revenues	<u>417,119</u>	<u>438,254</u>	<u>21,135</u>
<b>Expenditures:</b>			
Certificated salaries	49,473	47,598	1,875
Classified salaries	8,233	5,985	2,248
Employee benefits	7,486	5,719	1,767
Books and supplies	7,421	4,707	2,714
Contracted services and other operating expenditures	437	590	(153)
Capital outlay	1,893,992	889,968	1,004,024
Other outgo	3,478	3,178	300
Total expenditures	<u>1,970,520</u>	<u>957,745</u>	<u>1,012,775</u>
Excess of revenues over (under) expenditures	<u>(1,553,401)</u>	<u>(519,491)</u>	<u>1,033,910</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	302,155	295,496	(6,659)
Total other financing sources (uses)	<u>302,155</u>	<u>295,496</u>	<u>(6,659)</u>
Net change in fund balances	(1,251,246)	(223,995)	1,027,251
Fund balances, July 1, 2006	<u>1,956,863</u>	<u>1,956,863</u>	
Fund balances, June 30, 2007	<u>\$ 705,617</u>	<u>\$ 1,732,868</u>	<u>\$ 1,027,251</u>



**NOVATO UNIFIED SCHOOL DISTRICT**  
**BALANCE SHEET**  
**NONMAJOR DEBT SERVICE FUNDS**  
 June 30, 2007

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	Bond Interest and Redemption Fund	Debt Service Fund	Totals
<b>Assets</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Cash in County treasury	\$ 5,378,334	24,337	\$ 5,402,671
Cash with fiscal agent		277,574	277,574
Accounts receivable		288	288
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 5,378,334</u>	<u>\$ 302,199</u>	<u>\$ 5,680,533</u>
<b>Liabilities and Fund Balance</b>			
Liabilities:			
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>                    </u>	<u>                    </u>	<u>                    </u>
Fund balances:			
Undesignated	<u>5,378,334</u>	<u>302,199</u>	<u>5,680,533</u>
Total fund balances	<u>5,378,334</u>	<u>302,199</u>	<u>5,680,533</u>
Total liabilities and fund balances	<u>\$ 5,378,334</u>	<u>\$ 302,199</u>	<u>\$ 5,680,533</u>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**NONMAJOR DEBT SERVICE FUNDS**  
For the Fiscal Year Ended June 30, 2007

	Bond Interest and Redemption Fund	Debt Service Fund	Totals
<b>Revenues:</b>			
Other state	\$ 52,968	\$ -	\$ 52,968
Other local	5,544,052	15,008	5,559,060
Total revenues	<u>5,597,020</u>	<u>15,008</u>	<u>5,612,028</u>
<b>Expenditures:</b>			
Debt service			
Principal	985,000		985,000
Interest and fiscal charges	3,726,297	12,310	3,738,607
Total expenditures	<u>4,711,297</u>	<u>12,310</u>	<u>4,723,607</u>
Excess of revenues over (under) expenditures	<u>885,723</u>	<u>2,698</u>	<u>888,421</u>
<b>Other Financing Sources (Uses):</b>			
Premium on long term debt	1,885,746		1,885,746
Transfers out	(252,589)		(252,589)
Total other financing sources (uses)	<u>1,633,157</u>		<u>1,633,157</u>
Net change in fund balances	2,518,880	2,698	2,521,578
Fund balances, July 1, 2006	<u>2,859,454</u>	<u>299,501</u>	<u>3,158,955</u>
Fund balances, June 30, 2007	<u>\$ 5,378,334</u>	<u>\$ 302,199</u>	<u>\$ 5,680,533</u>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**NONMAJOR DEBT SERVICE FUNDS**  
For the Fiscal Year Ended June 30, 2007

	Bond Interest and Redemption Fund		
	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Other state	\$ -	\$ 52,968	\$ 52,968
Other local	3,921,000	5,544,052	1,623,052
<b>Total revenues</b>	<u>3,921,000</u>	<u>5,597,020</u>	<u>1,676,020</u>
<b>Expenditures:</b>			
Debt service			
Principal	985,000	985,000	
Interest and fiscal charges	2,829,693	3,726,297	(896,604)
<b>Total expenditures</b>	<u>3,814,693</u>	<u>4,711,297</u>	<u>(896,604)</u>
Excess of revenues over (under) expenditures	<u>106,307</u>	<u>885,723</u>	<u>779,416</u>
<b>Other Financing Sources (Uses):</b>			
Premium on long term debt		1,885,746	1,885,746
Transfers out		(252,589)	(252,589)
<b>Total other financing sources (uses)</b>		<u>1,633,157</u>	<u>1,633,157</u>
Net change in fund balances	106,307	2,518,880	2,412,573
Fund balances, July 1, 2006	<u>2,859,454</u>	<u>2,859,454</u>	
Fund balances, June 30, 2007	<u>\$ 2,965,761</u>	<u>\$ 5,378,334</u>	<u>\$ 2,412,573</u>

Debt Service Fund			Totals		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$	\$ -	52,968	52,968
3,000	15,008	12,008	3,924,000	5,559,060	1,635,060
3,000	15,008	12,008	3,924,000	5,612,028	1,688,028
			985,000	985,000	
3,000	12,310	(9,310)	2,832,693	3,738,607	(905,914)
3,000	12,310	(9,310)	3,817,693	4,723,607	(905,914)
	2,698	2,698	106,307	888,421	782,114
				1,885,746	1,885,746
				(252,589)	(252,589)
				1,633,157	1,633,157
	2,698	2,698	106,307	2,521,578	2,415,271
299,501	299,501		3,158,955	3,158,955	
\$ 299,501	\$ 302,199	\$ 2,698	\$ 3,265,262	\$ 5,680,533	\$ 2,415,271

NOVATO UNIFIED SCHOOL DISTRICT  
BALANCE SHEET  
NONMAJOR CAPITAL PROJECTS FUNDS  
June 30, 2007

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	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Totals
<b>Assets</b>			
Cash in County treasury	\$ 239,583	\$ 1,980,967	\$ 2,220,550
Accounts receivable	<u>59,053</u>	<u>24,151</u>	<u>83,204</u>
Total assets	<u>\$ 298,636</u>	<u>\$ 2,005,118</u>	<u>\$ 2,303,754</u>

**Liabilities and Fund Balance**

Liabilities:			
Accounts payable	\$ -	\$ 2,333	\$ 2,333
Due to other funds		<u>57,484</u>	<u>57,484</u>
Total liabilities		<u>59,817</u>	<u>59,817</u>
Fund balance:			
Undesignated	<u>298,636</u>	<u>1,945,301</u>	<u>2,243,937</u>
Total fund balance	<u>298,636</u>	<u>1,945,301</u>	<u>2,243,937</u>
Total liabilities and fund balance	<u>\$ 298,636</u>	<u>\$ 2,005,118</u>	<u>\$ 2,303,754</u>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR CAPITAL PROJECTS FUNDS**  
For the Fiscal Year Ended June 30, 2007

	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Totals
<b>Revenues:</b>			
Other local	\$ 255,504	\$ 99,411	\$ 354,915
Total revenues	<u>255,504</u>	<u>99,411</u>	<u>354,915</u>
<b>Expenditures:</b>			
Contracted services and other operating expenditures		159,046	159,046
Capital outlay		33,157	33,157
Debt service			
Principal		48,626	48,626
Interest and fiscal charges		1,333	1,333
Total expenditures		<u>242,162</u>	<u>242,162</u>
Excess of revenues over (under) expenditures	<u>255,504</u>	<u>(142,751)</u>	<u>112,753</u>
<b>Other Financing Sources (Uses):</b>			
Transfers out	<u>(5,433,429)</u>		<u>(5,433,429)</u>
Total other financing sources (uses)	<u>(5,433,429)</u>		<u>(5,433,429)</u>
Net change in fund balance	<u>(5,177,925)</u>	<u>(142,751)</u>	<u>(5,320,676)</u>
Fund balances, July 1, 2006	5,476,561	2,061,806	7,538,367
Prior period adjustments		26,246	26,246
Fund balances, July 1, 2006, restated	<u>5,476,561</u>	<u>2,088,052</u>	<u>7,564,613</u>
Fund balances, June 30, 2007	<u>\$ 298,636</u>	<u>\$ 1,945,301</u>	<u>\$ 2,243,937</u>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**NONMAJOR CAPITAL PROJECTS FUNDS**  
For the Fiscal Year Ended June 30, 2007

	County School Facilities Fund		
	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Other local	\$	\$ 255,504	\$ 255,504
Total revenues		255,504	255,504
<b>Expenditures:</b>			
Contracted services and other operating expenditures			
Capital outlay			
Debt service			
Principal			
Interest and fiscal charges			
Total expenditures			
Excess of revenues over (under) expenditures		255,504	255,504
<b>Other Financing Sources (Uses):</b>			
Transfers out	(5,433,429)	(5,433,429)	
Total other financing sources (uses)	(5,433,429)	(5,433,429)	
Net change in fund balance	(5,433,429)	(5,177,925)	255,504
Fund balances, July 1, 2006	5,476,561	5,476,561	
Prior period adjustments			
Fund balances, July 1, 2006, restated	5,476,561	5,476,561	
Fund balances, June 30, 2007	\$ 43,132	\$ 298,636	\$ 255,504

Special Reserve for Capital Outlay Project Fund			Totals		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ 44,979	\$ 99,411	\$ 54,432	\$ 44,979	\$ 354,915	\$ 309,936
44,979	99,411	54,432	44,979	354,915	309,936
83,068	159,046	(75,978)	83,068	159,046	(75,978)
50,320	33,157	17,163	50,320	33,157	17,163
49,089	48,626	463	49,089	48,626	463
1,736	1,333	403	1,736	1,333	403
184,213	242,162	(57,949)	184,213	242,162	(57,949)
(139,234)	(142,751)	(3,517)	(139,234)	112,753	251,987
			(5,433,429)	(5,433,429)	
			(5,433,429)	(5,433,429)	
(139,234)	(142,751)	(3,517)	(5,572,663)	(5,320,676)	251,987
2,061,806	2,061,806		7,538,367	7,538,367	
	26,246	26,246		26,246	26,246
2,061,806	2,088,052	26,246	7,538,367	7,564,613	26,246
\$ 1,922,572	\$ 1,945,301	\$ 22,729	\$ 1,965,704	\$ 2,243,937	\$ 278,233



The Novato Unified School District ("the District") was formed 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 District's boundaries during the current fiscal year.

The District is operating eight elementary, three middle schools, one K-8 charter school, and three high schools, one of which is a continuation high school. The District also maintains an Adult Education and Independent Study School and has issued a charter to a high school.

The Board of Education and the District Administrators for the fiscal year ended June 30, 2007 were as follows:

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Jennifer Treppa	President	December, 2009
Cindi Clinton	Clerk	December, 2007
Leslie Schwarze	Member	December, 2009
Debbie Butler	Member	December, 2007
Aaron Brown	Member	December, 2007
Derek Knell	Member	December, 2009
Ross Millerick	Member	December, 2007

ADMINISTRATION

Dr. Jan LaTorre-Derby  
Superintendent

Eric Van Adelsberg  
Director of Human Resources

Marla Blackledge  
Chief Financial Officer

NOVATO UNIFIED SCHOOL DISTRICT  
 SCHEDULE OF AVERAGE DAILY ATTENDANCE  
 For Fiscal Year Ended June 30, 2007

	Second Period Report Revised		Annual Report	
	District	Charter	District	Charter
<b>Elementary</b>				
Kindergarten	559	42	560	43
First through Third	1,594	68	1,591	68
Fourth through Sixth	1,631	72	1,630	72
Seventh and Eighth	1,083	47	1,082	47
Home and Hospital	2		3	
Special Education	106		114	
Community Day School	9		9	
Extended Year	8		8	
<b>Subtotals</b>	<b>4,992</b>	<b>229</b>	<b>4,997</b>	<b>230</b>
<b>Secondary</b>				
Ninth through Twelfth	2,138		2,127	
Continuation Education	64		63	
Home and Hospital	6		6	
Special Education	61		63	
Community Day School	12		12	
Extended Year	3		3	
<b>Subtotals</b>	<b>2,284</b>		<b>2,274</b>	
<b>Class for Adults</b>				
Non Concurrently Enrolled	27		30	
<b>Subtotals</b>	<b>27</b>		<b>30</b>	
<b>Totals</b>	<b>7,303</b>	<b>229</b>	<b>7,301</b>	<b>230</b>

	Hours of Attendance
Supplemental Instructional Hours	
Elementary	48,530
Secondary	28,766
	<u>77,296</u>

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

This schedule does not include average daily attendance information for the Marin School of Arts and Technology Charter School. The Marin School of Arts and Technology Charter School is an independent, direct funded charter school, therefore, average daily attendance information for the Charter School is reported in their independent audit report, separate from Novato Unified School District.

NOVATO UNIFIED SCHOOL DISTRICT  
 SCHEDULE OF INSTRUCTIONAL TIME  
 For the Fiscal Year Ended June 30, 2007

School District

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2006-07 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	31,860	36,000	36,875	180	In compliance
Grade 1	42,480	50,400	53,985	180	In compliance
Grade 2	42,480	50,400	53,985	180	In compliance
Grade 3	42,480	50,400	53,985	180	In compliance
Grade 4	49,430	54,000	54,660	180	In compliance
Grade 5	49,430	54,000	54,660	180	In compliance
Grade 6	49,430	54,000	54,660	180	In compliance
Grade 7	57,075	54,000	58,181	180	In compliance
Grade 8	57,075	54,000	58,181	180	In compliance
Grade 9	51,954	64,800	66,975	180	In compliance
Grade 10	51,954	64,800	66,975	180	In compliance
Grade 11	51,954	64,800	66,975	180	In compliance
Grade 12	51,954	64,800	66,975	180	In compliance

Charter School

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2006-07 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	N/A	36,000	42,255	180	In compliance
Grade 1	N/A	50,400	55,880	180	In compliance
Grade 2	N/A	50,400	55,880	180	In compliance
Grade 3	N/A	50,400	55,880	180	In compliance
Grade 4	N/A	54,000	55,880	180	In compliance
Grade 5	N/A	54,000	55,880	180	In compliance
Grade 6	N/A	54,000	55,880	180	In compliance
Grade 7	N/A	54,000	55,880	180	In compliance
Grade 8	N/A	54,000	55,880	180	In compliance

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 minutes requirement, whichever is greater by Education Code Section 46201.

The District has received incentive funding for increasing instructional time as provided by the Incentive for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

Education Code Section 47612.5 requires charter school to offer, at a minimum, the same number of minutes of instruction as specified in Education Code Section 46201(a)(3).

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF EXCESS SICK LEAVE**  
**For the Fiscal Year Ended June 30, 2007**

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Novato Unified School District provides more than 12 sick leave days in a school year to following groups of employees who are CalSTRS members:

- 1) Superintendent
- 2) Executive director
- 3) Principals and other management

NOVATO UNIFIED SCHOOL DISTRICT  
 SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
 For Fiscal Year Ended June 30, 2007

General Fund	(Budget) 2008	2007	2006	2005
Revenues and other financial sources	\$ 61,341,730	\$ 66,799,256	\$ 58,278,694	\$ 52,599,594
Expenditures	60,370,983	61,675,529	56,041,015	51,225,266
Other uses and transfers out	453,272	368,351	448,626	501,497
Total outgo	60,824,255	62,043,880	56,489,641	51,726,763
Change in fund balance (deficit)	517,475	4,755,376	1,789,053	872,831
Prior period adjustments		(11,091)		
Ending fund balance	\$ 12,711,553	\$ 12,194,078	\$ 7,449,793	\$ 5,660,740
Available reserves	\$ 4,165,459	\$ 3,425,464	\$ 2,618,124	\$ 3,507,088
Available reserves as a percentage of total outgo	6.8%	5.5%	4.6%	6.8%
Total long-term debt	\$ 102,496,647	\$ 104,950,472	\$ 63,302,369	\$ 67,518,812
Average daily attendance at P-2	7,278	7,276	7,181	7,114

This schedule discloses the District's financial trends by displaying past fiscal years' data along with current fiscal 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.

The General Fund's fund balance has increased by \$6,533,338 over the past two fiscal years. The fiscal year 2007-08 budget projects an increase of \$517,475. For a District this size, the State recommends available reserve of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in the past three fiscal years, and anticipates a surplus during the 2007-08 fiscal year. Total long-term debt has increased by \$37,431,660 over the past two fiscal years.

Average daily attendance has increased by 162 over the past two fiscal years. An increase in 2 ADA is anticipated during the fiscal year 2007-08.

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF CHARTER SCHOOLS**  
For the Fiscal Year Ended June 30, 2007

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During fiscal year 2006-2007, Novato Unified School District was the sponsoring District for two charter schools, Novato Charter School and Marin School of Arts and Technology

For disclosure purposes, the financial activities of Novato Charter School are presented in the General Fund. The financial activities of Marin School of Arts and Technology are not presented in the District's financial statements.

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Fiscal Year Ended June 30, 2007

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal Catalog (CFDA) Number	Federal Expenditures
<b>Federal Programs:</b>		
U.S. Department of Education:		
Passed through the California Department of Education (CDE):		
NCLB Title I , Part A - Basic Grants Low Income and Neglected	84.010	\$ 512,846
NCLB - Title I, Part B (3) - Even Start Family Literacy	84.213	23,589
NCLB - Title II, Part A Improving Teacher Quality Local Grants	84.367	202,122
NCLB - Title II, Part D, Enhancing Education Through Technology	84.318	18,077
NCLB - Title II, Part D, Enhancing Education Through Technology - Competitive Grants	84.318	2,031
NCLB - Title III Limited English Proficiency (LEP) Student Program	84.365	101,638
NCLB - Title IV Part A: Safe & Drug Free Schools Communities	84.186	23,634
NCLB - Title V Part A: Innovative Education Strategies	84.298A	6,476
NCLB - Title X McKinney - Vento Homeless Children Assistance Grants	84.196	918
Special Ed: IDEA - Basic Local Assistance Entitlement, Part B	84.027	1,207,120
Vocational & Applied Technology Secondary I C	84.048	35,313
ROTC Reimbursement	84.000	20,508
Advance Placement/Incentive Program Cycle 2	84.330	3,337
California Alternative Performance Assessment	84.369	57
		2,157,666
Total U.S. Department of Education		
U.S. Department of Health and Human Services:		
Passed through Marin County Office of Education:		
Medi-Cal Billing Option	93.778	11,516
Total U.S. Department of Health and Human Services		11,516
U.S. Department of Agriculture California Department:		
Passed through of Education (CDE):		
National School Lunch	10.555	625,349
Basic School Breakfast Program	10.553	24,424
Especially Need School Breakfast	10.553	291,701
Total U.S. Department of Agriculture		941,474
Total Expenditures of Federal Awards		\$ 3,110,656

The accompanying notes are an integral part of this schedule.

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Novato Unified School District and is presented on both modified accrual basis and accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**NOVATO UNIFIED SCHOOL DISTRICT**  
**RECONCILIATION OF UNAUDITED ACTUAL REPORT WITH**  
**AUDITED FINANCIAL STATEMENTS**  
June 30, 2007

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	<u>General Fund</u>	<u>Adult Education Fund</u>
June 30, 2007 Unaudited Actual Report Fund Balances	\$ 12,317,357	\$ 81,751
Overstatement of cash in banks and on hand	(5,339)	
Overstatement of cash in revolving fund	(1,000)	
Overstatement of cash with fiscal agent	(4,752)	
Understatement of accounts payable	<u>(112,188)</u>	
June 30, 2007 Audited Financial Statements Fund Balances	<u>\$ 12,194,078</u>	<u>\$ 81,751</u>
	<u>Bond Interest and Redemption Fund</u>	<u>Debt Service Fund</u>
June 30, 2007 Unaudited Actual Report Fund Balances	\$ 5,378,334	\$ 300,632
Understatement of accounts receivable		
Understatement of cash with fiscal agent		<u>1,567</u>
June 30, 2007 Audited Financial Statements Fund Balances	<u>\$ 5,378,334</u>	<u>\$ 302,199</u>

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities of the long-term liabilities as reported on the unaudited actual to the audited financial statements.

<u>Deferred Maintenance Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>County School Facilities Fund</u>	<u>Special Reserve for Capital Outlay Projects Fund</u>	<u>Retiree Benefit Fund</u>
\$ 1,650,510	\$ 31,029,383	\$ 8,015,620	\$ 298,636	\$ 1,945,301	\$ 607
	(316,079)				
<u>\$ 1,650,510</u>	<u>\$ 30,713,304</u>	<u>\$ 8,015,620</u>	<u>\$ 298,636</u>	<u>\$ 1,945,301</u>	<u>\$ 607</u>

<u>Cafeteria Enterprise Fund</u>	<u>Self-Insurance Fund</u>
\$ 102,837	\$ 2,177
	32,589
<u>\$ 102,837</u>	<u>\$ 34,766</u>

	<u>Long-Term Debt</u>
June 30, 2007 Unaudited Actual Report Total Liabilities	\$ 102,942,362
Understatement of Compensated Absences	8,794
Understatement of Bond Premiums	1,799,316
Understatement of Claims Payable	200,000
June 30, 2007 Audited Financial Statements Long-Term Debt Total Liabilities	<u>\$ 104,950,472</u>



# MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS:**

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CRAIG A. HARTZHEIM, C.P.A.  
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**CONSULTANT:**

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

Board of Education  
Novato Unified School District  
Novato, California

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Novato Unified School District (the District) as of and for the fiscal year ended June 30, 2007, which collectively comprise the Novato Unified School District's basic financial statements and have issued our report thereon dated January 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of District's financial statements that is more than inconsequential will not be prevented or detected by District's internal control. We noted other matters that we reported in the Findings and Recommendation Section of this report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving internal control over financial reporting that we described in the finding and recommendation section of this report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying finding and recommendation section of this report.

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

*Moss, Levy & Hartzheim*

MOSS, LEVY & HARTZHEIM, LLP

Beverly Hills, California

January 20, 2008



# MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS:**

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CRAIG A. HARTZHEIM, C.P.A.  
HADLEY Y. HUI, C.P.A.

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## AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education  
Novato Unified School District  
Novato, California

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Novato Unified School District as of and for the fiscal year ended June 30, 2007, which collectively comprise the Novato Unified School District's basic financial statements and have issued our report thereon dated January 20, 2008. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

<u>Description</u>	<u>Procedures in Panel's Audit Guide</u>	<u>Procedures Performed</u>
Attendance reporting	8	Yes
Kindergarten continuation	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Adult education	9	No (see next page)
Regional occupational centers/programs	6	Not applicable
Instructional time:		
School districts	6	Yes
County offices of education	3	Not applicable
Community day schools	9	No (see next page)
Morgan-Hart class size reduction program	7	Yes
Instructional materials fund:		
General requirements	12	Yes
K-8	1	Yes
9-12	1	Yes
Ratios of administrative employees to teachers	1	Yes
Early retirement incentive program	4	Not applicable

<u>Description</u>	<u>Procedures in Panel's Audit Guide</u>	<u>Procedures Performed</u>
Gann limit calculation	1	Yes
School construction funds:		
School district bonds	3	Yes
State school facilities funds	1	Yes
Alternative pension plans	2	Not applicable
Excess sick leave	3	Yes
Notice of right to elect California State Teacher Retirement System (CalSTRS) membership	1	Yes
Proposition 20 lottery funds (Cardenas Textbook Act Of 2000)	2	Yes
State lottery funds (California State Lottery Act of 1984)	2	Yes
California school age families education (Cal-Safe) program	3	Not applicable
School accountability report card	3	Yes
Class size reduction:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not applicable
Only one school serving K-3	4	Not applicable
Office of criminal justice planning	-	Not applicable
Contemporaneous records of attendance, for charter schools	1	Yes
Mode of Instruction, for charter schools	1	Yes
Nonclassroom-based instruction/independent study, charter	15	Not applicable
Additional nonclassroom-based instruction, charter	1	Not applicable
Determination of funding for nonclassroom-based instruction, for charter schools	3	Not applicable
Annual instructional minutes – classroom based, for charter school	3	Yes

We did not perform testing for adult education and community day school because the adult education and community day school ADA were under the level which requires testing.

Based on our audit, we found that, for the items tested, the Novato Unified School District complied with the State laws and regulations referred to above except as described in the Findings and Recommendations Section of this report. Further, based on our examination, for the items not tested, nothing came to our attention to indicate that the Novato Unified School District had not complied with the State laws and regulations.

This report is intended solely for the information and use of the board of education, management, State Controller's Office, Department of Finance, and Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

*Moss, Levy & Hartzheim*  
MOSS, LEVY & HARTZHEIM, LLP  
Beverly Hills, California  
January 20, 2008



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# MOSS, LEVY & HARTZHEIM LLP

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CERTIFIED PUBLIC ACCOUNTANTS

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**AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

Board of Education  
Novato Unified School District  
Novato, California

Compliance

We have audited the compliance of the Novato Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. Novato Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Novato Unified School District's management. Our responsibility is to express an opinion on the Novato Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the 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. Our audit does not provide legal determination on the Novato Unified School District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

*Moss, Levy & Hartzheim*  
MOSS, LEVY & HARTZHEIM, LLP  
Beverly Hills, California  
January 20, 2008



## FINDINGS AND RECOMMENDATIONS SECTION

NOVATO UNIFIED SCHOOL DISTRICT  
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
 June 30, 2007

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**Section I – Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

Reporting condition(s) identified not considered to be material weaknesses?  X  Yes \_\_\_\_\_ None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes  X  No

*Federal Awards*

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

Reporting condition(s) identified not considered to be material weaknesses? \_\_\_\_\_ Yes  X  None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a) \_\_\_\_\_ Yes  X  No

Identification of major programs

<u>CFDA Number (s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.555, 10.553</u>	<u>Nutrition Program Cluster</u>
<u>84.027</u>	<u>Special Education</u>

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee: \_\_\_\_\_ Yes  X  No

*State Awards*

Internal control over state programs:

Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

Reporting conditions(s) identified not considered to be material weaknesses?  X  Yes \_\_\_\_\_ None reported

Type of auditor's report issued on compliance for state programs: Qualified

**Section II - Financial Statement Findings**

**FINDING 2007 - 1  
District Administration  
30000**

**Finding:**

During our audit of the District, we noted understaffing in the Business Department, specifically in the key position – Director of Fiscal Services. These positions perform responsibilities that affect the efficiency of the business department. We noted that monthly cash with County Treasury reconciliation and bank reconciliation were not reviewed by personnel other than the preparer, and the payroll liabilities accounts were not reconciled in a timely manner.

**Effect:**

The lack of staff in the business department may result in a breach of internal controls, as existing and newly hired staff may become overloaded with work in areas that they are not trained for.

**Recommendation:**

The District should take appropriate action to make sure key positions are filled and with qualified personnel in a timely manner to eliminate inefficiency in the business department and have reviewer to review the work other than the preparer.

**District's Response:**

The Director of Fiscal Services position was filled in June 2007. The District advertises for all positions as soon as vacancies are known. Key management positions are advertised in all common trade papers.

**FINDING 2007 - 2  
Associated Student Body – Disbursement  
30000**

**Finding:**

During our testing of cash disbursement, we noted all disbursement did not have a "PAID" stamp. Of the forty-five disbursements tested, fourteen were not properly approved for payments and eight did not contain any supporting documents.

**Effect:**

Without stamped "Paid" on invoices and receipts, duplicate payment may be made, and without approval signature, unauthorized disbursements may be made from the student body account and not be detected.

**Recommendation:**

We recommend that all invoices and receipts be stamped "Paid" in order to avoid duplicate payment and all disbursements be properly approved prior to payment.

**District's Response:**

The District will send business office staff to the secondary school sites on a quarterly basis to ensure that proper procedures are being followed .

**Section II - Financial Statement Findings (Continued)**

**FINDING 2007 - 3**  
**Associated Student Body – Cash Receipts**  
**30000**

**Finding:**

During our testing of cash receipts, we tested thirty receipts and noted the following: one receipt was not deposited timely, ten receipts did not have supporting documentation such as check remittances or copies of checks, two deposit forms were changed without being initialed or approval signatures, two cash collection forms were not filled out fundraisers, and one receipt amount was not equal to the deposit amount.

**Effect:**

Without the supporting documentation and proper internal control, it is not possible to verify that all cash and checks are deposited into the bank and recorded properly.

**Recommendation:**

We recommend the District retain supporting documentation for all amounts deposited. All supporting documentation should be attached to the related deposit slip to provide an adequate audit trail.

**District's Response:**

The District will send business office staff to the secondary school sites on a quarterly basis to ensure that proper procedures are being followed.

**FINDING 2007 - 4**  
**Associated Student Body – Bank Reconciliation and Financial Statements**  
**30000**

**Finding:**

During our testing of the bank reconciliation and the monthly financial statements, we noted that reviewer's signature was not present.

**Effect:**

Without proper review on the bank reconciliation and financial statements, misappropriation of assets within the student body fund could occur.

**Recommendation:**

We recommend the District have personnel other than the preparer to review the bank reconciliation and financial statements.

**District's Response:**

The school site principal will review and sign all ASB bank reconciliations and financial statements.

**Section III – Federal award findings and questioned costs**

There was no federal award finding.

**Section IV – State award findings and questioned costs**

**FINDING 2007-5  
Kindergarten Retention Forms  
10000**

**Finding:**

Anniversary date on the kindergarten retention form was not fill out correctly. We examined all the kindergarten retention forms on both Hamilton Elementary School and Rancho Elementary School and noted that all seven of the retention forms incorrectly stated the anniversary date as August 2005 instead of August 2006.

**Question Costs:**

None.

**Recommendation:**

We recommend the District office review all kindergarten forms submitted from various school sites and verify the accuracy of the information presented on the retention form.

**District's Response:**

The District office will review all kindergarten forms and verify the accuracy of the information presented on the retention form.

**FINDING 2007-6  
Attendance  
40000**

**Finding:**

During our testing of attendance, we noted that attendance rosters were not always signed by the teachers in the Novato High School.

**Question Costs:**

None.

**Recommendation:**

All attendance rosters should be signed by teachers to verify accuracy of records.

**District's Response:**

The District will send business office staff to Novato High School on a quarterly basis to ensure that proper procedures are being followed.

**Section I - Financial Statements Findings**

**FINDING 2006 - 1**  
**Capital Assets Inventory**  
**20000**

**Specific Requirement That Was Not Complied With:**

Sound accounting practices require records be maintained on a current basis for all capital assets.

**Finding:**

During the audit of capital asset inventory records, the following were determined:

1. Capital asset inventory spreadsheets have not been updated since June 30, 2004 for additions and disposals made throughout the year.
2. The District identified assets included as part of the additions; however, new assets were not included in the spreadsheets.
3. It was unclear which projects were completed and placed into service as of June 30, 2005 or June 30, 2006.
4. The District did not perform an annual physical inventory to compare the existence and location of all capital assets and determine the accuracy of the fixed asset list.

**Effect:**

Lack of complete and current listings of all capital assets including work in progress and completed capital projects, will lead to inaccurate capital asset records and potential loss of control over District assets.

**Recommendation:**

1. The District should maintain capital asset inventory records on a current basis throughout the year by adding purchases to the inventory spreadsheets and eliminating disposed items.
2. The spreadsheets should summarize projects completed and placed into service at the end of each year.
3. An annual physical inventory should be completed each year to update the District's capital inventory report.

**Status:**

Implemented.

**FINDING 2006 - 2**  
**District Administration**  
**30000**

**Finding:**

During the audit of the District, significant understaffing in the business department, specifically in key positions was noted. These positions perform responsibilities that affect the efficiency of the business department. During the past several years, these positions have been vacant much of the time, causing the District to depend on inexperienced staff.

**Effect:**

The lack of experienced staff to help run the business department may result in a loss of internal controls as existing and newly hired staff may become overloaded with work in areas for which they are not trained. This ultimately has caused the District to continuously file an audit report extension for each of the last three years. Additionally, the business department has not been receiving sufficient support to meet report deadlines and generate business tasks on a daily basis.

**Recommendation:**

The District should take appropriate action to make sure key positions are filled in a timely manner and with qualified personnel to eliminate inefficiency in the business department. Current job descriptions and duties should be reviewed for completeness to help facilitate the use of temporary personnel when vacancies occur in key positions.

**Status:**

Not Implemented – see finding 2007-1.

**Section I - Financial Statements Findings (Continued)**

**FINDING 2006 - 3**  
**Student Body – Record Keeping –Novato and San Marin High Schools**  
**30000**

**Specific Requirement That Was Not Complied With:**

Sound accounting practices require student body records be maintained on a current basis.

**Finding:**

During testing of student body records for Novato High School and San Marin High School, it was determined the student body account records were manually maintained using spreadsheets to show student groups' activities combined together and recorded in separate registers for expenditures, deposits, and returned checks. Cash balances were not available on a current basis but appear to be manually calculated on a monthly basis.

**Effect:**

Manually maintaining the volume of financial activity, which generally occurs in a high school student body account, may increase the risk of material misstatement.

**Recommendation:**

The District should switch to a computer based system to facilitate the timely preparation of consolidated and individual financial statements for all student groups in the school's student body account.

**Status:**

Not implemented.

**FINDING 2006 - 4**  
**Student Body – Cash Disbursements – Sinaloa Middle School**  
**30000**

**Specific Requirement That Was Not Complied With:**

Sound accounting practices require supporting documentation for cash disbursements including proper authorization of student body expenditures.

**Finding:**

During testing of cash disbursements at Sinaloa Middle School, seventeen expenditures were not properly authorized prior to payment. Two authorized signatures did not approve the selected expenditures prior to the check being written.

**Effect:**

Without requiring signatures from two authorizing individuals, unauthorized disbursements may be made from the student body account and not be detected.

**Recommendation:**

All disbursements be properly approved prior to payment. Expenditures should be reviewed by two individuals to verify expenditures appear reasonable.

**Status:**

Not implemented – see finding 2007-2.



**Section I - Financial Statements Findings (Continued)**

**FINDING 2006 - 5**  
**Student Body Cash Receipts – Sinaloa Middle School**  
**30000**

**Specific Requirement That Was Not Complied With:**

Sound accounting policies require retention of adequate supporting documentation for student body deposits.

**Finding:**

During testing of cash receipts at Sinaloa Middle School, six receipts were tested and noted that three did not have supporting documentation such as check remittances, copies of checks received, or receipts for cash are not routinely retained as a source document to support deposited amounts.

**Effect:**

Without the supporting documentation, it is not possible to verify that all cash and checks are deposited into the bank.

**Recommendation:**

The District retain supporting documentation for all amounts deposited. All supporting documentation should be attached to the related deposit slip to provide an adequate audit trail.

**Status:**

Not Implemented – see finding 2007-3.

**FINDING 2006 - 6**  
**Student Body Cash Disbursement– San Marin High School**  
**30000**

**Specific Requirement That Was Not Complied With:**

Accounting procedures for student organizations require funds raised through student body to be allocated to student activities and not used for District expenditures.

**Findings:**

During testing of cash disbursements at San Marin High School, one disbursement that did not appear to be student expenditure. San Marin High School purchased a water valve using student body funds.

**Recommendation:**

Expenditures for general school maintenance should not flow through the student body account at any school site.

**Status:**

Implemented.

Section I - Financial Statements Findings (Continued)

FINDING 2006 -7  
Student Body San Marin High School  
30000

**Specific Requirement That Was Not Complied With:**

Sound accounting practices require the physical safeguarding of cash as well as adequate internal controls over deposits in order to minimize the risk of misappropriation of Student Body assets.

**Finding:**

During testing of cash disbursements at San Marin High School, the site was cashing personal checks for office personnel from Student Body funds. Checks were written to the student body advisor to generate change for student activities instead of withdrawing funds from the bank.

**Effect:**

With limited controls in place over cash disbursements, misappropriation of assets within the student body fund could occur. Student Body funds could be at risk of not receiving all revenue that was earned.

**Recommendation:**

The District improves the internal control of cash disbursements at San Marin by no longer accepting personnel checks from employees in exchange for cash.

**Status:**

Implemented.

**Section II — Federal Award Findings and Questioned Costs**

No matters are reported.

**Section III — State Award Findings and Questioned Costs**

**FINDING 2006-8**  
**Lu Sutton – Kindergarten Retention Forms**  
**10000**

**Specific Requirement That Was Not Complied With:**

State Advisory 90-10 requires a state approved retention form to be completed prior to the beginning of the second year for each kindergarten student retained.

**Finding:**

During testing of kindergarten continuation, one student who did not have a state approved retention agreement prior to the kindergarten student's second year of enrollment.

**Amount of Questioned Costs and How Computed:**

Tested 100% of the kindergarten students enrolled in 05-06 and found one student without approved agreements signed prior to enrollment. The ADA for the one student is calculated as follows and resulted in disallowed ADA of 0.36.

ADA for disallowed students	.36
Revenue Limit per ADA	<u>\$ 5,140</u>
Amount of questioned costs	<u>\$ 1,850</u>

**Recommendation:**

The District review all kindergarten continuation forms for all kindergarten students continued for a second year.

**Status:**

Implemented.

**FINDING 2006-9**  
**Attendance at Lu Sutton**  
**10000**

**Specific Requirement That Was Not Complied With:**

Sound accounting practices require adequate attendance records in order to properly account for daily attendance.

**Finding:**

During testing of attendance at Lu Sutton Elementary, attendance was not being recorded correctly on a consistent basis.

**Effect:**

Though none were found, significant errors relating to input mistakes could occur by neglecting to reconcile the attendance reports to verify accuracy.

**Recommendation:**

The school establishes consistent attendance procedures to verify attendance is recorded accordingly.

**Status:**

Implemented.

Section III — State Award Findings and Questioned Costs (Continued)

FINDING 2006-10  
Attendance Short-Term Independent Study  
10000

**Specific Requirement That Was Not Complied With:**

Education Code 51747 requires the following:

1. Prior to commencement of independent study the pupil's parent, legal guardian caregiver should sign the master agreement if the pupil is less than 18 years of age. The certificated employee who has been designated as having responsibility for the general supervision of independent study should also sign the master agreement.
2. The school site should retain record of the pupil's work completed and the corresponding work assignment. Work samples should be signed or initialed by the supervising teacher indicating that he or she personally evaluated the work or reviewed the evaluations made by another certificated teacher to determine the amount of apportionment received.

**Finding:**

During testing of short term independent study, selected thirteen students from Novato Charter School, Lu Sutton Elementary School, and Loma Verde Elementary School and noted the following issues:

1. Master agreements were not completed properly. Agreements were signed by the student, parent and teacher subsequent to the pupil's first day of independent study.
2. School sites did not retain a representative sample of the pupil's work for the amount of apportionment received.
3. Work was reviewed by a certificated teacher; however, apportionment received was not recorded on the master agreement.

**Amount of Questioned Costs:**

The condition referred to above was identified during our testing of short-term independent study. The District should disallow all their short-term independent study apportionment.

ADA for disallowed students	24
Revenue Limit per ADA	<u>\$ 5,140</u>
Amount of Questioned Costs	<u>\$ 123,360</u>

**Effect:**

Not complying with the short-term independent study requirements may result in loss of attendance credit for the student is enrolled in the program.

**Recommendation:**

The District should review short-term independent study records to verify master agreements are signed prior to the pupil's first day of enrollment and adequate work samples are retained for apportionment purposes. In addition, the District should repay the state \$123,360 for short-term independent study claimed.

**Status:**

Implemented.

Section III — State Award Findings and Questioned Costs (Continued)

FINDING 2006-11  
Long-Term Independent Study-Nova  
10000

**Specific Requirement That Was Not Complied With:**

Education Code 51747 require the school site to retain record of the pupil's work completed and the corresponding work assignments work samples should be signed or initiated by the supervising teachers indicating that he or she personally evaluated the work or reviewed the evaluations made by another certificated teacher or determine the amount of apportionment received.

**Finding:**

During testing of long term independent study, one student did not have an evaluation form showing the student completed adequate work to receive apportionment.

**Effect:**

Incomplete records of pupil's work could result in a loss of attendance credit for the time of the independent study. Upon review of all the contracts, we have concluded that less than one ADA was affected.

**Recommendation:**

Evaluation forms be kept with pupil's Master Agreements to verify apportionment is correct.

**Status:**

Implemented.

