

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

AUDIT REPORT
June 30, 2008

NOVATO UNIFIED SCHOOL DISTRICT

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June 30, 2008

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NOVATO UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



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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, 2008, 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, 2008, 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.

As discussed in note 1 of the notes to basic financial statements, effective July 1, 2007, the Novato Unified School District adopted Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues* and Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27*.

The Management's Discussion and Analysis on pages 3 through 13, and the budgetary comparison schedule for the General Fund on page 49 are not required parts of the basic financial statements but is 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 December 9, 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 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 required parts 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
December 9, 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, 2008. 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.

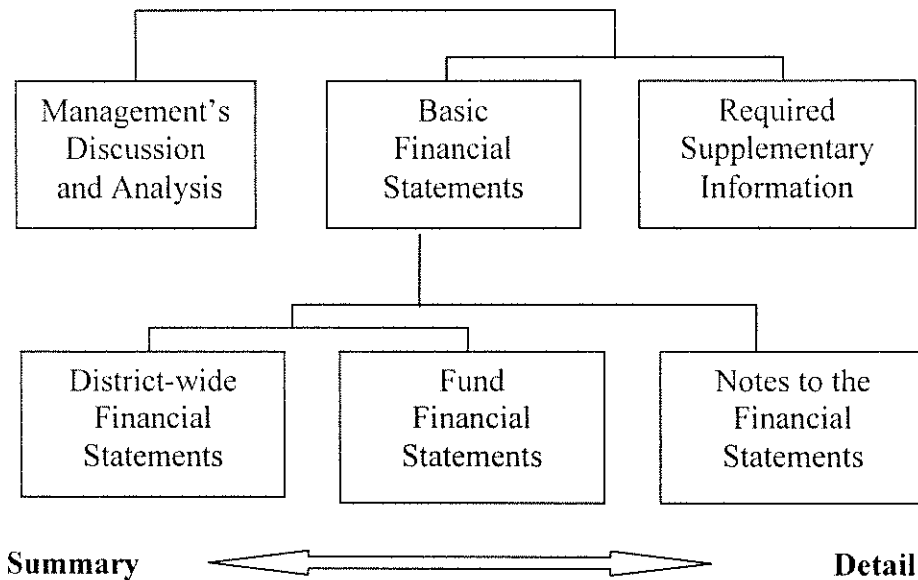
FINANCIAL HIGHLIGHTS

- General Fund revenues decreased by 2.88% from 2006-07 to 2007-08, while expenditures increased 1.95% for the same period. These percentages compare to an increase of 13.3% for revenue and 9.0% for expenditures from 2005-06 to 2006-07.
- General Fund revenues and other sources exceeded expenditures and other uses by \$1,422,361; the District ended the year with available reserves of \$3.1 million which is a 5% 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 \$177 million. After depreciation, the June 30, 2008 book value for fixed assets totaled \$115.4 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 2007-08?"

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 \$55.9 million at June 30, 2008. Of this amount \$13.9 million was unrestricted. Investments in capital assets, net of related debt, account for \$29.4 million of the total net assets. A comparative analysis of government-wide data is presented in Table 1.

(Table I)
Comparative Statement of Net Assets

	2007-08			2006-07
	Governmental Activities	Business- Type Activities	Total	Total
Assets				
Cash and investments	\$ 44,094,889	\$ 287,859	\$ 44,382,748	\$ 55,841,317
Receivables	5,993,376	206,334	6,199,710	9,150,913
Due from other funds	438,542		438,542	417,241
Stores and prepaid expenses	350,699	20,768	371,467	367,690
Capital assets (net of depreciation)	115,314,593	59,821	115,374,414	106,134,118
Total Assets	\$ 166,192,099	\$ 574,782	\$ 166,766,881	\$ 171,911,279
Liabilities				
Accounts payable and other current liabilities	\$ 8,041,786	\$ 1,468	\$ 8,043,254	\$ 6,184,984
Due to other funds		438,542	438,542	417,241
Deferred revenue	99,731	20,017	119,748	66,665
Long-term liabilities	102,225,449	15,515	102,240,964	104,980,920
Total Liabilities	\$ 110,366,966	\$ 475,542	\$ 110,842,508	\$ 111,649,810
Net Assets				
Invested in capital assets, net of related debt	\$ 29,438,104	\$ 44,306	\$ 29,482,410	\$ 33,067,691
Restricted	12,495,050		12,495,050	6,419,995
Unrestricted	13,891,979	54,934	13,946,913	20,773,783
Total Net Assets	\$ 55,825,133	\$ 99,240	\$ 55,924,373	\$ 60,261,469

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

The District's net asset position decreased \$4.3 million this fiscal year. (See Table 2)

Governmental Activities

The District's expenses for instructional and pupil services represented 66.8 percent of total expenses. The purely administrative activities of the District accounted for just 5.8 percent of total costs. The remaining 27.4 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**

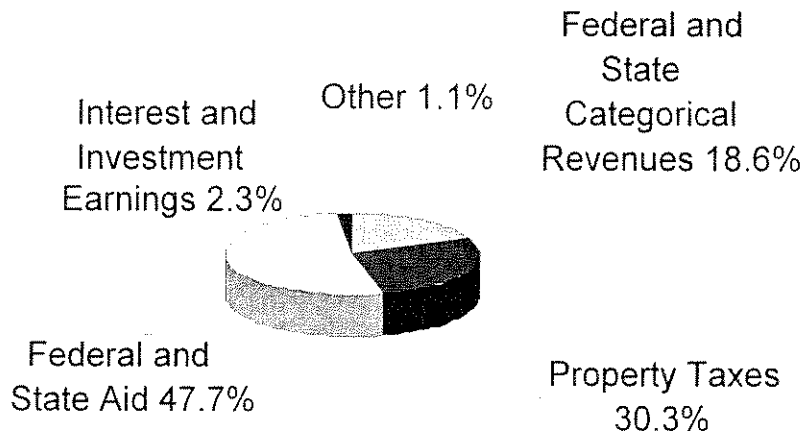
	2007-08			2006-07
	Governmental Activities	Business- Type Activities	Total	Total
Revenues				
Program revenues	\$ 13,054,059	\$ 2,224,867	\$ 15,278,926	\$ 15,826,071
General revenues				
Taxes levied for general purpose	13,195,817		13,195,817	12,612,324
Taxes levied for debt services	4,871,648		4,871,648	5,442,184
Taxes levied other purposes	3,325,702		3,325,702	2,786,892
Federal and State Aid not restricted to specific purposes	33,721,522		33,721,522	35,617,084
Interest and investment earnings	1,594,456		1,594,456	3,094,126
Miscellaneous and internal transfers	849,469	99,262	948,731	1,542,736
Total Revenues	<u>\$ 70,612,673</u>	<u>\$ 2,324,129</u>	<u>\$ 72,936,802</u>	<u>\$ 76,921,417</u>
Expenses				
Instruction	\$ 37,193,705	\$	\$ 37,193,705	\$ 36,788,874
Instruction related services	8,654,271		8,654,271	8,721,605
Pupil support services	4,249,508	2,216,689	6,466,197	5,879,418
General administration	4,330,680	111,037	4,441,717	3,924,198
Plant services	13,837,206		13,837,206	14,424,304
Other	6,680,802		6,680,802	6,998,136
Total Expenses	<u>\$ 74,946,172</u>	<u>\$ 2,327,726</u>	<u>\$ 77,273,898</u>	<u>\$ 76,736,535</u>
Change in Net Assets	<u>\$ (4,333,499)</u>	<u>\$ (3,597)</u>	<u>\$ (4,337,096)</u>	<u>\$ 184,882</u>

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

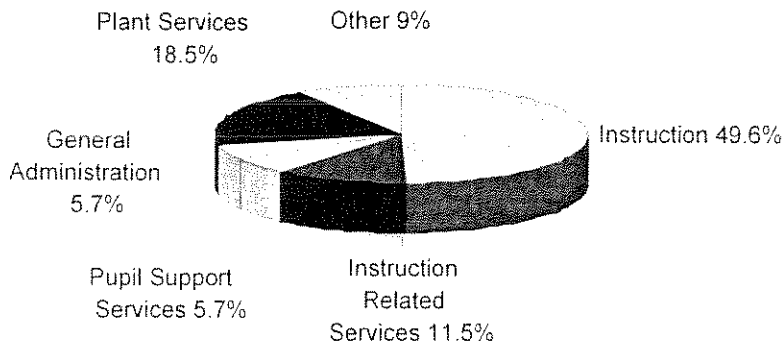
Governmental Activities (Concluded)

As reported in the Statement of Activities, the revenue of all of the District's governmental activities this year was \$70.6 million. The amount that our local taxpayers financed for these activities through property taxes was \$21.4 million. Federal and State aid not restricted to specific purposes totaled \$33.7 million. State and Federal Categorical revenue totaled over \$13.1 million. (See Figure 1)

**Sources of Revenue for the 2007-08 Fiscal Year-Governmental Activities
Figure 1**



**Expenses for the Fiscal Year 2007-08 - 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 \$44.2 million, a decrease of \$16.4 million from the previous fiscal year's combined ending balance of \$60.6 million. This decrease is mainly reflected in the Building Fund. The General Fund balance increased \$1.4 million.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget quarterly. 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 decrease to the ending balance of \$3.2 million.

The District's audited actuals reflect an increase of \$1.4 million to the general fund ending balance. The State requires an ending reserve for economic uncertainties of 3%. The District's ending reserve was 5%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - Governmental Activities

By the end of the 2007-08 fiscal year, the District had invested \$176.7 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 \$115.3 million at June 30, 2008, which is an increase of \$2.1 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
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Difference</u>	<u>Total Percent Change</u>
Land	\$ 8,431,737	\$ 8,431,737	\$ 0	
Site Improvements	23,115,265	21,976,853	1,138,412	5.2 %
Buildings	140,395,099	119,327,883	21,067,216	17.6 %
Machinery & Equipment	3,107,054	2,897,827	204,227	7.2%
Work In Progress	1,570,817	7,418,954	(5,848,137)	(78.8%)
TOTAL	\$ 176,619,972	\$ 160,053,254	\$ 16,566,718	(48.8) %

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 III Classroom Modernization at Hamilton Elementary School
- Completion of Athletic Field Renovation at Loma Verde Elementary School
- Completion of Phase II Classroom Modernization at Lu Sutton Elementary School
- Completion of Athletic Field Renovation at Lu Sutton Elementary School
- Completion of Phase II Classroom Modernization at Pleasant Valley Elementary School
- Completion of Phase I Classroom Modernization at Hill Middle School
- Completion of Baseball Field and Backstop Renovation at Novato High School
- Completion of Phase IV Classroom Modernization at Novato High School
- Completion of Phase II Re-roofing and Repairs at Novato High School
- Completion of Replacement of Modular buildings and Miscellaneous Site Work at San Marin High School
- Completion of Phase III Classroom Modernization at San Marin High School

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Long-Term Debt

At June 30, 2008, the District had \$102.2 million in long-term debt outstanding.

Table 4
Comparative Schedule of Outstanding Debt
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Certificates of Participation	\$ 1,145,000	\$ 1,340,000
General Obligation Bonds	97,730,000	99,575,000
General Obligation Bond Premium	2,183,460	2,300,376
Other Post Employment Benefits	404,538	540,172
Capital Lease Obligations	214,748	281,036
Compensated Absences	347,703	220,005
Claims Payable	200,000	200,000
Loan Payable		493,883
TOTAL	\$ 102,225,449	\$ 104,950,472

The long-term debt paid by the District was approximately \$2.9 million in 2008.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The State, Nation and World 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 5.66% COLA with a 5.37% deficit, for an effective COLA of zero. It is anticipated that further reductions in 2008/2009 and future years funding will 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.

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NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2008

Assets	Governmental Activities	Business-type Activities	Totals
Cash in County treasury	\$ 43,810,109	\$ 287,859	\$ 44,097,968
Cash on hand and in banks	5,088		5,088
Revolving cash fund	5,211		5,211
Cash with fiscal agents	274,481		274,481
Accounts receivable	5,993,376	206,334	6,199,710
Internal balances	438,542	(438,542)	
Inventories, at cost	68,536	20,768	89,304
Prepaid items	53,780		53,780
Deferred charges, net of accumulated amortization	228,383		228,383
Land	8,431,737		8,431,737
Work in progress	1,570,817		1,570,817
Site improvements	23,115,265		23,115,265
Buildings and improvements	140,395,099		140,395,099
Machinery and equipment	3,107,054	354,736	3,461,790
Less: accumulated depreciation	<u>(61,305,379)</u>	<u>(294,915)</u>	<u>(61,600,294)</u>
Total Assets	<u>166,192,099</u>	<u>136,240</u>	<u>166,328,339</u>
Liabilities			
Accounts payable	6,055,214	1,468	6,056,682
Interest payable	1,986,572		1,986,572
Deferred revenue	99,731	20,017	119,748
Long-term liabilities:			
Due within one year	1,606,110	15,515	1,621,625
Due in more than one year	<u>100,619,339</u>		<u>100,619,339</u>
Total Liabilities	<u>110,366,966</u>	<u>37,000</u>	<u>110,403,966</u>
Net Assets			
Invested in capital assets, net of related debt	29,438,104	44,306	29,482,410
Restricted for:			
Capital projects	7,351,031		7,351,031
Debt service	2,075,926		2,075,926
Educational programs	3,068,093		3,068,093
Unrestricted	<u>13,891,979</u>	<u>54,934</u>	<u>13,946,913</u>
Total net assets	<u>\$ 55,825,133</u>	<u>\$ 99,240</u>	<u>\$ 55,924,373</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 37,187,588	\$ 131,082	\$ 7,848,328	\$ -
Instruction-related services:				
Instructional supervision and administration	2,623,978	36	1,405,877	
Instructional library, media, and technology	1,199,787	79,626	148,074	
School site administration	4,830,506	164	259,558	
Pupil services:				
Home-to-school transportation	2,191,115	259,776	808,904	
All other pupil services	2,058,393	21,455	689,055	
General administration:				
Centralized data processing	1,281,246			
All other general administration	3,049,434	25,694	489,927	
Plant services	13,837,206	407	493,351	
Ancillary services	420,019	1,710	2,208	
Community services	134,434	1,004	142,367	
Interest on long-term debt	4,689,356			
Other outgo	1,436,993	96,478	148,978	
Total governmental activities	<u>74,940,055</u>	<u>617,432</u>	<u>12,436,627</u>	
Business-type activities				
Food services	2,327,726	1,022,391	1,202,476	
Total business-type activities	<u>2,327,726</u>	<u>1,022,391</u>	<u>1,202,476</u>	
Total government	<u>\$ 77,267,781</u>	<u>\$ 1,639,823</u>	<u>\$ 13,639,103</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

Transfers to the Novato Charter School

Transfers

Total general revenues

Change in net assets

Net assets beginning of fiscal year

Net assets end of fiscal year

See notes to basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (29,208,178)	\$ -	\$ (29,208,178)
(1,218,065)		(1,218,065)
(972,087)		(972,087)
(4,570,784)		(4,570,784)
(1,122,435)		(1,122,435)
(1,347,883)		(1,347,883)
(1,281,246)		(1,281,246)
(2,533,813)		(2,533,813)
(13,343,448)		(13,343,448)
(416,101)		(416,101)
8,937		8,937
(4,689,356)		(4,689,356)
(1,191,537)		(1,191,537)
<u>(61,885,996)</u>		<u>(61,885,996)</u>
	(102,859)	(102,859)
	(102,859)	(102,859)
<u>(61,885,996)</u>	<u>(102,859)</u>	<u>(61,988,855)</u>
13,195,817		13,195,817
4,871,648		4,871,648
3,325,702		3,325,702
33,721,522		33,721,522
1,594,456		1,594,456
2,400		2,400
946,331		946,331
(6,117)		(6,117)
(99,262)	99,262	
<u>57,552,497</u>	<u>99,262</u>	<u>57,651,759</u>
(4,333,499)	(3,597)	(4,337,096)
<u>60,158,632</u>	<u>102,837</u>	<u>60,261,469</u>
<u>\$ 55,825,133</u>	<u>\$ 99,240</u>	<u>\$ 55,924,373</u>

NOVATO UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2008

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>
Assets			
Cash in County treasury	\$ 12,290,472	\$ 16,030,459	\$ 7,352,461
Cash on hand and in banks	5,088		
Cash in revolving fund	5,211		
Cash with fiscal agent			
Accounts receivable	5,983,997	96	
Due from other funds	607,753	4,279	
Inventory, at cost	68,536		
Prepaid items	53,780		
	<u>19,014,837</u>	<u>16,034,834</u>	<u>7,352,461</u>
Total assets	\$ 19,014,837	\$ 16,034,834	\$ 7,352,461
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 5,116,958	\$ 866,417	\$ 1,777
Due to other funds	181,709	81	
Deferred revenue	99,731		
	<u>5,398,398</u>	<u>866,498</u>	<u>1,777</u>
Total liabilities	5,398,398	866,498	1,777
Fund balances:			
Reserved fund balances:			
Reserved for revolving fund	5,211		
Reserved for inventory	68,536		
Reserved for prepaid expenditures	53,780		
Reserved for legally restricted balance	3,068,093		
Reserved for debt service			
Designated fund balances:			
Designated for economic uncertainties	3,131,461		
Other designations	5,427,659		
Undesignated for:			
General fund	1,861,699		
Special revenue fund			
Capital projects fund		15,168,336	7,350,684
	<u>13,616,439</u>	<u>15,168,336</u>	<u>7,350,684</u>
Total fund balances	13,616,439	15,168,336	7,350,684
Total liabilities and fund balances	\$ 19,014,837	\$ 16,034,834	\$ 7,352,461

See notes to basic financial statements

Other Governmental Funds	Total Governmental Funds
\$ 7,965,859	\$ 43,639,251
	5,088
	5,211
274,481	274,481
9,283	5,993,376
29	612,061
	68,536
	53,780
<u>\$ 8,249,652</u>	<u>\$ 50,651,784</u>
\$ 65,905	\$ 6,051,057
64,584	246,374
	99,731
<u>130,489</u>	<u>6,397,162</u>
	5,211
	68,536
	53,780
	3,068,093
4,062,498	4,062,498
	3,131,461
	5,427,659
	1,861,699
2,129,756	2,129,756
1,926,909	24,445,929
<u>8,119,163</u>	<u>44,254,622</u>
<u>\$ 8,249,652</u>	<u>\$ 50,651,784</u>

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NOVATO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
 June 30, 2008

Total fund balances - governmental funds \$ 44,254,622

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	\$	176,619,972	
Accumulated depreciation		<u>(61,305,379)</u>	
Net			115,314,593

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	\$	(2,183,460)	
Unamortized deferred charges		<u>228,383</u>	(1,955,077)

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. (1,986,572)

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	\$	(97,730,000)	
Certificates of participation		(1,145,000)	
Capital leases		(214,748)	
Other post employment benefits		(404,538)	
Compensated absences		<u>(347,703)</u>	
Total			(99,841,989)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets (included claims payable \$200,000) 39,556

Total net assets, governmental activities	\$	<u><u>55,825,133</u></u>
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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, 2008

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>
Revenues:			
Revenue Limit Sources:			
State apportionments	\$ 29,708,754	\$ -	\$ -
Local sources	13,069,555		
Federal	2,289,865		
Other state	9,180,773		
Other local	9,801,033	854,436	492,246
	<u>64,049,980</u>	<u>854,436</u>	<u>492,246</u>
Total revenues			
Expenditures:			
Certificated salaries	30,786,044		
Classified salaries	10,271,054	374,118	
Employee benefits	9,639,413	109,236	
Books and supplies	2,709,131	6,172	32,862
Contracted services and other operating expenditures	7,123,578	24,548	162,218
Capital outlay	209,228	15,935,846	710,713
Other outgo	1,330,663		
Debt service			
Principal	66,288		
Interest and fiscal charges	10,938		
	<u>62,146,337</u>	<u>16,449,920</u>	<u>905,793</u>
Total expenditures			
Excess of revenues over (under) expenditures	<u>1,903,643</u>	<u>(15,595,484)</u>	<u>(413,547)</u>
Other Financing Sources (Uses):			
Transfers in	600	50,516	
Transfers out	(481,882)		(251,389)
	<u>(481,282)</u>	<u>50,516</u>	<u>(251,389)</u>
Total other financing sources (uses)			
Net change in fund balances	1,422,361	(15,544,968)	(664,936)
Fund balances, July 1, 2007	<u>12,194,078</u>	<u>30,713,304</u>	<u>8,015,620</u>
Fund balances, June 30, 2008	<u>\$ 13,616,439</u>	<u>\$ 15,168,336</u>	<u>\$ 7,350,684</u>

See notes to basic financial statements

Other Governmental Funds	Total Governmental Funds
\$ 90,768	\$ 29,799,522
	13,069,555
	2,289,865
329,541	9,510,314
4,861,362	16,009,077
<u>5,281,671</u>	<u>70,678,333</u>
71,089	30,857,133
106	10,645,278
8,916	9,757,565
44,642	2,792,807
115,103	7,425,447
233,673	17,089,460
3,896	1,334,559
2,040,000	2,106,288
4,812,459	4,823,397
<u>7,329,884</u>	<u>86,831,934</u>
<u>(2,048,213)</u>	<u>(16,153,601)</u>
561,154	612,270
(51,116)	(784,387)
<u>510,038</u>	<u>(172,117)</u>
(1,538,175)	(16,325,718)
<u>9,657,338</u>	<u>60,580,340</u>
<u>\$ 8,119,163</u>	<u>\$ 44,254,622</u>

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, 2008

Total net change in fund balances - governmental funds	\$ (16,325,718)
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 \$17,366,718 exceeds depreciation expense (\$7,121,437) in the period.	10,245,281
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.	2,106,288
During the fiscal year, the Novato Charter School became independent of the Novato Unified School District. This is the net amount of the capital assets \$500,000 and the long term debt (\$493,883) which was transferred to the Novato Charter School	(6,117)
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.	104,287
In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:	(500,000)
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:	29,754
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:	(127,698)
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 amounts earned by:	135,634
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because the internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in the internal service fund was:	<u>4,790</u>
Changes in net assets of governmental activities	<u>\$ (4,333,499)</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

	Enterprise Fund	Governmental Activities Internal Service Fund
	Cafeteria Enterprise Fund	Self-Insurance Fund
	<u> </u>	<u> </u>
Assets:		
Current assets:		
Cash in County treasury	\$ 287,859	\$ 170,858
Accounts receivable	206,334	
Due from other funds	104,435	72,855
Inventory, at cost	20,768	
	<u>619,396</u>	<u>243,713</u>
Total current assets		
Non-current assets:		
Capital assets	354,736	
Less: accumulated depreciation	(294,915)	
	<u>59,821</u>	
Total non-current assets		
Total assets		
	<u>679,217</u>	<u>243,713</u>
Liabilities		
Current liabilities:		
Accounts payable	1,468	4,157
Due to other funds	542,977	
Deferred revenue	20,017	
Capital leases payable - current	15,515	
	<u>579,977</u>	<u>4,157</u>
Total current liabilities		
Noncurrent liabilities:		
Claims payable		200,000
		<u>200,000</u>
Total noncurrent liabilities		
Total liabilities		
	<u>579,977</u>	<u>204,157</u>
Net assets		
Invested in capital assets, net of related debt	44,306	
Unrestricted	54,934	39,556
	<u>99,240</u>	<u>39,556</u>
Total net assets		
	<u>\$ 99,240</u>	<u>\$ 39,556</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, 2008

	Enterprise Fund <u>Cafeteria Enterprise Fund</u>	Governmental Activities Internal Service Fund <u>Self-Insurance Fund</u>
Operating Revenues:		
Federal revenue	\$ 1,069,485	\$ -
Other state revenue	111,935	
Other local revenue	<u>1,030,735</u>	<u>25,392</u>
Total revenues	<u>2,212,155</u>	<u>25,392</u>
Operating Expenses:		
Classified salaries	953,146	
Employee benefits	292,572	
Books and supplies	911,961	
Contracted services and other operating expenses	61,443	101,667
Depreciation	4,985	
Other outgo	<u>102,434</u>	
Total expenses	<u>2,326,541</u>	<u>101,667</u>
Operating income (loss)	<u>(114,386)</u>	<u>(76,275)</u>
Non-Operating Revenues (Expenses):		
Interest income	12,712	8,210
Interest expense	<u>(1,185)</u>	
Total non-operating revenues (expenses)	<u>11,527</u>	<u>8,210</u>
Income (loss) before transfers	(102,859)	(68,065)
Transfer in	<u>99,262</u>	<u>72,855</u>
Change in net assets	(3,597)	4,790
Net assets, July 1, 2007	<u>102,837</u>	<u>34,766</u>
Net assets, June 30, 2008	<u>\$ 99,240</u>	<u>\$ 39,556</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For Fiscal Year Ended June 30, 2008

	Enterprise Fund <u>Cafeteria Enterprise Fund</u>	Governmental Activities Internal Service Fund <u>Self-Insurance Fund</u>
Cash flows from operating activities:		
Cash received from Federal and State nutrition programs	\$ 1,172,631	\$ -
Cash received from customers	1,068,161	
Cash received from insurance premiums		63,546
Cash received (paid) from (to) other funds	21,301	(72,855)
Cash paid for salaries and benefits	(1,245,718)	
Cash paid for books and supplies	(911,961)	
Cash paid for contracted services and other operating expenses	(63,780)	(99,208)
Cash paid for other outgo	(102,434)	
Net cash provided (used) by operating activities	<u>(61,800)</u>	<u>(108,517)</u>
Cash flows from investing activities:		
Interest received	<u>12,712</u>	<u>8,210</u>
Net cash provided (used) by investing activities	<u>12,712</u>	<u>8,210</u>
Cash flows from noncapital and related financing activities		
Transfers from other funds	<u>99,262</u>	<u>72,855</u>
Cash flows from capital and related financing activities:		
Interest paid	(1,185)	
Capital lease principal payments	<u>(14,933)</u>	
Net cash provided (used) by capital and related financing activities	<u>(16,118)</u>	
Net increase (decrease) in cash and cash equivalents	34,056	(27,452)
Cash and cash equivalents at July 1, 2007	<u>253,803</u>	<u>198,310</u>
Cash and cash equivalents at June 30, 2008	<u>\$ 287,859</u>	<u>\$ 170,858</u>
Reconciliation to Statement of Net Assets:		
Cash in County treasury	<u>\$ 287,859</u>	<u>\$ 170,858</u>
	<u>\$ 287,859</u>	<u>\$ 170,858</u>

Continued

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Continued)
For Fiscal Year Ended June 30, 2008

	Enterprise Fund	Governmental Activities Internal Service Fund
	Cafeteria Enterprise Fund	Self-Insurance Fund
	<u> </u>	<u> </u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	\$ (114,386)	\$ (76,275)
Adjustments to reconcile operating income (loss) to net cash provided (used)		
Depreciation	4,985	
(Increase) decrease in operating assets:		
Accounts receivable	8,620	38,154
Inventory	(113)	
Due from other funds	(102,036)	(72,855)
Increase (decrease) in operating liabilities:		
Accounts payable	(2,224)	2,459
Deferred revenue	20,017	
Due to other funds	123,337	
	<u> </u>	<u> </u>
Net cash provided (used) by operating activities	<u>\$ (61,800)</u>	<u>\$ (108,517)</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2008

	Agency Funds				Totals
	CSIS Fund	Payroll Revolving Fund	Novato Public Access TV Fund	Student Body Funds	
Assets					
Cash in County treasury	\$ 50,915	\$ (17,922)	\$ (10,376)	\$ -	\$ 22,617
Cash on hand and in banks				127,060	127,060
Accounts receivable		1,719	44,701		46,420
Total assets	<u>\$ 50,915</u>	<u>\$ (16,203)</u>	<u>\$ 34,325</u>	<u>\$ 127,060</u>	<u>\$ 196,097</u>
Liabilities					
Accounts payable	\$ 50,915	\$ (16,203)	\$ 34,325	\$ 1,861	\$ 70,898
Due to student groups				125,199	125,199
Total liabilities	<u>\$ 50,915</u>	<u>\$ (16,203)</u>	<u>\$ 34,325</u>	<u>\$ 127,060</u>	<u>\$ 196,097</u>

See notes to basic financial statements

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NOTES TO BASIC FINANCIAL STATEMENTS

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

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.

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 not 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 one year 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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.

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 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 developer impact fees assessed under the provision of 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 debt issued by the District.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting (Continued)

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgets and Budgetary Accounting (Continued)

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 as of June 30.

H. Statement of Cash Flows

For the purposes of the statement of cash flows, the enterprise and internal service funds consider 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 it benefits.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Assets, Liabilities, and Equity (Continued)

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

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

5. Capital Assets

Capital assets are those purchased or acquired with original cost 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Assets, Liabilities, and Equity (Continued)

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.

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 first.

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 items 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Assets, Liabilities, and Equity (Continued)

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.

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.

K. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 48

For the fiscal year ended June 30, 2008, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues". The Statement is effective for periods beginning after December 15, 2006. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also contains provisions that apply to certain situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition, this statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues. Implementation of GASB Statement No. 48 did not have an impact on the District's basic financial statements for the fiscal year ended June 30, 2008.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 50

For the fiscal year ended June 30, 2008, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 50, "Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27". The Statement is effective for periods beginning after June 15, 2007. This Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pension plans.

NOTE 2 - CASH AND INVESTMENTS

The District's cash and investments as of June 30, 2008, consisted of the following:

Cash on hand and in banks	\$ 137,359
Cash and investments with County Treasurer	44,120,585
Cash and investments with fiscal agent	<u>274,481</u>
Total cash and investments	<u>\$ 44,532,425</u>

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

Cash in County Treasury, statement of net assets	\$ 44,097,968
Cash on hand and in banks, statement of net assets	5,088
Cash in revolving fund, statement of net assets	5,211
Cash and investments with fiscal agent, statement of net assets	274,481
Cash in County Treasury, statement of fiduciary net assets	22,617
Cash on hand and in banks, statement of fiduciary of net assets	<u>127,060</u>
Total cash and investments	<u>\$ 44,532,425</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 (\$44,120,585 as of June 30, 2008). The fair value of this pool as of that date, as provided by the plan sponsor, was \$44,120,585. 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

Cash on Hand, in Banks, and in Revolving Fund

Cash balance on hand and in banks (\$132,148 as of June 30, 2008) and in the revolving fund (\$5,211) 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.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2008

NOTE 2 - CASH AND INVESTMENTS (Continued)

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 Banks and 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:	\$ 44,120,585	\$ 44,120,585	\$ -	\$ -	\$ -
First American Treasury Obligation Money Market Fund	274,481	274,481			
Total	\$ 44,395,066	\$ 44,395,066	\$ -	\$ -	\$ -

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.

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Marin County							
Investment Pool	\$ 44,120,585	N/A	\$ -	\$ -	\$ -	\$ -	\$ 44,120,585
Held by COP Trustees:							
First American Treasury Obligation Money Market Fund	274,481			274,481			
Total	<u>\$ 44,395,066</u>		<u>\$ -</u>	<u>\$ 274,481</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,120,585</u>

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, 2008, none of the District's deposits with financial institutions in excess of the Federal Depository Insurance Corporation limits were held in uncollateralized 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	
Other Outgo	\$ 72,365
Nonmajor Governmental Funds	
Adult Education Fund	
Certificated Salaries	14,353

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS (Continued)

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

Fund	Excess Expenditures
Deferred Maintenance Fund	
Books and Supplies	\$ 41,147
Bond Interest and Redemption Fund	
Debt Service:	
Principal	860,000
Interest and Fiscal Charges	1,913,226
Debt Service Fund	
Debt Service:	
Principal	195,000
Interest and Fiscal Charges	66,540

NOTE 4 - RECEIVABLES

Receivables as of June 30, 2008, consist of the following:

	General Fund	Building Fund	Other Governmental Funds	Cafeteria Enterprise Fund	Fiduciary Funds
Federal Government					
Categorical Aid Programs	\$ 838,938	\$ -	\$ -	\$ 179,953	\$ -
State Government					
Categorical Aid Programs	1,136,956			14,003	
Lottery	376,160				
Revenue Limit	3,005,281		9,283		
Local Government					
Interest		96			
Miscellaneous	626,662			12,378	46,420
Total Accounts Receivable	<u>\$ 5,983,997</u>	<u>\$ 96</u>	<u>\$ 9,283</u>	<u>\$ 206,334</u>	<u>\$ 46,420</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 as of June 30, 2008, are as follows:

Funds	Interfund Receivables	Interfund Payables
Major Governmental Funds:		
General Fund	\$ 607,753	\$ 181,709
Building Fund	4,279	81
Major Enterprise Fund		
Cafeteria Enterprise Fund	104,435	542,977
Nonmajor Governmental Funds:		
Adult Education Fund	29	7,079
Retiree Benefit Fund		21
Special Reserve for Capital Outlay Projects Fund		57,484
Internal Service Fund:		
Self-Insurance Fund	<u>72,855</u>	
Totals	<u>\$ 789,351</u>	<u>\$ 789,351</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 2007-2008 fiscal year, are as follows:

Funds	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 600	\$ 481,882
Building Fund	50,516	
Capital Facilities Fund		251,389
Major Enterprise Fund		
Cafeteria Enterprise Fund	99,262	
Nonmajor Governmental Funds:		
Deferred Maintenance Fund	309,765	
Retiree Benefit Fund		600
Debt Service Fund	251,389	
County School Facilities Fund		50,516
Internal Service Fund:		
Self-Insurance Fund	<u>72,855</u>	
Total	<u>\$ 784,387</u>	<u>\$ 784,387</u>

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the fiscal year ended June 30, 2008, is shown below:

Governmental Activities:

	Balance, July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 8,431,737	\$ -	\$ -	\$ 8,431,737
Construction in progress	7,418,954		5,848,137	1,570,817
Total capital assets, not being depreciated	<u>15,850,691</u>		<u>5,848,137</u>	<u>10,002,554</u>
Capital assets, being depreciated:				
Site improvements	21,976,853	1,138,412		23,115,265
Buildings and improvements	119,327,883	21,567,216	500,000	140,395,099
Machinery and equipment	2,897,827	209,227		3,107,054
Total capital assets, being depreciated	<u>144,202,563</u>	<u>22,914,855</u>	<u>500,000</u>	<u>166,617,418</u>
Less accumulated depreciation for:				
Site improvements	(13,560,147)	(1,420,348)		(14,980,495)
Buildings and improvements	(38,237,962)	(5,710,739)		(43,948,701)
Machinery and equipment	(2,185,833)	(190,350)		(2,376,183)
Total accumulated depreciation	<u>(53,983,942)</u>	<u>(7,321,437)</u>		<u>(61,305,379)</u>
Total capital assets, being depreciated, net	<u>90,218,621</u>	<u>15,593,418</u>	<u>500,000</u>	<u>105,312,039</u>
Governmental activity capital assets, net	<u>\$ 106,069,312</u>	<u>\$ 15,593,418</u>	<u>\$ 6,348,137</u>	<u>\$ 115,314,593</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 4,108
Instructional library, media, and technology	2,464
School site administration	5,169
Home-to-school transportation	101,833
All other general administration	9,980
Centralized data processing	34,665
Plant service	7,163,218
Total	<u>\$ 7,321,437</u>

Business-type Activities:

	Balance, July 1, 2007	Additions	Deletions	Balance June 30, 2008
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	(9,970)	(4,985)		(14,955)
Total accumulated depreciation	<u>(9,970)</u>	<u>(4,985)</u>		<u>(14,955)</u>
Total capital assets, being depreciated, net	<u>64,806</u>	<u>(4,985)</u>		<u>59,821</u>
Business-type activity capital assets, net	<u>\$ 64,806</u>	<u>\$ (4,985)</u>	<u>\$ -</u>	<u>\$ 59,821</u>

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

Food services	<u>\$ 4,985</u>
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NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

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, 2008, the unamortized premium balance was \$478,431.

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, 2008, the unamortized premium was \$1,705,029.

The bonds were authorized at a special election held on November 6, 2001, at which time 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 as of June 30, 2008, is:

Bond Issue	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Balance Outstanding July 1, 2007	Issue Current Fiscal Year	Redeemed Current Fiscal Year	Balance Outstanding June 30, 2008
2002 Series	2/26/03	3.0-5.25	8/1/26	\$ 36,800,000	\$ 29,625,000	\$ -	\$ 860,000	\$ 28,765,000
2005 Series	3/23/06	3.0-5.125	8/1/29	30,000,000	29,750,000		985,000	28,765,000
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>\$ 99,575,000</u>	<u>\$ -</u>	<u>\$ 1,845,000</u>	<u>\$ 97,730,000</u>

The annual requirements to amortize general obligation bonds payable outstanding as of June 30, 2008, are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
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	1,610,000	4,531,140	6,141,140
2014-2018	14,320,000	21,041,976	35,361,976
2019-2023	28,325,000	16,009,849	44,334,849
2024-2028	40,620,000	6,945,560	47,565,560
2028-2030	8,875,000	463,094	9,338,094
Totals	<u>\$ 97,730,000</u>	<u>\$ 67,570,105</u>	<u>\$ 165,300,105</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. As of June 30, 2008, the principal balance outstanding of the 1997 COPs was \$1,145,000.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 8 – CERTIFICATES OF PARTICIPATION (Continued)

The annual requirements to amortize certificates of participation payable outstanding as of June 30, 2008, are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
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>\$ 1,145,000</u>	<u>\$ 161,134</u>	<u>\$ 1,306,134</u>

NOTE 9 - CAPITAL LEASES PAYABLE

The District is leasing equipment under agreements, which provide 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
2009	\$ 77,225
2010	77,225
2011	77,225
Totals	231,675
Less amounts representing interest	<u>(16,927)</u>
Present value of net minimum lease payments	<u>\$ 214,748</u>

Business-type Activities:

Fiscal Years Ending June 30,	Lease Payment
2009	\$ 16,118
Totals	16,118
Less amounts representing interest	<u>(603)</u>
Present value of net minimum lease payments	<u>\$ 15,515</u>

NOTE 10 – 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 proceeding 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 \$404,538.

NOTE 11 – CLAIMS PAYABLE

As of June 30, 2008, claims liability of \$200,000 has been accrued in the accompanying government-wide and fund financial statements. The District's liability for claims payable is based on claims reserves established by the claims administrators and actuarial studies. The claims liability includes an allowance for incurred, but not reported losses.

NOTE 12 – LONG-TERM DEBT

A schedule of changes in long-term debt for the fiscal year ended June 30, 2008, is shown below:

Governmental Activities:

	Balance July 1, 2007	Additions	Repayment and Deductions	Balance June 30, 2008	Due Within One Year
General Obligation Bonds	\$ 99,575,000	\$ -	\$ 1,845,000	\$ 97,730,000	\$ 1,065,000
Bond Premiums	2,300,376		116,916	2,183,460	116,916
Certificates of Participation	1,340,000		195,000	1,145,000	205,000
Capital Lease Payable	281,036		66,288	214,748	68,868
Loan Payable	493,883		493,883		
Other Postemployment Benefits	540,172		135,634	404,538	137,997
Claims Payable	200,000			200,000	
Compensated Absences	220,005	127,698		347,703	12,329
Totals	\$ 104,950,472	\$ 127,698	\$ 2,852,721	\$ 102,225,449	\$ 1,606,110

Business-type Activities:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Due Within One Year
Capital Lease Payable	\$ 30,448	\$ -	\$ 14,933	\$ 15,515	\$ 15,515
Totals	\$ 30,448	\$ -	\$ 14,933	\$ 15,515	\$ 15,515

NOTE 13 – CAPITAL ASSETS AND LOAN PAYABLE OF NOVATO CHARTER SCHOOL

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.

During fiscal year 2007-2008, the Novato Charter School became independent. All capital assets and long-term debt that were associated with the Novato Charter School were transferred to the Charter School.

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 2007-2008 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, 2008, 2007, and 2006, were \$2,465,981, \$2,339,091, and \$2,115,828, 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 2007-2008, was 9.306% 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, 2008, 2007, and 2006, were \$886,187, \$840,658, and \$768,289, 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 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 district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its 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.

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REQUIRED SUPPLEMENTARY INFORMATION SECTION

NOVATO UNIFIED SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State apportionments	\$ 27,726,214	\$ 29,967,514	\$ 29,708,754	\$ (258,760)
Local sources	14,581,857	12,663,452	13,069,555	406,103
Federal	2,169,550	2,526,658	2,289,865	(236,793)
Other state	8,524,681	9,170,947	9,180,773	9,826
Other local	8,339,428	9,321,582	9,801,033	479,451
Total revenues	61,341,730	63,650,153	64,049,980	399,827
Expenditures:				
Certificated salaries	29,369,833	31,252,911	30,786,044	466,867
Classified salaries	10,255,133	10,397,479	10,271,054	126,425
Employee benefits	10,212,373	10,039,808	9,639,413	400,395
Books and supplies	3,150,932	5,846,226	2,709,131	3,137,095
Contracted services and other operating expenditures	5,957,515	7,227,843	7,123,578	104,265
Capital outlay		359,584	209,228	150,356
Other outgo	1,233,347	1,258,298	1,330,663	(72,365)
Debt service:				
Principal	174,873	66,288	66,288	
Interest and fiscal charges	31,977	10,938	10,938	
Total expenditures	60,385,983	66,459,375	62,146,337	4,313,038
Excess of revenues over (under) expenditures	955,747	(2,809,222)	1,903,643	4,712,865
Other Financing Sources (Uses):				
Transfers in			600	600
Transfers out	(453,272)	(481,272)	(481,882)	(610)
Total other financing sources (uses)	(453,272)	(481,272)	(481,282)	(10)
Net change in fund balance	502,475	(3,290,494)	1,422,361	4,712,855
Fund balance, July 1, 2007	12,194,078	12,194,078	12,194,078	
Fund balance, June 30, 2008	\$ 12,696,553	\$ 8,903,584	\$ 13,616,439	\$ 4,712,855

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SUPPLEMENTARY INFORMATION SECTION

NOVATO UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2008

	Adult Education Fund	Deferred Maintenance Fund	Retiree Benefit Fund	Totals
Assets				
Cash in County treasury	\$ 84,720	\$ 2,106,989	\$ -	\$ 2,191,709
Accounts receivable	9,283			9,283
Due from other funds	29			29
	<u>94,032</u>	<u>2,106,989</u>	<u>-</u>	<u>2,201,021</u>
Total assets	<u>\$ 94,032</u>	<u>\$ 2,106,989</u>	<u>\$ -</u>	<u>\$ 2,201,021</u>

Liabilities and Fund Balances

Liabilities:				
Accounts payable	\$ 17	\$ 64,148	\$ -	\$ 64,165
Due to other funds	7,079		21	7,100
	<u>7,096</u>	<u>64,148</u>	<u>21</u>	<u>71,265</u>
Total liabilities	<u>7,096</u>	<u>64,148</u>	<u>21</u>	<u>71,265</u>
Fund balances:				
Undesignated	86,936	2,042,841	(21)	2,129,756
	<u>86,936</u>	<u>2,042,841</u>	<u>(21)</u>	<u>2,129,756</u>
Total fund balances	<u>86,936</u>	<u>2,042,841</u>	<u>(21)</u>	<u>2,129,756</u>
Total liabilities and fund balances	<u>\$ 94,032</u>	<u>\$ 2,106,989</u>	<u>\$ -</u>	<u>\$ 2,201,021</u>

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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, 2008

	Adult Education Fund	Deferred Maintenance Fund	Retiree Benefit Fund	Totals
Revenues:				
Revenue from revenue limit:				
State apportionment	\$ 90,768	\$ -	\$ -	\$ 90,768
Other state	2,497	282,164		284,661
Other local	4,319	77,099	(28)	81,390
	<u>97,584</u>	<u>359,263</u>	<u>(28)</u>	<u>456,819</u>
Expenditures:				
Certificated salaries	71,089			71,089
Classified salaries	106			106
Employee benefits	8,916			8,916
Books and supplies	3,495	41,147		44,642
Contracted services and other operating expenditures	4,897	18,698		23,595
Capital outlay		216,852		216,852
Other outgo	3,896			3,896
	<u>92,399</u>	<u>276,697</u>		<u>369,096</u>
Excess of revenues over (under) expenditures	<u>5,185</u>	<u>82,566</u>	<u>(28)</u>	<u>87,723</u>
Other Financing Sources (Uses):				
Transfers in		309,765		309,765
Transfers out			(600)	(600)
		<u>309,765</u>	<u>(600)</u>	<u>309,165</u>
Net change in fund balances	5,185	392,331	(628)	396,888
Fund balances, July 1, 2007	<u>81,751</u>	<u>1,650,510</u>	<u>607</u>	<u>1,732,868</u>
Fund balances, June 30, 2008	<u>\$ 86,936</u>	<u>\$ 2,042,841</u>	<u>\$ (21)</u>	<u>\$ 2,129,756</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, 2008

	Adult Education Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Revenue from revenue limit:			
State apportionment	\$ 81,256	\$ 90,768	\$ 9,512
Other state	2,498	2,497	(1)
Other local	2,505	4,319	1,814
Total revenues	86,259	97,584	11,325
Expenditures:			
Certificated salaries	56,736	71,089	(14,353)
Classified salaries	2,905	106	2,799
Employee benefits	10,644	8,916	1,728
Books and supplies	10,483	3,495	6,988
Contracted services and other operating expenditures	7,502	4,897	2,605
Capital outlay			
Other outgo	3,300	3,896	(596)
Total expenditures	91,570	92,399	(829)
Excess of revenues over (under) expenditures	(5,311)	5,185	10,496
Other Financing Sources (Uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balances	(5,311)	5,185	10,496
Fund balances, July 1, 2007	81,751	81,751	
Fund balances, June 30, 2008	<u>\$ 76,440</u>	<u>\$ 86,936</u>	<u>\$ 10,496</u>

Deferred Maintenance Fund			Retiree Benefit Fund		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
324,611	282,164	(42,447)			
34,717	77,099	42,382		(28)	(28)
359,328	359,263	(65)		(28)	(28)
	41,147	(41,147)			
18,700	18,698	2			
702,009	216,852	485,157			
720,709	276,697	444,012			
(361,381)	82,566	443,947		(28)	(28)
309,155	309,765	610		(600)	(600)
309,155	309,765	610		(600)	(600)
(52,226)	392,331	444,557		(628)	(628)
1,650,510	1,650,510		607	607	
<u>\$ 1,598,284</u>	<u>\$ 2,042,841</u>	<u>\$ 444,557</u>	<u>\$ 607</u>	<u>\$ (21)</u>	<u>\$ (628)</u>

(Continued)

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
BUDGET AND ACTUAL (Continued)
For the Fiscal Year Ended June 30, 2008

	Totals		Variance Positive (Negative)
	Final Budget	Actual	
Revenues:			
Revenue from revenue limit:			
State apportionment	\$ 81,256	\$ 90,768	\$ 9,512
Other state	327,109	284,661	(42,448)
Other local	37,222	81,390	44,168
Total revenues	445,587	456,819	11,232
Expenditures:			
Certificated salaries	56,736	71,089	(14,353)
Classified salaries	2,905	106	2,799
Employee benefits	10,644	8,916	1,728
Books and supplies	10,483	44,642	(34,159)
Contracted services and other operating expenditures	26,202	23,595	2,607
Capital outlay	702,009	216,852	485,157
Other outgo	3,300	3,896	(596)
Total expenditures	812,279	369,096	443,183
Excess of revenues over (under) expenditures	(366,692)	87,723	454,415
Other Financing Sources (Uses):			
Transfers in	309,155	309,765	610
Transfers out		(600)	(600)
Total other financing sources (uses)	309,155	309,165	10
Net change in fund balances	(57,537)	396,888	454,425
Fund balances, July 1, 2007	1,732,868	1,732,868	
Fund balances, June 30, 2008	<u>\$ 1,675,331</u>	<u>\$ 2,129,756</u>	<u>\$ 454,425</u>

NOVATO UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 June 30, 2008

	Bond Interest and Redemption Fund	Debt Service Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash in County treasury	\$ 3,762,280	\$ 25,737	\$ 3,788,017
Cash with fiscal agent		274,481	274,481
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 3,762,280</u>	<u>\$ 300,218</u>	<u>\$ 4,062,498</u>
 Liabilities and Fund Balance			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
	<u> </u>	<u> </u>	<u> </u>
Total liabilities			
Fund balances:			
Reserved for debt service	3,762,280	300,218	4,062,498
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>3,762,280</u>	<u>300,218</u>	<u>4,062,498</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 3,762,280</u>	<u>\$ 300,218</u>	<u>\$ 4,062,498</u>

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NOVATO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
For the Fiscal Year Ended June 30, 2008

	Bond Interest and Redemption Fund	Debt Service Fund	Totals
Revenues:			
Other state	\$ 44,880	\$ -	\$ 44,880
Other local	4,926,985	11,170	4,938,155
Total revenues	<u>4,971,865</u>	<u>11,170</u>	<u>4,983,035</u>
Expenditures:			
Debt service:			
Principal	1,845,000	195,000	2,040,000
Interest and fiscal charges	4,742,919	69,540	4,812,459
Total expenditures	<u>6,587,919</u>	<u>264,540</u>	<u>6,852,459</u>
Excess of revenues over (under) expenditures	<u>(1,616,054)</u>	<u>(253,370)</u>	<u>(1,869,424)</u>
Other Financing Sources (Uses):			
Transfers in		251,389	251,389
Total other financing sources (uses)		<u>251,389</u>	<u>251,389</u>
Net change in fund balances	<u>(1,616,054)</u>	<u>(1,981)</u>	<u>(1,618,035)</u>
Fund balances, July 1, 2007	<u>5,378,334</u>	<u>302,199</u>	<u>5,680,533</u>
Fund balances, June 30, 2008	<u>\$ 3,762,280</u>	<u>\$ 300,218</u>	<u>\$ 4,062,498</u>

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
NONMAJOR DEBT SERVICE FUNDS
For the Fiscal Year Ended June 30, 2008

	Bond Interest and Redemption Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other state	\$ -	\$ 44,880	\$ 44,880
Other local	3,921,000	4,926,985	1,005,985
Total revenues	<u>3,921,000</u>	<u>4,971,865</u>	<u>1,050,865</u>
Expenditures:			
Debt service:			
Principal	985,000	1,845,000	(860,000)
Interest and fiscal charges	2,829,693	4,742,919	(1,913,226)
Total expenditures	<u>3,814,693</u>	<u>6,587,919</u>	<u>(2,773,226)</u>
Excess of revenues over (under) expenditures	<u>106,307</u>	<u>(1,616,054)</u>	<u>(1,722,361)</u>
Other Financing Sources (Uses):			
Transfers in	_____	_____	_____
Total other financing sources (uses)	_____	_____	_____
Net change in fund balances	106,307	(1,616,054)	(1,722,361)
Fund balances, July 1, 2007	<u>5,378,334</u>	<u>5,378,334</u>	_____
Fund balances, June 30, 2008	<u>\$ 5,484,641</u>	<u>\$ 3,762,280</u>	<u>\$ (1,722,361)</u>

Debt Service Fund			Totals		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$	\$ -	\$ 44,880	\$ 44,880
3,000	11,170	8,170	3,924,000	4,938,155	1,014,155
3,000	11,170	8,170	3,924,000	4,983,035	1,059,035
	195,000	(195,000)	985,000	2,040,000	(1,055,000)
3,000	69,540	(66,540)	2,832,693	4,812,459	(1,979,766)
3,000	264,540	(261,540)	3,817,693	6,852,459	(3,034,766)
	(253,370)	(253,370)	106,307	(1,869,424)	(1,975,731)
	251,389	251,389		251,389	251,389
	251,389	251,389		251,389	251,389
	(1,981)	(1,981)	106,307	(1,618,035)	(1,724,342)
302,199	302,199		5,680,533	5,680,533	
\$ 302,199	\$ 300,218	\$ (1,981)	\$ 5,786,840	\$ 4,062,498	\$ (1,724,342)

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
June 30, 2008

	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Totals
Assets			
Cash in County treasury	\$ 347	\$ 1,985,786	\$ 1,986,133
Total assets	<u>\$ 347</u>	<u>\$ 1,985,786</u>	<u>\$ 1,986,133</u>
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	\$ -	\$ 1,740	\$ 1,740
Due to other funds		57,484	57,484
Total liabilities		<u>59,224</u>	<u>59,224</u>
Fund balance:			
Undesignated	<u>347</u>	<u>1,926,562</u>	<u>1,926,909</u>
Total fund balance	<u>347</u>	<u>1,926,562</u>	<u>1,926,909</u>
Total liabilities and fund balance	<u>\$ 347</u>	<u>\$ 1,985,786</u>	<u>\$ 1,986,133</u>

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
For the Fiscal Year Ended June 30, 2008

	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Totals
Revenues:			
Other local	\$ (247,773)	\$ 89,590	\$ (158,183)
Total revenues	<u>(247,773)</u>	<u>89,590</u>	<u>(158,183)</u>
Expenditures:			
Contracted services and other operating expenditures		91,508	91,508
Capital outlay		<u>16,821</u>	<u>16,821</u>
Total expenditures		<u>108,329</u>	<u>108,329</u>
Excess of revenues over (under) expenditures	<u>(247,773)</u>	<u>(18,739)</u>	<u>(266,512)</u>
Other Financing Sources (Uses):			
Transfers out	<u>(50,516)</u>		<u>(50,516)</u>
Total other financing sources (uses)	<u>(50,516)</u>		<u>(50,516)</u>
Net change in fund balance	(298,289)	(18,739)	(317,028)
Fund balances, July 1, 2007	<u>298,636</u>	<u>1,945,301</u>	<u>2,243,937</u>
Fund balances, June 30, 2008	<u>\$ 347</u>	<u>\$ 1,926,562</u>	<u>\$ 1,926,909</u>

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
NONMAJOR CAPITAL PROJECTS FUNDS
For the Fiscal Year Ended June 30, 2008

	County School Facilities Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other local	\$ -	\$ (247,773)	\$ (247,773)
Total revenues		(247,773)	(247,773)
Expenditures:			
Contracted services and other operating expenditures			
Capital outlay			
Debt service:			
Principal			
Interest and fiscal charges			
Total expenditures			
Excess of revenues over (under) expenditures		(247,773)	(247,773)
Other Financing Sources (Uses):			
Transfers out	(5,433,429)	(50,516)	5,382,913
Total other financing sources (uses)	(5,433,429)	(50,516)	5,382,913
Net change in fund balance	(5,433,429)	(298,289)	5,135,140
Fund balances, July 1, 2007	298,636	298,636	
Fund balances, June 30, 2008	\$ (5,134,793)	\$ 347	\$ 5,135,140

Special Reserve for Capital Outlay Project Fund			Totals		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ 47,918	\$ 89,590	\$ 41,672	\$ 47,918	\$ (158,183)	\$ (206,101)
47,918	89,590	41,672	47,918	(158,183)	(206,101)
96,736	91,508	5,228	96,736	91,508	5,228
18,200	16,821	1,379	18,200	16,821	1,379
48,626		48,626	48,626		48,626
836		836	836		836
164,398	108,329	56,069	164,398	108,329	56,069
(116,480)	(18,739)	97,741	(116,480)	(266,512)	(150,032)
			(5,433,429)	(50,516)	5,382,913
			(5,433,429)	(50,516)	5,382,913
(116,480)	(18,739)	97,741	(5,549,909)	(317,028)	5,232,881
1,945,301	1,945,301		2,243,937	2,243,937	
\$ 1,828,821	\$ 1,926,562	\$ 97,741	\$ (3,305,972)	\$ 1,926,909	\$ 5,232,881

NOVATO UNIFIED SCHOOL DISTRICT
ORGANIZATION
June 30, 2008

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, 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, 2008 were as follows:

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Cindi Clinton	President	December, 2011
Debbie Butler	Clerk	December, 2011
Leslie Schwarze	Member	December, 2009
Jennifer Treppa	Member	December, 2009
Tom Cooper	Member	December, 2011
Derek Knell	Member	December, 2009
Ross Millerick	Member	December, 2011

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, 2008

	<u>Second Period Report</u>	<u>Annual Report Revised</u>
Elementary		
Kindergarten	614	615
First through Third	1,578	1,579
Fourth through Sixth	1,642	1,642
Seventh and Eighth	1,089	1,092
Home and Hospital	2	2
Special Education	107	112
Community Day School	11	11
Extended Year	6	6
	<hr/>	<hr/>
Subtotals	5,049	5,059
	<hr/>	<hr/>
Secondary		
Ninth through Twelfth	2,153	2,143
Continuation Education	64	63
Home and Hospital	6	7
Special Education	48	49
Community Day School	11	12
Extended Year	2	2
	<hr/>	<hr/>
Subtotals	2,284	2,276
	<hr/>	<hr/>
Class for Adults		
Non Concurrently Enrolled	48	50
	<hr/>	<hr/>
Subtotals	48	50
	<hr/>	<hr/>
Totals	7,381	7,385
	<hr/> <hr/>	<hr/> <hr/>
		<u>Hours of Attendance</u>
Elementary		48,790
Secondary		44,754

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, 2008

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2007-08 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	53,920	180	In compliance
Grade 2	42,480	50,400	53,920	180	In compliance
Grade 3	42,480	50,400	54,600	180	In compliance
Grade 4	49,430	54,000	54,600	180	In compliance
Grade 5	49,430	54,000	54,660	180	In compliance
Grade 6	49,430	54,000	57,990	180	In compliance
Grade 7	57,075	54,000	57,990	180	In compliance
Grade 8	57,075	54,000	57,990	180	In compliance
Grade 9	51,954	64,800	66,793	180	In compliance
Grade 10	51,954	64,800	66,793	180	In compliance
Grade 11	51,954	64,800	66,793	180	In compliance
Grade 12	51,954	64,800	66,793	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 schools 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, 2008

Novato Unified School District does not provide more than 12 sick leave days in a school year to any (superintendent, other high level administrator, teacher) CalSTRS member.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For Fiscal Year Ended June 30, 2008

General Fund	(Budget) 2009	2008	2007	2006
Revenues and other financial sources	\$ 60,824,248	\$ 64,050,580	\$ 66,799,256	\$ 58,278,694
Expenditures	59,387,713	62,146,337	61,675,529	56,041,015
Other uses and transfers out	72,855	481,882	368,351	448,626
Total outgo	59,460,568	62,628,219	62,043,880	56,489,641
Change in fund balance	1,363,680	1,422,361	4,755,376	1,789,053
Prior period adjustments			(11,091)	
Ending fund balance	<u>\$ 13,557,758</u>	<u>\$ 13,616,439</u>	<u>\$ 12,194,078</u>	<u>\$ 7,449,793</u>
Available reserves	<u>\$ 4,206,738</u>	<u>\$ 4,993,160</u>	<u>\$ 3,425,464</u>	<u>\$ 2,618,124</u>
Available reserves as a percentage of total outgo	<u>7.1%</u>	<u>8.0%</u>	<u>5.5%</u>	<u>4.6%</u>
Total long-term debt	<u>\$ 100,619,339</u>	<u>\$ 102,240,964</u>	<u>\$ 104,950,472</u>	<u>\$ 63,302,369</u>
Average daily attendance at P-2	<u>7,333</u>	<u>7,333</u>	<u>7,276</u>	<u>7,181</u>

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 \$6,166,646 over the past two fiscal years. The fiscal year 2008-09 budget projects an increase of \$1,363,680. 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 each of the past three fiscal years, and anticipates an operating surplus during the 2008-09 fiscal year. Total long-term debt has increased by \$38,923,080 over the past two fiscal years.

Average daily attendance has increased by 152 over the past two fiscal years. ADA is anticipated to remain the same during the fiscal year 2008-09.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
For the Fiscal Year Ended June 30, 2008

As of June 30, 2008, Novato Charter School and Marin School of Arts and Technology were no longer reported under the financial statements of the Novato Unified School District.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal Catalog (CFDA) Number	Federal Expenditures
Federal Programs:		
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	\$ 498,975
NCLB - Title II, Part A Improving Teacher Quality Local Grants	84.318	217,338
NCLB - Title II, Part D, Enhancing Education Through Technology	84.318	14,514
NCLB - Title III Limited English Proficiency (LEP) Student Program	84.365	81,990
NCLB - Title IV Part A: Safe & Drug Free Schools Communities	84.186	19,927
NCLB - Title V Part A: Innovative Education Strategies	84.298A	7,996
NCLB - Title X McKinney - Vento Homeless Children Assistance Grants	84.196	378
Special Ed: IDEA - Basic Local Assistance Entitlement, Part B	84.027	1,181,938
Vocational & Applied Technology Secondary I C	84.048	37,378
ROTC Reimbursement	84.000	43,508
Advance Placement/Incentive Program Cycle 2	84.330	4,944
		2,108,886
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	11,918
Medi-Cal Administrative Activities	93.778	169,061
		180,979
Total U.S. Department of Health and Human Services		
U.S. Department of Agriculture :		
Passed through California Department of Education (CDE):		
National School Lunch	10.555	680,135
Basic School Breakfast Program	10.553	12,640
Especially Needy School Breakfast	10.553	365,227
Team Nutrition - School Wellness Policy Demonstration	10.574	11,483
		1,069,485
Total U.S. Department of Agriculture		
		\$ 3,359,350
Total Expenditures of Federal Awards		

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, 2008

	<u>General Fund</u>	<u>Adult Education Fund</u>
June 30, 2008 Unaudited Actual Report Fund Balances	\$ 13,616,439	\$ 86,936
Understatement of accounts payable		
June 30, 2008 Audited Financial Statements Fund Balances	<u>\$ 13,616,439</u>	<u>\$ 86,936</u>
	<u>Bond Interest and Redemption Fund</u>	<u>Debt Service Fund</u>
June 30, 2008 Unaudited Actual Report Fund Balances	\$ 3,762,280	\$ 303,311
Overstatement of cash with fiscal agent		(3,093)
Understatement of accumulated depreciation		
Understatement of capital leases payable		
June 30, 2008 Audited Financial Statements Fund Balances	<u>\$ 3,762,280</u>	<u>\$ 300,218</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.

Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Retiree Benefit Fund
\$ 2,042,841	\$ 15,310,597	\$ 7,350,684	\$ 347	\$ 1,926,562	\$ (21)
	(142,261)				
<u>\$ 2,042,841</u>	<u>\$ 15,168,336</u>	<u>\$ 7,350,684</u>	<u>\$ 347</u>	<u>\$ 1,926,562</u>	<u>\$ (21)</u>

Cafeteria Enterprise Fund	Self-Insurance Fund
\$ 105,411	\$ 39,556
(4,985)	
(1,186)	
<u>\$ 99,240</u>	<u>\$ 39,556</u>

	Long-Term Debt
June 30, 2008 Unaudited Actual Report Total Liabilities	\$ 101,810,783
Understatement of other postemployment benefits	56,975
Understatement of compensated absences	157,691
Understatement of claims payable	200,000
June 30, 2008 Audited Financial Statements Long-Term Debt Total Liabilities	<u>\$ 102,225,449</u>



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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, 2008, which collectively comprise the Novato Unified School District's basic financial statements and have issued our report thereon dated December 9, 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 report. 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 consider the deficiency described in the accompanying schedules of findings and recommendation section to be significant deficiency in internal control over financial reporting as finding 2008-1. The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit District's response and, accordingly, we express no opinion on it.

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.

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 as finding 2008-5 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
December 9, 2008



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2008, which collectively comprise the Novato Unified School District's basic financial statements and have issued our report thereon dated December 9, 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:

Table with 3 columns: Description, Procedures in Panel's Audit Guide, and Procedures Performed. Rows include Attendance Reporting, Kindergarten Continuance, Independent Study, Continuation Education, Adult Education, Regional Occupational Centers and Programs, Instructional Time (School districts, County offices of education, Community Day Schools), Morgan-Hart Class Size Reduction Program, Instructional Materials (General requirements, K-8, 9-12), Ratios of Administrative Employees to Teachers, Classroom Teacher Salaries, Early Retirement Incentive, and Gann Limit Calculation.

Description	Procedures in Panel's Audit Guide	Procedures Performed
School Construction Funds:		
School District Bonds	3	Yes
State Facilities Funds	1	Yes
Excess Sick Leave	2 or 3	Yes
Notice of Right To Elect California State Teachers 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
Mathematics and Reading Professional Development	4	Yes
Class Size Reduction (including in charter schools):		
General requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts or charter schools with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	4	Yes
Before school	5	Yes
Contemporaneous Records of Attendance, for charter schools	1	Not applicable
Mode of Instruction, for charter schools	1	Not applicable
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	Not applicable
Annual Instructional Minutes – Classroom Based, for charter schools	3	Not applicable

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. The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit District's response and, accordingly, we express no opinion on it. 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
 December 9, 2008



MOSS, LEVY & HARTZHEIM LLP

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 its major federal program for the fiscal year ended June 30, 2008. Novato Unified School District's major federal program is 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 its major federal program 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 its major federal program for the fiscal year ended June 30, 2008.

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
December 9, 2008

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FINDINGS AND RECOMMENDATIONS SECTION

NOVATO UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 June 30, 2008

Section I – Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	_____	Yes	<u> X </u> No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____	Yes	<u> X </u> 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	<u> X </u> No
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Identification of major programs

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

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
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Auditee qualified as low-risk auditee:	<u> X </u> Yes	_____ No
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State Awards

Internal control over state programs:			
Material weakness(es) identified?	_____	Yes	<u> X </u> No
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> X </u>	Yes	_____ None reported

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

Section II - Financial Statement Findings

FINDING 2008 - 1
District Administration
30000

Finding:

During our testing of payroll, we tested 50 employees' personnel files and noted that 20 employees' I-9 forms did not have the employer's review and verification portion completed and 27 employees' I-9 forms were not retained in the personnel files.

Effect:

By not obtaining a completed I-9 form, it is impossible to verify that the employee is authorized to work in the United States of America. Furthermore, Incompleted I-9 forms could result in fines/penalties from the Department of Justice.

Recommendation:

We recommend that the District ensure all employees hired after November 6, 1986 have a completed I-9 form on file, for future verification.

District's Response:

The District will update I-9 forms for all employees beginning January 2009.

FINDING 2008 - 2
Associated Student Body – Disbursement
30000

Finding:

During our testing of cash disbursements, we tested twenty-eight disbursements in Novato High School and San Jose Middle School, and noted that nine were not properly approved for payments and three did not contain any supporting documentation.

Effect:

Without approval signature and supporting documentation, unauthorized disbursements may be made from the student body account.

Recommendation:

We recommend that all disbursements with supporting documentation 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 2008 - 3
Associated Student Body – Cash Receipts
30000

Finding:

During our testing of cash receipts, we tested twenty-five receipts and noted that eighteen receipts did not have proper supporting documentation.

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 2008 - 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 a reviewer's signature was not present.

Effect:

Without proper review of 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.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2008

Section III – Federal award findings and questioned costs

There were no federal award findings.

Section IV – State award findings and questioned costs

FINDING 2008-5
Attendance
40000

Finding:

During our testing of attendance P-Annual, we noted that attendance reported by Grade 4-6 and Grade 7-8 were understated.

Cause:

The District changed its attendance recording system from Reflection to Aries during the fiscal year 2007/08.

Effect:

The District erroneously entered the data into the Aries resulting in an understatement of 4 and 8 ADA in Grade 4-6 and Grade 7-8 respectively.

Questioned Costs:

12 ADA x \$5,781.53 = \$69,378.36

Recommendation:

We recommend that the District ensure all ADA are properly recorded and reported by reconciling the P-2 and P-Annual report on a monthly basis.

District's Response:

District will revise 2007-08 P-Annual.

Section I - 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.

Status:

Implemented

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.

Status:

Partially implemented, see finding 2008-2.

Section I - 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.

Status:

Not implemented, see finding 2008-3.

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.

Status:

Not implemented, see finding 2008-4.

NOVATO UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR FISCAL YEAR AUDIT FINDINGS
June 30, 2008

Section II – Federal award findings and questioned costs

There were no federal award findings.

Section III – State award findings and questioned costs

FINDING 2007-5
Kindergarten Retention Forms
10000

Finding:

Anniversary date on the kindergarten retention form was not filled out correctly. We examined all the kindergarten retention forms for 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.

Questioned 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.

Status:

Implemented

FINDING 2007-6
Attendance
40000

Finding:

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

Questioned Costs:

None.

Recommendation:

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

Status:

Implemented

