

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

AUDIT REPORT
June 30, 2009

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, 2009, 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, 2009, 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, 2008, the Novato Unified School District adopted Governmental Accounting Standards Board Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*, Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

The Management's Discussion and Analysis on pages 3 through 13, the budgetary comparison schedule for the General Fund on page 55, and the Other Post-employment Benefit trend information on page 56 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 10, 2009, on our consideration of the Novato Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Novato Unified School District's basic financial statements. The accompanying combining and individual fund financial statements and schedules, financial, and statistical information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not 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 10, 2009

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, 2009. 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 reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information is required to be presented in the MD&A.

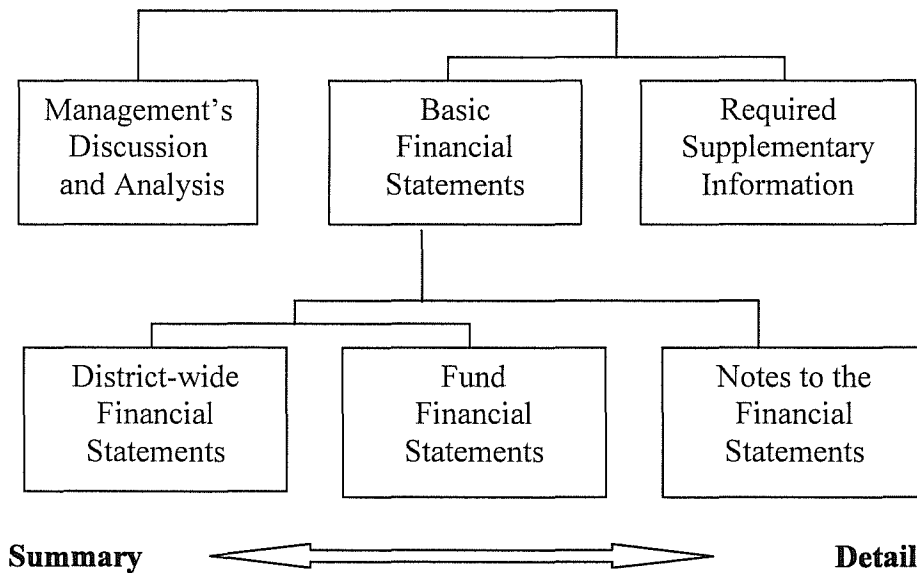
FINANCIAL HIGHLIGHTS

- General Fund revenues increased by .75% from 2007-08 to 2008-09, while expenditures decreased .27% for the same period. These percentages compare to an decrease of 2.88% for revenue and an increase of 1.95% for expenditures from 2006-07 to 2007-08.
- General Fund revenues and other sources exceeded expenditures and other uses by \$2,332,372; the District ended the year with available reserves of \$2.5 million which is a 4% 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 \$182 million. After depreciation, the June 30, 2009 book value for fixed assets totaled \$113.2 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 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 2008-09?"

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 \$70.9 million at June 30, 2009. Of this amount \$14.2 million was unrestricted. Investments in capital assets, net of related debt, account for \$42.5 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

	2008-09			2007-08
	Governmental Activities	Business- Type Activities	Total	Total
Assets				
Cash and investments	\$ 52,417,762	\$ 452,166	\$ 52,869,928	\$ 44,382,748
Receivables	11,117,257	62,625	11,179,882	6,199,710
Due from other funds	441,654		441,654	438,542
Stores and prepaid expenses	351,801	24,460	376,261	371,467
Net OPEB assets	92,000		92,000	
Capital assets (net of depreciation)	<u>113,175,600</u>	<u>54,836</u>	<u>113,230,436</u>	<u>115,374,414</u>
Total Assets	<u>\$ 177,596,074</u>	<u>\$ 594,087</u>	<u>\$ 178,190,161</u>	<u>\$ 166,766,881</u>
Liabilities				
Accounts payable and other current liabilities	\$ 5,806,617	\$ 9,684	\$ 5,816,301	\$ 8,043,254
Due to other funds		441,654	441,654	438,542
Deferred revenue	596,206	6,618	602,824	119,748
Long-term liabilities	<u>100,426,685</u>		<u>100,426,685</u>	<u>102,240,964</u>
Total Liabilities	<u>\$ 106,829,508</u>	<u>\$ 457,956</u>	<u>\$ 107,287,464</u>	<u>\$ 110,842,508</u>
Net Assets				
Invested in capital assets, net of related debt	\$ 42,420,929	\$ 54,836	\$ 42,475,765	\$ 29,482,410
Restricted	14,222,223		14,216,831	12,495,050
Unrestricted	<u>14,123,414</u>	<u>81,295</u>	<u>14,210,101</u>	<u>13,946,913</u>
Total Net Assets	<u>\$ 70,766,566</u>	<u>\$ 136,131</u>	<u>\$ 70,902,697</u>	<u>\$ 55,924,373</u>

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

The District's net asset position increased 14.5 million this fiscal year. (See Table 2)

Governmental Activities

The District's expenses for instructional and pupil services represented 67 percent of total expenses. The purely administrative activities of the District accounted for just 5.5 percent of total costs. The remaining 27.5 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**

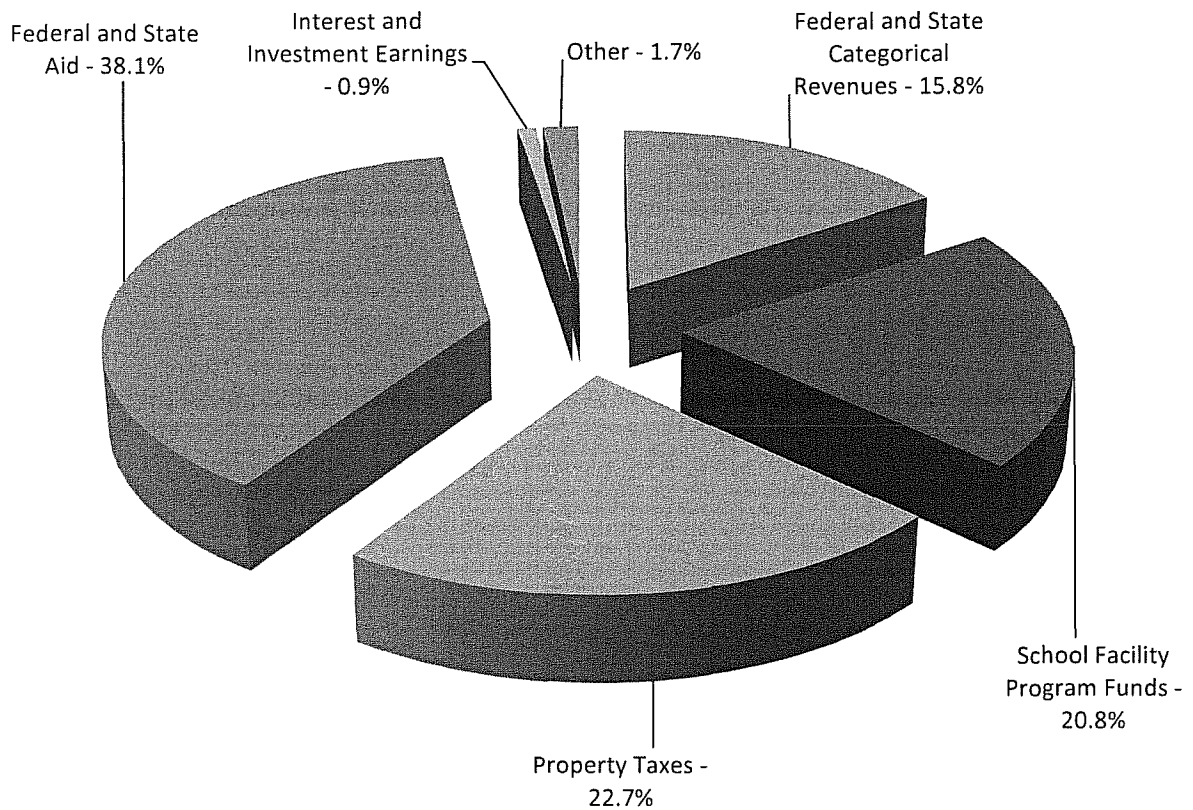
	2008-09			2007-08
	Governmental Activities	Business- Type Activities	Total	Total
Revenues				
Program revenues	\$ 33,006,355	\$ 2,160,040	\$ 35,166,395	\$ 15,278,926
General revenues				
Taxes levied for general purpose	12,017,634		12,017,634	13,195,817
Taxes levied for debt services	5,285,974		5,285,974	4,871,648
Taxes levied other purposes	3,019,546		3,019,546	3,325,702
Federal and State Aid not restricted to specific purposes	34,177,672		34,177,672	33,721,522
Interest and investment earnings	783,332		783,332	1,594,456
Miscellaneous and internal transfers	1,503,901		1,503,901	948,731
Total Revenues	\$ 89,794,414	\$ 2,160,040	\$ 91,954,454	\$ 72,936,802
Expenses				
Instruction	\$ 37,715,866		\$ 37,715,866	\$ 37,193,705
Instruction related services	7,913,119		7,913,119	8,654,271
Pupil support services	4,189,979	2,030,432	6,220,411	6,466,197
General administration	4,152,835	92,717	4,245,552	4,441,717
Plant services	14,657,412		14,657,412	13,837,206
Other	6,628,308		6,628,308	6,680,802
Total Expenses	\$ 75,257,519	\$ 2,123,149	\$ 77,380,668	\$ 77,273,898
Change in Net Assets	\$ 14,536,895	\$ 36,891	\$ 14,573,786	\$ (4,337,096)

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

Governmental Activities (Continued)

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was \$75.2million. The amount that our local taxpayers financed for these activities through property taxes was \$21.3 million. Federal and State aid not restricted to specific purposes totaled \$34.2 million. State and Federal Categorical revenue totaled over \$14.2 million. (See Figure 1)

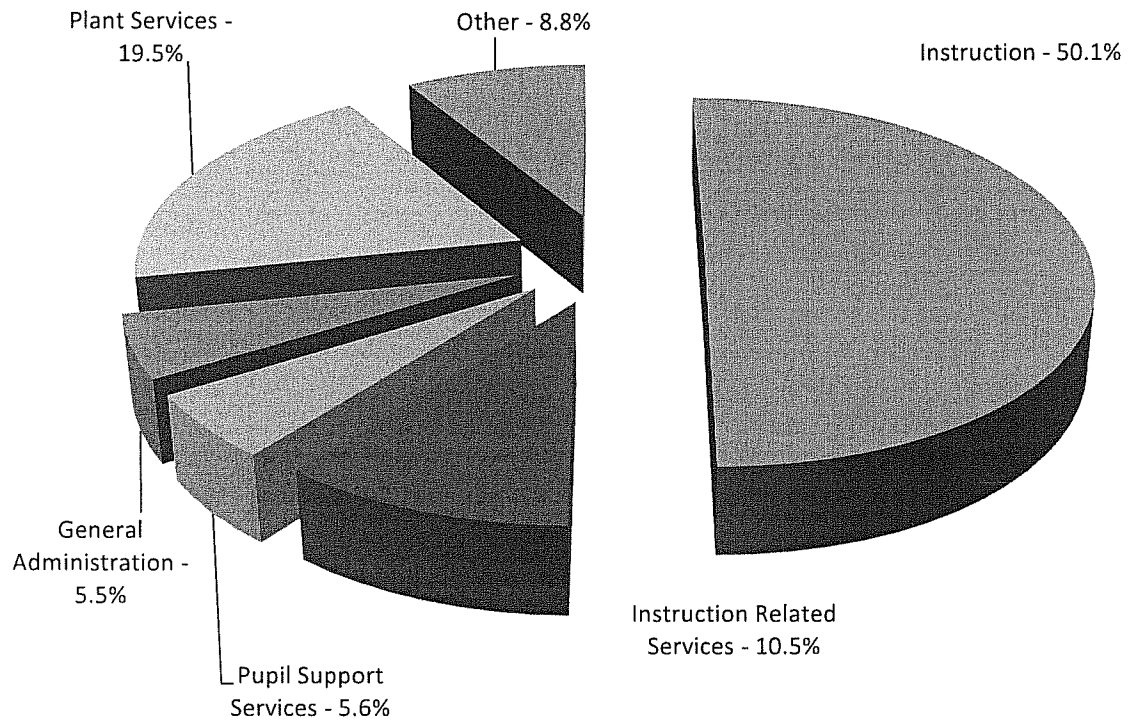
**Sources of Revenue for the 2008-09 Fiscal Year-Governmental Activities
Figure 1**



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

Governmental Activities (Concluded)

**Expenses for the Fiscal Year 2008-09 - 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 \$59.4 million, a increase of \$15.2 million from the previous fiscal year's combined ending balance of \$44.2 million. This decrease is mainly reflected in the Building Fund. The General Fund balance increased \$2.3 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 \$3.6 million.

The District's audited actuals reflect an increase of \$2.3 million to the general fund ending balance. The State requires an ending reserve for economic uncertainties of 3%. The District's ending reserve was 4%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - Governmental Activities

By the end of the 2008-09 fiscal year, the District had invested \$181.9 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 \$113.2 million at June 30, 2009, which is an decrease of \$2.1 million from the previous year due to depreciation in excess of acquisitions and building and site improvements.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Concluded)

Table 3
Comparative Schedule of Capital Assets - Governmental Activities
(net of depreciation)
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Difference</u>	<u>Total Percent Change</u>
Land	\$ 8,431,737	\$ 8,431,737	\$ 0	
Site Improvement	24,128,471	23,115,265	1,013,206	4.4 %
Buildings	145,769,350	140,395,099	5,374,251	3.8 %
Machinery & Equipment	3,197,190	3,107,054	90,136	2.9%
Work In Progress	425,527	1,570,817	(1,145,290)	(72.9%)
TOTAL	\$ 181,952,275	\$ 176,619,972	\$ 5,332,303	3.0 %

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 fire access road and hydrants at Hamilton Elementary School
- Completion of athletic field renovation at Loma Verde Elementary School
- Completion of athletic field renovation at Lu Sutton Elementary School
- Completion of athletic field renovation at Lynwood Elementary School
- Completion of athletic field renovation at Olive Elementary School
- Completion of roof repairs at San Ramon Elementary School
- Completion of paving play areas at San Ramon Elementary School
- Completion of phase II classroom modernization at Hill Middle School
- Completion of phase V classroom modernization at Novato High School
- Completion of swimming pool repairs at Novato High School
- Completion of low voltage project at Novato High School
- Completion of bleachers at San Marin High School
- Completion of roof repairs at Education Center

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Long-Term Debt

At June 30, 2009, the District had \$100.3 million in long-term debt outstanding.

Table 4
Comparative Schedule of Outstanding Debt
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Certificates of Participation	\$940,000	\$ 1,145,000
General Obligation Bonds	96,665,000	97,730,000
General Obligation Bond Premium	2,066,544	2,183,460
Other Post Employment Benefits		404,538
Capital Lease Obligations	145,880	214,748
Compensated Absences	409,261	347,703
Claims Payable	200,000	200,000
TOTAL	\$100,426,685	\$ 102,225,449

The long-term debt paid by the District was approximately \$1.9 million in 2009.

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 2009/2010 fiscal year, the District expects to receive a 4.25% COLA with a 18.355% deficit. It is anticipated that further reductions in 2009/2010 and future years funding will be forthcoming and the District is planning accordingly.

For the first time since the 2005/2006 fiscal year, the District has experienced a slight decline in enrollment. 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, 2009

Assets	Governmental Activities	Business-type Activities	Totals
Cash in County treasury	\$ 52,130,055	\$ 452,166	\$ 52,582,221
Cash on hand and in banks	8,965		8,965
Revolving cash fund	5,214		5,214
Cash and investments with fiscal agents	273,528		273,528
Accounts receivable	11,117,257	62,625	11,179,882
Internal balances	441,654	(441,654)	
Inventories, at cost	74,606	24,460	99,066
Prepaid items	61,441		61,441
Deferred charges, net of accumulated amortization	215,754		215,754
Net OPEB assets	92,000		92,000
Land	8,431,737		8,431,737
Construction in progress	425,527		425,527
Site improvements	24,128,471		24,128,471
Buildings and improvements	145,769,350		145,769,350
Machinery and equipment	3,197,190	74,776	3,271,966
Less: accumulated depreciation	(68,776,675)	(19,940)	(68,796,615)
Total Assets	177,596,074	152,433	177,748,507
Liabilities			
Accounts payable	3,837,152	9,684	3,846,836
Interest payable	1,969,465		1,969,465
Deferred revenue	596,206	6,618	602,824
Long-term liabilities:			
Due within one year	1,093,658		1,093,658
Due in more than one year	99,333,027		99,333,027
Total Liabilities	106,829,508	16,302	106,845,810
Net Assets			
Invested in capital assets, net of related debt	42,420,929	54,836	42,475,765
Restricted for:			
Capital projects	9,502,018		9,502,018
Debt service	1,652,112		1,652,112
Educational programs	3,068,093		3,068,093
Unrestricted	14,123,414	81,295	14,204,709
Total net assets	\$ 70,766,566	\$ 136,131	\$ 70,902,697

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 37,715,866	\$ 116,227	\$ 9,673,309	\$ 18,748,233
Instruction-related services:				
Instructional supervision and administration	2,265,195		1,239,189	
Instructional library, media, and technology	980,411	54,527	173,583	
School site administration	4,667,513	402	172,428	
Pupil services:				
Home-to-school transportation	2,248,833	280,726	934,133	
Food services	12,623	791	1,490	
All other pupil services	1,928,523	43,130	654,944	
General administration:				
Centralized data processing	928,155			
All other general administration	3,224,680	20,137	399,436	
Plant services	14,657,412	666	189,919	
Ancillary services	483,930	1,495	2,818	
Community services	22,321	1,399	2,636	
Interest on long-term debt	4,637,532			
Other outgo	1,484,525	96,606	198,131	
Total governmental activities	75,257,519	616,106	13,642,016	18,748,233
Business-type activities				
Food services	2,123,149	804,113	1,355,927	
Total business-type activities	2,123,149	804,113	1,355,927	
Total government	\$ 77,380,668	\$ 1,420,219	\$ 14,997,943	\$ 18,748,233

General revenues:

Taxes and subventions:

 Taxes levied for general purposes

 Taxes levied for debt service

 Tax levied for other specific purposes

Federal and state aid not restricted to specific purposes

Interest and investment earnings

Interagency revenues

Miscellaneous

Total general revenues

Change in net assets

Net assets beginning of fiscal year

Prior period adjustments

Net assets beginning of fiscal year, restated

Net assets end of fiscal year

See notes to basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (9,178,097)	\$ -	\$ (9,178,097)
(1,026,006)		(1,026,006)
(752,301)		(752,301)
(4,494,683)		(4,494,683)
(1,033,974)		(1,033,974)
(10,342)		(10,342)
(1,230,449)		(1,230,449)
(928,155)		(928,155)
(2,805,107)		(2,805,107)
(14,466,827)		(14,466,827)
(479,617)		(479,617)
(18,286)		(18,286)
(4,637,532)		(4,637,532)
(1,189,788)		(1,189,788)
<u>(42,251,164)</u>		<u>(42,251,164)</u>
	36,891	36,891
	36,891	36,891
<u>(42,251,164)</u>	<u>36,891</u>	<u>(42,214,273)</u>
12,017,634		12,017,634
5,285,974		5,285,974
3,019,546		3,019,546
34,177,672		34,177,672
783,332		783,332
2,400		2,400
1,501,501		1,501,501
<u>56,788,059</u>		<u>56,788,059</u>
<u>14,536,895</u>	<u>36,891</u>	<u>14,573,786</u>
55,825,133	99,240	55,924,373
404,538		404,538
<u>56,229,671</u>	<u>99,240</u>	<u>56,328,911</u>
<u>\$ 70,766,566</u>	<u>\$ 136,131</u>	<u>\$ 70,902,697</u>

NOVATO UNIFIED SCHOOL DISTRICT**GOVERNMENTAL FUNDS****BALANCE SHEET**

June 30, 2009

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>
Assets			
Cash in County treasury	\$ 8,462,895	\$ 29,113,350	\$ 7,582,566
Cash on hand and in banks	8,965		
Cash in revolving fund	5,214		
Cash and investments with fiscal agents			
Accounts receivable	11,102,748		
Due from other funds	450,328	2,279	
Inventory, at cost	74,606		
Prepaid items	61,441		
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 20,166,197</u>	<u>\$ 29,115,629</u>	<u>\$ 7,582,566</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 3,544,559	\$ 268,630	\$ 2,562
Due to other funds	76,621		
Deferred revenue	596,206		
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>4,217,386</u>	<u>268,630</u>	<u>2,562</u>
Fund balances:			
Reserved fund balances:			
Reserved for revolving fund	5,214		
Reserved for inventory	74,606		
Reserved for prepaid items	61,441		
Reserved for legally restricted balance	1,275,466		
Reserved for debt service			
Designated fund balances:			
Designated for economic uncertainties	2,487,708		
Other designations	9,080,671		
Undesignated reported in:			
General fund	2,963,705		
Special revenue funds			
Capital projects fund		28,846,999	7,580,004
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>15,948,811</u>	<u>28,846,999</u>	<u>7,580,004</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 20,166,197</u>	<u>\$ 29,115,629</u>	<u>\$ 7,582,566</u>

See notes to basic financial statements

County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
\$ 5,392	\$ 6,775,276	\$ 51,939,479
		8,965
		5,214
	273,528	273,528
	14,509	11,117,257
		452,607
		74,606
		61,441
<u>\$ 5,392</u>	<u>\$ 7,063,313</u>	<u>\$ 63,933,097</u>
\$ -	\$ 1,873	\$ 3,817,624
	7,187	83,808
		596,206
	9,060	4,497,638
		5,214
		74,606
		61,441
		1,275,466
	3,621,577	3,621,577
		2,487,708
		9,080,671
		2,963,705
	1,516,054	1,516,054
5,392	1,916,622	38,349,017
<u>5,392</u>	<u>7,054,253</u>	<u>59,435,459</u>
<u>\$ 5,392</u>	<u>\$ 7,063,313</u>	<u>\$ 63,933,097</u>

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NOVATO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2009

Total fund balances - governmental funds \$ 59,435,459

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	\$	181,952,275	
Accumulated depreciation		<u>(68,776,675)</u>	
Net			113,175,600

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	\$	(2,066,544)	
Unamortized deferred charges		<u>215,754</u>	(1,850,790)

In governmental funds, Net OPEB asset has not been included as financial resources. 92,000

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. (1,969,465)

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	\$	(96,665,000)	
Certificates of participation		(940,000)	
Capital leases		(145,880)	
Compensated absences		<u>(409,261)</u>	
Total			(98,160,141)

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) 43,903

Total net assets, governmental activities \$ 70,766,566

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, 2009

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>
Revenues:			
Revenue Limit Sources:			
State apportionments	\$ 30,040,841	\$ -	\$ -
Local sources	11,908,911		
Federal	4,744,619		
Other state	8,190,723		
Other local	9,639,976	299,706	711,975
	<u>64,525,070</u>	<u>299,706</u>	<u>711,975</u>
Total revenues			
	<u>64,525,070</u>	<u>299,706</u>	<u>711,975</u>
Expenditures:			
Certificated salaries	30,070,675		
Classified salaries	10,149,708	262,095	
Employee benefits	9,369,524	71,238	
Books and supplies	3,019,789	152,846	22,212
Contracted services and other operating expenditures	7,757,665	52,143	108,032
Capital outlay	140,656	4,830,954	94,229
Other outgo	1,390,486		
Debt service:			
Principal	68,868		
Interest and fiscal charges	8,358		
	<u>61,975,729</u>	<u>5,369,276</u>	<u>224,473</u>
Total expenditures			
	<u>61,975,729</u>	<u>5,369,276</u>	<u>224,473</u>
Excess of revenues over (under) expenditures	2,549,341	(5,069,570)	487,502
	<u>2,549,341</u>	<u>(5,069,570)</u>	<u>487,502</u>
Other Financing Sources (Uses):			
Transfers in		18,748,233	
Transfers out	(216,969)		(258,182)
	<u>(216,969)</u>	<u>18,748,233</u>	<u>(258,182)</u>
Total other financing sources (uses)			
	<u>(216,969)</u>	<u>18,748,233</u>	<u>(258,182)</u>
Net change in fund balances	2,332,372	13,678,663	229,320
	<u>2,332,372</u>	<u>13,678,663</u>	<u>229,320</u>
Fund balances, July 1, 2008	13,616,439	15,168,336	7,350,684
	<u>13,616,439</u>	<u>15,168,336</u>	<u>7,350,684</u>
Fund balances, June 30, 2009	\$ 15,948,811	\$ 28,846,999	\$ 7,580,004
	<u>\$ 15,948,811</u>	<u>\$ 28,846,999</u>	<u>\$ 7,580,004</u>

See notes to basic financial statements

County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 30,040,841
		11,908,911
		4,744,619
18,748,233	151,285	27,090,241
<u>5,045</u>	<u>5,353,100</u>	<u>16,009,802</u>
<u>18,753,278</u>	<u>5,504,385</u>	<u>89,794,414</u>
	109,256	30,179,931
		10,411,803
	14,444	9,455,206
	17,483	3,212,330
	305,511	8,223,351
	497,675	5,563,514
	6,307	1,396,793
	1,270,000	1,338,868
	<u>4,750,568</u>	<u>4,758,926</u>
	<u>6,971,244</u>	<u>74,540,722</u>
<u>18,753,278</u>	<u>(1,466,859)</u>	<u>15,253,692</u>
	402,296	19,150,529
<u>(18,748,233)</u>		<u>(19,223,384)</u>
<u>(18,748,233)</u>	<u>402,296</u>	<u>(72,855)</u>
5,045	(1,064,563)	15,180,837
<u>347</u>	<u>8,118,816</u>	<u>44,254,622</u>
<u>\$ 5,392</u>	<u>\$ 7,054,253</u>	<u>\$ 59,435,459</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, 2009

Total net change in fund balances - governmental funds	\$ 15,180,837
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 depreciation expense (\$7,471,296) exceed additions to capital outlay of \$5,332,303 in the period.	(2,138,993)
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities.	1,338,868
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 amortization for the period:	104,287
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:	17,107
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:	(61,558)
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:	92,000
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 in the internal service fund was:	<u>4,347</u>
Change in net assets of governmental activities	<u>\$ 14,536,895</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2009

	Enterprise Fund	Governmental Activities Internal Service Fund
	Cafeteria Enterprise Fund	Self-Insurance Fund
	<u> </u>	<u> </u>
Assets:		
Current assets:		
Cash in County treasury	\$ 452,166	\$ 190,576
Accounts receivable	62,625	
Due from other funds	2,367	72,855
Inventory, at cost	<u>24,460</u>	
Total current assets	<u>541,618</u>	<u>263,431</u>
Non-current assets:		
Capital assets	74,776	
Less: accumulated depreciation	<u>(19,940)</u>	
Total non-current assets	<u>54,836</u>	
Total assets	<u>596,454</u>	<u>263,431</u>
Liabilities		
Current liabilities:		
Accounts payable	9,684	19,528
Due to other funds	444,021	
Deferred revenue	<u>6,618</u>	
Total current liabilities	<u>460,323</u>	<u>19,528</u>
Noncurrent liabilities:		
Claims payable		<u>200,000</u>
Total noncurrent liabilities		<u>200,000</u>
Total liabilities	<u>460,323</u>	<u>219,528</u>
Net assets		
Invested in capital assets, net of related debt	54,836	
Unrestricted	<u>81,295</u>	<u>43,903</u>
Total net assets	<u>\$ 136,131</u>	<u>\$ 43,903</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, 2009

	Enterprise Fund	Governmental Activities Internal Service Fund
	Cafeteria Enterprise Fund	Self-Insurance Fund
Operating Revenues:		
Federal revenue	\$ 1,218,969	\$ -
Other state revenue	120,585	
Other local revenue	<u>815,772</u>	<u>26,637</u>
Total revenues	<u>2,155,326</u>	<u>26,637</u>
Operating Expenses:		
Classified salaries	857,164	
Employee benefits	261,117	
Books and supplies	852,868	8,984
Contracted services and other operating expenses	59,283	90,836
Depreciation	4,985	
Other outgo	<u>87,732</u>	
Total expenses	<u>2,123,149</u>	<u>99,820</u>
Operating income (loss)	<u>32,177</u>	<u>(73,183)</u>
Non-Operating Revenues (Expenses):		
Interest income	<u>4,714</u>	<u>4,675</u>
Total non-operating revenues (expenses)	<u>4,714</u>	<u>4,675</u>
Income (loss) before transfers	36,891	(68,508)
Transfer in		<u>72,855</u>
Change in net assets	36,891	4,347
Net assets, July 1, 2008	<u>99,240</u>	<u>39,556</u>
Net assets, June 30, 2009	<u>\$ 136,131</u>	<u>\$ 43,903</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For Fiscal Year Ended June 30, 2009

	Enterprise Fund <u>Cafeteria Enterprise Fund</u>	Governmental Activities Internal <u>Service Fund Self-Insurance Fund</u>
Cash flows from operating activities:		
Cash received from Federal and State nutrition programs	\$ 1,483,263	\$ -
Cash received from customers	802,373	
Cash received from insurance premiums		26,637
Cash received (paid) from (to) other funds	3,112	
Cash paid for salaries and benefits	(1,118,281)	
Cash paid for books and supplies	(852,868)	(8,984)
Cash paid for contracted services and other operating expenses	(54,759)	(75,465)
Cash paid for other outgo	(87,128)	
Net cash provided (used) by operating activities	<u>175,712</u>	<u>(57,812)</u>
Cash flows from investing activities:		
Interest received	<u>4,714</u>	<u>4,675</u>
Net cash provided (used) by investing activities	<u>4,714</u>	<u>4,675</u>
Cash flows from noncapital and related financing activities:		
Transfers from other funds		<u>72,855</u>
Cash flows from capital and related financing activities:		
Interest paid	(604)	
Capital lease principal payments	<u>(15,515)</u>	
Net cash provided (used) by capital and related financing activities	<u>(16,119)</u>	
Net increase (decrease) in cash and cash equivalents	164,307	19,718
Cash and cash equivalents at July 1, 2008	<u>287,859</u>	<u>170,858</u>
Cash and cash equivalents at June 30, 2009	<u>\$ 452,166</u>	<u>\$ 190,576</u>
Reconciliation to Statement of Net Assets:		
Cash in County treasury	<u>\$ 452,166</u>	<u>\$ 190,576</u>
	<u>\$ 452,166</u>	<u>\$ 190,576</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, 2009

	Enterprise Fund	Governmental Activities Internal Service Fund
	Cafeteria Enterprise Fund	Self-Insurance Fund
	<u>Fund</u>	<u>Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	\$ 32,177	\$ (73,183)
Adjustments to reconcile operating income (loss) to net cash provided (used)		
Depreciation	4,985	
(Increase) decrease in operating assets:		
Accounts receivable	143,709	
Inventory	(3,692)	
Due from other funds	102,068	
Increase (decrease) in operating liabilities:		
Accounts payable	8,820	15,371
Deferred revenue	(13,399)	
Due to other funds	(98,956)	
	<u>175,712</u>	<u>(57,812)</u>
Net cash provided (used) by operating activities	<u>\$ 175,712</u>	<u>\$ (57,812)</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2009

	Agency Funds				Totals
	CSIS Fund	Payroll Revolving Fund	Novato Public Access TV Fund	Student Body Funds	
Assets					
Cash in County treasury	\$ 52,144	\$ -	\$ (4,204)	\$ -	\$ 47,940
Cash on hand and in banks				154,251	154,251
Accounts receivable		1,719	40,727		42,446
Total assets	<u>\$ 52,144</u>	<u>\$ 1,719</u>	<u>\$ 36,523</u>	<u>\$ 154,251</u>	<u>\$ 244,637</u>
Liabilities					
Accounts payable	\$ 52,144	\$ 1,719	\$ 36,523	\$ -	\$ 90,386
Due to student groups				154,251	154,251
Total liabilities	<u>\$ 52,144</u>	<u>\$ 1,719</u>	<u>\$ 36,523</u>	<u>\$ 154,251</u>	<u>\$ 244,637</u>

See notes to basic financial statements

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

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 expenditures related to compensated absences and claims and judgments are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. 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).

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting (Continued)

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.

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

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 budgets are presented for the General Fund as required supplementary information in the financial statements.

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

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated 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 \$250,000 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Assets, Liabilities, and Equity (Continued)

1. Deposits and Investments (Continued)

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 meaning acquisitions are initially recorded in an 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.

4. Amortization of Bond Issuance Costs and Related Premiums 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are 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 or 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Assets, Liabilities, and Equity (Continued)

11. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriate 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 45

For the fiscal year ended June 30, 2009, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employees for Postemployment Benefits Other than Pensions". This Statement is effective for periods beginning after December 15, 2007 for a Phase 2 government (1999 total revenues less the \$100 million and more than \$10 million). This Statement establishes standards for accounting and financial reporting for state and local government employees that offer "Other Postemployment Benefits" (OPEB) and requires accrual basis measurement and recognition of OPEB expenses and liabilities that will result in recognition of expenses over periods that approximate employees' years of service. The retirees active participation in the healthcare plan of the District establishes an "implicit rate subsidy". See note 10 for more details of the District's Plan and the effect on the financial statements.

Governmental Accounting Standards Board Statement No. 49

For the fiscal year ended June 30, 2009 the District implemented Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." The Statement is effective for periods beginning after December 15, 2007. The Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of net assets, such as landfill closure and postclosure care and nuclear power plant decommissioning.

Governmental Accounting Standards Board Statement No. 52

For the fiscal year ended June 30, 2009, the District implemented GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments". The Statement is effective for periods beginning after June 15, 2008. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

Governmental Accounting Standards Board Statement No. 55

For the fiscal year ended June 30, 2009, the District implemented GASB Statement No. 55, "The hierarchy of Generally Accepted Accounting Principles for State and Local Governments". The Statement is effective as of April 2, 2009. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 56

For the fiscal year ended June 30, 2009, the District implemented GASB Statement No. 56, "Codification of Accounting and Financing Reporting Guidance Contained in the AICPA Statements of Auditing Standards". The Statement is effective as of April 16, 2009. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature.

NOTE 2 - CASH AND INVESTMENTS

The District's cash and investments as of June 30, 2009, consisted of the following:

Cash on hand and in banks	\$ 168,430
Cash and investments with County Treasurer	52,630,161
Cash and investments with fiscal agent	<u>273,528</u>
 Total cash and investments	 <u>\$ 53,072,119</u>

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

Cash in County Treasury, statement of net assets	\$ 52,582,221
Cash on hand and in banks, statement of net assets	8,965
Cash in revolving fund, statement of net assets	5,214
Cash and investments with fiscal agent, statement of net assets	273,528
Cash in County Treasury, statement of fiduciary net assets	47,940
Cash on hand and in banks, statement of fiduciary of net assets	<u>154,251</u>
 Total cash and investments	 <u>\$ 53,072,119</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 (\$52,630,161 as of June 30, 2009). The fair value of this pool as of that date, as provided by the plan sponsor, was \$52,630,161. The District is considered to be an involuntary participant in the external pool. Interest is deposited in the participating funds. The County is restricted by Government Code Section 53635, pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements

NOTE 2 - CASH AND INVESTMENTS (Continued)

Cash on Hand, in Banks, and in Revolving Fund

Cash balance on hand and in banks (\$163,216 as of June 30, 2009) and in the revolving fund (\$5,214) are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

Investments Authorized by the District's Investment Policy

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

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Certificates of Deposit with 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.

NOTE 2 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

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	\$ 52,630,161	\$ 52,630,161	\$ -	\$ -	\$ -
Held by COP Trustees:					
First American Treasury					
Obligation Money Market Fund	273,528	273,528			
Total	\$ 52,903,689	\$ 52,903,689	\$ -	\$ -	\$ -

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Marin County							
Investment Pool	\$ 52,630,161	N/A	\$ -	\$ -	\$ -	\$ -	\$ 52,630,161
Held by COP Trustees:							
First American Treasury							
Obligation Money							
Market Fund	273,528			273,528			
Total	\$ 52,903,689		\$ -	\$ 273,528	\$ -	\$ -	\$ 52,630,161

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.

NOTE 2 - CASH AND INVESTMENTS (Continued)

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, 2009, 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
Nonmajor Governmental Funds	
Adult Education Fund	
Employee benefits	\$ 2,517
Contracted services and other operating expenditures	901
Deferred Maintenance Fund	
Contracted services and other operating expenditures	259,780
Bond Interest and Redemption Fund	
Debt Service:	
Principal	80,000
Interest and Fiscal Charges	1,864,936
Debt Service Fund	
Debt Service:	
Principal	205,000
Interest and Fiscal Charges	52,939
Special Reserve for Capital Outlay Projects Fund	
Books and supplies	77
Contracted services and other operating expenditures	450

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2009

NOTE 4 - RECEIVABLES

Receivables as of June 30, 2009, consist of the following:

	General Fund	Other Governmental Funds	Cafeteria Enterprise Fund	Fiduciary Funds
Federal Government				
Categorical Aid Programs	\$ 1,402,527	\$ -	\$ 56,160	\$ -
State Government				
Categorical Aid Programs	2,274,903	14,509		
Lottery	469,833			
Revenue Limit	6,493,259			
Local Government				
Fees	40,050			
Miscellaneous	422,176		6,465	42,446
Total Accounts Receivable	<u>\$ 11,102,748</u>	<u>\$ 14,509</u>	<u>\$ 62,625</u>	<u>\$ 42,446</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.

Due From/Due To Other Funds

Individual fund receivable and payable balances as of June 30, 2009, are as follows:

Funds	Interfund Receivables	Interfund Payables
Major Governmental Funds:		
General Fund	\$ 450,328	\$ 76,621
Building Fund	2,279	
Major Enterprise Fund		
Cafeteria Enterprise Fund	2,367	444,021
Nonmajor Governmental Funds:		
Adult Education Fund		6,307
Special Reserve for Capital Outlay Projects Fund		880
Internal Service Fund:		
Self-Insurance Fund	72,855	
Totals	<u>\$ 527,829</u>	<u>\$ 527,829</u>

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 5 - INTERFUND TRANSACTIONS (Continued)

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 2008-2009 fiscal year, are as follows:

Funds	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ -	\$ 216,969
Building Fund	18,748,233	
Capital Facilities Fund		258,182
County School Facilities Fund		18,748,233
Nonmajor Governmental Funds:		
Deferred Maintenance Fund	144,114	
Debt Service Fund	258,182	
Internal Service Fund:		
Self-Insurance Fund	<u>72,855</u>	
Total	<u>\$ 19,223,384</u>	<u>\$ 19,223,384</u>

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the fiscal year ended June 30, 2009, is shown below:

Governmental Activities:

	Balance, July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 8,431,737	\$ -	\$ -	\$ 8,431,737
Construction in progress	1,570,817		1,145,290	425,527
Total capital assets, not being depreciated	<u>10,002,554</u>		<u>1,145,290</u>	<u>8,857,264</u>
Capital assets, being depreciated:				
Site improvements	23,115,265	1,013,206		24,128,471
Buildings and improvements	140,395,099	5,374,251		145,769,350
Machinery and equipment	3,107,054	90,136		3,197,190
Total capital assets, being depreciated	<u>166,617,418</u>	<u>6,477,593</u>		<u>173,095,011</u>
Less accumulated depreciation for:				
Site improvements	(14,980,495)	(1,393,783)		(16,374,278)
Buildings and improvements	(43,948,701)	(5,883,023)		(49,831,724)
Machinery and equipment	(2,376,183)	(194,490)		(2,570,673)
Total accumulated depreciation	<u>(61,305,379)</u>	<u>(7,471,296)</u>		<u>(68,776,675)</u>
Total capital assets, being depreciated, net	<u>105,312,039</u>	<u>(993,703)</u>		<u>104,318,336</u>
Governmental activity capital assets, net	<u>\$ 115,314,593</u>	<u>\$ (993,703)</u>	<u>\$ 1,145,290</u>	<u>\$ 113,175,600</u>

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION (Continued)

Governmental Activities (Continued):

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 4,192
Instructional library, media, and technology	2,514
School site administration	5,275
Home-to-school transportation	103,917
All other general administration	10,184
Centralized data processing	35,375
Plant service	<u>7,309,839</u>
Total	<u>\$ 7,471,296</u>

Business-type Activities:

Capital assets activity for the fiscal year ended June 30, 2009, is shown below:

	Balance, July 1, 2008	Additions	Deletions	Balance June 30, 2009
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	(14,955)	(4,985)		(19,940)
Total accumulated depreciation	<u>(14,955)</u>	<u>(4,985)</u>		<u>(19,940)</u>
Total capital assets, being depreciated, net	59,821	(4,985)		54,836
Business-type activity capital assets, net	<u>\$ 59,821</u>	<u>\$ (4,985)</u>	<u>\$ -</u>	<u>\$ 54,836</u>

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

Food services	<u>\$ 4,985</u>
---------------	-----------------

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, 2009, the unamortized premium balance was \$455,802.

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, 2009, the unamortized premium was \$1,610,742.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 7 – GENERAL OBLIGATION BONDS (Continued)

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, 2009, is as follows:

Bond Issue	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Balance Outstanding July 1, 2008	Issue Current Fiscal Year	Redeemed Current Fiscal Year	Balance Outstanding June 30, 2009
2002	2/26/2003	3.0 - 5.25	8/1/2026	\$ 36,800,000	\$ 28,765,000	\$ -	\$ 995,000	\$ 27,770,000
2005	3/23/2006	3.0 - 5.125	8/1/2029	30,000,000	28,765,000		70,000	28,695,000
2006	7/14/2006	4.0 - 5.0	8/1/2026	40,200,000	40,200,000			40,200,000
				<u>\$ 107,000,000</u>	<u>\$ 97,730,000</u>	<u>\$ -</u>	<u>\$ 1,065,000</u>	<u>\$ 96,665,000</u>

The annual requirements to amortize general obligation bonds payable outstanding as of June 30, 2009, are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2010	\$ 685,000	\$ 4,663,823	\$ 5,348,823
2011	960,000	4,632,027	5,592,027
2012	1,270,000	4,588,009	5,858,009
2013	1,610,000	4,531,140	6,141,140
2014	1,980,000	4,453,408	6,433,408
2015-2019	16,720,000	20,315,653	37,035,653
2020-2024	31,790,000	14,535,312	46,325,312
2025-2029	37,000,000	5,036,950	42,036,950
2030	4,650,000	119,155	4,769,155
Totals	<u>\$ 96,665,000</u>	<u>\$ 62,875,477</u>	<u>\$ 159,540,477</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, 2009, the principal balance outstanding of the 1997 COPs was \$940,000.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2009

NOTE 8 – CERTIFICATES OF PARTICIPATION (Continued)

The annual requirements to amortize certificates of participation payable outstanding as of June 30, 2009, are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
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>\$ 940,000</u>	<u>\$ 105,195</u>	<u>\$ 1,045,195</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
2010	\$ 77,225
2011	77,225
Totals	154,450
Less amounts representing interest	<u>(8,570)</u>
Present value of net minimum lease payments	<u>\$ 145,880</u>

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS

Plan Description

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

The Plan does not issue a separate financial report.

Funding Policy

The contribution requirement of plan members and the District are established under a funding policy approved by the District's Board, and may be amended by the District from time to time. The District's funding policy is to contribute an amount sufficient to pay the current year's retiree claim costs and plan expenses. For fiscal year 2009, the District contributed \$196,000 to the plan, including current claim costs and plan expenses, and no prefund benefits had been made.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 10 – OTHER POST-EMPLOYMENT BENEFIT (Continued)

Annual OPEB and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Annual required contribution	\$ 104,000
Annual OPEB cost (expense)	104,000
Contributions made	(196,000)
Increase (decrease) in net OPEB obligation	(92,000)
Net OPEB obligation - beginning of fiscal year	
Net OPEB obligation (assets) - end of fiscal year	<u>\$ (92,000)</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contribution	OPEB Obligation (Assets)
6/30/2009	\$ 104,000	188.46%	\$ (92,000)

Funded Status and Funding Progress.

As of July 1, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$940,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$940,000.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return, which is the expected long-term investment returns on plan assets expected to be held by the plan, an inflation rate of 3.5% per year, and payroll increase 3.5% per year. The actuarial value of assets is not applicable (no assets as of the initial valuation date). The UAAL is being amortized as a level dollar amount over 30 years. The remaining amortization period at July 1, 2008 was thirty years.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2009

NOTE 11 – CLAIMS PAYABLE

As of June 30, 2009, 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, 2009, is shown below:

Governmental Activities:

	Balance July 1, 2008	Prior Period Adjustment	Additions	Repayment and Deductions	Balance June 30, 2009	Due Within One Year
General Obligation Bonds	\$ 97,730,000		\$ -	\$ 1,065,000	\$ 96,665,000	\$ 685,000
Bond Premiums	2,183,460			116,916	2,066,544	116,916
Certificates of Participation	1,145,000			205,000	940,000	215,000
Capital Lease Payable	214,748			68,868	145,880	68,868
Other Postemployment Benefits	404,538	(404,538)				
Claims Payable	200,000				200,000	
Compensated Absences	347,703		61,558		409,261	7,874
Totals	\$ 102,225,449	\$ (404,538)	\$ 61,558	\$ 1,455,784	\$ 100,426,685	\$ 1,093,658

Business-type Activities:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Due Within One Year
Capital Lease Payable	\$ 15,515	\$ -	\$ 15,515	\$ -	\$ -
Totals	\$ 15,515	\$ -	\$ 15,515	\$ -	\$ -

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.

State Teachers' Retirement System (STRS) (Continued)

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 2008-2009 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, 2009, 2008, and 2007, were \$2,394,894, \$2,465,981, and \$2,339,091, 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 2008-2009, was 9.428% 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, 2009, 2008, and 2007, were \$882,320, \$886,187, and \$840,658, 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.

NOTE 20 - SUBSEQUENT EVENTS

Assembly Bill 3 of the fourth extraordinary session (ABX4 3)

On July 28, 2009 Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009. The July budget package reduced, on a state-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amount associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

The District recorded the revenue and related receivable associated with its portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package prior to notification of by the State that the 2009-10 re-appropriation should not be accrued. In accordance with Governmental Accounting Standards Board Statement No. 33, an adjustment to reduce revenue and the related receivable have been included in these financial statements.

NOTE 21 – PRIOR PERIOD ADJUSTMENT

Prior period adjustment in the amount of \$404,538 was recorded in the government-wide statements due to an overstatement of other post-employment benefits payable due to the implementation of GASB Statement No. 45.

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NOVATO UNIFIED SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State apportionments	\$ 29,378,648	\$ 24,979,697	\$ 30,040,841	\$ 5,061,144
Local sources	13,292,682	15,306,329	11,908,911	(3,397,418)
Federal	2,080,977	4,327,320	4,744,619	417,299
Other state	7,798,644	8,492,736	8,190,723	(302,013)
Other local	8,273,297	9,177,992	9,639,976	461,984
Total revenues	<u>60,824,248</u>	<u>62,284,074</u>	<u>64,525,070</u>	<u>2,240,996</u>
Expenditures:				
Certificated salaries	28,745,734	30,216,400	30,070,675	145,725
Classified salaries	8,982,207	10,273,531	10,149,708	123,823
Employee benefits	9,543,575	9,554,778	9,369,524	185,254
Books and supplies	3,950,261	5,839,370	3,019,789	2,819,581
Contracted services and other operating expenditures	6,637,703	8,033,153	7,757,665	275,488
Capital outlay	87,000	178,236	140,656	37,580
Other outgo	1,388,275	1,493,431	1,390,486	102,945
Debt service:				
Principal	68,868	68,868	68,868	
Interest and fiscal charges	8,358	8,358	8,358	
Total expenditures	<u>59,411,981</u>	<u>65,666,125</u>	<u>61,975,729</u>	<u>3,690,396</u>
Excess of revenues over (under) expenditures	<u>1,412,267</u>	<u>(3,382,051)</u>	<u>2,549,341</u>	<u>5,931,392</u>
Other Financing Sources (Uses):				
Transfers out	<u>(72,855)</u>	<u>(216,969)</u>	<u>(216,969)</u>	
Total other financing sources (uses)	<u>(72,855)</u>	<u>(216,969)</u>	<u>(216,969)</u>	
Net change in fund balance	1,339,412	(3,599,020)	2,332,372	5,931,392
Fund balance, July 1, 2008	<u>13,616,439</u>	<u>13,616,439</u>	<u>13,616,439</u>	
Fund balance, June 30, 2009	<u>\$ 14,955,851</u>	<u>\$ 10,017,419</u>	<u>\$ 15,948,811</u>	<u>\$ 5,931,392</u>

NOVATO UNIFIED SCHOOL DISTRICT
OTHER POST-EMPLOYMENT BENEFIT TREND INFORMATION
June 30, 2009

Other Post-employment Benefit

Trend Information

Schedule of Funding Progress for
Retiree Health Plan

Actuarial Valuation Date	Projected Unit Credit Cost Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
7/1/2008	\$ 940,000	\$ -	\$ 940,000	0%	To be Determined	To be Determined

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2009

	Adult Education Fund	Deferred Maintenance Fund	Retiree Benefit Fund	Totals
Assets				
Cash in County treasury	\$ 48,827	\$ 1,460,646	\$ -	\$ 1,509,473
Accounts receivable	14,509			14,509
 Total assets	<u>\$ 63,336</u>	<u>\$ 1,460,646</u>	<u>\$ -</u>	<u>\$ 1,523,982</u>

Liabilities and Fund Balances

Liabilities:				
Accounts payable	\$ 601	\$ 1,020	\$ -	\$ 1,621
Due to other funds	6,307			6,307
 Total liabilities	<u>6,908</u>	<u>1,020</u>		<u>7,928</u>
 Fund balances:				
Undesignated	56,428	1,459,626		1,516,054
 Total fund balances	<u>56,428</u>	<u>1,459,626</u>		<u>1,516,054</u>
 Total liabilities and fund balances	<u>\$ 63,336</u>	<u>\$ 1,460,646</u>	<u>\$ -</u>	<u>\$ 1,523,982</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, 2009

	Adult Education Fund	Deferred Maintenance Fund	Retiree Benefit Fund	Totals
Revenues:				
Other state	\$ 103,741	\$ -	\$ -	\$ 103,741
Other local	1,774	35,031	21	36,826
Total revenues	<u>105,515</u>	<u>35,031</u>	<u>21</u>	<u>140,567</u>
Expenditures:				
Certificated salaries	109,256			109,256
Employee benefits	14,444			14,444
Books and supplies	3,689	6,759		10,448
Contracted services and other operating expenditures	2,327	261,886		264,213
Capital outlay		493,715		493,715
Other outgo	6,307			6,307
Total expenditures	<u>136,023</u>	<u>762,360</u>		<u>898,383</u>
Excess of revenues over (under) expenditures	<u>(30,508)</u>	<u>(727,329)</u>	<u>21</u>	<u>(757,816)</u>
Other Financing Sources (Uses):				
Transfers in		144,114		144,114
Total other financing sources (uses)		<u>144,114</u>		<u>144,114</u>
Net change in fund balances	(30,508)	(583,215)	21	(613,702)
Fund balances, July 1, 2008	<u>86,936</u>	<u>2,042,841</u>	<u>(21)</u>	<u>2,129,756</u>
Fund balances, June 30, 2009	<u>\$ 56,428</u>	<u>\$ 1,459,626</u>	<u>\$ -</u>	<u>\$ 1,516,054</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, 2009

	Adult Education Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other state	\$ 101,849	\$ 103,741	\$ 1,892
Other local	1,230	1,774	544
Total revenues	<u>103,079</u>	<u>105,515</u>	<u>2,436</u>
Expenditures:			
Certificated salaries	120,614	109,256	11,358
Classified salaries	2,000		2,000
Employee benefits	11,927	14,444	(2,517)
Books and supplies	7,813	3,689	4,124
Contracted services and other operating expenditures	1,426	2,327	(901)
Capital outlay			
Other outgo	7,045	6,307	738
Total expenditures	<u>150,825</u>	<u>136,023</u>	<u>14,802</u>
Excess of revenues over (under) expenditures	<u>(47,746)</u>	<u>(30,508)</u>	<u>17,238</u>
Other Financing Sources (Uses):			
Transfers in			
Total other financing sources (uses)			
Net change in fund balances	(47,746)	(30,508)	17,238
Fund balances, July 1, 2008	<u>86,936</u>	<u>86,936</u>	
Fund balances, June 30, 2009	<u>\$ 39,190</u>	<u>\$ 56,428</u>	<u>\$ 17,238</u>

Deferred Maintenance Fund			Retiree Benefit Fund		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
34,717	35,031	314		21	21
34,717	35,031	314		21	21
20,384	6,759	13,625			
2,106	261,886	(259,780)			
1,615,791	493,715	1,122,076			
1,638,281	762,360	875,921			
(1,603,564)	(727,329)	876,235		21	21
144,114	144,114				
144,114	144,114				
(1,459,450)	(583,215)	876,235		21	21
2,042,841	2,042,841		(21)	(21)	
\$ 583,391	\$ 1,459,626	\$ 876,235	\$ (21)	\$ -	\$ 21

(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, 2009

	Totals		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other state	\$ 101,849	\$ 103,741	\$ 1,892
Other local	35,947	36,826	879
Total revenues	<u>137,796</u>	<u>140,567</u>	<u>2,771</u>
Expenditures:			
Certificated salaries	120,614	109,256	11,358
Classified salaries	2,000		2,000
Employee benefits	11,927	14,444	(2,517)
Books and supplies	28,197	10,448	17,749
Contracted services and other operating expenditures	3,532	264,213	(260,681)
Capital outlay	1,615,791	493,715	1,122,076
Other outgo	7,045	6,307	738
Total expenditures	<u>1,789,106</u>	<u>898,383</u>	<u>890,723</u>
Excess of revenues over (under) expenditures	<u>(1,651,310)</u>	<u>(757,816)</u>	<u>893,494</u>
Other Financing Sources (Uses):			
Transfers in	<u>144,114</u>	<u>144,114</u>	
Total other financing sources (uses)	<u>144,114</u>	<u>144,114</u>	
Net change in fund balances	(1,507,196)	(613,702)	893,494
Fund balances, July 1, 2008	<u>2,129,756</u>	<u>2,129,756</u>	
Fund balances, June 30, 2009	<u>\$ 622,560</u>	<u>\$ 1,516,054</u>	<u>\$ 893,494</u>

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
June 30, 2009

	Bond Interest and Redemption Fund	Debt Service Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash in County treasury	\$ 3,321,742	\$ 26,307	\$ 3,348,049
Cash and investments with fiscal agents		<u>273,528</u>	<u>273,528</u>
Total assets	<u>\$ 3,321,742</u>	<u>\$ 299,835</u>	<u>\$ 3,621,577</u>
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities			
Fund balances:			
Reserved for debt service	<u>3,321,742</u>	<u>299,835</u>	<u>3,621,577</u>
Total fund balances	<u>3,321,742</u>	<u>299,835</u>	<u>3,621,577</u>
Total liabilities and fund balances	<u>\$ 3,321,742</u>	<u>\$ 299,835</u>	<u>\$ 3,621,577</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, 2009

	Bond Interest and Redemption Fund	Debt Service Fund	Totals
Revenues:			
Other state	\$ 47,544	\$ -	\$ 47,544
Other local	5,271,547	2,374	5,273,921
Total revenues	<u>5,319,091</u>	<u>2,374</u>	<u>5,321,465</u>
Expenditures:			
Debt service:			
Principal	1,065,000	205,000	1,270,000
Interest and fiscal charges	4,694,629	55,939	4,750,568
Total expenditures	<u>5,759,629</u>	<u>260,939</u>	<u>6,020,568</u>
Excess of revenues over (under) expenditures	<u>(440,538)</u>	<u>(258,565)</u>	<u>(699,103)</u>
Other Financing Sources (Uses):			
Transfers in		258,182	258,182
Total other financing sources (uses)		<u>258,182</u>	<u>258,182</u>
Net change in fund balances	(440,538)	(383)	(440,921)
Fund balances, July 1, 2008	<u>3,762,280</u>	<u>300,218</u>	<u>4,062,498</u>
Fund balances, June 30, 2009	<u>\$ 3,321,742</u>	<u>\$ 299,835</u>	<u>\$ 3,621,577</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, 2009

	Bond Interest and Redemption Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other state	\$ -	\$ 47,544	\$ 47,544
Other local	3,921,000	5,271,547	1,350,547
Total revenues	<u>3,921,000</u>	<u>5,319,091</u>	<u>1,398,091</u>
Expenditures:			
Debt service:			
Principal	985,000	1,065,000	(80,000)
Interest and fiscal charges	2,829,693	4,694,629	(1,864,936)
Total expenditures	<u>3,814,693</u>	<u>5,759,629</u>	<u>(1,944,936)</u>
Excess of revenues over (under) expenditures	<u>106,307</u>	<u>(440,538)</u>	<u>(546,845)</u>
Other Financing Sources (Uses):			
Transfers in			
Total other financing sources (uses)			
Net change in fund balances	106,307	(440,538)	(546,845)
Fund balances, July 1, 2008	<u>3,762,280</u>	<u>3,762,280</u>	
Fund balances, June 30, 2009	<u>\$ 3,868,587</u>	<u>\$ 3,321,742</u>	<u>\$ (546,845)</u>

Debt Service Fund			Totals		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$	\$ -	\$ 47,544	\$ 47,544
3,000	2,374	(626)	3,924,000	5,273,921	1,349,921
3,000	2,374	(626)	3,924,000	5,321,465	1,397,465
	205,000	(205,000)	985,000	1,270,000	(285,000)
3,000	55,939	(52,939)	2,832,693	4,750,568	(1,917,875)
3,000	260,939	(257,939)	3,817,693	6,020,568	(2,202,875)
	(258,565)	(258,565)	106,307	(699,103)	(805,410)
	258,182	258,182		258,182	258,182
	258,182	258,182		258,182	258,182
	(383)	(383)	106,307	(440,921)	(547,228)
300,218	300,218		4,062,498	4,062,498	
\$ 300,218	\$ 299,835	\$ (383)	\$ 4,168,805	\$ 3,621,577	\$ (547,228)

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUND
June 30, 2009

	Special Reserve for Capital Outlay Projects Fund
Assets	
Cash in County treasury	\$ 1,917,754
Total assets	<u>\$ 1,917,754</u>
Liabilities and Fund Balance	
Liabilities:	
Accounts payable	\$ 252
Due to other funds	880
Total liabilities	<u>1,132</u>
Fund balance:	
Undesignated	<u>1,916,622</u>
Total fund balance	<u>1,916,622</u>
Total liabilities and fund balance	<u>\$ 1,917,754</u>

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
NONMAJOR CAPITAL PROJECTS FUND
For the Fiscal Year Ended June 30, 2009

	Special Reserve for Capital Outlay Projects Fund
Revenues:	
Other local	<u>\$ 42,353</u>
Total revenues	<u>42,353</u>
Expenditures:	
Books and supplies	7,035
Contracted services and other operating expenditures	41,298
Capital outlay	<u>3,960</u>
Total expenditures	<u>52,293</u>
Net change in fund balance	(9,940)
Fund balance, July 1, 2008	<u>1,926,562</u>
Fund balance, June 30, 2009	<u><u>\$ 1,916,622</u></u>

NOVATO UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 NONMAJOR CAPITAL PROJECTS FUND
 For the Fiscal Year Ended June 30, 2009

	Special Reserve for Capital Outlay Projects Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other local	\$ 56,182	\$ 42,353	\$ (13,829)
Total revenues	<u>56,182</u>	<u>42,353</u>	<u>(13,829)</u>
Expenditures:			
Books and supplies	6,958	7,035	(77)
Contracted services and other operating expenditures	40,848	41,298	(450)
Capital outlay	<u>39,640</u>	<u>3,960</u>	<u>35,680</u>
Total expenditures	<u>87,446</u>	<u>52,293</u>	<u>35,153</u>
Net change in fund balance	(31,264)	(9,940)	21,324
Fund balance, July 1, 2008	<u>1,926,562</u>	<u>1,926,562</u>	
Fund balance, June 30, 2009	<u>\$ 1,895,298</u>	<u>\$ 1,916,622</u>	<u>\$ 21,324</u>

NOVATO UNIFIED SCHOOL DISTRICT

ORGANIZATION

June 30, 2009

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, 2009 were as follows:

BOARD OF EDUCATION

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

ADMINISTRATION

Dr. Jan LaTorre-Derby
Superintendent

Pam Conklin
Director of Human Resources

Marla Blackledge
Chief Financial Officer

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For Fiscal Year Ended June 30, 2009

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary		
Kindergarten	589	589
First through Third	1,685	1,681
Fourth through Sixth	1,619	1,614
Seventh and Eighth	1,115	1,114
Home and Hospital	2	3
Special Education	109	113
	<u>5,119</u>	<u>5,114</u>
Subtotals		
Secondary		
Ninth through Twelfth	2,155	2,141
Continuation Education	61	59
Home and Hospital	6	8
Special Education	52	52
	<u>2,274</u>	<u>2,260</u>
Subtotals		
Class for Adults		
Non Concurrently Enrolled	53	51
	<u>53</u>	<u>51</u>
Subtotals		
Totals	<u><u>7,446</u></u>	<u><u>7,425</u></u>
		<u>Hours of Attendance</u>
Supplemental Instructional Hours		
Elementary		42,415
Secondary		23,361

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 its independent audit report, separate from Novato Unified School District.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
For the Fiscal Year Ended June 30, 2009

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2008-09 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	53,850	180	In compliance
Grade 2	42,480	50,400	53,850	180	In compliance
Grade 3	42,480	50,400	54,530	180	In compliance
Grade 4	49,430	54,000	54,530	180	In compliance
Grade 5	49,430	54,000	54,530	180	In compliance
Grade 6	49,430	54,000	58,472	180	In compliance
Grade 7	57,075	54,000	58,472	180	In compliance
Grade 8	57,075	54,000	58,472	180	In compliance
Grade 9	51,954	64,800	66,230	180	In compliance
Grade 10	51,954	64,800	66,230	180	In compliance
Grade 11	51,954	64,800	66,230	180	In compliance
Grade 12	51,954	64,800	66,230	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 FINANCIAL TRENDS AND ANALYSIS
For Fiscal Year Ended June 30, 2009

General Fund	(Budget) 2010	2009	2008	2007
Revenues and other financial sources	\$ 61,284,734	\$ 64,525,070	\$ 64,050,580	\$ 66,799,256
Expenditures	60,494,012	61,975,729	62,146,337	61,675,529
Other uses and transfers out	72,855	216,969	481,882	368,351
Total outgo	60,566,867	62,192,698	62,628,219	62,043,880
Change in fund balance	717,867	2,332,372	1,422,361	4,755,376
Prior period adjustments				(11,091)
Ending fund balance	\$ 16,666,678	\$ 15,948,811	\$ 13,616,439	\$ 12,194,078
Available reserves	\$ 6,375,792	\$ 5,451,413	\$ 4,993,160	\$ 3,425,464
Available reserves as a percentage of total outgo	10.5%	8.8%	8.0%	5.5%
Total long-term debt	\$ 99,241,027	\$ 100,426,685	\$ 102,240,964	\$ 104,950,472
Average daily attendance at P-2	7,393	7,393	7,333	7,276

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 \$3,754,733 over the past two fiscal years. The fiscal year 2009-10 budget projects an increase of \$717,867. 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 2009-10 fiscal year. Total long-term debt has decreased by \$4,523,787 over the past two fiscal years.

Average daily attendance has increased by 117 over the past two fiscal years. ADA is anticipated to remain the same during the fiscal year 2009-10.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
For the Fiscal Year Ended June 30, 2009

As of June 30, 2009, 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, 2009

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal Catalog (CFDA) Number	Pass-through Entity Identification 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	3010	\$ 447,943
NCLB - Title II, Part A Improving Teacher Quality Local Grants	84.367	4035	208,974
NCLB - Title II, Part D, Enhancing Education Through Technology	84.318	4045	345
NCLB - Title III, Immigrant Education Program	84.365	4201	42,932
NCLB - Title III Limited English Proficiency (LEP) Student Program	84.365	4203	57,241
NCLB - Title IV Part A: Safe & Drug Free Schools Communities	84.186	3710	11,999
NCLB - Title V Part A: Innovative Education Strategies	84.298A	4110	4,143
NCLB - Title X McKinney - Vento Homeless Children Assistance Grants	84.196	5630	3,924
Special Ed: IDEA - Basic Local Assistance Entitlement, Part B	84.027	3310	1,141,667
Vocational & Applied Technology Secondary I C	84.048	3550	28,715
ROTC Reimbursement	84.000	5810	59,052
Advance Placement/Incentive Program Cycle 2	84.330	0000	1,764
			2,008,699
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	5640	17,105
Medi-Cal Administrative Activities	93.778	0000	41,685
			58,790
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	5310	757,038
Basic School Breakfast Program	10.553	5310	16,131
Especially Need School Breakfast	10.553	5310	437,122
Team Nutrition - School Wellness Policy Demonstration	10.574	5310	8,678
			1,218,969
Total U.S. Department of Agriculture			
Total Expenditures of Federal Awards			
			\$ 3,286,458
Reconciliaiton of Total Expenditures of Federal Awards to Total Federal Revenues			
Expenditures of Federal Awards			\$ 3,286,458
Fiscal Stabilization Revenue Reported as Revenue but Unspent at Fiscal Year End			2,677,130
Total Federal Revenues			\$ 5,963,588

See Note to the Schedule of Expenditures of Federal Awards

NOVATO UNIFIED SCHOOL DISTRICT
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009

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 modified 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, 2009

	<u>General Fund</u>	<u>Adult Education Fund</u>
June 30, 2009 Unaudited Actual Report Fund Balances	\$ 16,498,129	\$ 62,652
Understatement of cash and investments with fiscal agent	3,877	
Overstatement of accounts receivable due to SBx3 4	(553,195)	(6,224)
Understatement of accounts payable		
June 30, 2009 Audited Financial Statements Fund Balances	<u>\$ 15,948,811</u>	<u>\$ 56,428</u>
	<u>Bond Interest and Redemption Fund</u>	<u>Debt Service Fund</u>
June 30, 2009 Unaudited Actual Report Fund Balances	\$ 3,321,742	\$ 303,881
Overstatement of cash and investments with fiscal agent		(4,046)
Overstatement of accounts receivable		
Understatement of accumulated depreciation		
June 30, 2009 Audited Financial Statements Fund Balances	<u>\$ 3,321,742</u>	<u>\$ 299,835</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
\$ 1,459,626	\$ 29,039,472	\$ 7,580,004	\$ 5,392	\$ 1,916,622	\$ -
	(192,473)				
<u>\$ 1,459,626</u>	<u>\$ 28,846,999</u>	<u>\$ 7,580,004</u>	<u>\$ 5,392</u>	<u>\$ 1,916,622</u>	<u>\$ -</u>

Cafeteria Enterprise Fund	Self-Insurance Fund
\$ 143,259	\$ 43,903
(2,143)	
(4,985)	
<u>\$ 136,131</u>	<u>\$ 43,903</u>

	Long-Term Debt
June 30, 2009 Unaudited Actual Report Total Liabilities	\$ 100,831,223
Overstatement of other postemployment benefits	(404,538)
June 30, 2009 Audited Financial Statements Long-Term Debt Total Liabilities	<u>\$ 100,426,685</u>



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2009, which collectively comprise the Novato Unified School District's basic financial statements and have issued our report thereon dated December 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 deficiencies described in the accompanying schedules of findings and recommendation section to be significant deficiencies in internal control over financial reporting as findings 2009-1 and 2009-2. The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit District's responses and, accordingly, we express no opinion on them.

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 the 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 the 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 2009-3 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 10, 2009



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, 2009, which collectively comprise the Novato Unified School District's basic financial statements and have issued our report thereon dated December 10, 2009. 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:

Description	Procedures in Panel's Audit Guide	Procedures Performed	
Attendance Accounting:			
Attendance Reporting	8	Yes	
Independent Study	23	Yes	
Continuation Education	10	Yes	
Adult Education	9	Not applicable	(1)
Regional Occupational Centers and Programs	6	Not applicable	(1)
Incentive for Longer Instructional Day:			
School Districts	6	Yes	
County offices of education	3	Not applicable	
Community Day Schools	9	N/A	(2)
Morgan Hart Class Size Reduction Program	7	Not applicable	(1)
Instructional Materials:			
General requirements	12	1	(3)
K-8	1	Not applicable	(1)
9-12	1	Not applicable	(1)
Ratios of Administrative Employees to Teachers	1	Yes	
Classroom Teacher Salaries	1	Yes	
Early Retirement Incentive	4	Not applicable	

Description	Procedures in Panel's Audit Guide	Procedures Performed	
GANN Limit Calculation	1	Yes	
School Accountability Report Card	3	Yes	
Mathematics and Reading Professional Development	4	Not applicable	(1)
Class Size Reduction:			
General Requirements	7	Yes	
Option One Classes	3	Yes	
Option Two Classes	4	Not applicable	
Only One School Serving K-3	4	Not applicable	
After School Education and Safety Program:			
General Requirements	4	Yes	
After School	4	Yes	
Before School	5	Not applicable	
Contemporaneous Records of Attendance, for			
Charter Schools	1	Not applicable	
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	Not applicable	
Mode of Instruction, for Charter School	1		
Determination of Funding for Nonclassroom-Based Instruction, for Charter Schools	3	Not applicable	
Annual Instructional Minutes – Classroom Based, for charter schools	3	Not applicable	

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 the District's responses and, accordingly, we express no opinion on them. 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 10, 2009

- (1) This program is not required to be audited per flexibility provisions of SBx3 4.
- (2) The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19825 procedure (e) and (g) were not performed.
- (3) The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19828.3 procedure (b), (c) and (e) were not performed.



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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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 programs for the fiscal year ended June 30, 2009. Novato Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the Novato Unified School District's management. Our responsibility is to express an opinion on the Novato Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Novato Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination on the Novato Unified School District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the fiscal year ended June 30, 2009.

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 10, 2009

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NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2009

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:	<u>Unqualified</u>
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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>84.010</u>	<u>Title I</u>
<u>10.553, 10.555, 10.559</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$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:	<u>Qualified</u>
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Section II - Financial Statement Findings

FINDING 2009-1
Internal Control
30000

Condition:

During our internal control observation and walk-through of the Novato High School ASB cash receipt and disbursements processes; we noted that the lack of oversight and controls in the cash receipt and disbursement processes create a significant deficient environment to properly safeguard its assets and to assure its funds are not misappropriated. The following weaknesses in ASB cash receipt and disbursement systems were noted:

- 1) Cash receipts did not have sufficient supporting documentation and audit trail.
- 2) Lack of segregation of duties and oversight of the ASB duties. The ASB clerk receives, records, and deposits all cash receipts.
- 3) Pre-numbered receipts are not utilized for all cash receipts including yearbook sales.
- 4) Student Council Minutes are not signed by the officers and advisors.
- 5) Not all cash disbursements have supporting invoices.

Effect:

Lack of internal control and oversight can create an environment that contributes to errors in accounting and a potential misappropriation of funds.

Cause:

No oversight on part of the ASB advisors and staff.

Recommendation:

We recommend that controls and independent oversight be implemented in order to properly safeguard ASB assets and funds.

LEA Action Plan:

The district has implemented a control process where district staff will review site ASB records to ensure that internal control procedures are followed. Current budget restrictions prevent additional staffing to segregate ASB duties at school sites.

FINDING 2009-2
Food Service
30000

Condition:

During our internal control observation and walk-through of the Food Service cash receipt processes; a control deficiency exists whereby all cashiers at the schools can make voids, edits, or adjust a transaction without any oversight, review or approval. Additionally, if a cashier uses an "Open Student" account when a sales transaction is entered, the transaction can be deleted prior to posting to the system, thereby leaving no audit trail that the transaction existed since the deletion of a transaction is not recorded in any register. No reconciliation is performed between the food sales and cash sales. The lack of oversight and controls with the voids and the usage of "Open Student" account, in the cash receipt processes create a significant deficient environment to properly safeguard its assets and to assure its funds are not misappropriated.

Effect:

Lack of internal control and oversight can create an environment that contributes to errors in accounting and a potential misappropriation of funds.

Cause:

The District was not aware of the weakness in internal control.

Recommendation:

We recommend that controls and independent oversight be implemented in order to properly safeguard its assets and funds.

LEA Action Plan:

The district is currently working with the vendor of our point of sale system to implement restrictions to deleting transactions. Management has implemented reconciliation and review procedures for daily transactions to ensure funds are not misappropriated.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2009

Section III – Federal award findings and questioned costs

There were no federal award findings.

Section IV – State award findings and questioned costs

FINDING 2009-3
School Accountability Report Card
40000

Criteria:

The information reported in the School Accountability Report Card as required by Education Code Section 33126 be reported accurately pursuant to Education Code Section 14501(b)(3).

Condition:

During the testing of School Accountability Report Card (SARC) for the District, the school facility conditions evaluation instrument was not available to support the school facility condition reported on the School Accountability Report Cards.

Effect:

The District is not in compliance with Education Code Section 33216 and Education Code 14501.

Cause:

No oversight by the staff preparing the reports.

Questioned Costs:

N/A.

Recommendation:

We recommend the District prepare the SARCs report as required by the Education Code 33126 and that the facility condition reported agrees with the school facility instrument as stipulated per Education code 14501.

LEA Action Plan:

Management has implemented oversight procedures to ensure the proper facility conditions evaluation instrument is utilized.

Section I - 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.

Current Status:

Implemented

**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.

Current Status:

See current year finding 2009-1

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.

Current Status:

See current year finding 2009-1

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.

Current Status:

Implemented

NOVATO UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR FISCAL YEAR AUDIT FINDINGS
June 30, 2009

Section II – Federal award findings and questioned costs

There were no federal award findings.

Section III – 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.

Current Status:

Implemented