

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

**AUDIT REPORT  
June 30, 2010**



# NOVATO UNIFIED SCHOOL DISTRICT

## TABLE OF CONTENTS

June 30, 2010

### FINANCIAL SECTION

Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	24
Statement of Net Assets – Proprietary Funds.....	25
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds .....	26
Statement of Cash Flows – Proprietary Funds .....	27
Statement of Fiduciary Net Assets – Fiduciary Funds .....	29
Notes to Basic Financial Statements .....	30

### REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedules:	
General Fund .....	53
Deferred Maintenance Fund .....	54
Schedule of Funding Progress for Post-employment Benefits .....	55

### SUPPLEMENTARY INFORMATION

Combining and Individual Fund Financial Statements and Schedules:	
Balance Sheet – Nonmajor Special Revenue Fund.....	57
Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Special Revenue Fund.....	58
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Nonmajor Special Revenue Fund.....	59
Combining Balance Sheet – Nonmajor Debt Service Funds .....	60
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Debt Service Funds.....	61
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Nonmajor Debt Service Funds.....	62
Balance Sheet – Nonmajor Capital Projects Fund.....	64
Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Capital Projects Fund .....	65
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Nonmajor Capital Projects Fund.....	66

**NOVATO UNIFIED SCHOOL DISTRICT**

**TABLE OF CONTENTS**

June 30, 2010

**SUPPLEMENTARY INFORMATION (Continued)**

Organization.....	67
Schedule of Average Daily Attendance .....	68
Schedule of Instructional Time .....	69
Schedule of Financial Trends and Analysis .....	70
Schedule of Charter Schools .....	71
Schedule of Expenditures of Federal Awards.....	72
Note to the Schedule of Expenditures of Federal Awards .....	73
Reconciliation of Unaudited Actuals Report with Audited Financial Statements .....	74
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 <i>Government Auditing Standards</i> .....	76
Auditor’s Report on State Compliance.....	78
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.....	80

**FINDINGS AND RECOMMENDATIONS SECTION**

Schedule of Audit Findings and Questioned Costs .....	83
Summary Schedule of Prior Fiscal Year Audit Findings .....	90

## **FINANCIAL SECTION**





**PARTNERS**  
RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400  
BEVERLY HILLS, CA 90210  
TEL: 310.273.2745  
FAX: 310.273.1689  
[www.mlhcpas.com](http://www.mlhcpas.com)

## **INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Novato Unified School District  
Novato, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Novato Unified School District (District) as of and for the fiscal year ended June 30, 2010, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Novato Unified School District as of June 30, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2010, 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.

As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2009, the Novato Unified School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*, GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*, GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and GASB Statement No. 58 – *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14, the budgetary comparison schedule on pages 54 through 55, and the schedule of funding progress for post-employment benefits other than pensions on page 56, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing

the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Novato Unified School District's basic financial statements. The accompanying combining and individual fund financial statements and budgetary schedules, financial, and statistical information listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements of the Novato Unified School District. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The accompanying combining and individual fund financial statements and budgetary schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Moss, Levy & Hartzheim*

MOSS, LEVY & HARTZHEIM, LLP  
Beverly Hills, California  
December 15, 2010



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, 2010. 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.

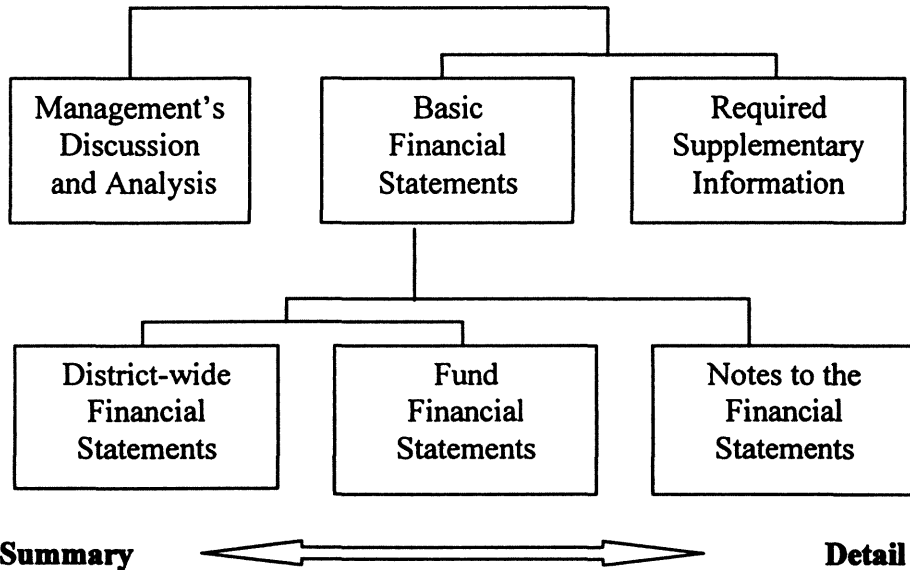
### **FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased by 6.2% from 2008-09 to 2009-10, while expenditures decreased 1.6% for the same period. These percentages compare to an increase of 0.75% for revenue and a decrease of 0.27% for expenditures from 2007-08 to 2008-09.
- General Fund revenues and other sources exceeded expenditures and other uses by \$672,837; the District ended the year with available reserves of \$7.9 million which met the State recommended reserve level of 3% of total general fund expenditures, transfers out, and other uses (total outgo).
- 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 \$186.8 million. After depreciation, the June 30, 2010 book value for fixed assets totaled \$110.5 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 2009-10?"

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, Deferred Maintenance 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 Cafeteria Enterprise 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 \$67.6 million at June 30, 2010. Of this amount \$13.5 million was unrestricted. Investments in capital assets, net of related debt, account for \$37.4 million of the total net assets. A comparative analysis of government-wide data is presented in Table 1.

**(Table 1)**  
**Comparative Statement of Net Assets**

	2009-10			2008-09
	Governmental Activities	Business- Type Activities	Total	Total
<b>Assets</b>				
Cash and investments	\$ 50,110,436	\$ 88,292	\$ 50,198,728	\$ 52,869,928
Receivables	11,279,059	210,748	11,489,807	11,179,882
Internal balances	194,586	-194,586		
Stores and prepaid expenses	78,349	25,201	103,550	160,507
Other assets	308,810		308,810	307,754
Capital assets (net of depreciation)	<u>110,553,692</u>	<u>49,851</u>	<u>110,603,543</u>	<u>113,230,436</u>
Total Assets	<u>\$ 172,524,932</u>	<u>\$ 179,506</u>	<u>\$ 172,704,438</u>	<u>\$ 177,748,507</u>
<b>Liabilities</b>				
Accounts payable and other current liabilities	\$ 5,521,769	\$ 6,181	\$ 5,527,950	\$ 5,816,301
Deferred revenue	255,020	3,757	258,777	602,824
Long-term liabilities	<u>99,345,210</u>		<u>99,345,210</u>	<u>100,426,685</u>
Total Liabilities	<u>\$ 105,121,999</u>	<u>\$ 9,938</u>	<u>\$ 105,131,937</u>	<u>\$ 106,845,810</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	\$ 37,356,520	\$ 49,851	\$ 37,406,371	\$ 42,475,765
Restricted	16,679,605		16,679,605	14,216,831
Unrestricted	<u>13,366,808</u>	<u>119,717</u>	<u>13,486,525</u>	<u>14,210,101</u>
Total Net Assets	<u>\$ 67,402,933</u>	<u>\$ 169,568</u>	<u>\$ 67,572,501</u>	<u>\$ 70,902,697</u>

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

The District's net asset position decreased 3.3 million this fiscal year. (See Table 2)

**Governmental Activities**

The District's expenses for instructional and pupil services represented 68.0 percent of total expenses. The purely administrative activities of the District accounted for just 5.0 percent of total costs. The remaining 27.0 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**

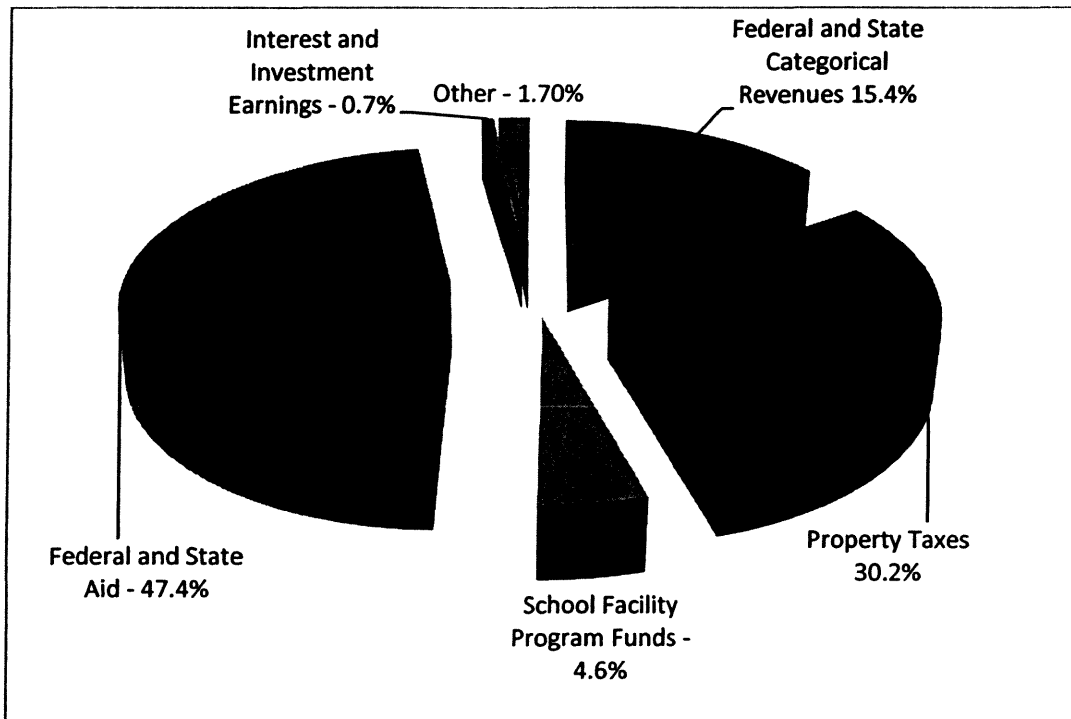
	2009-10			2008-09
	Governmental Activities	Business- Type Activities	Total	Total
<b>Revenues</b>				
Program revenues	\$ 13,916,673	\$ 2,073,845	\$ 15,990,518	\$ 35,166,395
<b>General revenues</b>				
Taxes levied for general purpose	11,124,077		11,124,077	12,017,634
Taxes levied for debt services	5,370,541		5,370,541	5,285,974
Taxes levied other purposes	4,516,316		4,516,316	3,019,546
Federal and state aid not restricted to specific purposes	32,941,688		32,941,688	34,177,672
Interest and investment earnings	468,883	3,276	472,159	783,332
Miscellaneous and internal transfers	1,218,559		1,218,559	1,503,901
<b>Total Revenues</b>	<b>\$ 69,556,737</b>	<b>\$ 2,077,121</b>	<b>\$ 71,633,858</b>	<b>\$ 91,954,454</b>
<b>Expenses</b>				
Instruction	\$ 37,816,092	\$	\$ 37,816,092	\$ 37,715,866
Instruction related services	7,268,694		7,268,694	7,913,119
Pupil support services	4,455,128	1,951,901	6,407,029	6,220,411
General administration	3,618,975	91,783	3,710,758	4,245,552
Plant services	13,247,734		13,247,734	14,657,412
Other	6,513,747		6,513,747	6,628,308
<b>Total Expenses</b>	<b>\$ 72,920,370</b>	<b>\$ 2,043,684</b>	<b>\$ 74,964,054</b>	<b>\$ 77,380,668</b>
<b>Change in Net Assets</b>	<b>\$ (3,363,633)</b>	<b>\$ 33,437</b>	<b>\$ (3,330,196)</b>	<b>\$ 14,573,786</b>

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

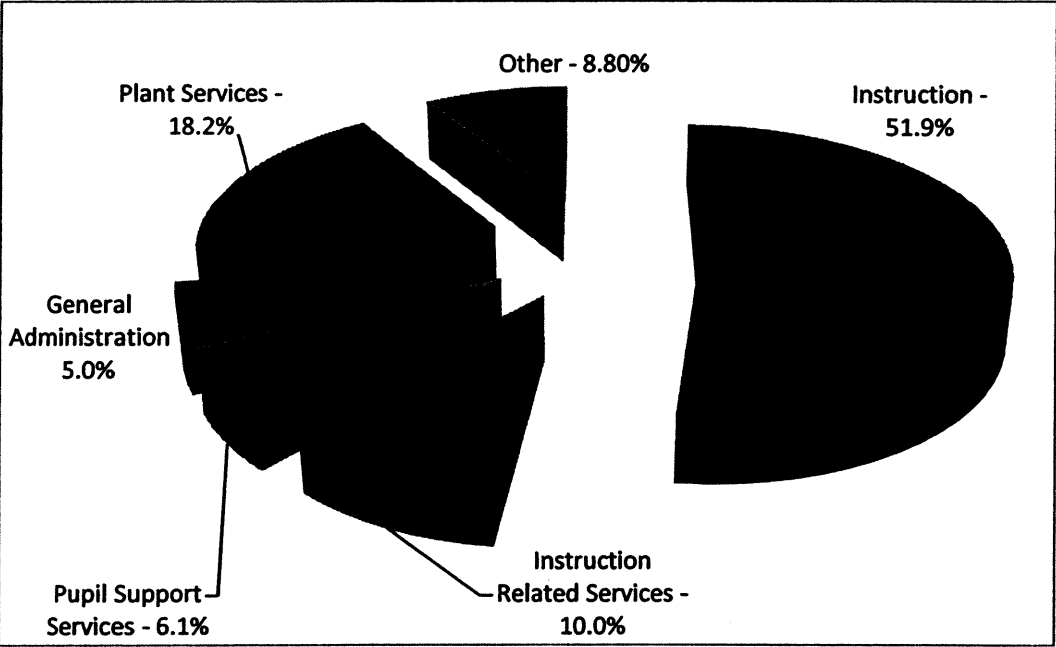
**Governmental Activities (Concluded)**

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was \$72.9 million. The amount that our local taxpayers financed for these activities through property taxes was \$21.0 million. Federal and State aid not restricted to specific purposes totaled \$32.9 million. State and Federal Categorical revenue totaled over \$10.7 million. (See Figure 1)

**Sources of Revenue for the 2009-10 Fiscal Year-Governmental Activities  
Figure 1**



**Expenses for the Fiscal Year 2009-10 - 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 \$57.5 million, a decrease of \$1.9 million from the previous fiscal year's combined ending balance of \$59.4 million. This decrease is mainly reflected in the Other Governmental Funds. The General Fund balance increased \$0.7 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 \$2.1 million.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

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

By the end of the 2009-10 fiscal year, the District had invested \$186.8 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 \$110.5 million at June 30, 2010, which is a decrease of \$2.6 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, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>Difference</u>	<u>Total Percent Change</u>
Land	\$ 8,431,737	\$ 8,431,737	\$ 0	
Site Improvement	24,564,382	24,128,471	435,911	1.8%
Buildings	148,265,918	145,769,350	2,496,568	1.7%
Machinery & Equipment	3,543,243	3,197,190	346,053	10.8%
Work In Progress	2,009,467	425,527	1,583,940	372.2%
<b>TOTAL</b>	<b>\$ 186,814,747</b>	<b>\$ 181,952,275</b>	<b>\$4,862,472</b>	<b>2.7%</b>

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 courtyard at Hamilton Elementary School  
Completion of District-Wide irrigation system  
Completion of phase III modernization at Hill Middle School

## **CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)**

### **Long-Term Debt**

At June 30, 2010, the District had \$99.2 million in long-term debt outstanding.

Table 4  
Comparative Schedule of Outstanding Debt  
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Certificates of Participation	\$ 725,000	\$ 940,000
General Obligation Bonds	95,980,000	96,665,000
General Obligation Bond Premium	1,949,628	2,066,544
Other Post Employment Benefits	(105,685)	(92,000)
Capital Lease Obligations	74,332	145,880
Compensated Absences	416,250	409,261
Claims Payable	200,000	200,000
<b>TOTAL</b>	<b>\$99,239,525</b>	<b>\$ 100,334,685</b>

The long-term debt paid by the District was approximately \$1.1 million in 2010.

### **FACTORS BEARING ON THE DISTRICT'S FUTURE**

The state, national, and world financial crisis is still 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 2010/2011 fiscal year, the District expects to receive a -.39% COLA with a 17.963% deficit. It is anticipated that further reductions in 2010/2011 and future years funding will be forthcoming and the District is planning accordingly.

Although the District experienced a slight decline in enrollment in 2009/2010, enrollment has once again increased in the 2010/2011 fiscal year. Since student enrollment and attendance are primary factors in the computation of most funding formulas for public schools in the State of California, declining enrolment can have a significant impact on school district revenues. The District will continue to diligently monitor its student enrollment and attendance practices to help ensure fiscal solvency.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need

**additional financial information, please contact the Chief Financial Officer's office at the Novato Unified School District, 1015 Seventh Street, Novato, CA 94945.**

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
June 30, 2010

<b>Assets</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Totals</b>
Cash in County treasury	\$ 49,816,237	\$ 88,292	\$ 49,904,529
Cash on hand and in banks	15,593		15,593
Revolving cash fund	5,216		5,216
Cash and investments with fiscal agents	273,390		273,390
Accounts receivable	11,279,059	210,748	11,489,807
Internal balances	194,586	(194,586)	
Inventories, at cost	77,749	25,201	102,950
Prepaid items	600		600
Deferred charges, net of accumulated amortization	203,125		203,125
Net OPEB assets	105,685		105,685
Land	8,431,737		8,431,737
Construction in progress	2,009,467		2,009,467
Site improvements	24,564,382		24,564,382
Buildings and improvements	148,265,918		148,265,918
Machinery and equipment	3,543,243	74,776	3,618,019
Less: accumulated depreciation	(76,261,055)	(24,925)	(76,285,980)
<b>Total Assets</b>	<b>172,524,932</b>	<b>179,506</b>	<b>172,704,438</b>
<b>Liabilities</b>			
Accounts payable	3,594,893	6,181	3,601,074
Interest payable	1,926,876		1,926,876
Deferred revenue	255,020	3,757	258,777
Long-term liabilities:			
Due within one year	1,443,686		1,443,686
Due in more than one year	97,901,524		97,901,524
<b>Total Liabilities</b>	<b>105,121,999</b>	<b>9,938</b>	<b>105,131,937</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	37,356,520	49,851	37,406,371
Restricted for:			
Capital projects	11,881,279		11,881,279
Debt service	1,730,233		1,730,233
Educational programs	3,068,093		3,068,093
Unrestricted	13,366,808	119,717	13,486,525
<b>Total net assets</b>	<b>\$ 67,402,933</b>	<b>\$ 169,568</b>	<b>\$ 67,572,501</b>

See notes to basic financial statements

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2010

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Instruction	\$ 37,816,092	\$ 70,762	\$ 7,374,017	\$ 3,190,226
Instruction-related services:				
Instructional supervision and administration	1,869,883	420	595,301	
Instructional library, media, and technology	782,209	28,014	96,526	
School site administration	4,616,602	2,157	58,405	
Pupil services:				
Home-to-school transportation	2,522,186	250,620	960,930	
Food services	8,277		1,205	
All other pupil services	1,924,665	26,038	500,211	
General administration:				
Centralized data processing	690,661		1,993	
All other general administration	2,928,314	11,425	395,223	
Plant services	13,247,734	292	3,502	
Ancillary services	476,816	15,974	57,809	
Community services	13,502	515	1,546	
Interest on long-term debt	4,522,626			
Other outgo	1,500,803	67,052	206,510	
<b>Total governmental activities</b>	<b>72,920,370</b>	<b>473,269</b>	<b>10,253,178</b>	<b>3,190,226</b>
<b>Business-type activities</b>				
Food services	2,043,684	630,685	1,443,160	
<b>Total business-type activities</b>	<b>2,043,684</b>	<b>630,685</b>	<b>1,443,160</b>	
<b>Total government</b>	<b>\$ 74,964,054</b>	<b>\$ 1,103,954</b>	<b>\$ 11,696,338</b>	<b>\$ 3,190,226</b>

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  
  
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
\$ (27,181,087)	\$ -	\$ (27,181,087)
(1,274,162)		(1,274,162)
(657,669)		(657,669)
(4,556,040)		(4,556,040)
(1,310,636)		(1,310,636)
(7,072)		(7,072)
(1,398,416)		(1,398,416)
(688,668)		(688,668)
(2,521,666)		(2,521,666)
(13,243,940)		(13,243,940)
(403,033)		(403,033)
(11,441)		(11,441)
(4,522,626)		(4,522,626)
(1,227,241)		(1,227,241)
<u>(59,003,697)</u>		<u>(59,003,697)</u>
	30,161	30,161
	30,161	30,161
<u>(59,003,697)</u>	30,161	<u>(58,973,536)</u>
11,124,077		11,124,077
5,370,541		5,370,541
4,516,316		4,516,316
32,941,688		32,941,688
468,883	3,276	472,159
2,400		2,400
1,216,159		1,216,159
<u>55,640,064</u>	<u>3,276</u>	<u>55,643,340</u>
(3,363,633)	33,437	(3,330,196)
<u>70,766,566</u>	<u>136,131</u>	<u>70,902,697</u>
<u>\$ 67,402,933</u>	<u>\$ 169,568</u>	<u>\$ 67,572,501</u>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**June 30, 2010**

	General Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund
<b>Assets</b>				
Cash in County treasury	\$ 6,692,494	\$ 1,272,672	\$ 26,316,480	\$ 6,903,259
Cash on hand and in banks	15,593			
Cash in revolving fund	5,216			
Cash and investments with fiscal agents				
Accounts receivable	11,278,145			
Due from other funds	1,471,215		147	
Inventory, at cost	77,749			
Prepaid items	600			
<b>Total assets</b>	<b><u>\$ 19,541,012</u></b>	<b><u>\$ 1,272,672</u></b>	<b><u>\$ 26,316,627</u></b>	<b><u>\$ 6,903,259</u></b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 2,587,017	\$ 2,702	\$ 987,964	\$ 14,218
Due to other funds	77,327	1,256,646		
Deferred revenue	255,020			
<b>Total liabilities</b>	<b><u>2,919,364</u></b>	<b><u>1,259,348</u></b>	<b><u>987,964</u></b>	<b><u>14,218</u></b>
<b>Fund balances:</b>				
<b>Reserved fund balances:</b>				
Reserved for revolving fund	5,216			
Reserved for inventory	77,749			
Reserved for prepaid items	600			
Reserved for legally restricted balance	884,036			
Reserved for debt service				
<b>Designated fund balances:</b>				
Designated for economic uncertainties	1,832,971			
Other designations	7,742,740	13,324	25,328,663	6,889,041
<b>Undesignated reported in:</b>				
General fund	6,078,336			
Special revenue funds				
Capital projects fund				
<b>Total fund balances</b>	<b><u>16,621,648</u></b>	<b><u>13,324</u></b>	<b><u>25,328,663</u></b>	<b><u>6,889,041</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 19,541,012</u></b>	<b><u>\$ 1,272,672</u></b>	<b><u>\$ 26,316,627</u></b>	<b><u>\$ 6,903,259</u></b>

See notes to basic financial statements



County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
\$ 3,195,774	\$ 5,206,744	\$ 49,587,423
		15,593
		5,216
	273,390	273,390
		11,278,145
	4,325	1,475,687
		77,749
		600
<u>\$ 3,195,774</u>	<u>\$ 5,484,459</u>	<u>\$ 62,713,803</u>
\$ -	\$ 683	\$ 3,592,584
	19,983	1,353,956
		255,020
	20,666	5,201,560
		5,216
		77,749
		600
		884,036
	3,657,109	3,657,109
3,195,774		1,832,971
		43,169,542
		6,078,336
	10,220	10,220
	1,796,464	1,796,464
<u>3,195,774</u>	<u>5,463,793</u>	<u>57,512,243</u>
<u>\$ 3,195,774</u>	<u>\$ 5,484,459</u>	<u>\$ 62,713,803</u>

**THIS PAGE INTENTIONALLY LEFT BLANK**

**NOVATO UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
June 30, 2010**

---

Total fund balances - governmental funds \$ 57,512,243

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	\$	186,814,747	
Accumulated depreciation		<u>(76,261,055)</u>	
Net			110,553,692

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	\$	(1,949,628)	
Unamortized deferred charges		<u>203,125</u>	(1,746,503)

In governmental funds, Net OPEB asset has not been included as financial resources. 105,685

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. (1,926,876)

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	\$	(95,980,000)	
Certificates of participation		(725,000)	
Capital leases		(74,332)	
Compensated absences		<u>(416,250)</u>	
Total			(97,195,582)

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) 100,274

Total net assets, governmental activities \$ 67,402,933

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, 2010**

	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>
<b>Revenues:</b>				
Revenue limit sources:				
State apportionments	\$ 25,856,109	\$ -	\$ -	\$ -
Local sources	11,028,819			
Federal	3,739,227			
Other state	8,670,819			
Other local	<u>11,220,239</u>	<u>13,325</u>	<u>272,374</u>	<u>156,150</u>
Total revenues	<u>60,515,213</u>	<u>13,325</u>	<u>272,374</u>	<u>156,150</u>
<b>Expenditures:</b>				
Certificated salaries	30,077,589			
Classified salaries	9,971,380		251,254	
Employee benefits	9,459,882		70,442	
Books and supplies	2,039,066	2,150	23,142	31,851
Contracted services and other operating expenditures	7,495,030	54,777	196	83,538
Capital outlay	423,892	146,054	3,445,676	472,001
Other outgo	1,408,784			44,860
Debt service:				
Principal	71,548			
Interest and fiscal charges	<u>5,678</u>			
Total expenditures	<u>60,952,849</u>	<u>202,981</u>	<u>3,790,710</u>	<u>632,250</u>
Excess of revenues over (under) expenditures	<u>(437,636)</u>	<u>(189,656)</u>	<u>(3,518,336)</u>	<u>(476,100)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	1,256,646			
Transfers out	<u>(146,173)</u>	<u>(1,256,646)</u>		<u>(214,863)</u>
Total other financing sources (uses)	<u>1,110,473</u>	<u>(1,256,646)</u>		<u>(214,863)</u>
Net change in fund balances	672,837	(1,446,302)	(3,518,336)	(690,963)
Fund balances, July 1, 2009	<u>15,948,811</u>	<u>1,459,626</u>	<u>28,846,999</u>	<u>7,580,004</u>
Fund balances, June 30, 2010	<u>\$ 16,621,648</u>	<u>\$ 13,324</u>	<u>\$ 25,328,663</u>	<u>\$ 6,889,041</u>

See notes to basic financial statements

County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 25,856,109
		11,028,819
		3,739,227
3,190,226	55,663	11,916,708
156	5,353,630	17,015,874
<u>3,190,382</u>	<u>5,409,293</u>	<u>69,556,737</u>
	103,793	30,181,382
		10,222,634
	14,086	9,544,410
	2,296	2,098,505
	37,761	7,671,302
	101,327	4,588,950
	5,221	1,458,865
	900,000	971,548
	4,663,824	4,669,502
	<u>5,828,308</u>	<u>71,407,098</u>
<u>3,190,382</u>	<u>(419,015)</u>	<u>(1,850,361)</u>
	288,181	1,544,827
		<u>(1,617,682)</u>
	<u>288,181</u>	<u>(72,855)</u>
3,190,382	(130,834)	(1,923,216)
5,392	5,594,627	59,435,459
<u>\$ 3,195,774</u>	<u>\$ 5,463,793</u>	<u>\$ 57,512,243</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, 2010**

---

Total net change in fund balances - governmental funds	\$ (1,923,216)
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 (\$7,484,380) exceed additions to capital outlay of \$4,862,472 in the period.	(2,621,908)
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.	971,548
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:	42,589
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:	(6,989)
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:	13,685
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 activities in the statement of activities. The net increase in the internal service fund was:	<u>56,371</u>
Change in net assets of governmental activities	<u>\$ (3,363,633)</u>

See notes to basic financial statements

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2010**

	Enterprise Fund	Governmental Activities Internal Service Fund
	Cafeteria Enterprise Fund	Self-Insurance Fund
<b>Assets</b>		
Current assets:		
Cash in County treasury	\$ 88,292	\$ 228,814
Accounts receivable	210,748	914
Due from other funds		72,855
Inventory, at cost	25,201	
<b>Total current assets</b>	<b>324,241</b>	<b>302,583</b>
Non-current assets:		
Capital assets	74,776	
Less: accumulated depreciation	(24,925)	
<b>Total non-current assets</b>	<b>49,851</b>	
<b>Total assets</b>	<b>374,092</b>	<b>302,583</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	6,181	2,309
Due to other funds	194,586	
Deferred revenue	3,757	
<b>Total current liabilities</b>	<b>204,524</b>	<b>2,309</b>
Noncurrent liabilities:		
Claims payable		200,000
<b>Total noncurrent liabilities</b>		<b>200,000</b>
<b>Total liabilities</b>	<b>204,524</b>	<b>202,309</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	49,851	
Unrestricted	119,717	100,274
<b>Total net assets</b>	<b>\$ 169,568</b>	<b>\$ 100,274</b>

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, 2010

	Enterprise Fund <u>Cafeteria Enterprise Fund</u>	Governmental Activities Internal <u>Service Fund Self-Insurance Fund</u>
<b>Operating Revenues:</b>		
Federal revenue	\$ 1,297,141	\$ -
Other state revenue	123,457	
Other local revenue	<u>653,247</u>	<u>79,622</u>
Total revenues	<u>2,073,845</u>	<u>79,622</u>
<b>Operating Expenses:</b>		
Classified salaries	833,139	
Employee benefits	266,038	
Books and supplies	802,851	52,228
Contracted services and other operating expenses	49,873	43,878
Depreciation	4,985	
Other outgo	<u>86,798</u>	
Total expenses	<u>2,043,684</u>	<u>96,106</u>
Operating income (loss)	<u>30,161</u>	<u>(16,484)</u>
<b>Non-Operating Revenues (Expenses):</b>		
Interest income	<u>3,276</u>	
Total non-operating revenues (expenses)	<u>3,276</u>	
Income (loss) before transfers	33,437	(16,484)
Transfer in		<u>72,855</u>
Change in net assets	33,437	56,371
Net assets, July 1, 2009	<u>136,131</u>	<u>43,903</u>
Net assets, June 30, 2010	<u>\$ 169,568</u>	<u>\$ 100,274</u>

See notes to basic financial statements



**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For Fiscal Year Ended June 30, 2010

	Enterprise Fund	Governmental Activities Internal Service Fund
	Cafeteria Enterprise Fund	Self-Insurance Fund
	<u>Fund</u>	<u>Fund</u>
Cash flows from operating activities:		
Cash received from Federal and State nutrition programs	\$ 1,272,475	\$ -
Cash received from customers	650,386	
Cash received from insurance premiums		78,708
Cash paid for salaries and benefits	(1,099,177)	
Cash paid for books and supplies	(1,049,919)	(52,228)
Cash paid for contracted services and other operating expenses	(54,117)	(61,097)
Cash paid for other outgo	(86,798)	
	<u>(367,150)</u>	<u>(34,617)</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities:		
Interest received	3,276	
	<u>3,276</u>	
Net cash provided (used) by investing activities		
Cash flows from noncapital and related financing activities:		
Transfers from other funds		72,855
		<u>72,855</u>
Net cash provided (used) by noncapital and related financing activities		72,855
	<u>(363,874)</u>	<u>38,238</u>
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents at July 1, 2009	452,166	190,576
Cash and cash equivalents at June 30, 2010	<u>\$ 88,292</u>	<u>\$ 228,814</u>
Reconciliation to Statement of Net Assets:		
Cash in County treasury	\$ 88,292	\$ 228,814
	<u>\$ 88,292</u>	<u>\$ 228,814</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, 2010**

---

	Enterprise Fund <u>Cafeteria Enterprise Fund</u>	Governmental Activities Internal Service Fund <u>Self-Insurance Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	\$ 30,161	\$ (16,484)
Adjustments to reconcile operating income (loss) to net cash provided (used)		
Depreciation	4,985	
(Increase) decrease in operating assets:		
Accounts receivable	(148,123)	(914)
Inventory	(741)	
Due from other funds	2,367	
Increase (decrease) in operating liabilities:		
Accounts payable	(3,503)	(17,219)
Deferred revenue	(2,861)	
Due to other funds	<u>(249,435)</u>	
Net cash provided (used) by operating activities	<u>\$ (367,150)</u>	<u>\$ (34,617)</u>

See notes to basic financial statements

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
June 30, 2010

---

	Agency Funds				Totals
	CSIS Fund	Payroll Revolving Fund	Novato Public Access TV Fund	Student Body Funds	
<b>Assets</b>					
Cash in County treasury	\$ 22	\$ 19,057	\$ 10,533	\$ -	\$ 29,612
Cash on hand and in banks				160,467	160,467
Accounts receivable		1,719	41,276		42,995
<b>Total assets</b>	<b>\$ 22</b>	<b>\$ 20,776</b>	<b>\$ 51,809</b>	<b>\$ 160,467</b>	<b>\$ 233,074</b>
<b>Liabilities</b>					
Accounts payable	\$ 22	\$ 20,776	\$ 51,809	\$ -	\$ 72,607
Due to student groups				160,467	160,467
<b>Total liabilities</b>	<b>\$ 22</b>	<b>\$ 20,776</b>	<b>\$ 51,809</b>	<b>\$ 160,467</b>	<b>\$ 233,074</b>

See notes to basic financial statements

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Accounting Policies**

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

**B. Reporting Entity**

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

**C. Basis of Presentation**

*Government-wide Financial Statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. Internal Service Fund activity is eliminated to avoid double counting 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 no conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). For proprietary fund type activities, the District has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

*Revenues – exchange and non-exchange transactions:*

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "Available" means collectible within the current period or within 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 has been satisfied. Grants and entitlements received before eligibility requirements are 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 Deferred Maintenance Fund is used for the purpose of major repairs or replacement of the District's property.

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 one nonmajor special revenue fund:

The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

**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 Funds** are 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.

**Internal Service Funds** are 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 non-interest bearing accounts are entirely insured by the FDIC). 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 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)**

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

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

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

GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets

For the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets". This Statement is effective for financial statements for periods beginning after June 15, 2009. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments

For the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This Statement is effective for financial statements for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 57 – OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans

For the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". This Statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 58 – Accounting and Financial Reporting for Chapter 9 Bankruptcies

For the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies". This Statement is effective for reporting periods beginning after June 15, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The implementation of this Statement did not have an effect on these financial statements.

**NOTE 2 - CASH AND INVESTMENTS**

The District's cash and investments as of June 30, 2010, consisted of the following:

Cash on hand and in banks	\$ 181,276
Cash and investments with County Treasurer	49,934,141
Cash and investments with fiscal agents	<u>273,390</u>
 Total cash and investments	 <u><u>\$ 50,388,807</u></u>

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

Cash in County Treasury, statement of net assets	\$ 49,904,529
Cash on hand and in banks, statement of net assets	15,593
Cash in revolving fund, statement of net assets	5,216
Cash and investments with fiscal agents, statement of net assets	273,390
Cash in County Treasury, statement of fiduciary net assets	29,612
Cash on hand and in banks, statement of fiduciary net assets	<u>160,467</u>
 Total cash and investments	 <u><u>\$ 50,388,807</u></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 (\$49,934,141) as of June 30, 2010. The fair value of this pool as of that date, as provided by the plan sponsor, was \$49,934,141. 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 (\$176,060), as of June 30, 2010, and in the revolving fund (\$5,216) are insured up to \$250,000 by the Federal Depository Insurance Corporation (all non-interest bearing accounts are entirely insured by the FDIC). 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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 Held by COP Trustees:	\$ 49,934,141	\$ 49,934,141	\$ -	\$ -	\$ -
First American Treasury Obligation Money Market Fund	273,390	273,390			
<b>Total</b>	<b>\$ 50,207,531</b>	<b>\$ 50,207,531</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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 Held by COP Trustees:	\$ 49,934,141	N/A	\$ -	\$ -	\$ -	\$ -	\$ 49,934,141
First American Treasury Obligation Money Market Fund	273,390	Aam		273,390			
<b>Total</b>	<b>\$ 50,207,531</b>		<b>\$ -</b>	<b>\$ 273,390</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 49,934,141</b>

Concentration of Credit Risk

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



**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, 2010, 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	Expenditures
<b>Major Governmental Funds</b>	
Deferred Maintenance Fund	
Contracted services and other operating expenditures	\$ 9,116
<b>Nonmajor Governmental Funds</b>	
Adult Education Fund	
Certificated salaries	19,615
Contracted services and other operating expenditures	47
Bond Interest and Redemption Fund	
Debt Service:	
Principal	214,863
Interest and fiscal charges	1
Debt Service Fund	
Debt Service:	
Principal	137
Special Reserve for Capital Outlay Projects Fund	
Contracted services and other operating expenditures	27,349

**NOVATO UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

---

**NOTE 4 - RECEIVABLES**

Receivables as of June 30, 2010, consist of the following:

	General Fund	Self-Insurance Fund	Cafeteria Enterprise Fund	Fiduciary Funds
Federal Government				
Categorical Aid Programs	\$ 1,169,336	\$ -	\$ 191,493	\$ -
State Government				
Categorical Aid Programs	1,779,283		12,896	
Lottery	215,817			
Revenue Limit	7,289,908			
Local Government				
Fees	41,710			
Miscellaneous	782,091	914	6,359	42,995
<b>Total Accounts Receivable</b>	<b>\$ 11,278,145</b>	<b>\$ 914</b>	<b>\$ 210,748</b>	<b>\$ 42,995</b>

**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, 2010, are as follows:

Funds	Interfund Receivables	Interfund Payables
Major Governmental Funds:		
General Fund	\$ 1,471,215	\$ 77,327
Building Fund	147	
Deferred Maintenance		1,256,646
Major Enterprise Fund:		
Cafeteria Enterprise Fund		194,586
Nonmajor Governmental Fund:		
Adult Education Fund	4,325	19,983
Internal Service Fund:		
Self-Insurance Fund	72,855	
<b>Totals</b>	<b>\$ 1,548,542</b>	<b>\$ 1,548,542</b>

**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 2009-2010 fiscal year, are as follows:

Funds	Transfers In	Transfers Out
<b>Major Governmental Funds:</b>		
General Fund	\$ 1,256,646	\$ 146,173
Deferred Maintenance Fund		1,256,646
Capital Facilities Fund		214,863
<b>Nonmajor Governmental Funds:</b>		
Adult Education Fund	73,318	
Bond Interest and Redemption Fund	214,863	
<b>Internal Service Fund:</b>		
Self-Insurance Fund	<u>72,855</u>	
<b>Total</b>	<u><u>\$ 1,617,682</u></u>	<u><u>\$ 1,617,682</u></u>

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the fiscal year ended June 30, 2010, is shown below:

**Governmental Activities:**

	Balance, July 1, 2009	Additions	Deletions	Balance June 30, 2010
<b>Capital assets, not being depreciated:</b>				
Land	\$ 8,431,737	\$ -	\$ -	\$ 8,431,737
Construction in progress	425,527	4,297,666	2,713,726	2,009,467
Total capital assets, not being depreciated	<u>8,857,264</u>	<u>4,297,666</u>	<u>2,713,726</u>	<u>10,441,204</u>
<b>Capital assets, being depreciated:</b>				
Site improvements	24,128,471	435,911		24,564,382
Buildings and improvements	145,769,350	2,496,568		148,265,918
Machinery and equipment	3,197,190	346,053		3,543,243
Total capital assets, being depreciated	<u>173,095,011</u>	<u>3,278,532</u>		<u>176,373,543</u>
<b>Less accumulated depreciation for:</b>				
Site improvements	(16,374,278)	(1,401,400)		(17,775,678)
Buildings and improvements	(49,831,724)	(5,881,987)		(55,713,711)
Machinery and equipment	(2,570,673)	(200,993)		(2,771,666)
Total accumulated depreciation	<u>(68,776,675)</u>	<u>(7,484,380)</u>		<u>(76,261,055)</u>
Total capital assets, being depreciated, net	<u>104,318,336</u>	<u>(4,205,848)</u>		<u>100,112,488</u>
<b>Governmental activity capital assets, net</b>	<u><u>\$ 113,175,600</u></u>	<u><u>\$ 91,818</u></u>	<u><u>\$ 2,713,726</u></u>	<u><u>\$ 110,553,692</u></u>

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION (Continued)**

Governmental Activities (Continued):

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 4,198
Instructional library, media, and technology	2,518
School site administration	5,283
Home-to-school transportation	104,073
All other general administration	10,199
Centralized data processing	35,428
Plant service	<u>7,322,681</u>
<b>Total</b>	<b><u>\$ 7,484,380</u></b>

Business-type Activities:

Capital assets activity for the fiscal year ended June 30, 2010, is shown below:

	Balance, July 1, 2009	Additions	Deletions	Balance June 30, 2010
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	(19,940)	(4,985)		(24,925)
Total accumulated depreciation	<u>(19,940)</u>	<u>(4,985)</u>		<u>(24,925)</u>
<b>Total capital assets, being depreciated, net</b>	<u>54,836</u>	<u>(4,985)</u>		<u>49,851</u>
<b>Business-type activity capital assets, net</b>	<u>\$ 54,836</u>	<u>\$ (4,985)</u>	<u>\$ -</u>	<u>\$ 49,851</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, 2010, the unamortized premium balance was \$433,174.

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, 2010, the unamortized premium was \$1,516,454.

**NOVATO UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2010**

**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, 2010, is as follows:

Bond Issue	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Balance Outstanding July 1, 2009	Issue Current Fiscal Year	Redeemed Current Fiscal Year	Balance Outstanding June 30, 2010
2002	2/26/2003	3.0 - 5.25	8/1/2026	\$ 36,800,000	\$ 27,770,000	\$ -	\$ 305,000	\$ 27,465,000
2005	3/23/2006	3.0 - 5.125	8/1/2029	30,000,000	28,695,000		50,000	28,645,000
2006	7/14/2006	4.0 - 5.0	8/1/2026	40,200,000	40,200,000		330,000	39,870,000
				<u>\$ 107,000,000</u>	<u>\$ 96,665,000</u>	<u>\$ -</u>	<u>\$ 685,000</u>	<u>\$ 95,980,000</u>

The annual requirements to amortize general obligation bonds payable outstanding as of June 30, 2010, are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
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	2,385,000	4,351,847	6,736,847
2016-2020	19,310,000	19,458,997	38,768,997
2021-2025	35,520,000	12,887,375	48,407,375
2026-2030	32,945,000	3,308,861	36,253,861
<b>Totals</b>	<u>\$ 95,980,000</u>	<u>\$ 58,211,664</u>	<u>\$ 154,191,664</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, 2010, the principal balance outstanding of the 1997 COPs was \$725,000.

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

The annual requirements to amortize certificates of participation payable outstanding as of June 30, 2010, are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2011	\$ 230,000	\$ 33,010	\$ 263,010
2012	240,000	20,377	260,377
2013	255,000	6,948	261,948
Totals	<u>\$ 725,000</u>	<u>\$ 60,335</u>	<u>\$ 785,335</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
2011	\$ 77,225
Less amounts representing interest	<u>(2,893)</u>
Present value of net minimum lease payments	<u>\$ 74,332</u>

**NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS**

Plan Description

The District's health care plan (Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides health benefits to eligible retirees based on agreements entered into with the Novato Federation of Teachers/CFT/AFT and the local California Service Employees Association (CSEA). These agreements require the District to provide postemployment health care benefits up to \$200 monthly to certificated and management and confidential employees who retire from the District on or after attaining the age of 55, with at least 10 years of service and \$200 monthly to classified employees who retire from the District on or after attaining the age of 55, with at least 15 years of service. The benefits end when retirees reach to age of 65. Participants to the Plan include 44 retirees and 531 active employees eligible for these benefits in a future period. 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 requirements 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 benefits. For fiscal year 2009-2010, the District contributed \$121,000 to the plan, all of which was used for current premiums.

**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 to the Plan.

Annual required contribution	\$ 108,000
Interest on net OPEB obligation	(4,600)
Adjustment to annual required contribution	3,915
Annual OPEB cost (expense)	<u>107,315</u>
Contributions made	(121,000)
Increase (decrease) in net OPEB obligation	(13,685)
Net OPEB obligation (assets) - beginning of fiscal year	(92,000)
Net OPEB obligation (assets) - end of fiscal year	<u>\$ (105,685)</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contribution	Net OPEB Obligation (Assets)
6/30/2009	\$ 104,000	188.46%	\$ (92,000)
6/30/2010	107,315	112.75%	(105,685)

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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

**NOTE 10 – OTHER POST-EMPLOYMENT BENEFIT (Continued)**

Actuarial Methods and Assumptions (Continued)

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 percentage of covered payroll dollar amount over 29 years. The remaining amortization period at June 30, 2010 was 28 years.

**NOTE 11 – CLAIMS PAYABLE**

As of June 30, 2010, 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, 2010, is shown below:

Governmental Activities:

	Balance July 1, 2009	Additions	Repayment and Deductions	Balance June 30, 2010	Due Within One Year
General Obligation Bonds	\$ 96,665,000	\$ -	\$ 685,000	\$ 95,980,000	\$ 960,000
Bond Premiums	2,066,544		116,916	1,949,628	116,916
Certificates of Participation	940,000		215,000	725,000	230,000
Capital Lease Payable	145,880		71,548	74,332	74,332
Claims Payable	200,000			200,000	
Compensated Absences	409,261	6,989		416,250	62,438
<b>Totals</b>	<b>\$ 100,426,685</b>	<b>\$ 6,989</b>	<b>\$ 1,088,464</b>	<b>\$ 99,345,210</b>	<b>\$ 1,443,686</b>



## NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

### State Teachers' Retirement System (STRS)

#### Plan Description

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

#### Funding Policy

Active plan members are required to contribute 8.0% of their salary and the Novato Unified School District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 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, 2010, 2009, and 2008, were \$2,398,894, \$2,394,894, and \$2,465,981, 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 2009-2010, was 9.709% 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, 2010, 2009, and 2008, were \$908,698, \$882,320, and \$886,187, respectively, and equal 100% of the required contributions for each fiscal year.

## NOTE 14 – 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 15 - 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 16 – 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 17 – 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 from the County Treasury Account for payment of all bills. The County Superintendent no longer audits all the warrants of the District.

**NOTE 18 – 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.

**REQUIRED SUPPLEMENTARY INFORMATION**



**NOVATO UNIFIED SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Revenue limit sources:				
State apportionments	\$ 26,102,558	\$ 25,829,847	\$ 25,856,109	\$ 26,262
Local sources	12,792,267	11,039,042	11,028,819	(10,223)
Federal	4,390,310	4,654,584	3,739,227	(915,357)
Other state	7,679,942	8,424,553	8,670,819	246,266
Other local	9,766,462	11,020,861	11,220,239	199,378
<b>Total revenues</b>	<b>60,731,539</b>	<b>60,968,887</b>	<b>60,515,213</b>	<b>(453,674)</b>
<b>Expenditures:</b>				
Certificated salaries	29,404,483	30,415,498	30,077,589	337,909
Classified salaries	8,992,669	9,985,946	9,971,380	14,566
Employee benefits	9,611,733	9,470,477	9,459,882	10,595
Books and supplies	4,155,004	3,924,672	2,039,066	1,885,606
Contracted services and other operating expenditures	6,737,824	8,032,050	7,495,030	537,020
Capital outlay		682,253	423,892	258,361
Other outgo	1,626,541	1,632,388	1,408,784	223,604
Debt service:				
Principal	35,774	108,548	71,548	37,000
Interest and fiscal charges	2,839	5,678	5,678	
<b>Total expenditures</b>	<b>60,566,867</b>	<b>64,257,510</b>	<b>60,952,849</b>	<b>3,304,661</b>
Excess of revenues over (under) expenditures	164,672	(3,288,623)	(437,636)	2,850,987
<b>Other Financing Sources (Uses):</b>				
Transfers in		1,143,943	1,256,646	112,703
Transfers out			(146,173)	(146,173)
<b>Total other financing sources (uses)</b>		<b>1,143,943</b>	<b>1,110,473</b>	<b>(33,470)</b>
Net change in fund balance	164,672	(2,144,680)	672,837	2,817,517
Fund balance, July 1, 2009	15,948,811	15,948,811	15,948,811	
Fund balance, June 30, 2010	\$ 16,113,483	\$ 13,804,131	\$ 16,621,648	\$ 2,817,517

**NOVATO UNIFIED SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**DEFERRED MAINTENANCE FUND**  
**For the Fiscal Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Other local	\$ 5,000	\$ 10,495	\$ 13,325	\$ 2,830
Total revenues	5,000	10,495	13,325	2,830
<b>Expenditures:</b>				
Books and supplies		2,150	2,150	
Contracted services and other operating expenditures		45,661	54,777	(9,116)
Capital outlay	398,000	267,872	146,054	121,818
Total expenditures	398,000	315,683	202,981	112,702
Excess of revenues over (under) expenditures	(393,000)	(305,188)	(189,656)	115,532
<b>Other Financing Sources (Uses):</b>				
Transfers out		(1,143,943)	(1,256,646)	(112,703)
Total other financing sources (uses)		(1,143,943)	(1,256,646)	(112,703)
Net change in fund balance	(393,000)	(1,449,131)	(1,446,302)	2,829
Fund balance, July 1, 2009	1,459,626	1,459,626	1,459,626	
Fund balance, June 30, 2010	\$ 1,066,626	\$ 10,495	\$ 13,324	\$ 2,829

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FUNDING PROGRESS FOR POST EMPLOYMENT BENEFITS**  
**June 30, 2010**

---

**Other Post-employment Benefit Trend Information**

Schedule of Funding Progress for  
Retiree Health Plan

<u>Actuarial Valuation Date</u>	<u>Projected Unit Credit Cost Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability (Excess Assets)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
7/1/2008	\$ 940,000	\$ -	\$ 940,000	0%	\$ 41,537,000	2.26%

**THIS PAGE INTENTIONALLY LEFT BLANK**



**SUPPLEMENTARY INFORMATION**



**NOVATO UNIFIED SCHOOL DISTRICT**  
**BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUND**  
**June 30, 2010**

---

	<u>Adult Education Fund</u>
<b>Assets</b>	
Cash in County treasury	\$ 26,561
Due from other funds	<u>4,325</u>
<b>Total assets</b>	<b><u><u>\$ 30,886</u></u></b>
 <b>Liabilities and Fund Balances</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 683
Due to other funds	<u>19,983</u>
<b>Total liabilities</b>	<u>20,666</u>
<b>Fund balances:</b>	
Undesignated	<u>10,220</u>
<b>Total fund balance</b>	<u>10,220</u>
<b>Total liabilities and fund balance</b>	<b><u><u>\$ 30,886</u></u></b>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE**  
**NONMAJOR SPECIAL REVENUE FUND**  
**For the Fiscal Year Ended June 30, 2010**

---

	Adult Education Fund
<b>Revenues:</b>	
Other state	\$ 6,067
Other local	485
	<hr/>
Total revenues	6,552
	<hr/>
<b>Expenditures:</b>	
Certificated salaries	103,793
Employee benefits	14,086
Books and supplies	531
Contracted services and other operating expenditures	2,447
Other outgo	5,221
	<hr/>
Total expenditures	126,078
	<hr/>
Excess of revenues over (under) expenditures	(119,526)
	<hr/>
<b>Other Financing Sources (Uses):</b>	
Transfers in	73,318
	<hr/>
Total other financing sources (uses)	73,318
	<hr/>
Net change in fund balance	(46,208)
	<hr/>
Fund balance, July 1, 2009	56,428
	<hr/>
Fund balance, June 30, 2010	\$ 10,220
	<hr/> <hr/>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE**  
**NONMAJOR SPECIAL REVENUE FUND**  
**BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Adult Education Fund</u>		
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
Other state	\$ -	\$ 6,067	\$ 6,067
Other local	70,352	485	(69,867)
<b>Total revenues</b>	<u>70,352</u>	<u>6,552</u>	<u>(63,800)</u>
<b>Expenditures:</b>			
Certificated salaries	84,178	103,793	(19,615)
Employee benefits	14,683	14,086	597
Books and supplies	2,260	531	1,729
Contracted services and other operating expenditures	2,400	2,447	(47)
Other outgo	5,707	5,221	486
<b>Total expenditures</b>	<u>109,228</u>	<u>126,078</u>	<u>(16,850)</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(38,876)</u>	<u>(119,526)</u>	<u>(80,650)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in		73,318	73,318
<b>Total other financing sources (uses)</b>		<u>73,318</u>	<u>73,318</u>
<b>Net change in fund balance</b>	(38,876)	(46,208)	(7,332)
Fund balance, July 1, 2009	56,428	56,428	
Fund balance, June 30, 2010	<u>\$ 17,552</u>	<u>\$ 10,220</u>	<u>\$ (7,332)</u>

**NOVATO UNIFIED SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR DEBT SERVICE FUNDS  
 June 30, 2010**

---

	Bond Interest and Redemption Fund	Debt Service Fund	Totals
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Assets</b>			
Cash in County treasury	\$ 3,357,153	\$ 26,566	\$ 3,383,719
Cash and investments with fiscal agents		<u>273,390</u>	<u>273,390</u>
<b>Total assets</b>	<u><u>\$ 3,357,153</u></u>	<u><u>\$ 299,956</u></u>	<u><u>\$ 3,657,109</u></u>
 <b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total liabilities</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Fund balances:</b>			
Reserved for debt service	<u>3,357,153</u>	<u>299,956</u>	<u>3,657,109</u>
<b>Total fund balances</b>	<u>3,357,153</u>	<u>299,956</u>	<u>3,657,109</u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 3,357,153</u></u>	<u><u>\$ 299,956</u></u>	<u><u>\$ 3,657,109</u></u>

**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, 2010**

	Bond Interest and Redemption Fund	Debt Service Fund	Totals
<b>Revenues:</b>			
Other state	\$ 49,596	\$ -	\$ 49,596
Other local	5,334,639	258	5,334,897
<b>Total revenues</b>	<b>5,384,235</b>	<b>258</b>	<b>5,384,493</b>
<b>Expenditures:</b>			
Debt service:			
Principal	899,863	137	900,000
Interest and fiscal charges	4,663,824		4,663,824
<b>Total expenditures</b>	<b>5,563,687</b>	<b>137</b>	<b>5,563,824</b>
Excess of revenues over (under) expenditures	(179,452)	121	(179,331)
<b>Other Financing Sources (Uses):</b>			
Transfers in	214,863		214,863
<b>Total other financing sources (uses)</b>	<b>214,863</b>		<b>214,863</b>
<b>Net change in fund balances</b>	<b>35,411</b>	<b>121</b>	<b>35,532</b>
Fund balances, July 1, 2009	3,321,742	299,835	3,621,577
Fund balances, June 30, 2010	<u>\$ 3,357,153</u>	<u>\$ 299,956</u>	<u>\$ 3,657,109</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, 2010**

	<u>Bond Interest and Redemption Fund</u>		
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
Other state	\$ 30,000	\$ 49,596	\$ 19,596
Other local	3,225,000	5,334,639	2,109,639
Total revenues	<u>3,255,000</u>	<u>5,384,235</u>	<u>2,129,235</u>
<b>Expenditures:</b>			
Debt service:			
Principal	685,000	899,863	(214,863)
Interest and fiscal charges	4,663,823	4,663,824	(1)
Total expenditures	<u>5,348,823</u>	<u>5,563,687</u>	<u>(214,864)</u>
Excess of revenues over (under) expenditures	<u>(2,093,823)</u>	<u>(179,452)</u>	<u>1,914,371</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in		214,863	214,863
Total other financing sources (uses)		<u>214,863</u>	<u>214,863</u>
Net change in fund balances	(2,093,823)	35,411	2,129,234
Fund balances, July 1, 2009	<u>3,321,742</u>	<u>3,321,742</u>	
Fund balances, June 30, 2010	<u>\$ 1,227,919</u>	<u>\$ 3,357,153</u>	<u>\$ 2,129,234</u>



Debt Service Fund			Totals		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ 30,000	\$ 49,596	\$ 19,596
	258	258	3,225,000	5,334,897	2,109,897
	258	258	3,255,000	5,384,493	2,129,493
	137	(137)	685,000	900,000	(215,000)
			4,663,823	4,663,824	(1)
	137	(137)	5,348,823	5,563,824	(215,001)
	121	121	(2,093,823)	(179,331)	1,914,492
				214,863	214,863
				214,863	214,863
	121	121	(2,093,823)	35,532	2,129,355
299,835	299,835		3,621,577	3,621,577	
<u>\$ 299,835</u>	<u>\$ 299,956</u>	<u>\$ 121</u>	<u>\$ 1,527,754</u>	<u>\$ 3,657,109</u>	<u>\$ 2,129,355</u>

**NOVATO UNIFIED SCHOOL DISTRICT  
BALANCE SHEET  
NONMAJOR CAPITAL PROJECTS FUND  
June 30, 2010**

---

	<u>Special Reserve for Capital Outlay Projects Fund</u>
<b>Assets</b>	
Cash in County treasury	<u>\$ 1,796,464</u>
Total assets	<u><u>\$ 1,796,464</u></u>
<b>Liabilities and Fund Balance</b>	
Liabilities:	
Accounts payable	<u>\$ -</u>
Total liabilities	<u>                    </u>
Fund balance:	
Undesignated	<u>1,796,464</u>
Total fund balance	<u>1,796,464</u>
Total liabilities and fund balance	<u><u>\$ 1,796,464</u></u>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE**  
**NONMAJOR CAPITAL PROJECTS FUND**  
**For the Fiscal Year Ended June 30, 2010**

---

	<u>Special Reserve for Capital Outlay Projects Fund</u>
<b>Revenues:</b>	
Other local	<u>\$        18,248</u>
Total revenues	<u>                18,248</u>
<b>Expenditures:</b>	
Books and supplies	1,765
Contracted services and other operating expenditures	35,314
Capital outlay	<u>              101,327</u>
Total expenditures	<u>              138,406</u>
Net change in fund balance	(120,158)
Fund balance, July 1, 2009	<u>          1,916,622</u>
Fund balance, June 30, 2010	<u><u>\$        1,796,464</u></u>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**NONMAJOR CAPITAL PROJECTS FUND**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Special Reserve for Capital Outlay Projects Fund</u>		
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
Other local	\$ 30,000	\$ 18,248	\$ (11,752)
<b>Total revenues</b>	<u>30,000</u>	<u>18,248</u>	<u>(11,752)</u>
<b>Expenditures:</b>			
Books and supplies	2,098	1,765	333
Contracted services and other operating expenditures	7,965	35,314	(27,349)
Capital outlay	103,752	101,327	2,425
<b>Total expenditures</b>	<u>113,815</u>	<u>138,406</u>	<u>(24,591)</u>
<b>Net change in fund balance</b>	<u>(83,815)</u>	<u>(120,158)</u>	<u>(36,343)</u>
Fund balance, July 1, 2009	<u>1,916,622</u>	<u>1,916,622</u>	
Fund balance, June 30, 2010	<u>\$ 1,832,807</u>	<u>\$ 1,796,464</u>	<u>\$ (36,343)</u>

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, 2010 were as follows:

**BOARD OF EDUCATION**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Derek Knell	President	November, 2013
Thomas Cooper	Vice President	November, 2013
Maria Aguila	Member	November, 2013
Debbie Butler	Member	November, 2011
Cindi Clinton	Member	November, 2013
Ross Millerick	Member	November, 2011
Shelly Scott	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 the Fiscal Year Ended June 30, 2010**

---

	<u>Second Period Report</u>	<u>Annual Report</u>
<b>Elementary</b>		
Kindergarten	585	586
First through Third	1,704	1,707
Fourth through Sixth	1,603	1,605
Seventh and Eighth	1,067	1,068
Home and Hospital	2	3
Special Education	100	103
	<u>5,061</u>	<u>5,072</u>
<b>Subtotals</b>		
	<u>5,061</u>	<u>5,072</u>
<b>Secondary</b>		
Ninth through Twelfth	2,141	2,128
Continuation Education	60	60
Home and Hospital	4	4
Special Education	59	62
	<u>2,264</u>	<u>2,254</u>
<b>Subtotals</b>		
	<u>2,264</u>	<u>2,254</u>
<b>Totals</b>		
	<u><u>7,325</u></u>	<u><u>7,326</u></u>
		<u>Hours of</u>
<b>Supplemental Instructional Hours</b>		<u>Attendance</u>
Elementary		*
Secondary		*

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.

\* ADA is no longer collected as a result of flexibility provisions of SBX34 (Chapter 12, Statutes of 2009), currently in effect for a five year period from 2008-09 through 2012-13.

**NOVATO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME  
For the Fiscal Year Ended June 30, 2010**

---

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>Revised 1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>Revised 1986-87 Minutes Requirement</u>	<u>2009-10 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	31,860	30,975	36,000	35,000	40,965	180	In compliance
Grade 1	42,480	41,300	50,400	49,000	53,715	180	In compliance
Grade 2	42,480	41,300	50,400	49,000	53,715	180	In compliance
Grade 3	42,480	41,300	50,400	49,000	53,715	180	In compliance
Grade 4	49,430	48,057	54,000	52,500	54,565	180	In compliance
Grade 5	49,430	48,057	54,000	52,500	54,565	180	In compliance
Grade 6	49,430	48,057	54,000	52,500	58,100	180	In compliance
Grade 7	57,075	55,490	54,000	52,500	58,100	180	In compliance
Grade 8	57,075	55,490	54,000	52,500	58,100	180	In compliance
Grade 9	51,954	50,511	64,800	63,000	64,800	180	In compliance
Grade 10	51,954	50,511	64,800	63,000	64,800	180	In compliance
Grade 11	51,954	50,511	64,800	63,000	64,800	180	In compliance
Grade 12	51,954	50,511	64,800	63,000	64,800	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.

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**  
**For Fiscal Year Ended June 30, 2010**

---

General Fund	(Budget) 2011	2010	2009	2008
Revenues and other financial sources	\$ 57,308,126	\$ 61,771,859	\$ 64,525,070	\$ 64,050,580
Expenditures	59,649,870	60,952,849	61,975,729	62,146,337
Other uses and transfers out	143,438	146,173	216,969	481,882
Total outgo	<u>59,793,308</u>	<u>61,099,022</u>	<u>62,192,698</u>	<u>62,628,219</u>
Change in fund balance	<u>(2,485,182)</u>	<u>672,837</u>	<u>2,332,372</u>	<u>1,422,361</u>
Ending fund balance	<u>\$ 14,136,466</u>	<u>\$ 16,621,648</u>	<u>\$ 15,948,811</u>	<u>\$ 13,616,439</u>
Available reserves	<u>\$ 5,657,389</u>	<u>\$ 7,911,307</u>	<u>\$ 5,451,413</u>	<u>\$ 4,993,160</u>
Available reserves as a percentage of total outgo	<u>9.5%</u>	<u>12.9%</u>	<u>8.8%</u>	<u>8.0%</u>
Total long-term debt	<u>\$ 97,901,524</u>	<u>\$ 99,345,210</u>	<u>\$ 100,426,685</u>	<u>\$ 102,240,964</u>
Average daily attendance at P-2	<u>7,325</u>	<u>7,325</u>	<u>7,393</u>	<u>7,333</u>

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

The General Fund's fund balance has increased by \$3,005,209 over the past two fiscal years. The fiscal year 2010-11 budget projects a decrease of \$2,485,182. 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 deficit during the 2010-11 fiscal year. Total long-term debt has decreased by \$2,895,754 over the past two fiscal years.

Average daily attendance has decreased by 8 over the past two fiscal years. ADA is anticipated to remain the same during the fiscal year 2010-11.



**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF CHARTER SCHOOLS**  
**For the Fiscal Year Ended June 30, 2010**

---

As of June 30, 2010, 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, 2010

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal Catalog (CFDA) Number	Pass-through Entity Identification Number	Federal Expenditures
<b>Federal Programs:</b>			
U.S. Department of Education:			
Passed through the California Department of Education (CDE):			
NCLB Title I , Part A - Basic Grants Low Income and Neglected	84.010	3010	\$ 515,822
NCLB - Title II, Part A Improving Teacher Quality Local Grants	84.367	4035	245,916
NCLB - Title II, Part D, Enhancing Education Through Technology	84.318	4045	13,092
NCLB - Title III, Immigrant Education Program	84.365	4201	34,152
NCLB - Title III Limited English Proficiency (LEP) Student Program	84.365	4203	94,526
NCLB - Title IV Part A: Safe & Drug Free Schools Communities	84.186	3710	26,704
NCLB - Title V Part A: Innovative Education Strategies	84.298A	4110	3,736
NCLB - Title X McKinney - Vento Homeless Children Assistance Grants	84.196	5630	41,464
ARRA - NCLB: ARRA Title X McKinney-Vento Homeless Assistance Grants	84.387	5635	1,513
Special Ed: IDEA - Basic Local Assistance Entitlement, Part B	84.027	3310	1,154,459
ARRA - Special Ed: ARRA IDEA Part B, Sec 611, Basic Local Assistance	84.391	3313	896,084
Vocational & Applied Technology Secondary I C	84.048	3550	26,469
ROTC Reimbursement	84.000	5810	76,705
Advance Placement/Incentive Program Cycle 2	84.330	0000	2,883
ARRA - State Fiscal Stabilization Fund (SFSF)	84.394	3200	<u>2,655,651</u>
Total U.S. Department of Education			<u>5,788,976</u>
U.S. Department of Health and Human Services:			
Passed through Marin County Office of Education:			
Medi-Cal Billing Option	93.778	5640	55,449
Medi-Cal Administrative Activities	93.778	0000	<u>87,190</u>
Total U.S. Department of Health and Human Services			<u>142,639</u>
U.S. Department of Agriculture :			
Passed through California Department of Education (CDE):			
National School Lunch	10.555	5310	792,357
Basic School Breakfast Program	10.553	5310	15,594
Especially Need School Breakfast	10.553	5310	464,409
Team Nutrition - School Wellness Policy Demonstration	10.574	5454	6,361
ARRA - Child Nutrition: ARRA Equipment Assistance Grants	10.579	5315	<u>18,420</u>
Total U.S. Department of Agriculture			<u>1,297,141</u>
Total Expenditures of Federal Awards			<u>\$ 7,228,756</u>
Reconciliation of Total Expenditures of Federal Awards to Total Federal Revenues			
Expenditures of Federal Awards			\$ 7,228,756
State Fiscal Stabilization Fund Reported as Revenue in prior fiscal year but spent in current fiscal year	84.394	3200	<u>(2,192,388)</u>
Total Federal Revenues			<u>\$ 5,036,368</u>

See Note to the Schedule of Expenditures of Federal Awards

**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 ACTUALS REPORT WITH**  
**AUDITED FINANCIAL STATEMENTS**  
**June 30, 2010**

---

	<u>General Fund</u>	<u>Adult Education Fund</u>
June 30, 2010 Unaudited Actuals Report Fund Balances	<u>\$ 16,621,648</u>	<u>\$ 10,220</u>
June 30, 2010 Audited Financial Statements Fund Balances	<u>\$ 16,621,648</u>	<u>\$ 10,220</u>
	<u>Bond Interest and Redemption Fund</u>	<u>Debt Service Fund</u>
June 30, 2010 Unaudited Actuals Report Fund Balances	\$ 3,357,153	\$ 300,094
Overstatement of cash and investments with fiscal agent		(138)
Understatement of accumulated depreciation		
June 30, 2010 Audited Financial Statements Fund Balances	<u>\$ 3,357,153</u>	<u>\$ 299,956</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 actuals to the audited financial statements.

<u>Deferred Maintenance Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>County School Facilities Fund</u>	<u>Special Reserve for Capital Outlay Projects Fund</u>
<u>\$ 13,324</u>	<u>\$ 25,328,663</u>	<u>\$ 6,889,041</u>	<u>\$ 3,195,774</u>	<u>\$ 1,796,464</u>
<u>\$ 13,324</u>	<u>\$ 25,328,663</u>	<u>\$ 6,889,041</u>	<u>\$ 3,195,774</u>	<u>\$ 1,796,464</u>

<u>Cafeteria Enterprise Fund</u>	<u>Self-Insurance Fund</u>
\$ 174,552	\$ 100,274
<u>(4,984)</u>	
<u>\$ 169,568</u>	<u>\$ 100,274</u>

	<u>Long-Term Debt</u>
June 30, 2010 Unaudited Actuals Report Total Liabilities	\$ 99,145,103
Understatement of compensated absences payable	107
Understatement of claims payable	<u>200,000</u>
June 30, 2010 Audited Financial Statements Long-Term Debt Total Liabilities	<u>\$ 99,345,210</u>



**PARTNERS**  
RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400  
BEVERLY HILLS, CA 90210  
TEL: 310.273.2745  
FAX: 310.273.1689  
www.mlhcpas.com

**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, the 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, 2010, which collectively comprise the Novato Unified School District's basic financial statements and have issued our report thereon dated December 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs as items 2010-1 through 2010-7 that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying finding and recommendation section as item 2010-8 of this report.

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 Novato Unified School District's responses and accordingly, we express no opinion on the responses.

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 15, 2010



PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

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, the 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, 2010, which collectively comprise the Novato Unified School District's basic financial statements and have issued our report thereon dated December 15, 2010. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Table with 3 columns: Description, Procedures in Panel's Audit Guide, and Procedures Performed. Rows include Attendance Accounting, Incentive for Longer Instructional Day, Gann Limit Calculation, Classroom Teacher Salaries, Class Size Reduction, Instructional Materials Fund, Ratios of Administrative Employees to Teachers, School Accountability Report Card, and Contemporaneous Records of Attendance, for Charter Schools.



Description	Procedures in Panel's Audit Guide	Procedures Performed
Nonclassroom-Based Instruction/Independent Study, for Charter Schools	15	Not applicable
Mode of Instruction, for Charter School	1	Not applicable
Determination of Funding for Nonclassroom-Based Instruction, for Charter Schools	3	Not applicable
Annual Instructional Minutes – Classroom Based, for Charter Schools	3	Not applicable
After School Education and Safety Program: General Requirements	4	Yes
After School	4	Yes
Before School	5	Not applicable
Public Hearing Requirement - Receipt of Funds	1	Yes

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 15, 2010



**PARTNERS**  
RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400  
BEVERLY HILLS, CA 90210  
TEL: 310.273.2745  
FAX: 310.273.1689  
www.mlhcpas.com

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

Board of Education  
Novato Unified School District  
Novato, California

**Compliance**

We have audited the compliance of the Novato Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2010. Novato Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Novato Unified School District's management. Our responsibility is to express an opinion on the Novato Unified School District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2010.

**Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the 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 and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of audit findings and questioned costs as items 2010-1 and 2010-2. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's responses to the findings identified in our audit are described in the accompanying schedule of audit findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

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 15, 2010

**THIS PAGE INTENTIONALLY LEFT BLANK**

## **FINDINGS AND RECOMMENDATIONS SECTION**



**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
June 30, 2010

---

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

*Financial Statements*

Type of auditor’s report issued Unqualified

Internal control over financial reporting:  
 Material weakness(es) identified? \_\_\_\_\_ Yes  X  No  
 Significant deficiency(ies) identified not considered  
 to be material weaknesses?  X  Yes \_\_\_\_\_ None reported

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

*Federal Awards*

Internal control over major programs:  
 Material weakness(es) identified? \_\_\_\_\_ Yes  X  No  
 Significant deficiency(ies) identified not considered  
 to be material weaknesses?  X  Yes \_\_\_\_\_ None reported

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

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

Identification of major programs

CFDA Number (s)

Name of Federal Program or Cluster

84.027 & 84.391  
84.394

Special Education Cluster  
ARRA: State Fiscal Stabilization Fund (SFSF)

Dollar threshold used to distinguish between Type A  
 and Type B programs:

\$300,000

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

*State Awards*

Internal control over state programs:  
 Material weakness(es) identified? \_\_\_\_\_ Yes  X  No  
 Significant deficiency(ies) identified not considered  
 to be material weaknesses?  X  Yes \_\_\_\_\_ None reported

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

**Section II - Financial Statement Findings**

**FINDING 2010-1**  
**EXPENDITURES SYSTEM**  
**INTERNAL CONTROL**  
**30000**

**Condition:**

During the test of cash disbursements, it was noted that one out of 25 disbursements tested was a duplicate payment. The duplicate payment was the result of a payment being made for a purchase order and also, an invoice for the same transaction. Invoices are often submitted for payment through the pay voucher request, which circumvents the approval process.

**Effect:**

The District paid the vendor twice for the same service, which could lead to a misappropriation of funds if not detected.

**Cause:**

Lack of oversight on the part of the District.

**Recommendation:**

The District should review disbursement requests with sufficient supporting documents prior to approval for payment.

**LEA's Corrective Action Plan:**

The District will work with the vendor of the District's accounting system to ensure duplicate invoices are not paid.

**FINDING 2010-2**  
**PAYROLL**  
**INTERNAL CONTROL**  
**30000**

**Condition:**

Vacation and/or sick accruals were incorrectly calculated for two out of 25 employees tested.

**Effect:**

Failure to accurately record and account for leave accruals may result in overstated leave balances, which eventually may be converted into cash payments that exceed the amount the District is required to pay.

**Cause:**

Lack of oversight on the part of the District.

**Recommendation:**

We recommend that the District ensure that leave accruals are reviewed for accuracy.

**LEA's Corrective Action Plan:**

The District will implement reconciliation and review procedures to ensure balances are accurate.



**FINDING 2010-3**  
**REVENUE SYSTEM**  
**INTERNAL CONTROL**  
**30000**

**Condition:**

During the review of internal controls over revenue, it was noted that it could not be determined whether the Business Manager reviews the accounts receivable account for reasonableness or reconciles the account to the general ledger and supporting documents.

**Effect:**

Without reviewing or reconciling the accounts receivable account, the District may not be aware whether the balance on the account is correct.

**Cause:**

Lack of oversight on the part of the District.

**Recommendation:**

The District should implement procedures to reconcile and review the balance of the accounts receivable account on a regular and timely basis.

**LEA's Corrective Action Plan:**

The District will implement reconciliation and review procedures to ensure balances are accurate.

**FINDING 2010-4**  
**CAPITAL ASSETS**  
**INTERNAL CONTROL**  
**30000**

**Condition:**

During the review of internal controls over capital assets, it was noted that the District does not have a formal written policy for determining the fair value of contributed assets. In addition, disposal of capital assets is not reconciled to the capital assets listing.

**Effect:**

Failure to consistently and regularly track contributed and capital assets could lead to incorrect valuations and the potential for a material misstatement of assets.

**Cause:**

Lack of proper procedure on the part of the District.

**Recommendation:**

The District should implement a Board-approved policy for determining the fair value of contributed assets and ensure that any capital asset disposals are reconciled to the capital assets listing.

**LEA's Corrective Action Plan:**

The District will develop a board policy for approval no later than March 31, 2011.

**FINDING 2010-5**  
**ASSOCIATED STUDENT BODY**  
**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 ensure its funds are not misappropriated. The following weaknesses in the ASB cash receipt and disbursement processes 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.
- 4) 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 the ASB assets and funds.

**LEA's Corrective Action Plan:**

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

**FINDING 2010-6**  
**ASSOCIATED STUDENT BODY**  
**INTERNAL CONTROL**  
**30000**

**Condition:**

During our internal control observation and walk-through of the Marin Oaks High School ASB cash receipt and disbursements processes, we noted 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 ensure its funds are not misappropriated. The following weaknesses in ASB cash receipt and disbursement systems were noted:

- 1) Lack of segregation of duties and oversight of the ASB duties. The ASB clerk receives, records, and deposits all cash receipts.
- 2) A cash disbursement did not have the required two signatures on the check.

**Effect:**

Lack of segregation of duties could lead to misappropriation of funds that could go undetected.

**Cause:**

Lack of oversight on the part of ASB staff.

**Recommendation:**

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

**LEA's Corrective Action Plan:**

Current budget restrictions prevent additional staffing to segregate ASB duties at school sites. The District will send business office staff to the secondary school sites on a quarterly basis to ensure that proper procedures are being followed.

**FINDING 2010-7**  
**FOOD SERVICE**  
**INTERNAL CONTROL**  
**30000**

**Condition:**

During the review of internal control and test of cash receipts at food services, we noted a control deficiency exists whereby all cashiers at the schools can make voids, edits, or adjust a transaction without any oversight, review or approval. No reconciliation is performed between the food sales and cash sales. The production food report was not signed by the supervisor. The lack of oversight and controls with the voids in the cash receipt process and production process creates a significantly deficient environment to properly safeguard its assets and to ensure its funds are not misappropriated.

**Effect:**

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

**Cause:**

Lack of oversight on the part of the District.

**Recommendation:**

We recommend that controls and independent oversight be implemented in order to properly safeguard the District's assets and funds.

**LEA's Corrective Action Plan:**

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, 2010**

---

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

There were no federal award findings.

**Section IV – State Award Findings and Questioned Costs**

**FINDING 2010-8**  
**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 review of the School Accountability Report Card (SARC) for the District, the school facility conditions evaluation instrument did not have the inspection date updated for the current year 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:**

Oversight on the part of the staff preparing the reports.

**Questioned Cost:**

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's Corrective Action Plan:**

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

**Section I - Financial Statement Findings**

**FINDING 2009-1**  
**ASSOCIATED STUDENT BODY**  
**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 the ASB cash receipt and disbursement processes 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 the ASB assets and funds.

**LEA Action Plan:**

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

**Current Status:**

Not implemented, see current year finding #2010-5.

**FINDING 2009-2**  
**Food Service**  
**Internal Control**  
**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.

**Current Status:**

Not implemented, see current year finding #2010-7.

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR FISCAL YEAR AUDIT FINDINGS**  
**June 30, 2010**

---

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

There were no federal award findings.



**Section III – 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:**

Oversight by the staff responsible for 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.

**Current Status:**

Not implemented, see current year finding #2010-8.

