

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

AUDIT REPORT
June 30, 2011

NOVATO UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

June 30, 2011

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	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Statement of Net Assets – Proprietary Funds.....	23
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	24
Statement of Cash Flows – Proprietary Funds	25
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	27
Notes to Basic Financial Statements	28

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedules:	
General Fund	51
Schedule of Funding Progress for Post-employment Benefits	52

SUPPLEMENTARY INFORMATION

Combining and Individual Fund Financial Statements and Schedules:	
Balance Sheet – Nonmajor Special Revenue Funds	53
Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Special Revenue Funds	55
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Nonmajor Special Revenue Funds	56
Combining Balance Sheet – Nonmajor Debt Service Funds	58
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Debt Service Funds.....	59
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Nonmajor Debt Service Funds.....	60
Combining Balance Sheet – Nonmajor Capital Projects Funds.....	62
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Capital Projects Funds	64
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Nonmajor Capital Projects Funds	66

NOVATO UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

June 30, 2011

SUPPLEMENTARY INFORMATION (Continued)

Organization..... 69

Schedule of Average Daily Attendance 70

Schedule of Instructional Time 71

Schedule of Financial Trends and Analysis 72

Schedule of Charter Schools 73

Schedule of Expenditures of Federal Awards..... 74

Note to the Schedule of Expenditures of Federal Awards 75

Reconciliation of Unaudited Actuals Report
with Audited Financial Statements 76

Independent 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*..... 78

Independent Auditor’s Report on State Compliance 80

Independent Auditor’s Report on Compliance with Requirements that could have a Direct
And Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with
OMB Circular A-133 82

FINDINGS AND RECOMMENDATIONS SECTION

Schedule of Audit Findings and Questioned Costs 85

Summary Schedule of Prior Fiscal Year Audit Findings 93

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Board of Education
Novato Unified School District
Novato, California

We have audited the accompanying financial statements of the governmental activities, 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, 2011, 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, the standards applicable to financial 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 Audit of California K-12 Local Education 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 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, 2011, and the respective changes in financial position and, where applicable, cash flow 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 14, 2011, 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 basic financial statements effective July 1, 2010, the Novato Unified School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*, GASB Statement No. 59 – *Financial Instruments Omnibus*.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, the budgetary comparison schedule on page 51, and the schedule of funding progress for post-employment benefits other than pensions on page 52, 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 schedules, financial, statistical information, 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
Culver City, California
December 14, 2011

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2010 – 2011

JUNE 30, 2011

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, 2011. The intent of this management's discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report on page 1, notes to the basic financial statements, and the District's financial statements.

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

FINANCIAL HIGHLIGHTS

- General Fund revenues increased by \$2,871,141 or 4.7% from 2009-10 to 2010-11, while expenditures increased by 3% for the same period. The increase in revenue is attributed to the receipt of one-time federal stimulus dollars from the American Reinvestment Recovery Act (ARRA).
- General Fund revenues and other sources exceeded expenditures and other uses by \$417,571; the District ended the year with available reserves of \$14.25 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 \$194.5 million. After depreciation, the June 30, 2011 book value for fixed assets totaled \$111.3 million.

JUNE 30, 2011

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 2010-11?"

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.

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2010 – 2011

JUNE 30, 2011

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 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.

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2010 – 2011

JUNE 30, 2011

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The School District as a Whole

The District's net assets were \$62.9 million at June 30, 2011. Of this amount \$16.5 million was unrestricted. Investments in capital assets, net of related debt, account for \$36.5 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**

	2010-11			2009-10
	Governmental Activities	Business-type Activities	Totals	Totals
Assets				
Cash and investments	\$ 42,948,322	\$ 17,790	\$ 42,966,112	\$ 50,198,728
Accounts receivable	12,752,753	228,495	12,981,248	11,489,807
Internal balances	208,574	(208,574)	0	
Inventories and prepaid expenses	104,399	24,900	129,299	103,550
Other assets	350,131		350,131	308,810
Capital assets (net of depreciation)	<u>111,323,379</u>	<u>44,866</u>	<u>111,368,245</u>	<u>110,603,543</u>
Total Assets	\$ <u>167,687,558</u>	\$ <u>107,477</u>	\$ <u>167,795,035</u>	\$ <u>172,704,438</u>
Liabilities				
Accounts payable and other current liabilities	\$ 5,683,749	\$ 15,903	\$ 5,699,652	\$ 5,527,950
Deferred revenue	1,199,776	3,757	1,203,533	258,777
Long-term liabilities	<u>97,982,397</u>		<u>97,982,397</u>	<u>99,345,210</u>
Total Liabilities	\$ <u>104,865,922</u>	\$ <u>19,660</u>	\$ <u>104,885,582</u>	\$ <u>105,131,937</u>
Net Assets				
Invested in capital assets, net of related debt	\$ 36,476,661	\$ 44,866	\$ 36,521,527	\$ 37,406,371
Restricted	9,889,522		9,889,522	16,679,605
Unrestricted	<u>16,455,453</u>	<u>42,951</u>	<u>16,498,404</u>	<u>13,486,525</u>
Total net assets	\$ <u>62,821,636</u>	\$ <u>87,817</u>	\$ <u>62,909,453</u>	\$ <u>67,572,501</u>

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2010 – 2011

JUNE 30, 2011

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

The District's net asset position decreased \$4.66 million this fiscal year. (See Table 2)

Governmental Activities

The District's expenses for instructional and pupil services represented 68 percent of total expenses. The purely administrative activities of the District accounted for just 5 percent of total costs. The remaining 27 percent was spent in the areas of plant services and other expenses, interest on long-term debt and other outgo.

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

	2010-11			2009-10
	Governmental Activities	Business-Type Activities	Total	Total
Revenues				
Program Revenues	\$ 12,803,416	\$ 1,882,135	\$ 14,685,551	\$ 15,990,518
General Revenues				
Taxes levied for general purposes	10,378,892		10,378,892	11,124,077
Taxes levied for debt service	6,229,415		6,229,415	5,370,541
Tax levied for other specific purposes	4,527,206		4,527,206	4,516,316
Federal and State	36,019,021		36,019,021	32,941,688
Interest and investment earnings	238,421		238,421	472,159
Interagency revenues	2,400		2,400	
Miscellaneous and transfers	1,303,184	98,757	1,401,941	1,218,559
Total general revenues	\$ 71,501,955	\$ 1,980,892	\$ 73,482,847	\$ 71,633,858
Expenses				
Instruction	\$ 39,831,191	\$	\$ 39,831,191	\$ 37,816,092
Instruction-related services	7,782,148		7,782,148	7,268,694
Pupil support services	4,295,484	1,966,707	6,262,191	6,407,029
General administration	3,564,363	87,351	3,651,714	3,710,758
Plant Services	14,608,514	8,585	14,617,099	13,247,734
Other	6,001,552		6,001,552	6,513,747
Total Expenses	\$ 76,083,252	\$ 2,062,643	\$ 78,145,895	\$ 74,964,054
Change in Net Assets	\$ (4,581,297)	\$ (81,751)	\$ (4,663,048)	\$ (3,330,196)

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2010 – 2011

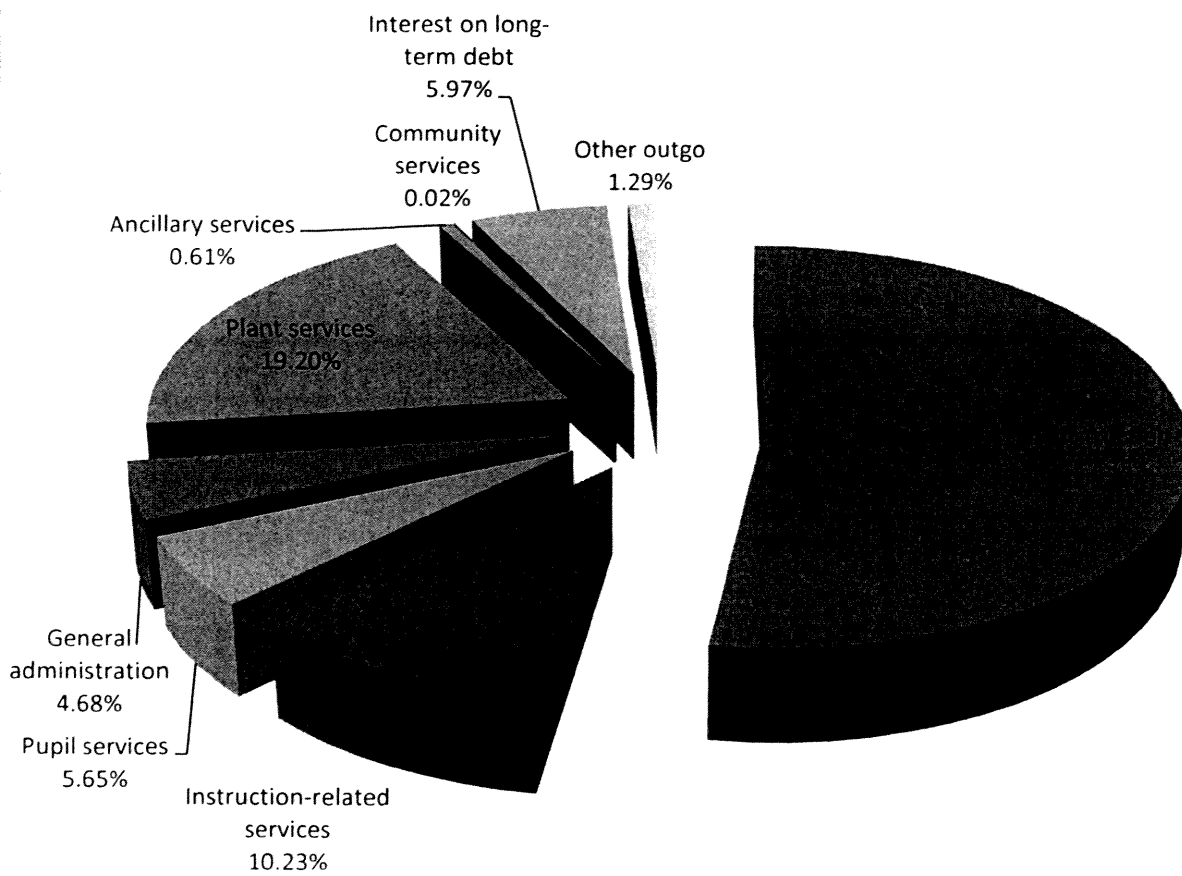
JUNE 30, 2011

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONCLUDED)

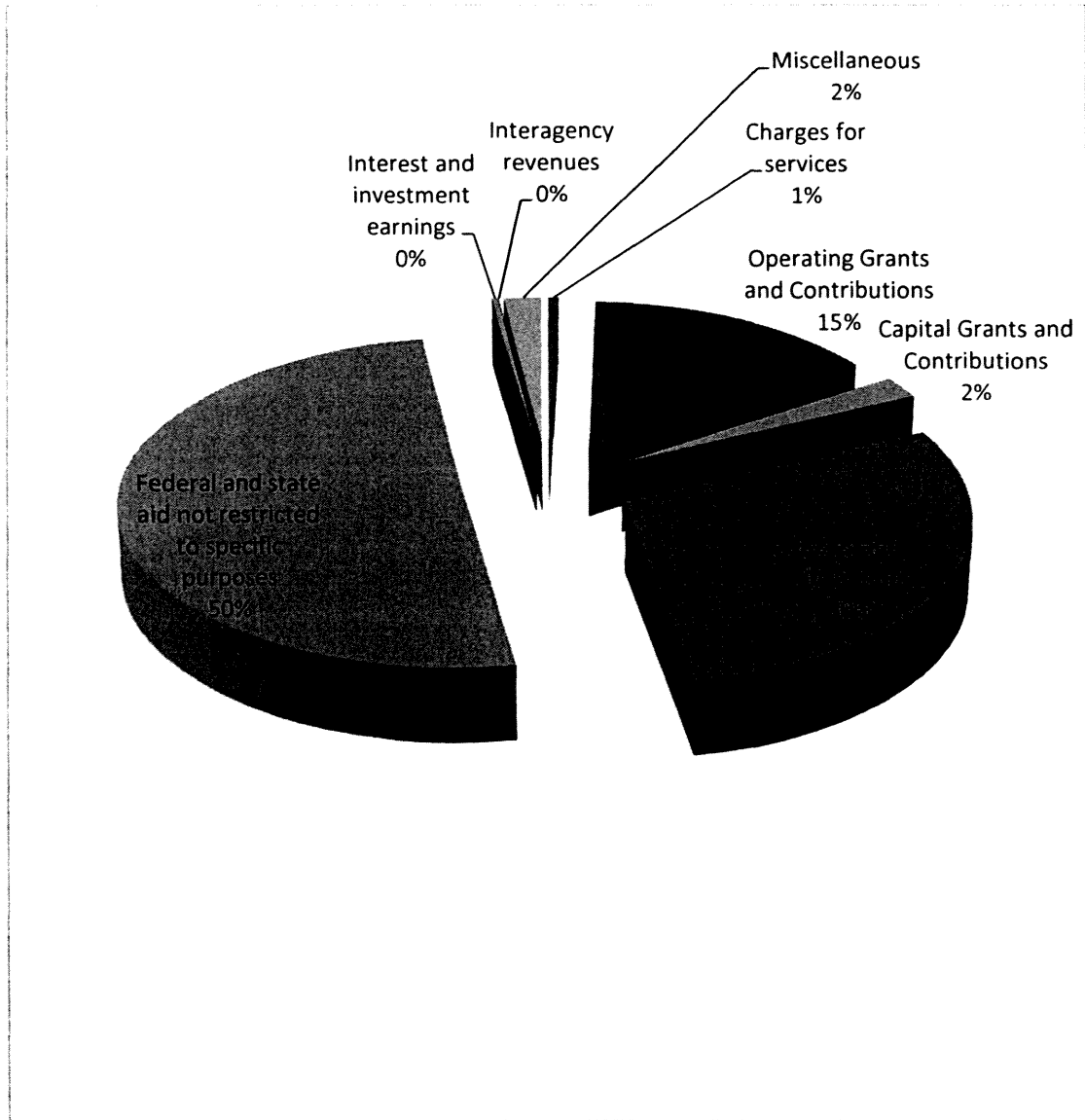
Governmental Activities (Concluded)

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was \$76.08 million. The amount that our local taxpayers financed for these activities through property taxes was \$21.1 million. Federal and State aid totaled \$36 million.

Sources of Revenue for the 2010-11 Fiscal Year-Governmental Activities
Figure 1



Expenses for the Fiscal Year 2010-11 - Governmental Activities
Figure 2



NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2010 – 2011

JUNE 30, 2011

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 \$50.75 million, a decrease of \$6.76 million from the previous fiscal year's combined ending balance of \$57.51 million. This decrease is mainly reflected in the Other Governmental Funds. The General Fund balance increased \$0.4 million.

General Fund Budgetary Highlights

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

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

The final revised budget for the General Fund reflected a net decrease to the projected ending balance of \$2.4 million; however, the year ended with an increase of \$417,571.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - Governmental Activities

By the end of the 2010-11 fiscal year, the District had invested \$194.5 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 \$111.3 million at June 30, 2011 which is an increase of \$0.8 million from the previous year due to acquisitions and building and site improvements.

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2010 – 2011

JUNE 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Assets - Governmental Activities (Continued)

Table 3
Comparative Schedule of Capital Assets - Governmental Activities
(net of depreciation)
June 30, 2011 and 2010

	2010-11	2009-10	Difference	Percentage Change
Land	\$8,431,737	\$8,431,737		
Site Improvement	8,044,306	6,788,704	1,255,602	18.50%
Buildings	90,291,105	92,552,207	-2,261,102	-2.44%
Machinery & Equipment	1,239,622	771,577	468,045	60.66%
Work In Progress	3,316,609	2,009,467	1,307,142	65.05%
Total	<u>\$111,323,379</u>	<u>\$110,553,692</u>	<u>\$769,687</u>	<u>0.70%</u>

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:

NHS Modernization Phase 6
Early Intervention Preschool Project
Completion of courtyard at Hamilton Elementary School
District Wide Area Network (WAN) Project
District Wide Playground Equipment Projects
District Wide ADA Compliance Projects
District Wide Telephone Conversion VOIP

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2010 – 2011

JUNE 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Long-Term Debt

At June 30, 2011, the District had \$97.98 million in long-term debt outstanding.

Table 4
Comparative Schedule of Outstanding Debt, June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Certificates of Participation	\$495,000	\$725,000
General Obligation Bonds	95,020,000	95,980,000
General Obligation Bond Premium	1,832,712	1,949,628
Capital Lease Obligations	0	74,332
Compensated Absences	434,685	416,250
Claims Payable	200,000	200,000
TOTAL	\$97,982,397	\$99,345,210

The long-term debt paid by the District was approximately \$1.4 million in 2011.

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 2011/12 fiscal year, the District expects to receive a 2.24% COLA with a 19.754% deficit. The District set aside \$2.4 million in the General Fund reserve for potential midyear cuts. As of December 2011, NUSD midyear reductions on the revenue limit is likely to be a loss of \$11/ADA and \$51/ADA in transportation funding for a total loss of \$464,000 dollars. Funds have been set aside in the General Fund reserve for this purpose.

Since student enrollment and attendance are primary factors in the computation of most funding formulas for public schools in the State of California, declining enrollment can have a significant impact on school district revenues. The District will continue to diligently monitor its student enrollment and attendance practices to help ensure fiscal solvency.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

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

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NOVATO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2011

Assets	Governmental Activities	Business-type Activities	Totals
Cash in County treasury	\$ 42,660,824	\$ 17,790	\$ 42,678,614
Cash on hand and in banks	9,155		9,155
Revolving cash fund	5,218		5,218
Cash and investments with fiscal agents	273,125		273,125
Accounts receivable	12,752,753	228,495	12,981,248
Internal balances	208,574	(208,574)	
Inventories, at cost	103,999	24,900	128,899
Prepaid items	400		400
Deferred charges, net of accumulated amortization	190,496		190,496
Net OPEB assets	159,635		159,635
Land	8,431,737		8,431,737
Construction in progress	3,316,609		3,316,609
Site improvements	26,703,339		26,703,339
Buildings and improvements	151,861,720		151,861,720
Machinery and equipment	4,213,833	74,776	4,288,609
Less: accumulated depreciation	<u>(83,203,859)</u>	<u>(29,910)</u>	<u>(83,233,769)</u>
Total Assets	<u>167,687,558</u>	<u>107,477</u>	<u>167,795,035</u>
Liabilities			
Accounts payable	3,778,394	15,903	3,794,297
Interest payable	1,905,355		1,905,355
Deferred revenue	1,199,776	3,757	1,203,533
Long-term liabilities:			
Due within one year	1,689,354		1,689,354
Due in more than one year	<u>96,293,043</u>		<u>96,293,043</u>
Total Liabilities	<u>104,865,922</u>	<u>19,660</u>	<u>104,885,582</u>
Net Assets			
Invested in capital assets, net of related debt	36,476,661	44,866	36,521,527
Restricted for:			
Capital projects	7,076,886		7,076,886
Debt service	2,383,811		2,383,811
Educational programs	428,825		428,825
Unrestricted	<u>16,455,453</u>	<u>42,951</u>	<u>16,498,404</u>
Total net assets	<u>\$ 62,821,636</u>	<u>\$ 87,817</u>	<u>\$ 62,909,453</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 39,831,191	\$ 60,752	\$ 7,675,937	\$ 1,551,188
Instruction-related services:				
Instructional supervision and administration	2,159,372	3,188	909,619	
Instructional library, media, and technology	759,412	18,237	180,874	
School site administration	4,863,364	1,615	148,787	
Pupil services:				
Home-to-school transportation	2,210,913	213,150	721,117	
All other pupil services	2,084,571	19,635	605,747	
General administration:				
Centralized data processing	659,779			
All other general administration	2,904,584	15,357	196,710	
Plant services	14,608,514	223	53,962	
Ancillary services	465,133	11,256	111,642	
Community services	15,655	363	3,600	
Interest on long-term debt	4,542,523			
Other outgo	978,241	34,901	265,556	
Total governmental activities	76,083,252	378,677	10,873,551	1,551,188
Business-type activities				
Pupil services:				
Food services	1,966,707	473,221	1,240,235	
General administration:				
All other general administration	87,351	21,079	55,021	
Plant services	8,585	2,072	5,407	
Other outgo		23,571	61,529	
Total business-type activities	2,062,643	519,943	1,362,192	
Total government	\$ 78,145,895	\$ 898,620	\$ 12,235,743	\$ 1,551,188

General revenues:
Taxes and subventions:
 Taxes levied for general purposes
 Taxes levied for debt service
 Taxes levied for other specific purposes
Federal and state aid not restricted to specific purposes
Interest and investment earnings
Interagency revenues
Miscellaneous
Transfers
Total general revenues and transfers
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
\$ (30,543,314)	\$ -	\$ (30,543,314)
(1,246,565)		(1,246,565)
(560,301)		(560,301)
(4,712,962)		(4,712,962)
(1,276,646)		(1,276,646)
(1,459,189)		(1,459,189)
(659,779)		(659,779)
(2,692,517)		(2,692,517)
(14,554,329)		(14,554,329)
(342,235)		(342,235)
(11,692)		(11,692)
(4,542,523)		(4,542,523)
(677,784)		(677,784)
<u>(63,279,836)</u>		<u>(63,279,836)</u>
	(253,251)	(253,251)
	(11,251)	(11,251)
	(1,106)	(1,106)
	85,100	85,100
	<u>(180,508)</u>	<u>(180,508)</u>
<u>(63,279,836)</u>	<u>(180,508)</u>	<u>(63,460,344)</u>
10,378,892		10,378,892
6,229,415		6,229,415
4,527,206		4,527,206
36,019,021		36,019,021
238,421		238,421
2,400		2,400
1,400,867	1,074	1,401,941
(97,683)	97,683	
<u>58,698,539</u>	<u>98,757</u>	<u>58,797,296</u>
(4,581,297)	(81,751)	(4,663,048)
<u>67,402,933</u>	<u>169,568</u>	<u>67,572,501</u>
<u>\$ 62,821,636</u>	<u>\$ 87,817</u>	<u>\$ 62,909,453</u>

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NOVATO UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2011

	General Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash in County treasury	\$ 8,411,096	\$ 22,917,627	\$ 11,046,141	\$ 42,374,864
Cash on hand and in banks	9,155			9,155
Cash in revolving fund	5,218			5,218
Cash and investments with fiscal agents			273,125	273,125
Accounts receivable	12,647,689		105,064	12,752,753
Due from other funds	285,445			285,445
Inventory, at cost	103,999			103,999
Prepaid items	400			400
Total assets	\$ 21,463,002	\$ 22,917,627	\$ 11,424,330	\$ 55,804,959
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 3,150,324	\$ 607,121	\$ 20,559	\$ 3,778,004
Due to other funds	73,683	8	3,180	76,871
Deferred revenue	1,199,776			1,199,776
Total liabilities	4,423,783	607,129	23,739	5,054,651
Fund balances:				
Nonspendable				
Revolving cash	5,218			5,218
Stores inventories	103,999			103,999
Prepaid expenditures	400			400
Restricted				
ARRA: State fiscal stabilization fund	428,825			428,825
Medi-Cal billing option	96,914			96,914
English Language Acquisition Program	37,284			37,284
Lottery: Instructional material	290,126			290,126
Special education	1,123			1,123
Economic Impact Aid (EIA)	92,850			92,850
Economic Impact Aid (LEP)	195,209			195,209
Other Restricted Local	1,540,211			1,540,211
Construction		22,310,498	7,076,886	29,387,384
Debt service			4,289,166	4,289,166
Committed				
Adult education program			16,140	16,140
Assigned				
Deferred maintenance			18,399	18,399
Unassigned	14,247,060			14,247,060
Total fund balances	17,039,219	22,310,498	11,400,591	50,750,308
Total liabilities and fund balances	\$ 21,463,002	\$ 22,917,627	\$ 11,424,330	\$ 55,804,959

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2011

Total fund balances - governmental funds \$ 50,750,308

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	\$	194,527,238	
Accumulated depreciation		<u>(83,203,859)</u>	
Net			111,323,379

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	\$	(1,832,712)	
Unamortized deferred charges		<u>190,496</u>	(1,642,216)

In governmental funds, Net OPEB asset has not been included as financial resources. 159,635

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. (1,905,355)

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	\$	(95,020,000)	
Certificates of participation		(495,000)	
Compensated absences		<u>(434,685)</u>	
Total			(95,949,685)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because 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)

		<u>85,570</u>
Total net assets, governmental activities	\$	<u><u>62,821,636</u></u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2011

	General Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Revenue limit sources:				
State apportionments	\$ 28,890,414	\$ -	\$ -	\$ 28,890,414
Local sources	10,188,108			10,188,108
Federal	4,063,376			4,063,376
Other state	8,773,262		1,610,114	10,383,376
Other local	11,471,194	119,156	6,484,017	18,074,367
	<u>63,386,354</u>	<u>119,156</u>	<u>8,094,131</u>	<u>71,599,641</u>
Total revenues				
Expenditures:				
Certificated salaries	30,678,723		64,512	30,743,235
Classified salaries	10,039,591	221,139		10,260,730
Employee benefits	9,585,150	59,239	6,678	9,651,067
Books and supplies	1,984,707	148,887	42,717	2,176,311
Contracted services and other operating expenditures	9,318,298	108,093	206,147	9,632,538
Capital outlay	217,674	7,359,030	1,400,154	8,976,858
Other outgo	887,710		3,180	890,890
Debt service:				
Principal	74,332		1,190,000	1,264,332
Interest and fiscal charges	2,894		4,665,038	4,667,932
	<u>62,789,079</u>	<u>7,896,388</u>	<u>7,578,426</u>	<u>78,263,893</u>
Total expenditures				
Excess of revenues over (under) expenditures	<u>597,275</u>	<u>(7,777,232)</u>	<u>515,705</u>	<u>(6,664,252)</u>
Other Financing Sources (Uses):				
Transfers in		4,759,067	331,337	5,090,404
Transfers out	(179,704)		(5,008,383)	(5,188,087)
	<u>(179,704)</u>	<u>4,759,067</u>	<u>(4,677,046)</u>	<u>(97,683)</u>
Total other financing sources (uses)				
Net change in fund balances	417,571	(3,018,165)	(4,161,341)	(6,761,935)
Fund balances, July 1, 2010	16,621,648	25,328,663	15,561,932	57,512,243
Fund balances, June 30, 2011	<u>\$ 17,039,219</u>	<u>\$ 22,310,498</u>	<u>\$ 11,400,591</u>	<u>\$ 50,750,308</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT

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

For the Fiscal Year Ended June 30, 2011

Total net change in fund balances - governmental funds	\$ (6,761,935)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$7,712,491 exceeded depreciation expense (\$6,942,804) in the period.	769,687
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities.	1,264,332
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:	21,521
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:	(18,435)
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 paid exceed amounts earned by:	53,950
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 decrease in the internal service fund was:	<u>(14,704)</u>
Change in net assets of governmental activities	<u>\$ (4,581,297)</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Enterprise Fund <u>Cafeteria</u> Enterprise Fund	Governmental Activities Internal <u>Service Fund</u> Self-Insurance Fund
Assets		
Current assets:		
Cash in County treasury	\$ 17,790	\$ 285,960
Accounts receivable	228,495	
Due from other funds	73,683	
Inventory, at cost	24,900	
	<u>344,868</u>	<u>285,960</u>
Total current assets		
Non-current assets:		
Capital assets	74,776	
Less: accumulated depreciation	<u>(29,910)</u>	
	<u>44,866</u>	
Total non-current assets		
Total assets	<u>389,734</u>	<u>285,960</u>
Liabilities		
Current liabilities:		
Accounts payable	15,903	390
Due to other funds	282,257	
Deferred revenue	<u>3,757</u>	
	<u>301,917</u>	<u>390</u>
Total current liabilities		
Noncurrent liabilities:		
Claims payable		<u>200,000</u>
		<u>200,000</u>
Total noncurrent liabilities		
Total liabilities	<u>301,917</u>	<u>200,390</u>
Net assets		
Invested in capital assets, net of related debt	44,866	
Unrestricted	<u>42,951</u>	<u>85,570</u>
Total net assets	<u>\$ 87,817</u>	<u>\$ 85,570</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For Fiscal Year Ended June 30, 2011

	Enterprise Fund	Governmental Activities Internal Service Fund
	Cafeteria Enterprise Fund	Self-Insurance Fund
Operating Revenues:		
Federal revenue	\$ 1,235,447	\$ -
Other state revenue	115,038	
Other local revenue	532,724	40,257
Total revenues	<u>1,883,209</u>	<u>40,257</u>
Operating Expenses:		
Classified salaries	902,471	
Employee benefits	261,708	
Books and supplies	766,456	8,739
Contracted services and other operating expenses	39,672	46,222
Depreciation	4,985	
Other outgo	87,351	
Total expenses	<u>2,062,643</u>	<u>54,961</u>
Operating income (loss)	<u>(179,434)</u>	<u>(14,704)</u>
Income (loss) before transfers	(179,434)	(14,704)
Transfer in	<u>97,683</u>	
Change in net assets	(81,751)	(14,704)
Net assets, July 1, 2010	<u>169,568</u>	<u>100,274</u>
Net assets, June 30, 2011	<u>\$ 87,817</u>	<u>\$ 85,570</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For Fiscal Year Ended June 30, 2011

	Enterprise Fund	Governmental Activities Internal Service Fund
	Cafeteria Enterprise Fund	Self-Insurance Fund
Cash flows from operating activities:		
Cash received from Federal and State nutrition programs	\$ 1,332,738	\$ -
Cash received from customers	532,724	
Cash received from insurance premiums		41,171
Cash received (paid) from (to) other funds		72,855
Cash paid for salaries and benefits	(1,164,179)	
Cash paid for books and supplies	(752,468)	(8,739)
Cash paid for contracted services and other operating expenses	(29,649)	(48,141)
Cash paid for other outgo	(87,351)	
Net cash provided (used) by operating activities	<u>(168,185)</u>	<u>57,146</u>
Cash flows from noncapital and related financing activities:		
Transfers from other funds	<u>97,683</u>	
Net cash provided (used) by noncapital and related financing activities	<u>97,683</u>	
Net increase (decrease) in cash and cash equivalents	(70,502)	57,146
Cash and cash equivalents at July 1, 2010	<u>88,292</u>	<u>228,814</u>
Cash and cash equivalents at June 30, 2011	<u>\$ 17,790</u>	<u>\$ 285,960</u>
Reconciliation to Statement of Net Assets:		
Cash in County treasury	<u>\$ 17,790</u>	<u>\$ 285,960</u>
	<u>\$ 17,790</u>	<u>\$ 285,960</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, 2011

	Enterprise Fund	Governmental Activities Internal Service Fund
	Cafeteria Enterprise Fund	Self-Insurance Fund
	<u> </u>	<u> </u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	\$ (179,434)	\$ (14,704)
Adjustments to reconcile operating income (loss) to net cash provided (used)		
Depreciation	4,985	
(Increase) decrease in operating assets:		
Accounts receivable	(17,747)	914
Inventory	301	
Due from other funds	(73,683)	72,855
Increase (decrease) in operating liabilities:		
Accounts payable	9,722	(1,919)
Due to other funds	87,671	
	<u>87,671</u>	<u> </u>
Net cash provided (used) by operating activities	<u>\$ (168,185)</u>	<u>\$ 57,146</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2011

	Agency Funds			Totals
	Payroll Revolving Fund	Novato Public Access TV Fund	Student Body Funds	
Assets				
Cash in County treasury	\$ 32,446	\$ 34,747	\$ -	\$ 67,193
Cash on hand and in banks			224,486	224,486
Accounts receivable	1,719	50,008		51,727
Total assets	<u>\$ 34,165</u>	<u>\$ 84,755</u>	<u>\$ 224,486</u>	<u>\$ 343,406</u>
Liabilities				
Accounts payable	\$ 34,165	\$ 84,755	\$ -	\$ 118,920
Due to student groups			224,486	224,486
Total liabilities	<u>\$ 34,165</u>	<u>\$ 84,755</u>	<u>\$ 224,486</u>	<u>\$ 343,406</u>

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 doubling revenues and expenses.

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

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

Fund Financial Statements:

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

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

Fiduciary funds are reported using the economic resources measurement focus.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do 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 have been satisfied. Grants and entitlements received before eligibility requirements met are recorded as deferred revenue. On the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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

E. Fund Accounting

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

Major Governmental Funds:

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

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

Nonmajor Governmental Funds:

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

1. The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.
2. The Deferred Maintenance Fund is used for the purpose of major repair or replacement of the District's property.

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal, interest, and related costs on long-term obligations. The District maintains two nonmajor debt service funds:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting (Continued)

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds and trust funds). The District maintains three nonmajor capital projects funds:

1. 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).
2. 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.
3. The Special Reserve for Capital Outlay Projects Fund is used to account for the following:
 - A. Hamilton Renovation Fund (Fund #41) is used to account for expenditures incurred in the renovation of Hamilton School and other Board approved capital projects
 - B. George Roth Fund (Fund #47) was established during 1999-2000 to account for income from property donated by George Roth and expenditures for District capital projects.

Proprietary Funds:

Major Proprietary Fund

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

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

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

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

Fiduciary Funds:

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgets and Budgetary Accounting

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

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

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

G. Encumbrances

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

H. Statement of Cash Flows

For the purposes of the statement of cash flows, the enterprise and internal service funds consider all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

I. Assets, Liabilities, and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Assets, Liabilities, and Equity (Continued)

1. Deposits and Investments (Continued)

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

2. Receivables and Payables

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

3. Inventories and Prepaid Items

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

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

4. Amortization of Bond Issuance Costs and Related Premiums and Discounts

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Capital Assets

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

Asset Class	Examples	Estimated Useful Life in Years
Land		N/A
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School buildings		50
Portable classrooms		25
HVAC systems	Heating, ventilation, and air conditioning Systems	20
Roofing		20
Interior construction		25
Carpet replacement		7
Electrical/plumbing		30
Sprinkler/fire system	Fire suppression system	25
Outdoor equipment	Playground, radio towers, fuel tanks, Pumps	20
Machinery and tools	Shop and maintenance equipment, tools	15
Kitchen equipment	Appliances	15
Custodial equipment	Floor scrubbers, vacuums, other	15
Science and engineering	Lab equipment, scientific apparatus	10
Furniture and accessories	Classroom and other furniture	20
Business machines	Fax, duplicating and printing equipment	10
Copiers		5
Communication equipment	Mobile, portable radios, non-computerized	10
Computer hardware	PCs, printers, network hardware	5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative long-term	10 to 20
Audio visual equipment	Projectors, cameras (still and digital)	10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical instruments	Pianos, strings, brass, percussion	10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	8
Contractors equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Assets, Liabilities, and Equity (Continued)

6. Deferred Revenue

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

7. Compensated Absences

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

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

8. Long-Term Obligations

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

9. Net Assets

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

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

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

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

10. Use of Restricted/Unrestricted Net Assets

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Assets, Liabilities, and Equity (Continued)

11. Fund Balances

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the district. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the governing board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the district's adopted policy, only the governing board or chief business officer may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the district considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the district considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

12. Revenue Limit/Property Tax

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Assets, Liabilities, and Equity (Continued)

12. Revenue Limit/Property Tax (Continued)

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

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

J. Estimates

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

K. New Accounting Pronouncements

New Accounting Pronouncements

GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions

For the fiscal year ended June 30, 2011, the District implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Note 11 - 11 of this footnote.

GASB Statement No. 59 – Financial Instruments Omnibus

For the fiscal year ended June 30, 2011, the District implemented GASB Statement No. 59, "*Financial Instruments Omnibus*". This Statement establishes standards to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. 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, 2011, consisted of the following:

Cash on hand and in banks	\$ 238,859
Cash and investments with County Treasurer	42,745,807
Cash and investments with fiscal agent	273,125
Total cash and investments	<u>\$ 43,257,791</u>

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

Cash in County Treasury, statement of net assets	\$ 42,678,614
Cash on hand and in banks, statement of net assets	9,155
Cash in revolving fund, statement of net assets	5,218
Cash and investments with fiscal agent, statement of net assets	273,125
Cash in County Treasury, statement of fiduciary net assets	67,193
Cash on hand and in banks, statement of fiduciary of net assets	224,486
Total cash and investments	<u>\$ 43,257,791</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 (\$42,745,807 as of June 30, 2011). The fair value of this pool as of that date, as provided by the plan sponsor, was \$42,745,807. The District is considered to be an involuntary participant in the external pool. Interest is deposited in the participating funds. The County is restricted by Government Code Section 53635, pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements

Cash on Hand, in Banks, and in Revolving Fund

Cash balance on hand and in banks (\$238,859 as of June 30, 2011) and in the revolving fund (\$5,218) are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

Investments Authorized by the District's Investment Policy

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

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements

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

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

Investment Type	Carrying Amount	Remaining maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Marin County Investment Pool	\$ 42,745,807	\$ 42,745,807	\$ -	\$ -	\$ -
Held by COP Trustees:					
First American Treasury Obligation					
Money Market Fund	273,125	273,125			
Total	\$ 43,018,932	\$ 43,018,932	\$ -	\$ -	\$ -

NOTE 2 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Marin County Investment Pool Held by COP Trustees:	\$ 42,745,807	N/A	\$ -	\$ -	\$ -	\$ -	\$ 42,745,807
First American Treasury Obligation							
Money Market Fund	273,125			273,125			
Total	<u>\$ 43,018,932</u>		<u>\$ -</u>	<u>\$ 273,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,745,807</u>

Concentration of Credit Risk

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

Custodial Credit Risk

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

As of June 30, 2011, none of the District's deposits with financial institutions in excess of the Federal Depository Insurance Corporation limits were held in uncollateralized accounts.

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

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

Fund	Excess Expenditures
Major Governmental Fund	
General Fund	
Contracted services and other operating expenditures	\$ 73,247
Non-major Governmental Funds	
Adult Education Fund	
Other outgo	813
Bond Interest and Redemption Fund	
Interest and fiscal charges	1
Debt Service Fund	
Principal	230,000
Interest and fiscal charges	33,010

NOTE 4 - RECEIVABLES

Receivables as of June 30, 2011, consist of the following:

	General Fund	Other Governmental Funds	Cafeteria Enterprise Fund	Fiduciary Funds
Federal Government				
Categorical Aid Programs	\$ 828,414	\$ -	\$ 207,977	\$ -
State Government				
Categorical Aid Programs	2,276,251		19,413	
Lottery	382,813			
Revenue Limit	8,451,923			
Local Governemnt				
Fees	308,995		1,034	50,007
Miscellaneous	399,293	105,064	71	1,720
Total Accounts Receivable	<u>\$ 12,647,689</u>	<u>\$ 105,064</u>	<u>\$ 228,495</u>	<u>\$ 51,727</u>

NOTE 5 - INTERFUND TRANSACTIONS

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

NOTE 5 - INTERFUND TRANSACTIONS (Continued)

Due From/Due To Other Funds

Individual fund receivable and payable balances as of June 30, 2011, are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Funds:		
General Fund	\$ 285,445	\$ 73,683
Building Fund		8
Major Enterprise Fund:		
Cafeteria Enterprise Fund	73,683	282,257
Non-major Governmental Fund:		
Adult Education Fund		3,180
Totals	<u>\$ 359,128</u>	<u>\$ 359,128</u>

Interfund Transfers

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

Interfund transfers for the 2010-2011 fiscal year, are as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ -	\$ 179,704
Building Fund	4,759,067	
Major Enterprise Fund:		
Cafeteria Enterprise Fund	97,683	
Non-major Governmental Funds:		
Adult Education Fund	82,021	
County School Facilities Fund		4,759,067
Totals	<u>\$ 4,938,771</u>	<u>\$ 4,938,771</u>

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2011, is shown below:

Governmental Activities:

	Balance June 30, 2010	Additions	Deletions	Completed Projects	Balance June 30, 2011
Capital Assets, not being depreciated:					
Land	\$ 8,431,737	\$ -	\$ -	\$ -	\$ 8,431,737
Construction in progress	2,009,467	6,283,038		(4,975,896)	3,316,609
Total capital assets not being depreciated	<u>10,441,204</u>	<u>6,283,038</u>		<u>(4,975,896)</u>	<u>11,748,346</u>
Capital Assets, being depreciated:					
Improvement of sites	24,564,382	8,995		2,129,962	26,703,339
Buildings and building improvements	148,265,918	749,868		2,845,934	151,861,720
Machinery and equipment	3,543,243	670,590			4,213,833
Total capital assets being depreciated	<u>176,373,543</u>	<u>1,429,453</u>		<u>4,975,896</u>	<u>182,778,892</u>
Less accumulated depreciation for:					
Improvement of sites	17,775,678	883,355			18,659,033
Buildings and building improvements	55,713,711	5,856,904			61,570,615
Machinery and equipment	2,771,666	202,545			2,974,211
Total accumulated depreciation	<u>76,261,055</u>	<u>6,942,804</u>			<u>83,203,859</u>
Total capital assets, being depreciated, net	<u>100,112,488</u>	<u>(5,513,351)</u>		<u>4,975,896</u>	<u>99,575,032</u>
Governmental activities capital assets, net	<u>\$ 110,553,692</u>	<u>\$ 769,687</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,323,379</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	3,895
Instructional library, media, and technology	2,336
School site administration	4,902
Home-to-school transportation	96,566
All other general administration	9,464
Centralized data processing	32,873
Plant services	6,792,768
Total	<u>6,942,804</u>

Business-type Activities:

Capital asset activity for the fiscal year ended June 30, 2011, is shown below:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
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	24,925	4,985		29,910
Total accumulated depreciation	<u>24,925</u>	<u>4,985</u>		<u>29,910</u>
Total capital assets, being depreciated, net	<u>49,851</u>	<u>(4,985)</u>		<u>44,866</u>
Business-type activity capital assets, net	<u>\$ 49,851</u>	<u>\$ (4,985)</u>	<u>\$ -</u>	<u>\$ 44,866</u>

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

Food services	\$ 4,985
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NOTE 7 – GENERAL OBLIGATION BONDS

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

The County of Marin, California, (the County), on behalf of the District issued (in the aggregate principal amount) \$30,000,000 of General Obligation Bonds designated as “Novato Unified School District General Obligation Bonds, Election of 2001, Series 2005” on March 23, 2006. The Series 2005 bonds were issued at a premium of \$549,682. As of June 30, 2011, the unamortized premium balance was \$410,546.

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, 2011, the unamortized premium was \$1,422,166.

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, 2011, is as follows:

Bond Issue	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Balance Outstanding July 1, 2010	Issued Current Fiscal Year	Redeemed Current Fiscal Year	Balance Outstanding June 30, 2011
2002	2/26/2003	3.0 - 5.25	8/1/2026	\$ 36,800,000	\$ 27,465,000	\$ -	\$ 390,000	\$ 27,075,000
2005	3/23/2006	3.0 - 5.125	8/1/2029	30,000,000	28,645,000		65,000	28,580,000
2006	7/14/2006	4.0 - 5.0	8/1/2026	40,200,000	39,870,000		505,000	39,365,000
				<u>\$ 107,000,000</u>	<u>\$ 95,980,000</u>	<u>\$ -</u>	<u>\$ 960,000</u>	<u>\$ 95,020,000</u>

The annual requirements to amortize general obligation bonds payable outstanding as of June 30, 2011, are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2012	\$ 1,270,000	\$ 4,588,009	\$ 5,858,009
2013	1,610,000	4,531,140	6,141,140
2014	1,980,000	4,453,409	6,433,409
2015	2,385,000	4,351,847	6,736,847
2016	2,825,000	4,231,369	7,056,369
2017-2021	22,100,000	18,458,765	40,558,765
2022-2026	39,530,000	11,054,724	50,584,724
2027-2030	23,320,000	1,910,375	25,230,375
	<u>\$ 95,020,000</u>	<u>\$ 53,579,638</u>	<u>\$ 148,599,638</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, 2011, the principal balance outstanding of the 1997 COPs was \$495,000.

NOTE 8 – CERTIFICATES OF PARTICIPATION (Continued)

The annual requirements to amortize certificates of participation payable outstanding as of June 30, 2011, are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2012	\$ 240,000	\$ 20,377	\$ 260,377
2013	255,000	6,948	261,948
	<u>\$ 495,000</u>	<u>\$ 27,325</u>	<u>\$ 522,325</u>

NOTE 9 – 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 27 retirees and 497 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 requirement of plan members and the District are established under a funding policy approved by the District's Board, and may be amended by the District from time to time. The District's funding policy is to contribute an amount sufficient to pay the current year's retiree claim costs and plan expenses. For fiscal year 2011, the District contributed \$154,785 to the plan, including current claim costs and plan expenses. No prefunding of benefits has been made.

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 fiscal year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Annual required contribution	\$ 101,500
Interest on net OPEB obligation	(5,285)
Adjustment to annual required contribution	4,620
Annual OPEB cost (expense)	<u>100,835</u>
Contributions made	<u>(154,785)</u>
Increase (decrease) in net OPEB obligation	(53,950)
Net OPEB obligation (assets) - beginning of fiscal year	<u>(105,685)</u>
Net OPEB obligation (assets) - end of fiscal year	<u>\$ (159,635)</u>

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT (Continued)

Annual OPEB and Net OPEB Obligation (Continued)

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 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)
6/30/2011	100,835	153.50%	(159,635)

Funded Status and Funding Progress.

As of October 1, 2009, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$823,300, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$823,300.

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

Actuarial Methods and Assumptions

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

In the October 1, 2009, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return, which is the expected long-term investment returns on plan assets expected to be held by the plan, an inflation rate of 3.5% per year, and payroll increase 3.5% per year. The actuarial value of assets is not applicable (no assets as of the initial valuation date). The UAAL is being amortized as a level dollar amount over 30 years. The remaining amortization period at October 1, 2009 was 30 years.

NOTE 10 – CLAIMS PAYABLE

As of June 30, 2011, 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 11 – LONG-TERM DEBT

A schedule of changes in long-term debt for the fiscal year ended June 30, 2011, is shown below:

Governmental Activities:

	Balance July 1, 2010	Additions	Repayment and Deductions	Balance June 30, 2011	Due Within One Year
General Obligation Bonds	\$ 95,980,000	\$ -	\$ 960,000	\$ 95,020,000	\$ 1,270,000
Bond Premiums	1,949,628		116,916	1,832,712	116,916
Certificates of Participation	725,000		230,000	495,000	240,000
Capital Lease Payable	74,332		74,332		
Claims Payable	200,000			200,000	
Compensated Absences	416,250	80,873	62,438	434,685	62,438
Totals	<u>\$ 99,345,210</u>	<u>\$ 80,873</u>	<u>\$ 1,443,686</u>	<u>\$ 97,982,397</u>	<u>\$ 1,689,354</u>

NOTE 12 - 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 2010-2011 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, 2011, 2010, and 2009, were \$2,418,048, \$2,398,894, and \$2,394,894, respectively, and equal 100% of the required contributions for each fiscal year.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (Continued)

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 2010-2011, was 10.707% 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, 2011, 2010, and 2009, were \$1,020,120, \$908,698, and \$882,320, respectively, and equal 100% of the required contributions for each fiscal year.

NOTE 13 – 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 14 - 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 15 – 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.

NOTE 15 – JOINT VENTURES (JOINT POWER AGREEMENTS) (Continued)

Joint Ventures (Continued)

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 16 – DEFERRED COMPENSATION PLAN

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

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

NOVATO UNIFIED SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
Revenues:				
Revenue limit sources:				
State apportionments	\$ 25,445,776	\$ 28,882,818	\$ 28,890,414	\$ 7,596
Local sources	11,118,639	10,204,531	10,188,108	(16,423)
Federal	2,860,477	4,438,135	4,063,376	(374,759)
Other state	8,234,663	8,642,974	8,773,262	130,288
Other local	9,648,571	11,276,759	11,471,194	194,435
Total revenues	<u>57,308,126</u>	<u>63,445,217</u>	<u>63,386,354</u>	<u>(58,863)</u>
Expenditures:				
Certificated salaries	29,901,662	31,211,739	30,678,723	533,016
Classified salaries	8,868,108	10,287,355	10,039,591	247,764
Employee benefits	9,789,030	9,965,923	9,585,150	380,773
Books and supplies	3,198,563	3,535,413	1,984,707	1,550,706
Contracted services and other operating expenditures	6,515,685	9,245,051	9,318,298	(73,247)
Capital outlay		217,959	217,674	285
Other outgo	1,299,596	1,027,340	887,710	139,630
Debt service:				
Principal	74,332	74,332	74,332	
Interest and fiscal charges	2,894	2,894	2,894	
Total expenditures	<u>59,649,870</u>	<u>65,568,006</u>	<u>62,789,079</u>	<u>2,778,927</u>
Excess of revenues over (under) expenditures	<u>(2,341,744)</u>	<u>(2,122,789)</u>	<u>597,275</u>	<u>2,720,064</u>
Other Financing Sources (Uses):				
Transfers out	<u>(143,438)</u>	<u>(241,121)</u>	<u>(179,704)</u>	<u>61,417</u>
Total other financing sources (uses)	<u>(143,438)</u>	<u>(241,121)</u>	<u>(179,704)</u>	<u>61,417</u>
Net change in fund balance	(2,485,182)	(2,363,910)	417,571	2,781,481
Fund balance, July 1, 2010	<u>16,621,648</u>	<u>16,621,648</u>	<u>16,621,648</u>	
Fund balance, June 30, 2011	<u>\$ 14,136,466</u>	<u>\$ 14,257,738</u>	<u>\$ 17,039,219</u>	<u>\$ 2,781,481</u>

NOVATO UNIFIED SCHOOL DISTRICT
OTHER POST-EMPLOYMENT BENEFIT TREND INFORMATION
 June 30, 2011

Other Post-employment Benefit

Trend Information

Schedule of Funding Progress for
 Retiree Health Plan

Actuarial Valuation Date	Credit Cost Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	UAAL as % of Payroll
7/1/08	\$ 940,000	\$ -	\$ 940,000	0%	*	*
10/1/09	823,300	-	823,300	0%	41,909,100	1.96%

* Not available

SUPPLEMENTARY INFORMATION

NOVATO UNIFIED SCHOOL DISTRICT
 BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2011

	Adult Education Fund	Deferred Maintenance Fund	Totals
Assets			
Cash in County treasury	\$ 19,885	\$ 18,399	\$ 38,284
Total assets	<u>\$ 19,885</u>	<u>\$ 18,399</u>	<u>\$ 38,284</u>

Liabilities and Fund Balances

Liabilities:			
Accounts payable	\$ 565	\$ -	\$ 565
Due to other funds	3,180		3,180
Total liabilities	<u>3,745</u>		<u>3,745</u>
Fund balances:			
Committed			
Adult education program	16,140		16,140
Assigned			
Deferred maintenance		18,399	18,399
Total fund balances	<u>16,140</u>	<u>18,399</u>	<u>34,539</u>
Total liabilities and fund balances	<u>\$ 19,885</u>	<u>\$ 18,399</u>	<u>\$ 38,284</u>

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NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2011

	Adult Education Fund	Deferred Maintenance Fund	Totals
Revenues:			
Other local	\$ 188	\$ 5,075	\$ 5,263
Total revenues	<u>188</u>	<u>5,075</u>	<u>5,263</u>
Expenditures:			
Certificated salaries	64,512		64,512
Employee benefits	6,678		6,678
Books and supplies	1,436		1,436
Contracted services and other operating expenditures	483		483
Other outgo	3,180		3,180
Total expenditures	<u>76,289</u>		<u>76,289</u>
Excess of revenues over (under) expenditures	<u>(76,101)</u>	<u>5,075</u>	<u>(71,026)</u>
Other Financing Sources (Uses):			
Transfers in	<u>82,021</u>		<u>82,021</u>
Total other financing sources (uses)	<u>82,021</u>		<u>82,021</u>
Net change in fund balance	5,920	5,075	10,995
Fund balance, July 1, 2010	<u>10,220</u>	<u>13,324</u>	<u>23,544</u>
Fund balance, June 30, 2011	<u>\$ 16,140</u>	<u>\$ 18,399</u>	<u>\$ 34,539</u>

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Adult Education Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other state	\$ 13,962	\$ -	\$ (13,962)
Other local	70	188	118
Total revenues	14,032	188	(13,844)
Expenditures:			
Certificated salaries	68,302	64,512	3,790
Employee benefits	6,921	6,678	243
Books and supplies	4,400	1,436	2,964
Contracted services and other operating expenditures	1,100	483	617
Other outgo	2,367	3,180	(813)
Total expenditures	83,090	76,289	6,801
Excess of revenues over (under) expenditures	(69,058)	(76,101)	(7,043)
Other Financing Sources (Uses):			
Transfers in	68,583	82,021	13,438
Total other financing sources (uses)	68,583	82,021	13,438
Net change in fund balance	(475)	5,920	6,395
Fund balance, July 1, 2010	10,220	10,220	
Fund balance, June 30, 2011	\$ 9,745	\$ 16,140	\$ 6,395

Deferred Maintenance Fund			Totals		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ 13,962	\$ -	\$ (13,962)
	5,075	5,075	70	5,263	5,193
	5,075	5,075	14,032	5,263	(8,769)
			68,302	64,512	3,790
			6,921	6,678	243
			4,400	1,436	2,964
			1,100	483	617
			2,367	3,180	(813)
			83,090	76,289	6,801
	5,075	5,075	(69,058)	(71,026)	(1,968)
			68,583	82,021	13,438
			68,583	82,021	13,438
	5,075	5,075	(475)	10,995	11,470
13,324	13,324		23,544	23,544	
<u>\$ 13,324</u>	<u>\$ 18,399</u>	<u>\$ 5,075</u>	<u>\$ 23,069</u>	<u>\$ 34,539</u>	<u>\$ 11,470</u>

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
 June 30, 2011

	Bond Interest and Redemption Fund	Debt Service Fund	Totals
Assets			
Cash in County treasury	\$ 4,002,781	\$ 13,260	\$ 4,016,041
Cash and investments with fiscal agents		<u>273,125</u>	<u>273,125</u>
Total assets	<u>\$ 4,002,781</u>	<u>\$ 286,385</u>	<u>\$ 4,289,166</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities			
Fund balances:			
Restricted			
Debt service	<u>4,002,781</u>	<u>286,385</u>	<u>4,289,166</u>
Total fund balances	<u>4,002,781</u>	<u>286,385</u>	<u>4,289,166</u>
Total liabilities and fund balances	<u>\$ 4,002,781</u>	<u>\$ 286,385</u>	<u>\$ 4,289,166</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, 2011

	Bond Interest and Redemption Fund	Debt Service Fund	Totals
Revenues:			
Other state	\$ 58,927	\$ -	\$ 58,927
Other local	6,178,729	123	6,178,852
Total revenues	<u>6,237,656</u>	<u>123</u>	<u>6,237,779</u>
Expenditures:			
Debt service:			
Principal	960,000	230,000	1,190,000
Interest and fiscal charges	4,632,028	33,010	4,665,038
Total expenditures	<u>5,592,028</u>	<u>263,010</u>	<u>5,855,038</u>
Excess of revenues over (under) expenditures	<u>645,628</u>	<u>(262,887)</u>	<u>382,741</u>
Other Financing Sources (Uses):			
Transfers in		249,316	249,316
Total other financing sources (uses)		<u>249,316</u>	<u>249,316</u>
Net change in fund balances	645,628	(13,571)	632,057
Fund balance, July 1, 2010	<u>3,357,153</u>	<u>299,956</u>	<u>3,657,109</u>
Fund balances, June 30, 2011	<u>\$ 4,002,781</u>	<u>\$ 286,385</u>	<u>\$ 4,289,166</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, 2011

	<u>Bond Interest and Redemption Fund</u>		
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Other state	\$ 30,000	\$ 58,927	\$ 28,927
Other local	4,334,108	6,178,729	1,844,621
Total revenues	<u>4,364,108</u>	<u>6,237,656</u>	<u>1,873,548</u>
Expenditures:			
Debt service:			
Principal	960,000	960,000	
Interest and fiscal charges	4,632,027	4,632,028	(1)
Total expenditures	<u>5,592,027</u>	<u>5,592,028</u>	<u>(1)</u>
Excess of revenues over (under) expenditures	<u>(1,227,919)</u>	<u>645,628</u>	<u>1,873,547</u>
Other Financing Sources (Uses):			
Transfers in			
Total other financing sources (uses)			
Net change in fund balances	(1,227,919)	645,628	1,873,547
Fund balance, July 1, 2010	<u>3,357,153</u>	<u>3,357,153</u>	
Fund balances, June 30, 2011	<u>\$ 2,129,234</u>	<u>\$ 4,002,781</u>	<u>\$ 1,873,547</u>

Debt Service Fund			Totals		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ 30,000	\$ 58,927	\$ 28,927
	123	123	4,334,108	6,178,852	1,844,744
	123	123	4,364,108	6,237,779	1,873,671
	230,000	(230,000)	960,000	1,190,000	(230,000)
	33,010	(33,010)	4,632,027	4,665,038	(33,011)
	263,010	(263,010)	5,592,027	5,855,038	(263,011)
	(262,887)	(262,887)	(1,227,919)	382,741	1,610,660
	249,316	249,316		249,316	249,316
	249,316	249,316		249,316	249,316
	(13,571)	(13,571)	(1,227,919)	632,057	1,859,976
299,956	299,956		3,657,109	3,657,109	
<u>\$ 299,956</u>	<u>\$ 286,385</u>	<u>\$ (13,571)</u>	<u>\$ 2,429,190</u>	<u>\$ 4,289,166</u>	<u>\$ 1,859,976</u>

NOVATO UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 June 30, 2011

	Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash in County treasury	\$ 5,192,920	\$ 4,295	\$ 1,794,601
Accounts receivable	105,064		
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 5,297,984</u>	<u>\$ 4,295</u>	<u>\$ 1,794,601</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 16,871	\$ -	\$ 3,123
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>16,871</u>	<u> </u>	<u>3,123</u>
Fund balances:			
Restricted			
Construction	5,281,113	4,295	1,791,478
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>5,281,113</u>	<u>4,295</u>	<u>1,791,478</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 5,297,984</u>	<u>\$ 4,295</u>	<u>\$ 1,794,601</u>

Totals

\$ 6,991,816
105,064

\$ 7,096,880

\$ 19,994

19,994

7,076,886

7,076,886

\$ 7,096,880

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
For the Fiscal Year Ended June 30, 2011

	Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund
Revenues:			
Other state	\$ -	\$ 1,551,187	\$ -
Other local	274,443	16,401	9,058
Total revenues	<u>274,443</u>	<u>1,567,588</u>	<u>9,058</u>
Expenditures:			
Books and supplies	41,281		
Contracted services and other operating expenditures	191,620 <u>1,400,154</u>		14,044
Total expenditures	<u>1,633,055</u>		<u>14,044</u>
Excess of revenues over (under) expenditures	<u>(1,358,612)</u>	<u>1,567,588</u>	<u>(4,986)</u>
Other Financing Sources (Uses):			
Transfers out	<u>(249,316)</u>	<u>(4,759,067)</u>	
Total other financing sources (uses)	<u>(249,316)</u>	<u>(4,759,067)</u>	
Net change in fund balance	(1,607,928)	(3,191,479)	(4,986)
Fund balances, July 1, 2010	<u>6,889,041</u>	<u>3,195,774</u>	<u>1,796,464</u>
Fund balances, June 30, 2011	<u>\$ 5,281,113</u>	<u>\$ 4,295</u>	<u>\$ 1,791,478</u>

	<u>Totals</u>
\$	1,551,187
	<u>299,902</u>
	<u>1,851,089</u>
	41,281
	205,664
	<u>1,400,154</u>
	<u>1,647,099</u>
	<u>203,990</u>
	<u>(5,008,383)</u>
	<u>(5,008,383)</u>
	(4,804,393)
	<u>11,881,279</u>
\$	<u><u>7,076,886</u></u>

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
NONMAJOR CAPITAL PROJECTS FUNDS
For the Fiscal Year Ended June 30, 2011

	Capital Facilities Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other state	\$ -	\$ -	\$ -
Other local	179,991	274,443	94,452
Total revenues	179,991	274,443	94,452
Expenditures:			
Books and supplies	48,519	41,281	7,238
Contracted services and other operating expenditures	210,702	191,620	19,082
Capital outlay	1,717,303	1,400,154	317,149
Debt service:			
Principal	230,000		230,000
Interest and fiscal charges	33,010		33,010
Total expenditures	2,239,534	1,633,055	606,479
Excess of revenues over (under) expenditures	(2,059,543)	(1,358,612)	700,931
Other Financing Sources (Uses):			
Transfers out		(249,316)	(249,316)
Total other financing sources (uses)		(249,316)	(249,316)
Net change in fund balance	(2,059,543)	(1,607,928)	451,615
Fund balances, July 1, 2010	6,889,041	6,889,041	
Fund balances, June 30, 2011	<u>\$ 4,829,498</u>	<u>\$ 5,281,113</u>	<u>\$ 451,615</u>

County School Facilities Fund			Special Reserve Fund for Capital Outlay Projects		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ 1,551,188	\$ 1,551,187	\$ (1)	\$ -	\$ -	\$ -
16,397	16,401	4	18,500	9,058	(9,442)
1,567,585	1,567,588	3	18,500	9,058	(9,442)
			14,500	14,044	456
			14,500	14,044	456
1,567,585	1,567,588	3	4,000	(4,986)	(8,986)
(4,759,068)	(4,759,067)	1			
(4,759,068)	(4,759,067)	1			
(3,191,483)	(3,191,479)	4	4,000	(4,986)	(8,986)
3,195,774	3,195,774		1,796,464	1,796,464	
\$ 4,291	\$ 4,295	\$ 4	\$ 1,800,464	\$ 1,791,478	\$ (8,986)

SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 NONMAJOR CAPITAL PROJECTS FUNDS
 For the Fiscal Year Ended June 30, 2011

	Total		Variance Positive (Negative)
	Final Budget	Actual	
Revenues:			
Other state	\$ 1,551,188	\$ 1,551,187	\$ (1)
Other local	214,888	299,902	85,014
Total revenues	<u>1,766,076</u>	<u>1,851,089</u>	<u>85,013</u>
Expenditures:			
Books and supplies	48,519	41,281	7,238
Contracted services and other operating expenditures	225,202	205,664	19,538
Capital outlay	1,717,303	1,400,154	317,149
Debt service:			
Principal	230,000		230,000
Interest and fiscal charges	33,010		33,010
Total expenditures	<u>2,254,034</u>	<u>1,647,099</u>	<u>606,935</u>
Excess of revenues over (under) expenditures	<u>(487,958)</u>	<u>203,990</u>	<u>691,948</u>
Other Financing Sources (Uses):			
Transfers out	<u>(4,759,068)</u>	<u>(5,008,383)</u>	<u>(249,315)</u>
Total other financing sources (uses)	<u>(4,759,068)</u>	<u>(5,008,383)</u>	<u>(249,315)</u>
Net change in fund balance	(5,247,026)	(4,804,393)	442,633
Fund balances, July 1, 2010	<u>11,881,279</u>	<u>11,881,279</u>	
Fund balances, June 30, 2011	<u>\$ 6,634,253</u>	<u>\$ 7,076,886</u>	<u>\$ 442,633</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, 2011 were as follows:

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Thomas Cooper	President	November, 2011
Cindi Clinton	Vice President	November, 2011
Maria Aguila	Member	November, 2013
Derek Knell	Member	November, 2013
Ross Millerick	Member	November, 2011
Shelly Scott	Member	November, 2013
Debbie Butler	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, 2011

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary		
Kindergarten	596	595
First through Third	1,743	1,738
Fourth through Sixth	1,609	1,606
Seventh and Eighth	1,078	1,077
Home and Hospital	2	3
Special Education	104	108
	<hr/>	<hr/>
Subtotals	5,132	5,127
	<hr/>	<hr/>
Secondary		
Ninth through Twelfth	2,119	2,105
Continuation Education	98	93
Home and Hospital	3	4
Special Education	62	63
	<hr/>	<hr/>
Subtotals	2,282	2,265
	<hr/>	<hr/>
Totals	<u>7,414</u>	<u>7,392</u>

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

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

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
For the Fiscal Year Ended June 30, 2011

<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>2010-11 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	31,860	30,975	36,000	35,000	38,345	180	In compliance
Grade 1	42,480	41,300	50,400	49,000	53,575	180	In compliance
Grade 2	42,480	41,300	50,400	49,000	53,575	180	In compliance
Grade 3	42,480	41,300	50,400	49,000	53,625	180	In compliance
Grade 4	49,430	48,057	54,000	52,500	54,260	180	In compliance
Grade 5	49,430	48,057	54,000	52,500	54,260	180	In compliance
Grade 6	49,430	48,057	54,000	52,500	56,845	180	In compliance
Grade 7	57,075	55,490	54,000	52,500	56,845	180	In compliance
Grade 8	57,075	55,490	54,000	52,500	57,564	180	In compliance
Grade 9	51,954	50,511	64,800	63,000	66,009	180	In compliance
Grade 10	51,954	50,511	64,800	63,000	66,009	180	In compliance
Grade 11	51,954	50,511	64,800	63,000	66,009	180	In compliance
Grade 12	51,954	50,511	64,800	63,000	66,009	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, 2011

<u>General Fund</u>	(Budgeted) 2012	2011	2010	2009
Revenues and other financial sources	<u>\$ 60,686,414</u>	<u>\$ 63,386,354</u>	<u>\$ 61,771,859</u>	<u>\$ 64,525,070</u>
Expenditures	59,803,923	62,789,079	60,952,849	61,975,729
Other uses and transfers out	<u>359,565</u>	<u>179,704</u>	<u>146,173</u>	<u>216,969</u>
Total outgo	<u>60,163,488</u>	<u>62,968,783</u>	<u>61,099,022</u>	<u>62,192,698</u>
Change in fund balance	<u>522,926</u>	<u>417,571</u>	<u>672,837</u>	<u>2,332,372</u>
Ending fund balance	<u>\$ 17,562,145</u>	<u>\$ 17,039,219</u>	<u>\$ 16,621,648</u>	<u>\$ 15,948,811</u>
Available reserves	<u>\$ 7,012,810</u>	<u>\$ 14,247,060</u>	<u>\$ 7,911,307</u>	<u>\$ 5,451,413</u>
Available reserves as a percentage of total outgo	11.66%	22.63%	12.95%	8.77%
Total long-term debt	\$ 96,293,043	\$ 97,982,397	\$ 99,345,210	\$ 100,426,685
Average daily attendance at P-2	7,491	7,414	7,325	7,393

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 \$1,090,408 over the past two fiscal years. The fiscal year 2011-12 budget projects an increase of \$522,926. For a District this size, the State recommends available reserve of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in each of the past three fiscal years, and anticipates an operating surplus during the 2011-12 fiscal year. Total long-term debt has decreased by \$2,444,288 over the past two fiscal years.

Average daily attendance has increased by 21 over the past two fiscal years. ADA is anticipated to remain the same during the fiscal year 2011-12.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
For the Fiscal Year Ended June 30, 2011

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, 2011

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal Catalog (CFDA) Number	Pass-through Entity Identification Number	Federal Expenditures
Federal Programs:			
U.S. Department of Education:			
Passed through the California Department of Education (CDE):			
NCLB Title I , Part A - Basic Grants Low Income and Neglected	84.010	3010	\$ 508,995
ARRA - Title I Grants to Local Educational Agencies			
NCLB - Title II, Part A Improving Teacher Quality Local Grants	84.389 84.367	3011 4035	207,804 238,030
ARRA - Education Technology State Grants	84.386	4047	9,679
NCLB - Title III, Immigrant Education Program	84.365	4201	14,401
NCLB - Title III Limited English Proficiency (LEP) Student Program	84.365	4203	145,163
NCLB - Title IV Part A: Safe & Drug Free Schools Communities	84.186	3710	10,388
NCLB - Title V Part A: Innovative Education Strategies	84.298A	4110	
NCLB - Title X McKinney - Vento Homeless Children Assistance Grants	84.196	5630	27,503
ARRA - NCLB: ARRA Title X McKinney-Vento Homeless Assistance Grants	84.387	5635	6,118
Special Ed: IDEA - Basic Local Assistance Entitlement, Part B	84.027	3310	1,147,019
Special Ed: IDEA - Preschool Sec 611	84.027A	3320	193,921
ARRA - Special Ed: ARRA IDEA Part B, Sec 611, Basic Local Assistance	84.391	3313	568,719
Special Ed: IDEA - Special Education Preschool Grants	84.173	3315	81,967
Vocational & Applied Technology Secondary I C	84.048	3550	33,953
Education Jobs Fund	84.410	3205	116,175
ROTC Reimbursement	84.000	5810	80,999
ARRA - State Fiscal Stabilization Fund (SFSF)	84.394	3200	459,776
Total U.S. Department of Education			<u>3,850,610</u>
U.S. Department of Health and Human Services:			
Passed through Marin County Office of Education:			
Medi-Cal Billing Option	93.778	5640	96,668
Medi-Cal Administrative Activities	93.778	0000	172,015
Total U.S. Department of Health and Human Services			<u>268,683</u>
U.S. Department of Agriculture :			
Passed through California Department of Education (CDE):			
National School Lunch	10.555	5310	811,179
Basic School Breakfast Program	10.553	5310	18,651
Especially Needy School Breakfast	10.553	5310	405,617
Total U.S. Department of Agriculture			<u>1,235,447</u>
Total Expenditures of Federal Awards			<u>\$ 5,354,740</u>
Reconciliation of Total Expenditures of Federal Awards to Total Federal Revenues			
Expenditures of Federal Awards			\$ 5,354,740
State Fiscal Stabilization Fund Reported as Revenue in prior fiscal year but spent in current fiscal year	84.394	3200	<u>(55,917)</u>
Total Federal Revenues			<u>\$ 5,298,823</u>

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, 2011

	<u>General Fund</u>	<u>Adult Education Fund</u>
June 30, 2011 Unaudited Actuals Report Fund Balances	\$ 16,851,472	\$ 16,140
Overstatement (understatement) of accounts payable	<u>187,747</u>	<u> </u>
June 30, 2011 Audited Financial Statements Fund Balances	<u>\$ 17,039,219</u>	<u>\$ 16,140</u>
	<u>Bond Interest and Redemption Fund</u>	<u>Debt Service Fund</u>
June 30, 2011 Unaudited Actuals Report Fund Balances	\$ 4,002,781	\$ 300,214
Overstatement of cash and investments with fiscal agent		(13,829)
Understatement of accumulated depreciation		<u> </u>
June 30, 2011 Audited Financial Statements Fund Balances	<u>\$ 4,002,781</u>	<u>\$ 286,385</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.

Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund
\$ 18,399	\$ 22,310,498	\$ 5,292,402	\$ 4,295	\$ 1,791,478
		(11,289)		
<u>\$ 18,399</u>	<u>\$ 22,310,498</u>	<u>\$ 5,281,113</u>	<u>\$ 4,295</u>	<u>\$ 1,791,478</u>

Cafeteria Enterprise Fund	Self-Insurance Fund
\$ 97,786	\$ 85,570
(9,969)	
<u>\$ 87,817</u>	<u>\$ 85,570</u>

	Long-Term Debt
June 30, 2011 Unaudited Actuals Report Total Liabilities	\$ 97,972,397
Understatement of certificates of participation payable	<u>10,000</u>
June 30, 2011 Audited Financial Statements Long-Term Debt Total Liabilities	<u>\$ 97,982,397</u>



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**INDEPENDENT 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, 2011, which collectively comprise the Novato Unified School District's basic financial statements and have issued our report thereon dated December 14, 2011. 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 2011-1 through 2011-5 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 no instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

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
Culver City, California
December 14, 2011



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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
Novato Unified School District
Novato, California

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Novato Unified School District (the District) as of and for the fiscal year ended June 30, 2011, which collectively comprise the Novato Unified School District's basic financial statements and have issued our report thereon dated December 14, 2011. We conducted our audit 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*. We have also audited the District's compliance with the requirements specified in the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Education Agencies*, applicable to the District's statutory requirements identified below for the fiscal year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

The auditing standards referred to above require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements occurred. An audit includes examining, on a test basis, evidence about the 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 a legal determination of the District's compliance with those requirements.

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

Description	Procedures in Panel's Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Incentive for Longer Instructional Day:		
School Districts	6	Yes
County offices of education	3	Not applicable
Gann Limit Calculation	1	Yes
Early Retirement Incentive Program	4	Not applicable
Classroom Teacher Salaries	1	Yes
Class Size Reduction:		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not applicable
Only One School Serving K-3	4	Not applicable

Description	Procedures in Panel's Audit Guide	Procedures Performed
Instructional Materials Fund:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
School Accountability Report Card	3	Yes
Contemporaneous Records of Attendance, for Charter Schools	1	Not applicable
Nonclassroom-Based Instruction/Independent Study, for Charter Schools	15	Not applicable
Mode of Instruction, for Charter Schools	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

In our opinion, the Novato Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the fiscal year ended June 30, 2011.

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
Culver City, California
December 14, 2011



PARTNERS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON 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 could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011. Novato Unified School District's major federal programs are identified in the summary of auditor's 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 could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011.

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.

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
Culver City, California
December 14, 2011

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FINDINGS AND RECOMMENDATIONS SECTION

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2011

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

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

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)	_____ Yes	<u> X </u> No	
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Identification of major programs

CFDA Number (s)

Name of Federal Program or Cluster

84.027, 84.027A, 84.173, 84.391
84.394
84.010, 84.389

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

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

\$300,000

Auditee qualified as low-risk auditee:	<u> X </u> Yes	_____ No	
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State Awards

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

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

Unqualified

Section II - Financial Statement Findings

FINDING 2011-1
FOOD SERVICE
INTERNAL CONTROL
30000

Condition:

During our review of internal control testing of cash receipts at food services, we noted that a control deficiency exists whereby the personnel receiving the cash bag deposits from the school sites, counts and verifies the cash receipts as well as makes changes to the sales reports and the currency counter in the system. No oversight, controls, or segregation of duties exist to ensure that the person receiving and counting the cash receipts is not posting unauthorized changes to the sales report or currency counter.

Effect:

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

Cause:

Lack of internal control, oversight, and segregation of duties on the part of the District.

Recommendation:

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

LEA's Corrective Action Plan:

A point of sale system (POS) is used for all food sale transactions. A FANS employee records the transaction into the POS and collects the cash. At the end of the day, the FANS employee counts the cash and enters the total amount collected into the POS. No changes can be made once the total cash amounts are entered. A report is then generated from the POS which will show if the cash agrees with the daily sales. A deposit is prepared by the FANS employee and is then sent to the central FANS department. The accounting technician recounts all of the cash receipts and reconciles the cash collected to the reports generated from the POS and prepares the deposits. If an irregularity is discovered, it is researched and reported to management. In the future, the FANS manager will be required to review and initial the daily deposits prepared by the FANS accounting technician.

FINDING 2011-2
EXPENDITURES SYSTEM
INTERNAL CONTROL
30000

Condition:

During our internal control testing of expenditures, it was noted that the District does not have formal purchasing policies and procedures. Therefore, not all purchases have purchase orders as approvals prior to the goods and services being rendered. While a pay voucher request is submitted for approval of payments, it does not have prior approval (purchase orders) on commitments to goods and services provided by vendors.

Effect:

The District is unable to address budget concerns in a timely and effective manner.

Cause:

Lack of formal purchasing policies and procedures requiring prior approvals before purchase commitments.

Recommendation:

We recommend that the District formalize purchasing policies and procedures and ensure that all purchases have approved purchase orders before commitments are made with vendors.

LEA's Corrective Action Plan:

The District concurs with the recommendation. Beginning in September, 2011, the District had already discontinued the use of payment vouchers for purchases for the same reasons addressed in the finding. Purchases must be made in accordance with the District's purchasing policies and procedures. Purchases must be made through the use of an approved purchase order. Payment vouchers should only be used in emergency situations or when the use of the purchase order is not an option; approval from Business Services would be required.

FINDING 2011-3
Accounts Payable
30000

Condition:

During our test of other postemployment benefit balances, we note that the District's portion of retiree health insurance benefits was not recorded to expenditure accounts when the payment was disbursed. Instead, all payments were recorded as a reduction of the liability account (Retiree H&W Object 9529). The District reconciles the insurance benefits yearly.

Effect:

Without reconciling the Retiree H&W account monthly, the District is unable to identify errors in a timely manner.

Cause:

Lack of oversight on the part of the District.

Recommendation:

We recommend that the District reconcile the payment monthly and allocate payment to expenditure accounts.

LEA's Corrective Action Plan:

The District will reconcile the retiree health and welfare payments on a monthly basis and allocate the payments to the appropriate expenditure account.

FINDING 2011-4
General
30000

Condition:

During our review of compensated absences, we noted that the amount of vacation hours that members of the Classified Supervisor Union can accumulate was set up incorrectly in the system.

Effect:

The system set up to calculate the vacation accrued hours is not in compliance with the vacation accrual policy per the Memorandum of Understanding.

Cause:

Lack of oversight on the part of the District.

Recommendation:

We recommend that accounting personnel review vacation accrual reports generated from the system after a new vacation accrual policy is set up.

LEA's Corrective Action Plan:

The vacation accrual report was corrected and updated to align with the vacation accrual policy. Personnel will review vacation accrual reports generated from the system on a monthly basis to ensure the accuracy of accruals.

FINDING 2011-5
ASSOCIATED STUDENT BODY
INTERNAL CONTROL
30000

Condition:

During our review of ASB cash disbursements at San Marin High School and San Jose Middle School, we noted that ASB funds were improperly used as gifts/donations to a non-profit organization.

Effect:

The District is not in compliance with California Constitution, Article 16, section 6 which prohibits making any gift of public funds to any individual or entity. The law clearly regards the misappropriation of public funds as a criminal act, with no minimum monetary limit specified, so it is imperative that the ASB avoid gifts of any amount.

Cause:

Lack of oversight on the part of the ASB office.

Recommendation:

We recommend that the District implement stronger controls and/or train its ASB staff and advisors on the laws, rules, and regulations as they relate to ASB compliance. In addition, funds raised for donations or supporting charities should not be commingled with ASB funds. All donations should be made directly to the non-profit organizations.

LEA's Corrective Action Plan:

In the future, school sites will be required to operate fund raising efforts for charitable purposes through the PTA and/or foundations rather than through the ASB.

Section III – Federal award findings and questioned costs

There were no federal award findings.

Section IV – State Award Findings and Questioned Costs

There were no state award findings.

Section I - 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.

Current Status:

Implemented

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.

Current Status:

Implemented

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.

Current Status:

Implemented

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.

Current Status:

Implemented

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.

Current Status:

Implemented

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.

Current Status:

Implemented

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.

Current Status:

Not Implemented, see current year finding # 2011-1.

Section II – Federal award findings and questioned costs

There were no federal award findings.

Section III – 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.

Current Status:

Implemented.

