

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

**AUDIT REPORT
June 30, 2013**

NOVATO UNIFIED SCHOOL DISTRICT
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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Board of Education
Novato Unified School District
Novato, California

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 1 to the basic financial statements effective July 1, 2012, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 61, *The Financial Reporting Entity: Omnibus*, an amendment of GASB Statements No. 14 and No. 34, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15, the Budgetary Comparison Schedule – General Fund on page 51, and the Schedule of Funding Progress for Other Post-Employment Benefits Other than Pensions Trend Information on page 53, 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.

Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining and individual fund financial statements and schedules, financial, and statistical information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the District. The 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 basic financial statements of the District.

The 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 was derived from and relates 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013, on our consideration of the 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* in considering the District's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
December 10, 2013

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2012-2013

JUNE 30, 2013

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, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report on page 1, notes to the basic financial statements, and the District's financial statements.

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

FINANCIAL HIGHLIGHTS

- General Fund revenues increased by \$686,018 or 1.07% from 2011-12 to 2012-13, while expenditures increased by \$568,052 or .89% for the same period. The increase in revenue is attributed to increase of 33 ADA and a slight increase on other state funding to higher enrollment. The increase in expenditures is primary due to a salary increase of 1% for 2012-13 and a 2% increase for 2011-12 paid in 2012-13 (retroactive pay increase)
- General Fund expenditures and other sources and uses exceeded revenues and other uses by \$15,877; the District ended the fiscal year with available reserves of \$12.96 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, capital assets were valued and reported at historical cost. The total of the District's capital assets, land, site, buildings, and equipment, valued on an acquisition cost basis was \$213.9 million. After depreciation, the June 30, 2013 book value for fixed assets totaled \$116.4 million
- A 1% salary increase for all employees was implemented at a total cost of \$450,703
- Class size was maintained at 20:1 for K-3, 30:1 for 4-8; and student contact of 155 for grades 9-12

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2012-2013

JUNE 30, 2013

FINANCIAL HIGHLIGHTS CONTINUED

- An early retirement incentive offered to all employees resulting in the retirement of 26 employees. The cost of the early retirement incentive was funded with \$444,607 from the Unrestricted Ending Fund Balance
- Reorganization of the technology department resulted in a shared Director with Curriculum and Instruction and site based tech support.
- Implementation of a Mental Health Program due to the transfer of responsibility for delivery of services from the County of Marin to the District
- Second year implementation of the boundary study resulting in neighborhood schools and better utilization of school facilities
- Continued Program Based Budgeting
- Identification and implementation of operational efficiencies

These accomplishments, and many others, were achieved as NUSD state funding was again reduced in 2012-13 as the State only funded 80 percent of the revenue limit, resulting in a loss of funding of \$10.1 million. The cumulative effect of this year over year loss of state revenue amounts to \$51 million – equivalent to more than one year of total state funding for the District.

NOVATO UNIFIED SCHOOL DISTRICT

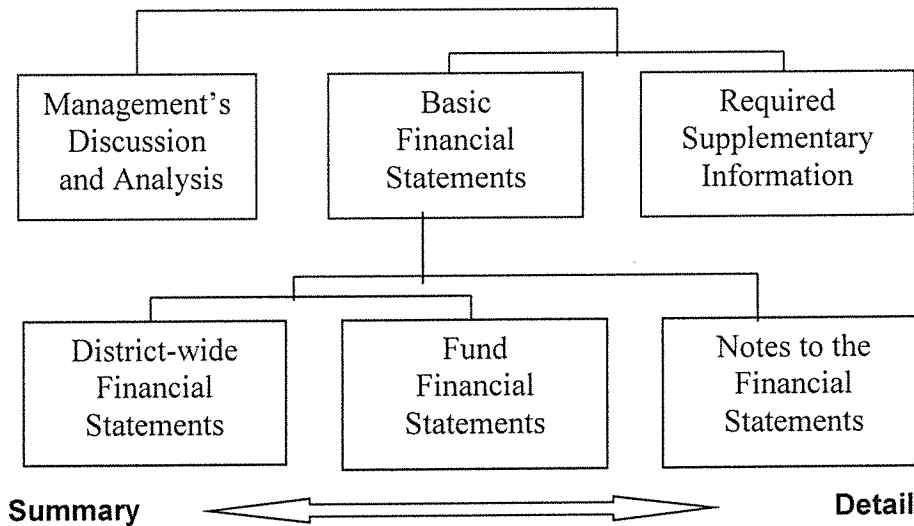
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2012-2013

JUNE 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Components of the Financial Section



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

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2012-2013

JUNE 30, 2013

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 Position 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 position includes all of the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into accounts 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 2012-13?"

These two statements report the School District's net position and changes in those assets. This change in net position 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 position, 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 position 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 2012-2013

JUNE 30, 2013

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, Building Fund, and Bond and Redemption Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the fiscal 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 Position. 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 2012-2013

JUNE 30, 2013

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The School District as a Whole

The District's net position was \$59.2 million at June 30, 2013. Of this amount \$15.1 million was unrestricted and \$7.1 was restricted. Net investment in capital assets account for \$37 million of the total net position. A comparative analysis of government-wide data is presented in Table 1.

**Table 1
Comparative Statement of Net Position**

	2012-2013			2011-2012
	Governmental Activities	Business-type Activities	Totals	Totals
Assets				
Cash and investments	\$29,375,874	\$61,700	\$29,437,574	\$33,914,128
Accounts receivable	13,135,647	216,782	13,352,429	13,141,622
Internal balances	14,957	-14,957	0	606
Inventories and prepaid expenses	98,857	16,176	115,033	227,631
Other assets	562,529		562,529	594,314
Capital assets (net of depreciation)	116,372,029	34,896	116,406,925	115,994,451
Total Assets	\$159,559,893	\$314,597	\$159,874,490	\$163,872,752
Liabilities				
Accounts payable and other current liabilities	\$6,345,059	\$14,846	\$6,359,905	\$6,028,365
Unearned revenue	40,332	3,757	44,089	122,578
Long-term liabilities	94,315,905		94,315,905	97,012,448
Total Liabilities	\$100,701,296	\$18,603	\$100,719,899	\$103,163,391
Net Position				
Net investment in capital assets	\$36,957,813	\$34,896	\$36,992,709	\$37,580,614
Restricted	7,102,999		7,102,999	8,226,525
Unrestricted	14,797,785	261,098	15,058,883	14,902,222
Total Net Position	\$58,858,597	\$295,994	\$59,154,591	\$60,709,361

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2012-2013

JUNE 30, 2013

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

The District's net position decreased \$1.6 million this fiscal year. (See Table 1)

Governmental Activities

The District's expenses for instructional and pupil services represented 70.7% percent of total expenses. The purely administrative activities of the District accounted for just 4.4% percent of total costs. The remaining 24.9% 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 Position**

	2012-2013			2011-2012
	Governmental Activities	Business- Type Activities	Total	Total
Revenues				
Program Revenues	\$15,229,799	\$2,106,373	\$17,336,172	\$14,135,123
General Revenues				
Taxes levied for general purposes	11,431,750		11,431,750	13,484,175
Taxes levied for debt service	6,263,987		6,263,987	5,801,939
Tax levied for other specific purposes	4,588,550		4,588,550	4,411,296
Federal and State	35,390,507		35,390,507	32,896,696
Interest and investment earnings	28,377	60	28,437	65,552
Interagency revenues	3,600		3,600	3,600
Miscellaneous and transfers	1,621,104	156,883	1,777,987	3,788,421
Total general revenues	\$74,557,674	\$2,263,316	\$76,820,990	\$74,586,802
Expenses				
Instruction	\$41,644,520		\$41,644,520	\$40,685,902
Instruction-related services	7,640,638		7,640,638	7,119,746
Pupil support services	4,636,394	2,006,189	6,642,583	6,708,794
General administration	3,375,344	89,013	3,464,357	4,059,903
Plant Services	11,487,634	4,766	11,492,400	13,030,068
Other	7,491,262		7,491,262	5,948,887
Total Expenses	\$76,275,792	\$2,099,968	\$78,375,760	\$77,553,300
Change in Net Position	(\$1,718,118)	\$163,348	(\$1,554,770)	(\$2,966,498)

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2012–2013

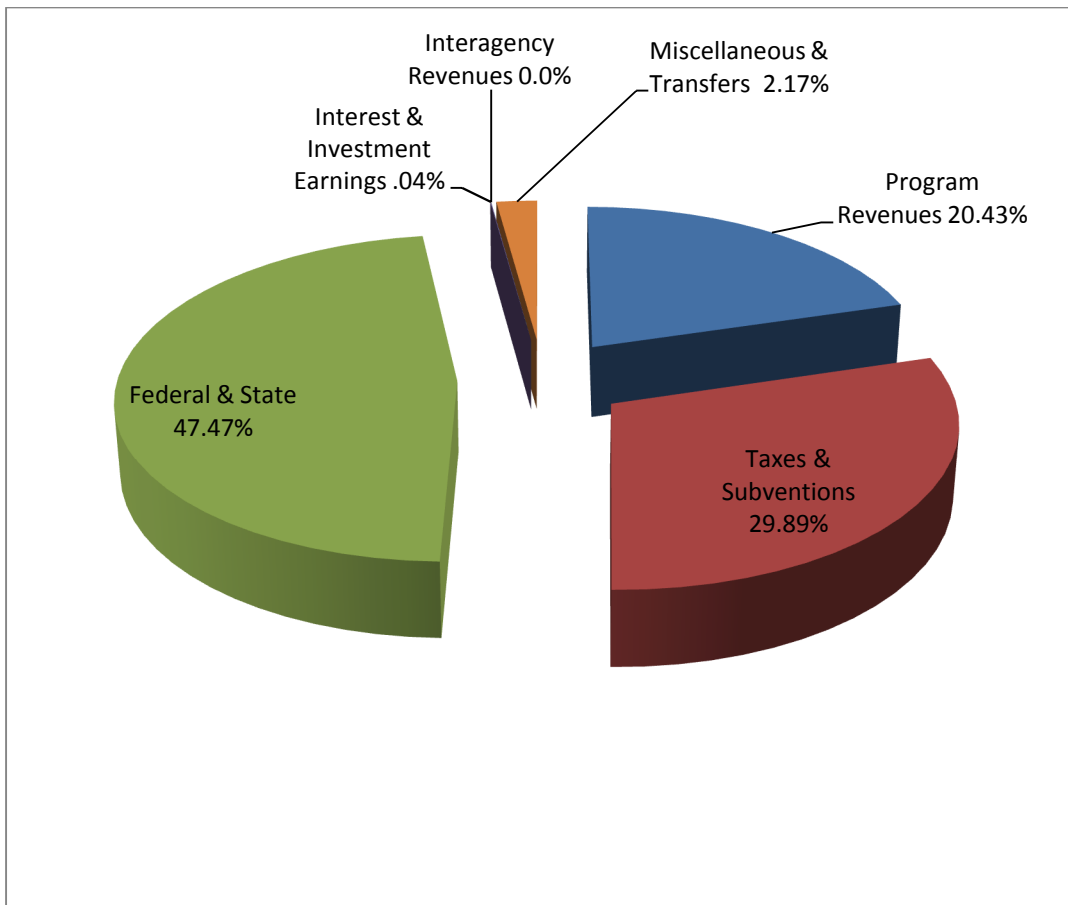
JUNE 30, 2013

**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 \$76.3 million. The amount that our local taxpayers financed for these activities through property taxes was \$22.3 million. Federal and State aid totaled \$35.4 million.

**Sources of Revenue for the 2012-2013 Fiscal Year-Governmental Activities
Figure 1**

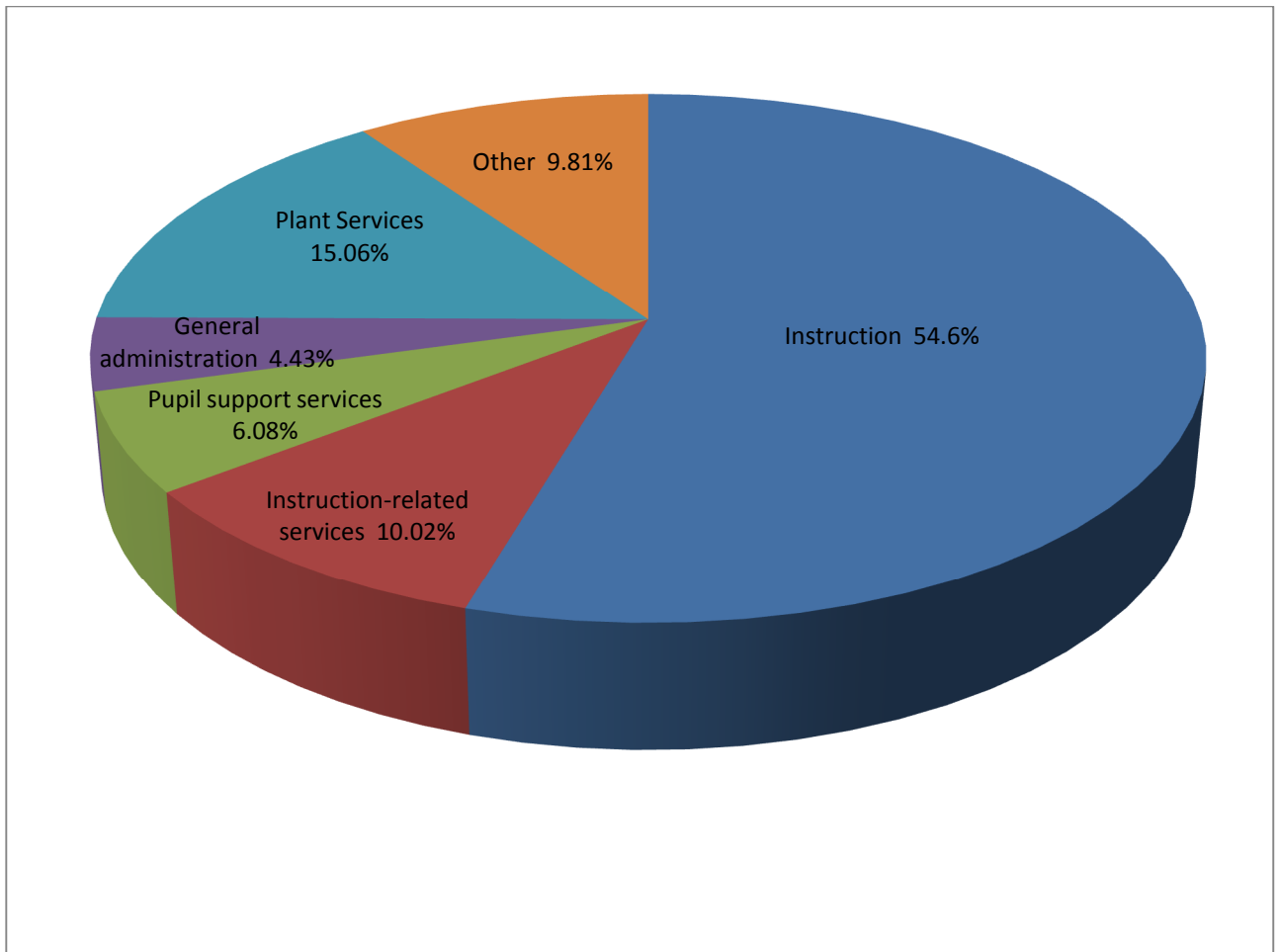


NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2012-2013

JUNE 30, 2013

**Expenses for Fiscal Year 2012-2013 – Governmental Activities
Figure 2**



NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2012-2013

JUNE 30, 2013

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 \$37.6 million, a decrease of \$4.8 million from the previous fiscal year's combined ending balance of \$42.4 million. This decrease is mainly reflected in the Other Governmental Funds. The General Fund balance decreased by \$15,877.

General Fund Budgetary Highlights

Over the course of the fiscal 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - Governmental Activities

By the end of the 2012-13 fiscal year, the District had invested \$213.9 million in a broad range of capital assets, including school buildings, administrative buildings, site improvements, vehicles, and equipment. The capital assets net of depreciation were \$116.4 million at June 30, 2013 which is an increase of \$417,459 from the previous year due to acquisitions and building and site improvements.

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2012-- 2013

JUNE 30, 2013

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, 2013 and 2012

	2012-13	2011-12	Difference	Percent Change
Land	\$8,431,737	\$8,431,737	\$0	
Site Improvement	\$8,726,156	\$8,713,926	\$12,230	0.14%
Buildings	\$94,129,803	\$86,345,339	\$7,784,464	9.02%
Equipment	\$1,556,333	\$1,107,641	\$448,692	40.51%
Work in Progress	\$3,528,000	\$11,355,927	-\$7,827,927	-68.93%
Total	\$116,372,029	\$115,954,570	\$417,459	0.36%

Depreciation expense was charged to governmental activities:

Total depreciation expense	<u><u>\$7,491,262</u></u>
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The primary increase in capital assets occurred in buildings, which include construction projects for site improvements and modernization of existing buildings. This fiscal year's major capital asset additions included:

- Hamilton Administrative Building
- Novato High School Cafeteria Addition
- San Marin High School Cafeteria
- Portables Pleasant Valley and Rancho Elementary Schools
- Deconstruction Buildings Parcel 1A
- Hamilton Phase Four Modernization
- Sinaloa/San Jose Track Renovations
- Tennis Court Renovation San Marin High School
- Security Camera Systems NHS/SMHS
- Hamilton Gymnasium Joint-Use Project

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2012-2013

JUNE 30, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Long-Term Debt

At June 30, 2013, the District had \$94.3 million in long-term debt outstanding.

Table 4
Comparative Schedule of Outstanding Debt, June 30, 2013 and 2012

	<u>2012-13</u>	<u>2011-12</u>
Certificates of Participation	\$0	\$255,000
General Obligation Bonds	\$89,335,000	\$91,450,000
General Obligation Bond Premiums	\$4,349,312	\$4,676,451
Capital Lease Obligations	\$62,713	\$56,580
Compensated Absences	\$368,880	\$374,417
Claims Payable	\$200,000	\$200,000
TOTAL	<u>\$94,315,905</u>	<u>\$97,012,448</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

Local Control Funding Formula (LCFF) is a new funding formula introduced in June 2013. This new funding model redistributes state dollars with funding generated by students identified as English Language Learners, socio-economically disadvantaged and foster youth. This new formula will provide varying amounts of revenue depending upon the student demographics. As the economy is expected to improve over the next several years, NUSD is expected to see growth in state revenues ranging from 3-5% percent. The accountability measure with this new funding formula requires school districts to approve and adopt a Local Control Accountability Plan (LCAP) beginning with the 2014-15 budget.

School districts did receive a significant influx of restricted funding to implement Common Core State Standards. NUSD received \$1.6 million in the current fiscal year, funding will be spent over the next two fiscal years.

In 2014-15 the District's parcel tax will expire. If the voters do not approve the renewal of the parcel tax, the District will lose \$4.3 million annually beginning in 2015-16.

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2012-2013

JUNE 30, 2013

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 POSITION

June 30, 2013

Assets	Governmental Activities	Business-type Activities	Totals
Cash in County treasury	\$ 29,366,254	\$ 61,700	\$ 29,427,954
Cash on hand and in banks	9,420		9,420
Revolving cash fund	200		200
Accounts receivable	13,135,647	216,782	13,352,429
Internal balances	14,957	(14,957)	
Inventories, at cost	44,727	16,176	60,903
Prepaid items	54,130		54,130
Deferred charges, net of accumulated amortization	380,355		380,355
Net OPEB assets	182,174		182,174
Land	8,431,737		8,431,737
Construction in progress	3,528,000		3,528,000
Site improvements	28,906,323		28,906,323
Buildings and improvements	167,943,994		167,943,994
Machinery and equipment	5,077,575	74,776	5,152,351
Less: accumulated depreciation	(97,515,600)	(39,880)	(97,555,480)
Total Assets	159,559,893	314,597	159,874,490
Liabilities			
Accounts payable	4,628,244	14,846	4,643,090
Interest payable	1,716,815		1,716,815
Unearned revenue	40,332	3,757	44,089
Long-term liabilities:			
Due within one year	2,536,956		2,536,956
Due in more than one year	91,778,949		91,778,949
Total Liabilities	100,701,296	18,603	100,719,899
Net Position			
Net investment in capital assets	36,957,813	34,896	36,992,709
Restricted for:			
Capital projects	1,828,264		1,828,264
Debt service	2,600,577		2,600,577
Educational programs	2,674,158		2,674,158
Unrestricted	14,797,785	261,098	15,058,883
Total net position	\$ 58,858,597	\$ 295,994	\$ 59,154,591

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 41,644,520	\$ 62,377	\$ 8,142,962	\$ 3,045,038
Instruction-related services:				
Instructional supervision and administration	2,037,075	7,360	752,485	
Instructional library, media, and technology	769,693	20,481	237,848	
School site administration	4,833,870	1,536	94,578	
Pupil services:				
Home-to-school transportation	2,048,327	240,168	744,386	
Food services	1,154			
All other pupil services	2,586,913	23,621	966,341	
General administration:				
Centralized data processing	585,834	657	7,628	
All other general administration	2,789,510	13,469	366,081	
Plant services	6,072,581	352	6,190	
Ancillary services	442,797	11,794	136,958	
Enterprise activities				
Interest on long-term debt	4,131,766			
Other outgo	840,490	27,550	319,939	
Depreciation (unallocated)	7,491,262			
Total governmental activities	76,275,792	409,365	11,775,396	3,045,038
Business-type activities				
Pupil services:				
Food services	2,006,189	607,412	1,287,607	
General administration:				
All other general administration	89,013	27,087	55,726	
Plant services	4,766	1,450	2,984	
Other outgo		40,595	83,512	
Total business-type activities	2,099,968	676,544	1,429,829	
Total government	\$ 78,375,760	\$ 1,085,909	\$ 13,205,225	\$ 3,045,038

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 position
Net position beginning of fiscal year
Net position end of fiscal year

See notes to basic financial statements

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
\$ (30,394,143)	\$ -	\$ (30,394,143)
(1,277,230)		(1,277,230)
(511,364)		(511,364)
(4,737,756)		(4,737,756)
(1,063,773)		(1,063,773)
(1,154)		(1,154)
(1,596,951)		(1,596,951)
(577,549)		(577,549)
(2,409,960)		(2,409,960)
(6,066,039)		(6,066,039)
(294,045)		(294,045)
(4,131,766)		(4,131,766)
(493,001)		(493,001)
(7,491,262)		(7,491,262)
(61,045,993)		(61,045,993)
	(111,170)	(111,170)
	(6,200)	(6,200)
	(332)	(332)
	124,107	124,107
	6,405	6,405
(61,045,993)	6,405	(61,039,588)
11,431,750		11,431,750
6,263,987		6,263,987
4,588,550		4,588,550
35,390,507		35,390,507
28,377	60	28,437
3,600		3,600
1,754,501	23,486	1,777,987
(133,397)	133,397	
59,327,875	156,943	59,484,818
(1,718,118)	163,348	(1,554,770)
60,576,715	132,646	60,709,361
\$ 58,858,597	\$ 295,994	\$ 59,154,591

NOVATO UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2013

	General Fund	Building Fund	Bond Interest Redemption Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash in County treasury	\$ 7,071,742	\$ 14,409,545	\$ 4,304,085	\$ 3,254,491	\$ 29,039,863
Cash on hand and in banks	9,420				9,420
Cash in revolving fund	200				200
Accounts receivable	13,116,354	3,300		15,993	13,135,647
Due from other funds	148,354			310,484	458,838
Inventory, at cost	44,727				44,727
Prepaid items	54,130				54,130
Total assets	\$ 20,444,927	\$ 14,412,845	\$ 4,304,085	\$ 3,580,968	\$ 42,742,825
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 4,151,110	\$ 460,391	\$ -	\$ 16,568	\$ 4,628,069
Due to other funds	521,259				521,259
Unearned revenue	40,332				40,332
Total liabilities	4,712,701	460,391		16,568	5,189,660
Fund balances:					
Nonspendable					
Revolving cash	200				200
Stores inventories	44,727				44,727
Prepaid items	54,130				54,130
Restricted					
Medi-Cal billing option	141,109				141,109
English Language Acquisition Program	8,397				8,397
Lottery: Instructional material	492,428				492,428
Economic Impact Aid (EIA)	139,760				139,760
Economic Impact Aid (LEP)	298,841				298,841
Other Restricted Local					
Construction		13,952,454		1,828,264	15,780,718
Debt service			4,304,085	13,307	4,317,392
Ongoing & Major Maintenance Account	116,538				116,538
Other Restricted Local	1,477,085				1,477,085
Committed					
Adult education program				75,122	75,122
Assigned					
Deferred maintenance				1,647,707	1,647,707
Unassigned					
	12,959,011				12,959,011
Total fund balances	15,732,226	13,952,454	4,304,085	3,564,400	37,553,165
Total liabilities and fund balances	\$ 20,444,927	\$ 14,412,845	\$ 4,304,085	\$ 3,580,968	\$ 42,742,825

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2013

Total fund balances - governmental funds \$ 37,553,165

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	\$	213,887,629	
Accumulated depreciation		<u>(97,515,600)</u>	
Net			116,372,029

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	\$	(4,349,312)	
Unamortized deferred charges		<u>380,355</u>	(3,968,957)

In governmental funds, Net OPEB asset has not been included as financial resources. 182,174

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. (1,716,815)

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

General obligation bonds payable	\$	(89,335,000)	
Capital leases		(62,713)	
Compensated absences		<u>(368,880)</u>	
Total			(89,766,593)

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 position (included claims payable \$200,000)

	<u>203,594</u>
Total net position, governmental activities	<u><u>\$ 58,858,597</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, 2013

	General Fund	Building Fund	Bond Interest Redemption Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Revenue limit sources:					
State apportionments	\$ 28,594,619	\$ -	\$ -	\$ -	\$ 28,594,619
Local sources	11,172,731				11,172,731
Federal	3,678,143				3,678,143
Other state	9,307,866		58,127	3,045,038	12,411,031
Other local	11,922,765	21,349	6,210,988	679,445	18,834,547
Total revenues	64,676,124	21,349	6,269,115	3,724,483	74,691,071
Expenditures:					
Certificated salaries	31,845,283			31,908	31,877,191
Classified salaries	9,898,747	142,370		149	10,041,266
Employee benefits	9,838,636	42,482		3,319	9,884,437
Books and supplies	2,474,697	27,821		163,865	2,666,383
Contracted services and other operating expenditures	9,098,716	202,030		130,363	9,431,109
Capital outlay	70,397	6,313,996		1,556,356	7,940,749
Other outgo	944,358				944,358
Debt service:					
Principal	28,212		2,115,000	255,000	2,398,212
Interest and fiscal charges	6,041		4,202,010	6,949	4,215,000
Total expenditures	64,205,087	6,728,699	6,317,010	2,147,909	79,398,705
Excess of revenues over (under) expenditures	471,037	(6,707,350)	(47,895)	1,576,574	(4,707,634)
Other Financing Sources (Uses):					
Proceeds from long term debt	34,345				34,345
Transfers in		3,045,038		921,661	3,966,699
Transfers out	(521,259)			(3,656,215)	(4,177,474)
Total other financing sources (uses)	(486,914)	3,045,038		(2,734,554)	(176,430)
Net change in fund balances	(15,877)	(3,662,312)	(47,895)	(1,157,980)	(4,884,064)
Fund balances, July 1, 2012	15,748,103	17,614,766	4,351,980	4,722,380	42,437,229
Fund balances, June 30, 2013	<u>\$ 15,732,226</u>	<u>\$ 13,952,454</u>	<u>\$ 4,304,085</u>	<u>\$ 3,564,400</u>	<u>\$ 37,553,165</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, 2013

Total net change in fund balances - governmental funds	\$	(4,884,064)
<p>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 \$7,909,853 exceeded depreciation expense (\$7,491,262) in the period.</p>		
		418,591
<p>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.</p>		
		2,398,212
<p>In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as additions to long-term debt.</p>		
		(34,345)
<p>In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:</p>		
		(1,132)
<p>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:</p>		
		34,127
<p>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:</p>		
		5,537
<p>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:</p>		
		(2,712)
<p>Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because the internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental activities in the statement of activities. The net increase in the internal service fund was:</p>		
		49,602
<p>In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or an other financing use at the time of issuance. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is:</p>		
Amortization of premium for the period	\$	327,139
		327,139
<p>In governmental funds, debt issuance costs are recognized as expenditures at the time of issuance. In the government-wide statements, issuance costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:</p>		
Amortization of issuance costs for the period:	\$	(29,073)
		(29,073)
Change in net position of governmental activities	\$	<u>(1,718,118)</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

	Enterprise Funds			Governmental Activities Internal Service Fund Self-Insurance Fund
	General Education Preschool Fund	Cafeteria Enterprise Fund	Totals	
Assets				
Current assets:				
Cash in County treasury	\$ 61,700	\$ -	\$ 61,700	\$ 326,391
Accounts receivable		216,782	216,782	
Due from other funds		133,397	133,397	77,378
Inventory, at cost		16,176	16,176	
Total current assets	61,700	366,355	428,055	403,769
Non-current assets:				
Capital assets		74,776	74,776	
Less: accumulated depreciation		(39,880)	(39,880)	
Total non-current assets		34,896	34,896	
Total assets	61,700	401,251	462,951	403,769
Liabilities				
Current liabilities:				
Accounts payable		14,846	14,846	175
Due to other funds		148,354	148,354	
Unearned revenue		3,757	3,757	
Total current liabilities		166,957	166,957	175
Noncurrent liabilities:				
Claims payable				200,000
Total noncurrent liabilities				200,000
Total liabilities		166,957	166,957	200,175
Net Position				
Net investment in capital assets		34,896	34,896	
Unrestricted	61,700	199,398	261,098	203,594
Total net position	\$ 61,700	\$ 234,294	\$ 295,994	\$ 203,594

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For Fiscal Year Ended June 30, 2013

	Enterprise Funds			Governmental
	General Education Preschool Fund	Cafeteria Enterprise Fund	Totals	Activities Internal Service Fund Self-Insurance Fund
Operating Revenues:				
Federal revenue	\$ -	\$ 1,280,288	\$ 1,280,288	\$ -
Other state revenue		110,651	110,651	
Other local revenue	22,506	716,323	738,829	5,741
Total revenues	22,506	2,107,262	2,129,768	5,741
Operating Expenses:				
Classified salaries		890,316	890,316	
Employee benefits		262,670	262,670	
Books and supplies		816,394	816,394	6,085
Contracted services and other operating expenses		36,590	36,590	27,432
Depreciation		4,985	4,985	
Other outgo		89,013	89,013	
Total expenses		2,099,968	2,099,968	33,517
Operating income (loss)	22,506	7,294	29,800	(27,776)
Non-Operating Revenues:				
Interest income	60	91	151	
Total non-operating revenues	60	91	151	
Income (loss) before transfers	22,566	7,385	29,951	(27,776)
Transfer in		133,397	133,397	77,378
Change in net position	22,566	140,782	163,348	49,602
Net position, July 1, 2012	39,134	93,512	132,646	153,992
Net position, June 30, 2013	\$ 61,700	\$ 234,294	\$ 295,994	\$ 203,594

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For Fiscal Year Ended June 30, 2013

	Enterprise Funds			Governmental Activities
	General Education Preschool Fund	Cafeteria Enterprise Fund	Totals	Internal Service Fund Self-Insurance Fund
Cash flows from operating activities:				
Cash received from Federal and State nutrition programs	\$ -	\$ 1,414,590	\$ 1,414,590	\$ -
Cash received from customers	22,506	716,323	738,829	
Cash received from insurance premiums				5,741
Cash paid to other funds				(4,523)
Cash paid for salaries and benefits		(1,152,986)	(1,152,986)	
Cash received (paid) for books and supplies	606	(972,068)	(971,462)	(6,085)
Cash paid for contracted services and other operating expenses	(306)	(52,460)	(52,766)	(27,307)
Cash paid for other outgo		(89,013)	(89,013)	
Net cash provided (used) by operating activities	<u>22,806</u>	<u>(135,614)</u>	<u>(112,808)</u>	<u>(32,174)</u>
Cash flows from investing activities:				
Interest received	60	91	151	
Net cash provided by investing activities	<u>60</u>	<u>91</u>	<u>151</u>	
Cash flows from noncapital and related financing activities:				
Transfers from other funds		133,397	133,397	77,378
Net cash provided (used) by noncapital and related financing activities		<u>133,397</u>	<u>133,397</u>	<u>77,378</u>
Net increase (decrease) in cash and cash equivalents	22,866	(2,126)	20,740	45,204
Cash and cash equivalents at July 1, 2012	<u>38,834</u>	<u>2,126</u>	<u>40,960</u>	<u>281,187</u>
Cash and cash equivalents at June 30, 2013	<u>\$ 61,700</u>	<u>\$ -</u>	<u>\$ 61,700</u>	<u>\$ 326,391</u>
Reconciliation to Statement of Net Position:				
Cash in County treasury	<u>\$ 61,700</u>	<u>\$ -</u>	<u>\$ 61,700</u>	<u>\$ 326,391</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ 22,506	\$ 7,294	\$ 29,800	\$ (27,776)
Adjustments to reconcile operating income (loss) to net cash provided (used)				
Depreciation		4,985	4,985	
(Increase) decrease in operating assets:				
Accounts receivable		23,651	23,651	
Inventory		3,775	3,775	
Due from other funds	606	(133,397)	(132,791)	(4,523)
Increase (decrease) in operating liabilities:				
Accounts payable	(306)	(19,645)	(19,951)	125
Due to other funds		(22,277)	(22,277)	
Net cash provided (used) by operating activities	<u>\$ 22,806</u>	<u>\$ (135,614)</u>	<u>\$ (112,808)</u>	<u>\$ (32,174)</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2013

	Agency Funds			Totals
	Payroll Revolving Fund	Novato Public Access TV Fund	Student Body Funds	
Assets				
Cash in County treasury	\$ 13,020	\$ 767	\$ -	\$ 13,787
Cash on hand and in banks			272,451	272,451
Accounts receivable	1,719	51,704		53,423
Total assets	\$ 14,739	\$ 52,471	\$ 272,451	\$ 339,661
Liabilities				
Accounts payable	\$ 14,739	\$ 52,471	\$ -	\$ 67,210
Due to student groups			272,451	272,451
Total liabilities	\$ 14,739	\$ 52,471	\$ 272,451	\$ 339,661

See notes to basic financial statements

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

The reporting entity is the Novato Unified School District. There are no component units included in this report which meet the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39 and GASB Statement No. 61.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position 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 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 Position. The Statement of Revenues, Expenses, and Changes in Net Position for proprietary funds present increases (i.e., revenues) and decrease (i.e. expenses) in the net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

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

Fiduciary funds are reported using the economic resources measurement focus.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). For proprietary fund type activities, the District has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

D. Basis of Accounting

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

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within one year after fiscal year end.

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

Unearned revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned 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 unearned 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, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, nonmajor, proprietary, and fiduciary funds as follows:

Major Governmental Funds:

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

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

The Bond Interest and Redemption Fund is used to account for general obligation bond interest and redemption of bond principal.

Nonmajor Governmental Funds:

Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund. 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 one nonmajor debt service fund:

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 two major enterprise funds:

1. The General Education Preschool Fund accounts for the before and after school childcare program funded by parent fees.
2. 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 two other agency funds.

1. Payroll Revolving Fund is used to account for assets held by the District in a trustee capacity for other governmental agencies.
2. Novato Public Television Access Fund (NPAT) is used to account for activities of the non-profit organization.

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)

I. Assets, Liabilities, and Equity (Continued)

5. Capital Assets

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Assets, Liabilities, and Equity (Continued)

6. Unearned 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. Unearned revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

7. Compensated Absences

All vacation pay and 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 Position.

9. Fund Balances

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the District.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Assets, Liabilities, and Equity (Continued)

9. Fund Balances (Continued)

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose 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.

10. Revenue Limit/Property Tax

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Estimates

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

K. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 60

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to Service Concession Arrangements. This Statement improves consistency in reporting and enhances the comparability of the accounting and financial reporting of Service Concession Arrangements among state and local governments. Implementation of the GASB Statement No. 60, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 61

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 61 "The Financial Reporting Entity: Omnibus", an amendment of GASB Statements No. 14 and No. 34. This statement is effective for periods beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for component units. The Statement modifies certain requirements for inclusion of component units in the financial reporting entity and clarifies the reporting of equity interests in legally separate organizations. Implementation of the GASB Statement No. 61 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 62

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in *Pre-November 30, 1989 FASB and AICPA Pronouncements*." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This Statement specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. Implementation of the GASB Statement No. 62, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 63

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to establish guidance for reporting deferred outflows or resources, deferred inflows of resources, and net position in a statement of financial position. This Statement sets forth framework that specifies where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities should be displayed. This Statement also specifies how net position, no longer referred to as net assets, should be displayed. Implementation of the Statement and the impact of the District's financial statements are explained in Note 18 – Net Position.

NOTE 2 - CASH AND INVESTMENTS

The District's cash and investments as of June 30, 2013 consisted of the following:

Cash on hand and in banks	\$ 282,071
Cash and investments with County Treasurer	<u>29,441,741</u>
Total cash and investments	<u>\$ 29,723,812</u>

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

Cash in County Treasury, statement of net position	\$ 29,427,954
Cash on hand and in banks, statement of net position	9,420
Cash in revolving fund, statement of net position	200
Cash in County Treasury, statement of fiduciary assets and liabilities	13,787
Cash on hand and in banks, statement of fiduciary assets and liabilities	<u>272,451</u>
Total cash and investments	<u>\$ 29,723,812</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 (\$29,441,741 as of June 30, 2013). The fair value of this pool as of that date, as provided by the plan sponsor, was \$29,441,741. 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 (\$281,871 as of June 30, 2013) and in the revolving fund (\$200) are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

NOTE 2 - CASH AND INVESTMENTS (Continued)

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.

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 is, 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	\$ 29,441,741	\$ 29,441,741	\$ -	\$ -	\$ -
Total	\$ 29,441,741	\$ 29,441,741	\$ -	\$ -	\$ -

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	\$ 29,441,741	N/A	\$ -	\$ -	\$ -	\$ -	\$ 29,441,741
Total	\$ 29,441,741		\$ -	\$ -	\$ -	\$ -	\$ 29,441,741

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.

NOTE 2 - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk (Continued)

As of June 30, 2013, 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	
Capital outlay	\$ 33,206
Principal	28,212
Interest and fiscal charges	6,041
Non-major Governmental Fund	
Debt Service Fund	
Principal	255,000
Interest and fiscal charges	6,949

NOTE 4 - RECEIVABLES

Receivables as of June 30, 2013, consist of the following:

	General Fund	Building Fund	Other Governmental Funds	Cafeteria Enterprise Fund	Fiduciary Funds
Federal Government					
Categorical Aid Programs	\$ 1,755,100	\$ -	\$ -	\$ 199,506	\$ -
State Government					
Categorical Aid Programs	1,762,002			17,276	
Lottery	607,811				
Revenue Limit	7,887,103				
Local Government					
Fees	180,190				53,423
Miscellaneous	924,148	3,300	15,993		
Total Accounts Receivable	\$ 13,116,354	\$ 3,300	\$ 15,993	\$ 216,782	\$ 53,423

NOTE 5 - INTERFUND TRANSACTIONS

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

Due From/Due To Other Funds

Individual fund receivable and payable balances as of June 30, 2013, are as follows:

Funds	Interfund Receivables	Interfund Payables
Major Governmental Funds:		
General Fund	\$ 148,354	\$ 521,259
Major Enterprise Fund:		
Cafeteria Enterprise Fund	133,397	148,354
Internal Service Fund:		
Self Insurance Fund	77,378	
Non-major Governmental Funds:		
Adult Education Fund	48,000	
Deferred Maintenance Fund	262,484	
Totals	\$ 669,613	\$ 669,613

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 2012-2013 fiscal year, are as follows:

Funds	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ -	\$ 521,259
Building Fund	3,045,038	
Major Enterprise Fund:		
Cafeteria Enterprise Fund	133,397	
Internal Service Fund:		
Self Insurance Fund	77,378	
Non-major Governmental Funds:		
Adult Education Fund	48,000	
Deferred Maintenance Fund	262,484	
Capital Facilities Fund	611,177	
County Facilities Fund		3,045,038
Special Reserve for Capital Outlay Projects Fund		600,000
Debt Service Fund		11,177
Totals	\$ 4,177,474	\$ 4,177,474

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2013, is shown below:

Governmental Activities:

	Balance June 30, 2012	Additions	Deletions	Completed Projects	Balance June 30, 2013
Capital Assets, not being depreciated:					
Land	\$ 8,431,737	\$ -	\$ -	\$ -	\$ 8,431,737
Construction in progress	11,355,927	7,198,776	1,132	(15,025,571)	3,528,000
Total capital assets not being depreciated	<u>19,787,664</u>	<u>7,198,776</u>	<u>1,132</u>	<u>(15,025,571)</u>	<u>11,959,737</u>
Capital Assets, being depreciated:					
Improvement of sites	28,118,099	70,373		717,851	28,906,323
Buildings and building improvements	153,806,669	496,387		13,640,938	167,943,994
Machinery and equipment	4,266,476	144,317		666,782	5,077,575
Total capital assets being depreciated	<u>186,191,244</u>	<u>711,077</u>		<u>15,025,571</u>	<u>201,927,892</u>
Less accumulated depreciation for:					
Improvement of sites	19,404,173	775,994			20,180,167
Buildings and building improvements	67,461,330	6,352,861			73,814,191
Machinery and equipment	3,158,835	362,407			3,521,242
Total accumulated depreciation	<u>90,024,338</u>	<u>7,491,262</u>			<u>97,515,600</u>
Total capital assets, being depreciated, net	<u>96,166,906</u>	<u>(6,780,185)</u>		<u>15,025,571</u>	<u>104,412,292</u>
Governmental activities capital assets, net	<u>\$ 115,954,570</u>	<u>\$ 418,591</u>	<u>\$ 1,132</u>	<u>\$ -</u>	<u>\$ 116,372,029</u>

Depreciation expense was charged to governmental activities as follows:

Governmental activities:

Unallocated	\$ 7,491,262
Total depreciation expense	<u>\$ 7,491,262</u>

Business-type Activities:

	Balance June 30, 2012	Additions	Deletions	Completed Projects	Balance June 30, 2013
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	34,895	4,985			39,880
Total accumulated depreciation	<u>34,895</u>	<u>4,985</u>			<u>39,880</u>
Total capital assets, being depreciated, net	<u>39,881</u>	<u>(4,985)</u>			<u>34,896</u>
Business-type activity capital assets, net	<u>\$ 39,881</u>	<u>\$ (4,985)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,896</u>

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

Food services	\$ 4,985
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NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 7 – GENERAL OBLIGATION BONDS

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, 2013, the unamortized premium balance was \$365,289.

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, 2013, the unamortized premium was \$1,233,592.

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 County of Marin, California, (the County), on behalf of the District issued (in the aggregate principal amount) \$24,290,000 of General Obligation Bonds designated as "Novato Unified School District 2011 General Obligation Refunding Bonds" on September 22, 2011. The 2011 bonds were issued at a premium of \$3,118,323. As of June 30, 2013, the unamortized premium was \$2,750,431. The purpose of these bonds were to provide funds to refund all of the remaining outstanding Novato Unified School District General Obligation Bonds, Election of 2001, Series 2002 and to pay costs of issuance of the Bonds.

The outstanding general obligation bonded debt of the Novato Unified School District, as of June 30, 2013, is as follows:

Bond Issue	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Balance Outstanding June 30, 2012	Issued Current Fiscal Year	Redeemed Current Fiscal Year	Balance Outstanding June 30, 2013
2005	3/23/2006	3.0 -5.125	8/1/2029	\$ 30,000,000	\$ 28,445,000	\$ -	\$ 210,000	\$ 28,235,000
2006	7/14/2006	4.0 - 5.0	8/1/2026	40,200,000	38,715,000		810,000	37,905,000
2011	9/22/2011	2.0-5.0	8/1/2026	24,290,000	24,290,000		1,095,000	23,195,000
				<u>\$ 94,490,000</u>	<u>\$ 91,450,000</u>	<u>\$ -</u>	<u>\$ 2,115,000</u>	<u>\$ 89,335,000</u>

The annual requirements to amortize general obligation bonds payable outstanding as of June 30, 2013, are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2014	\$ 2,025,000	\$ 4,135,638	\$ 6,160,638
2015	2,400,000	4,051,510	6,451,510
2016	2,805,000	3,944,480	6,749,480
2017	3,260,000	3,810,705	7,070,705
2018	3,760,000	3,661,882	7,421,882
2019-2023	27,270,000	15,194,795	42,464,795
2024-2028	38,940,000	6,764,076	45,704,076
2029-2030	8,875,000	463,094	9,338,094
	<u>\$ 89,335,000</u>	<u>\$ 42,026,180</u>	<u>\$ 131,361,180</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, 2013, the principal balance outstanding of the 1997 COPs was fully paid.

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 the age of 65. Participants of the Plan include 27 retirees and 452 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 2013, the District contributed \$86,330 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	\$ 89,700
Interest on net OPEB obligation	(9,244)
Adjustment to annual required contribution	8,586
Annual OPEB cost (expense)	<u>89,042</u>
Contributions made	<u>(86,330)</u>
Increase (decrease) in net OPEB obligation	2,712
Net OPEB obligation (assets) - beginning of fiscal year	<u>(184,886)</u>
Net OPEB obligation (assets) - end of fiscal year	<u><u>\$ (182,174)</u></u>

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contribution	Net OPEB Obligation (Assets)
6/30/2011	\$ 100,835	153.50%	\$ (159,635)
6/30/2012	100,712	125.07%	(184,886)
6/30/2013	89,042	96.95%	(182,174)

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$802,100, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$802,100.

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

Actuarial Methods and Assumptions

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

In the July 1, 2012, 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 return on plan assets expected to be held by the plan, an inflation rate of 3.5% per year, and payroll increase of 3.5% per year. The actuarial value of assets is not applicable (no assets as of the initial valuation date). The Unfunded Actuarial Accrued Liability is amortized over 30 years beginning with fiscal year 2008-09. There are 26 years remaining on this schedule as of July 1, 2012.

NOTE 10 – CLAIMS PAYABLE

As of June 30, 2013, a 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.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 11 – CAPITAL LEASE

The District leases four (4) computers under a master lease purchase agreement for four (4) years, which provides for title to pass upon expiration of the lease period. The fair market value of the leased assets is \$77,301 with an annual interest rate of 5.64 percent.

On September 21, 2012, the District entered into an additional lease agreement for three (3) additional computers for three (3) years. This agreement provides a bargain equipment purchase option at the end of the lease term. The fair market value of the leased assets is \$34,345 with an annual interest rate of 7.13 percent.

Future minimum lease payments are as follows:

Governmental Activities:

Fiscal Years Ending June 30,	Lease Payment
2014	\$ 34,253
2015	34,253
Total	68,506
Less amount representing interest	(5,793)
Present value of net minimum lease payments	<u>\$ 62,713</u>

NOTE 12 – LONG-TERM DEBT

A schedule of changes in long-term debt for the fiscal year ended June 30, 2013, is shown below:

Governmental Activities:

	Balance June 30, 2012	Additions	Repayment and Reductions	Balance June 30, 2013	Due Within One Year
General Obligation Bonds	\$ 91,450,000	\$ -	\$ 2,115,000	\$ 89,335,000	\$ 2,025,000
Bond Premiums	4,676,451		327,139	4,349,312	327,140
Certificates of Participation	255,000		255,000		
Capital Leases Payable	56,580	34,345	28,212	62,713	30,399
Claims Payable	200,000			200,000	
Compensated Absences	374,417	162,758	168,295	368,880	154,417
Totals	<u>\$ 97,012,448</u>	<u>\$ 197,103</u>	<u>\$ 2,893,646</u>	<u>\$ 94,315,905</u>	<u>\$ 2,536,956</u>

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the Novato Unified School District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 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, 2013, 2012, and 2011, were \$2,534,463, \$2,451,071, and 2,418,048, respectively, and equal 100% of the required contributions for each fiscal year.

California Public Employees' Retirement System (CalPERS)

Plan Description

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

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

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 2012-2013, was 11.417% 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, 2013, 2012, and 2011, were \$1,029,642, \$1,002,584, and \$1,020,120, respectively, and equal 100% of the required contributions for each fiscal year.

NOTE 14 – STUDENT BODY FUNDS

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

NOTE 15 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Litigation

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

NOTE 16 – JOINT VENTURE (JOINT POWER AGREEMENT)

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 the JPA is not a component unit of the District for financial reporting purposes.

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

NOTE 17 – DEFERRED COMPENSATION PLAN

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

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

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

NOTE 18 – NET POSITION

The government-wide and proprietary funds financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net Investment In Capital Assets – 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 Position – 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 Position – This category represents net position of the District, not restricted for any project or other purpose.

NOTE 19 – SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through December 10, 2013, the date these financial statements were available to be issued, and has determined there were no material events requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

NOVATO UNIFIED SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget Positive (Negative)
Revenues:				
Revenue limit sources:				
State apportionments	\$ 26,637,727	\$ 28,573,806	\$ 28,594,619	\$ 20,813
Local sources	13,015,815	11,099,864	11,172,731	72,867
Federal	2,995,493	4,215,949	3,678,143	(537,806)
Other state	8,927,100	9,202,409	9,307,866	105,457
Other local	9,471,521	11,757,076	11,922,765	165,689
Total revenues	<u>61,047,656</u>	<u>64,849,104</u>	<u>64,676,124</u>	<u>(172,980)</u>
Expenditures:				
Certificated salaries	30,886,875	31,858,982	31,845,283	13,699
Classified salaries	9,626,797	9,991,945	9,898,747	93,198
Employee benefits	10,942,068	9,986,488	9,838,636	147,852
Books and supplies	2,210,379	3,595,847	2,474,697	1,121,150
Contracted services and other operating expenditures	8,715,736	10,121,779	9,098,716	1,023,063
Capital outlay	20,488	37,191	70,397	(33,206)
Other outgo	1,226,662	1,143,462	944,358	199,104
Debt service:				
Principal			28,212	(28,212)
Interest and fiscal charges			6,041	(6,041)
Total expenditures	<u>63,629,005</u>	<u>66,735,694</u>	<u>64,205,087</u>	<u>2,530,607</u>
Excess of revenues over (under) expenditures	<u>(2,581,349)</u>	<u>(1,886,590)</u>	<u>471,037</u>	<u>2,357,627</u>
Other Financing Sources (Uses):				
Proceeds from long term debt			34,345	34,345
Transfers out	<u>(443,881)</u>	<u>(518,736)</u>	<u>(521,259)</u>	<u>(2,523)</u>
Total other financing sources (uses)	<u>(443,881)</u>	<u>(518,736)</u>	<u>(486,914)</u>	<u>31,822</u>
Net change in fund balance	(3,025,230)	(2,405,326)	(15,877)	2,389,449
Fund balance, July 1, 2012	<u>15,748,103</u>	<u>15,748,103</u>	<u>15,748,103</u>	
Fund balance, June 30, 2013	<u>\$ 12,722,873</u>	<u>\$ 13,342,777</u>	<u>\$ 15,732,226</u>	<u>\$ 2,389,449</u>

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NOVATO UNIFIED SCHOOL DISTRICT
 OTHER POST-EMPLOYMENT BENEFIT TREND INFORMATION
 June 30, 2013

Other Post-employment Benefits

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%
7/1/12	802,100	-	802,100	0%	41,860,000	1.92%

* Not available

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SUPPLEMENTARY INFORMATION

NOVATO UNIFIED SCHOOL DISTRICT
BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2013

	Adult Education Fund	Deferred Maintenance Fund	Totals
Assets			
Cash in County treasury	\$ 28,178	\$ 1,385,223	\$ 1,413,401
Due from other funds	48,000	262,484	310,484
	<u>76,178</u>	<u>1,647,707</u>	<u>1,723,885</u>
Total assets	<u>\$ 76,178</u>	<u>\$ 1,647,707</u>	<u>\$ 1,723,885</u>

Liabilities and Fund Balances

Liabilities:			
Accounts payable	\$ 1,056	\$ -	\$ 1,056
Due to other funds			
	<u>1,056</u>		<u>1,056</u>
Total liabilities	<u>1,056</u>		<u>1,056</u>
Fund balances:			
Committed			
Adult education program	75,122		75,122
Assigned			
Deferred maintenance		1,647,707	1,647,707
	<u>75,122</u>	<u>1,647,707</u>	<u>1,722,829</u>
Total fund balances	<u>75,122</u>	<u>1,647,707</u>	<u>1,722,829</u>
Total liabilities and fund balances	<u>\$ 76,178</u>	<u>\$ 1,647,707</u>	<u>\$ 1,723,885</u>

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NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2013

	Adult Education Fund	Deferred Maintenance Fund	Totals
Revenues:			
Other local	\$ 3,203	\$ 1,913	\$ 5,116
Total revenues	<u>3,203</u>	<u>1,913</u>	<u>5,116</u>
Expenditures:			
Certificated salaries	31,908		31,908
Classified salaries	149		149
Employee benefits	3,319		3,319
Books and supplies	1,138	139,262	140,400
Contracted services and other operating expenditures	<u>2,779</u>		<u>2,779</u>
Total expenditures	<u>39,293</u>	<u>139,262</u>	<u>178,555</u>
Excess of revenues over (under) expenditures	<u>(36,090)</u>	<u>(137,349)</u>	<u>(173,439)</u>
Other Financing Sources (Uses):			
Transfers in	<u>48,000</u>	<u>262,484</u>	<u>310,484</u>
Total other financing sources (uses)	<u>48,000</u>	<u>262,484</u>	<u>310,484</u>
Net change in fund balances	11,910	125,135	137,045
Fund balances, July 1, 2012	<u>63,212</u>	<u>1,522,572</u>	<u>1,585,784</u>
Fund balances, June 30, 2013	<u>\$ 75,122</u>	<u>\$ 1,647,707</u>	<u>\$ 1,722,829</u>

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2013

	Adult Education Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other local	\$ 3,133	\$ 3,203	\$ 70
Total revenues	3,133	3,203	70
Expenditures:			
Certificated salaries	39,300	31,908	7,392
Classified salaries	150	149	1
Employee benefits	6,021	3,319	2,702
Books and supplies	2,552	1,138	1,414
Contracted services and other operating expenditures	3,110	2,779	331
Capital outlay			
Total expenditures	51,133	39,293	11,840
Excess of revenues over (under) expenditures	(48,000)	(36,090)	11,910
Other Financing Sources (Uses):			
Transfers in	48,000	48,000	
Transfers out			
Total other financing sources (uses)	48,000	48,000	
Net change in fund balances		11,910	11,910
Fund balances, July 1, 2012	63,212	63,212	
Fund balances, June 30, 2013	\$ 63,212	\$ 75,122	\$ 11,910

Deferred Maintenance Fund			Totals		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ 1,913	\$ 1,913	\$ 3,133	\$ 5,116	\$ 1,983
	1,913	1,913	3,133	5,116	1,983
			39,300	31,908	7,392
			150	149	1
			6,021	3,319	2,702
141,972	139,262	2,710	144,524	140,400	4,124
			3,110	2,779	331
20,000		20,000	20,000		20,000
161,972	139,262	22,710	213,105	178,555	34,550
(161,972)	(137,349)	24,623	(209,972)	(173,439)	36,533
262,484	262,484		310,484	310,484	
(96,600)		96,600	(96,600)		96,600
165,884	262,484	96,600	213,884	310,484	96,600
3,912	125,135	121,223	3,912	137,045	133,133
1,522,572	1,522,572		1,585,784	1,585,784	
\$ 1,526,484	\$ 1,647,707	\$ 121,223	\$ 1,589,696	\$ 1,722,829	\$ 133,133

NOVATO UNIFIED SCHOOL DISTRICT
BALANCE SHEET
NONMAJOR DEBT SERVICE FUND
June 30, 2013

	<u>Debt Service Fund</u>
Assets	
Cash in County Treasury	<u>\$ 13,307</u>
Total assets	<u><u>\$ 13,307</u></u>
Liabilities and Fund Balance	
Fund balance:	
Restricted	
Debt service	<u>\$ 13,307</u>
Total fund balance	<u>13,307</u>
Total liabilities and fund balance	<u><u>\$ 13,307</u></u>

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
NONMAJOR DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2013

	Debt Service Fund
Revenues:	
Other local	\$ 17
Total revenues	<u>17</u>
Expenditures:	
Debt service:	
Principal	255,000
Interest and fiscal charges	<u>6,949</u>
Total expenditures	<u>261,949</u>
Excess of revenues over (under) expenditures	<u>(261,932)</u>
Other Financing Sources (Uses):	
Transfers out	<u>(11,177)</u>
Total other financing sources (uses)	<u>(11,177)</u>
Net change in fund balance	(273,109)
Fund balance, July 1, 2012	<u>286,416</u>
Fund balance, June 30, 2013	<u><u>\$ 13,307</u></u>

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2013

	Debt Service Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other local	\$ -	\$ 17	\$ 17
Total revenues		17	17
Expenditures:			
Debt service:			
Principal		255,000	(255,000)
Interest and fiscal charges		6,949	(6,949)
Total expenditures		261,949	(261,949)
Excess of revenues over (under) expenditures		(261,932)	(261,932)
Other Financing Sources (Uses):			
Transfers out		(11,177)	(11,177)
Total other financing sources (uses)		(11,177)	(11,177)
Net change in fund balance		(273,109)	(273,109)
Fund balance, July 1, 2012	286,416	286,416	
Fund balance, June 30, 2013	<u>\$ 286,416</u>	<u>\$ 13,307</u>	<u>\$ (273,109)</u>

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NOVATO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
 June 30, 2013

	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	\$ 682,848	\$ 4,813	\$ 1,140,122
Accounts receivable	15,993		
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 698,841</u>	<u>\$ 4,813</u>	<u>\$ 1,140,122</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 15,512	\$ -	\$ -
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>15,512</u>	<u> </u>	<u> </u>
Fund balances:			
Restricted			
Construction	683,329	4,813	1,140,122
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>683,329</u>	<u>4,813</u>	<u>1,140,122</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 698,841</u>	<u>\$ 4,813</u>	<u>\$ 1,140,122</u>

Totals

\$ 1,827,783
15,993

\$ 1,843,776

\$ 15,512

15,512

1,828,264

1,828,264

\$ 1,843,776

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, 2013

	Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund
Revenues:			
Other state	\$ -	\$ 3,045,038	\$ -
Other local	671,718	508	2,086
Total revenues	<u>671,718</u>	<u>3,045,546</u>	<u>2,086</u>
Expenditures:			
Books and supplies	23,465		
Contracted services and other operating expenditures	116,681		10,903
	<u>1,556,356</u>		
Total expenditures	<u>1,696,502</u>		<u>10,903</u>
Excess of revenues over (under) expenditures	<u>(1,024,784)</u>	<u>3,045,546</u>	<u>(8,817)</u>
Other Financing Sources (Uses):			
Transfers in	611,177		
Transfers out		(3,045,038)	(600,000)
Total other financing sources (uses)	<u>611,177</u>	<u>(3,045,038)</u>	<u>(600,000)</u>
Net change in fund balances	(413,607)	508	(608,817)
Fund balances, July 1, 2012	<u>1,096,936</u>	<u>4,305</u>	<u>1,748,939</u>
Fund balances, June 30, 2013	<u>\$ 683,329</u>	<u>\$ 4,813</u>	<u>\$ 1,140,122</u>

Totals

\$ 3,045,038
674,312

3,719,350

23,465
127,584
1,556,356

1,707,405

2,011,945

611,177
(3,645,038)

(3,033,861)

(1,021,916)

2,850,180

\$ 1,828,264

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, 2013

	Capital Facilities Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other state	\$ -	\$ -	\$ -
Other local	698,996	671,718	(27,278)
Total revenues	<u>698,996</u>	<u>671,718</u>	<u>(27,278)</u>
Expenditures:			
Books and supplies	24,169	23,465	704
Contracted services and other operating expenditures	124,702	116,681	8,021
Capital outlay	2,039,705	1,556,356	483,349
Other outgo	261,948		261,948
Total expenditures	<u>2,450,524</u>	<u>1,696,502</u>	<u>754,022</u>
Excess of revenues over (under) expenditures	<u>(1,751,528)</u>	<u>(1,024,784)</u>	<u>726,744</u>
Other Financing Sources (Uses):			
Proceeds from long term debt	273,125		(273,125)
Transfers in	600,000	611,177	11,177
Transfers out			
Total other financing sources (uses)	<u>873,125</u>	<u>611,177</u>	<u>(261,948)</u>
Net change in fund balances	(878,403)	(413,607)	464,796
Fund balances, July 1, 2012	<u>1,096,936</u>	<u>1,096,936</u>	<u></u>
Fund balances, June 30, 2013	<u>\$ 218,533</u>	<u>\$ 683,329</u>	<u>\$ 464,796</u>

County School Facilities Fund			Special Reserve Fund for Capital Outlay Projects		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ 3,045,038	\$ 3,045,038	\$ -	\$ -	\$ -	\$ -
	508	508		2,086	2,086
<u>3,045,038</u>	<u>3,045,546</u>	<u>508</u>		<u>2,086</u>	<u>2,086</u>
			10,904	10,903	1
			<u>10,904</u>	<u>10,903</u>	<u>1</u>
<u>3,045,038</u>	<u>3,045,546</u>	<u>508</u>	<u>(10,904)</u>	<u>(8,817)</u>	<u>2,087</u>
<u>(3,045,038)</u>	<u>(3,045,038)</u>		<u>(600,000)</u>	<u>(600,000)</u>	
<u>(3,045,038)</u>	<u>(3,045,038)</u>		<u>(600,000)</u>	<u>(600,000)</u>	
	508	508	<u>(610,904)</u>	<u>(608,817)</u>	<u>2,087</u>
<u>4,305</u>	<u>4,305</u>		<u>1,748,939</u>	<u>1,748,939</u>	
<u>\$ 4,305</u>	<u>\$ 4,813</u>	<u>\$ 508</u>	<u>\$ 1,138,035</u>	<u>\$ 1,140,122</u>	<u>\$ 2,087</u>

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
NONMAJOR CAPITAL PROJECTS FUNDS
For the Fiscal Year Ended June 30, 2013

	Totals		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other state	\$ 3,045,038	\$ 3,045,038	\$ -
Other local	698,996	674,312	(24,684)
Total revenues	<u>3,744,034</u>	<u>3,719,350</u>	<u>(24,684)</u>
Expenditures:			
Books and supplies	24,169	23,465	704
Contracted services and other operating expenditures	135,606	127,584	8,022
Capital outlay	2,039,705	1,556,356	483,349
Other outgo	261,948		261,948
Total expenditures	<u>2,461,428</u>	<u>1,707,405</u>	<u>754,023</u>
Excess of revenues over (under) expenditures	<u>1,282,606</u>	<u>2,011,945</u>	<u>729,339</u>
Other Financing Sources (Uses):			
Proceeds from long term debt	273,125		(273,125)
Transfers in	600,000	611,177	11,177
Transfers out	<u>(3,645,038)</u>	<u>(3,645,038)</u>	
Total other financing sources (uses)	<u>(2,771,913)</u>	<u>(3,033,861)</u>	<u>(261,948)</u>
Net change in fund balances	(1,489,307)	(1,021,916)	467,391
Fund balances, July 1, 2012	<u>2,850,180</u>	<u>2,850,180</u>	
Fund balances, June 30, 2013	<u>\$ 1,360,873</u>	<u>\$ 1,828,264</u>	<u>\$ 467,391</u>

NOVATO UNIFIED SCHOOL DISTRICT
ORGANIZATION
June 30, 2013

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, 2013 were as follows:

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Ross Millerick	President	November, 2015
Shelly Scott	Vice President	November, 2013
Cindi Clinton	Member	November, 2015
Maria Aguila	Member	November, 2013
Derek Knell	Member	November, 2013
Thomas Cooper	Member	November, 2015
Debbie Butler	Member	November, 2015

ADMINISTRATION

Dr. Shalee Cunningham
Superintendent

Pam Conklin
Director of Human Resources

Karen Maloney
Chief Financial Officer

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Fiscal Year Ended June 30, 2013

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary		
Kindergarten	619.44	618.20
First through Third	1,718.94	1,716.38
Fourth through Sixth	1,706.46	1,706.24
Seventh and Eighth	1,025.98	1,023.68
Home and Hospital	2.69	3.16
Special Education	<u>97.16</u>	<u>100.03</u>
Subtotals	<u>5,170.67</u>	<u>5,167.69</u>
Secondary		
Ninth through Twelfth	2,165.58	2,159.37
Continuation Education	97.63	98.47
Home and Hospital	1.48	1.78
Special Education	<u>70.43</u>	<u>69.45</u>
Subtotals	<u>2,335.12</u>	<u>2,329.07</u>
Totals	<u><u>7,505.79</u></u>	<u><u>7,496.76</u></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, 2013**

<u>Grades</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>2012-13 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	31,860	30,975	36,000	35,000	36,875	180	In compliance
Grade 1	42,480	41,300	50,400	49,000	54,040	180	In compliance
Grade 2	42,480	41,300	50,400	49,000	54,040	180	In compliance
Grade 3	42,480	41,300	50,400	49,000	54,720	180	In compliance
Grade 4	49,430	48,057	54,000	52,500	54,720	180	In compliance
Grade 5	49,430	48,057	54,000	52,500	54,720	180	In compliance
Grade 6	49,430	48,057	54,000	52,500	57,075	180	In compliance
Grade 7	57,075	55,490	54,000	52,500	57,075	180	In compliance
Grade 8	57,075	55,490	54,000	52,500	57,075	180	In compliance
Grade 9	51,954	50,511	64,800	63,000	65,605	180	In compliance
Grade 10	51,954	50,511	64,800	63,000	65,605	180	In compliance
Grade 11	51,954	50,511	64,800	63,000	65,605	180	In compliance
Grade 12	51,954	50,511	64,800	63,000	65,605	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, 2013

<u>General Fund</u>	(Budgeted)			
	2014	2013	2012	2011
Revenues and other financial sources	<u>\$ 64,167,981</u>	<u>\$ 64,710,469</u>	<u>\$ 64,097,407</u>	<u>\$ 63,386,354</u>
Expenditures	62,553,120	64,205,087	63,679,991	62,789,079
Other uses and transfers out	<u>375,484</u>	<u>521,259</u>	<u>1,708,532</u>	<u>179,704</u>
Total outgo	<u>62,928,604</u>	<u>64,726,346</u>	<u>65,388,523</u>	<u>62,968,783</u>
Change in fund balance	<u>1,239,377</u>	<u>(15,877)</u>	<u>(1,291,116)</u>	<u>417,571</u>
Ending fund balance	<u>\$ 16,971,603</u>	<u>\$ 15,732,226</u>	<u>\$ 15,748,103</u>	<u>\$ 17,039,219</u>
Available reserves	<u>\$ 14,329,339</u>	<u>\$ 12,959,011</u>	<u>\$ 13,051,332</u>	<u>\$ 14,247,060</u>
Available reserves as a percentage of total outgo	22.77%	20.02%	19.96%	22.63%
Total long-term debt	\$ 91,778,949	\$ 94,315,905	\$ 97,012,448	\$ 97,982,397
Average daily attendance at P-2	7,574	7,506	7,447	7,414

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 decreased by \$1,306,993 over the past two fiscal years. The fiscal year 2013-14 budget projects an increase of \$1,239,377. 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 deficit in two of the past three fiscal years, and anticipates an operating surplus during the 2013-14 fiscal year. Total long-term debt has decreased by \$3,666,492 over the past two fiscal years.

Average daily attendance has increased by 92 over the past two fiscal years. ADA is anticipated to increase by 68 during the fiscal year 2013-14.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
For the Fiscal Year Ended June 30, 2013

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, 2013

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	14981	\$ 641,580
NCLB: Title I, Part A, Program Improvement LEA Corrective Action Responses	84.010	14955	191,724
Education Jobs Fund	84.410	25152	228,926
Special Ed: IDEA - Basic Local Assistance Entitlement, Part B	84.027	13379	1,304,072
Special Ed: IDEA - Special Education Preschool Grants	84.173	13430	81,967
Special Ed: IDEA - Preschool Sec 611	84.027	13682	193,921
Special Ed: IDEA - Mental Health	84.027	14468	426,485
Vocational & Applied Technology Secondary I C	84.048	14894	45,136
NCLB - Title II, Part A Improving Teacher Quality Local Grants	84.367	15144	221,266
NCLB - Title III, Immigrant Education Program	84.365	14346	69,987
Education for Homeless Children and Youth:			
McKinney-Vento Homeless Assistance Grants	84.196	14332	4,415
ROTC Reimbursement	84.000	14381	88,202
Total U.S. Department of Education			<u>3,497,681</u>
U.S. Department of Health and Human Services:			
Passed through Marin County Office of Education:			
Medi-Cal Billing Option	93.778	10013	180,462
Total U.S. Department of Health and Human Services			<u>180,462</u>
U.S. Department of Agriculture :			
Passed through California Department of Education (CDE):			
Child Nutrition: School Program			
School Breakfast Program: Basic	10.553	13390	871,990
School Breakfast Program: Especially Needy	10.555	13391	5,198
Special Milk Program for Children	10.556	13392	393,143
School Wellness Policy Demonstration Mini Grant	10.574	14863	9,957
			<u>1,280,288</u>
Total Expenditures of Federal Awards			<u>\$ 4,958,431</u>
			<u>\$ 4,958,431</u>

The accompanying note is an integral part of this schedule

NOVATO UNIFIED SCHOOL DISTRICT
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013

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.

<u>Deferred Maintenance Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>County School Facilities Fund</u>	<u>Special Reserve for Capital Outlay Projects Fund</u>
\$ 1,647,707	\$ 14,245,627	\$ 683,329	\$ 4,813	\$ 1,140,122
	(293,173)			
<u>\$ 1,647,707</u>	<u>\$ 13,952,454</u>	<u>\$ 683,329</u>	<u>\$ 4,813</u>	<u>\$ 1,140,122</u>

<u>Cafeteria Enterprise Fund</u>	<u>General Education Preschool</u>	<u>Self-Insurance Fund</u>
\$ 234,294	\$ 61,700	\$ 203,594
<u>\$ 234,294</u>	<u>\$ 61,700</u>	<u>\$ 203,594</u>

	<u>Long-Term Debt</u>
June 30, 2013 Annual Financial and Budget Report Total Liabilities	\$ 94,288,786
Understatement of capital leases payable	<u>27,119</u>
June 30, 2013 Audited Financial Statements Long-Term Debt Total Liabilities	<u>\$ 94,315,905</u>

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon December 10, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2013-1 through 2013-3 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
December 10, 2013



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
Novato Unified School District
Novato, California

Report on State Compliance

We have audited the Novato Unified School District (District)'s compliance with the types of compliance requirements described in the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13, published by the Education Audit Appeals Panel that could have a direct and material effect on each of the District's state programs identified below for the fiscal year ended June 30, 2013.

Management's Responsibility for State Compliance

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's state programs based on our audit of the types of compliance requirements referred to above. 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 the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13, published by the Education Audit Appeals Panel. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state programs noted below 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:

Table with 3 columns: Description, Procedures in Panel's Audit Guide, and Procedures Performed. Rows include Attendance Reporting, Teacher Certification and Misassignments, Kindergarten Continuance, Independent Study, Continuation Education, Instructional Time for School Districts, County Offices of Education, Instructional Materials General Requirements, Ratios of Administrative Employees to Teachers, and Classroom Teacher Salaries.

Description	Procedures in Panel's Audit Guide	Procedures Performed
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Class Size Reduction		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or Charters Schools with only One School Serving K-3	4	Not Applicable
After School Education and Safety Program		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Contemporaneous Records of Attendance, for Charter Schools	1	Not Applicable
Mode of Instruction, for Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study, for Charter Schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction, for Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based, for Charter Schools	4	Not Applicable

Opinion on State Compliance

In our opinion, the 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, 2013.

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 10, 2013



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Education
Novato Unified School District
Novato, California

Report on compliance for Each Major Federal Program

We have audited the Novato Unified School District (District)'s compliance with the types of compliance requirements described in the *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, 2013. The 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each major federal programs for the fiscal year ended June 30, 2013.

Report on Internal Control

Management of District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test 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 of 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 noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify and deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
December 10, 2013

FINDINGS AND RECOMMENDATIONS SECTION

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 June 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued Unmodified

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

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

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

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

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

Identification of major programs

<u>CFDA Number (s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.173</u>	<u>Special Education Cluster IDEA</u>

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

Auditee qualified as low-risk auditee: X Yes _____ No

State Awards

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

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

Section II - Financial Statement Findings

FINDING 2013-1
EMPLOYEE ABSENCE SYSTEM
INTERNAL CONTROL
30000

Condition:

During our review of vacation and sick time accrual, we noted that there was lack of reconciliation between the actual days and hours taken with the District's payroll system.

Effect:

Vacation and sick time accrual may have been incorrectly calculated. Employees may have taken unauthorized vacation and sick time, and moreover, employees departing from the District could have been overpaid or underpaid in vacation pay.

Cause:

Lack of internal control and oversight on the part of the District.

Recommendation:

We recommend that the District implement procedures to ensure that vacation and sick time be accurately accrued and reconciled between Payroll and Human Resources Department. Each District department head should review the vacation and sick hours taken by the employees in their department for each pay period.

LEA's Corrective Action Plan:

The District concurs with the recommendation. The District will formalize the following procedures and notify all departments and school sites:

- Sites/Department Administrators will be responsible for reviewing and verifying the accuracy of weekly employee absence reports. This includes use of vacation, personal leave and sick leave
- Each week, sites/departments will be required to send a signed copy of the verified weekly absence report to the Human Resources Department
- Human Resources staff will be responsible for comparing the information submitted by the sites/departments to ensure it agrees to the information reported in sub-finder (employee absence) system. Human Resources will be responsible for making necessary corrections or omissions
- Each month, Human Resources staff will export the verified employee absences/leaves from the sub-finder system into the District's financial employee attendance accounting system

Section II - Financial Statement Findings (Continued)

FINDING 2013-2
ASSOCIATED STUDENT BODY
INTERNAL CONTROL
30000

Condition:

During our review of ASB cash disbursements at Sinaloa Middle School and San Jose Middle School, we noted several deficiencies as follow:

- School: Sinaloa Middle School:
 1. Lack of ASB minutes approval on one ASB cash transfer.
 2. Lack of District Board of Trustee's approval on one donation charity fundraising. We also noted that there was no separate trust account in the ASB general ledger.
- School: San Jose Middle School:
 1. ASB disbursements were not accompanied by sufficient supporting documentation.
 2. Lack of segregation of duties over ASB expenditures system at San Jose Middle School. We noted that the person who reviews and approves invoices also inputs the transactions into the system, cuts the checks, mails the payments, and reconciles the accounts.

Effect:

The lack of segregation of duties and supporting documents over cash disbursements could lead to a misappropriation of funds that may go undetected. A misappropriation of cash might occur when there was no approval on the donations or approval documented in the ASB meeting minutes.

Cause:

The 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 over cash disbursements. In addition, the District needs to ensure there is an adequate segregation of duties in the expenditures process.

LEA's Corrective Action Plan:

The District concurs with the recommendations. The sites have developed the following corrective action plans:

- Bi-monthly ASB Executive Board meeting will take place with minutes taken and submitted to the ASB bookkeeper, Administrative Sponsor, ASB/Leadership teacher These minutes will reflect approval of expenditures and financial transactions
- Rules and regulations for charity fundraising will be reviewed by bookkeeper, and administrative and staff sponsors. Appropriate approval will be sought from the NUSD Board of Trustees and a separate trust account will be set up in ledger
- Expenditures and checks will be approved during ASB business meetings, including appropriate signatures, and keeping record of all invoices and checks distributed

Section II - Financial Statement Findings (Continued)

FINDING 2013-3
ASSOCIATED STUDENT BODY
INTERNAL CONTROL
30000

Condition:

During our review of ASB cash receipts at Sinaloa Middle School, San Jose Middle School, San Marin High School, and Novato High School, we noted several deficiencies as follow:

- School: Sinaloa Middle School:
 1. Lack of supporting documentation for the cash portion of donations received.
 2. Bank deposit was not performed in timely manner. We noted some checks that were deposited to the bank more than 60 days after the cash receipts date.

- School: San Jose Middle School:
 1. Cash receipts were booked to the QuickBooks on the date of deposit, not when the money was received.
 2. Lack of segregation of duties. The person who receives the money also inputs the transactions into the system, deposits the money to the bank, reconciles the accounts, and has the only access to safe.

- School: San Marin High School:
 1. Lack of supporting documentation to verify that donation was intended for ASB.

- School: Novato High School:
 1. Lack of supporting documentation for fundraising events and games admissions. No cash receipts were issued when students buy tickets for any event admission, which resulted in the lack of reconciliation of money collected to the bank deposits.
 2. Bank deposit was not performed in timely manner. We noted one cash deposit that was performed more than three weeks after the cash receipt date.

Effect:

The lack of segregation of duties, untimely bank deposits, and lack of supporting documents could lead to a misappropriation of funds that may go undetected.

Cause:

The 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 over the cash receipts process. In addition, the District needs to ensure there is an adequate segregation of duties and supporting documentation obtained for all cash receipts. The District also needs to implement the use of cash receipts book for all cash received.

Section II - Financial Statement Findings (Continued)

FINDING 2013-3 (Continued)
ASSOCIATED STUDENT BODY
INTERNAL CONTROL
30000

LEA's Corrective Action Plan:

The District concurs with the recommendations. The sites have developed the following corrective action plans:

- Deposits are made by the ASB bookkeeper no less than once a week. Advisors and staff will be reminded that cash/checks must be turned over to the ASB bookkeeper as soon as the funds have been collected
- Expenditures and checks will be approved during ASB business meetings, including appropriate signatures, and keeping record of all invoices and checks distributed
- During the 2013 ASB Internal Audit, it was noted that there was a lack of supporting documentation to verify a donation had been made to our ASB. The documentation letter was located and provided post-audit. Staff has taken the steps to insure supporting documents for donations are kept in the appropriate folders
- A form was created to track all ticket sales at all events. Responsible staff member will sign "FINANCIAL RECONCILIATION FORM/TICKET SALES REPORT" to verify accountability of sales and funds
- The ASB bookkeeper will make all deposits no later than five days after the event. The administrator will co-sign to ensure compliance

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2013

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 2012-1
PAYROLL SYSTEM
INTERNAL CONTROL
30000

Condition:

During our review of payroll internal control, we noted that there was a lack of review when the human resources technician input employee's information into the system.

Effect:

Lack of internal control and review over human resources 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.

Current Status:

Implemented

Section I - Financial Statement Findings (Continued)

FINDING 2012-2
REVENUE SYSTEM
INTERNAL CONTROL
30000

Condition:

During our internal control testing of revenue system, we noted several deficiencies over the facility use rental revenues as follows:

1. There was a lack of control over the billing processes.
2. Cash and check deposits for the facilities' keys are held for a long period of time and deposits to the bank were not done in timely manner.
3. There was a lack of supporting documentation for the billings.
4. There was a lack of segregation of duties. It was noted that the person who is in charge of billing also posts the rental payments and manages the reservation system.

Effect:

The lack of internal control, oversight, and segregation of duties over the billings and revenue system could lead to misappropriation of funds. In addition, the lack of supporting documents and untimely deposits increase the likelihood of irregularities that may go undetected.

Cause:

Lack of oversight and control over the revenue system on the part of the District.

Recommendation:

We recommend that the District implement procedures to segregate the duties of the billing process and revenue collections and ensure that there is sufficient internal control over the billing processes in place and all supporting documents are retained. In addition, deposits need to be performed in timely manner to reduce the likelihood of a misappropriation of funds.

Current Status:

Implemented.

Section I - Financial Statement Findings (Continued)

FINDING 2012-3
ASSOCIATED STUDENT BODY
INTERNAL CONTROL
30000

Condition:

During our review of ASB cash disbursements at Sinaloa Middle School and San Jose Middle School, we noted that ASB disbursements were not accompanied by sufficient supporting documentation. In addition, at San Jose Middle School, it was also noted that not all ASB expenditures were approved and documented in the meeting minutes, the PAID stamp was not frequently used to ensure there was no duplicate payments, and one of the disbursements items was not approved by either the ASB Treasurer, Activities Director, or the ASB Administrator as the authorized personnel prior to the payment. Furthermore, there was a lack of segregation of duties over ASB expenditures system at San Jose Middle School. We noted that the person who reviews and approves invoices also inputs the transactions into the system, cuts the checks, mails the payments, and reconciles the accounts.

Effect:

The lack of segregation of duties and supporting documents over cash disbursements could lead to a misappropriation of funds that may go undetected. The absence of a PAID stamp on invoices may cause a duplicate payment and a misappropriation of cash might occur when there was no approval on the invoice prior to payment or approval documented in the ASB meeting minutes.

Cause:

The 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 over cash disbursements. In addition, the District needs to ensure there is an adequate segregation of duties in the expenditures process.

Current Status:

Partially implemented, see Finding 2013-2.

Section I - Financial Statement Findings (Continued)

FINDING 2012-4
ASSOCIATED STUDENT BODY
INTERNAL CONTROL
30000

Condition:

During our review of ASB cash receipts at Sinaloa Middle School, San Jose Middle School, and San Marin High School, we noted several deficiencies as follow:

- School: Sinaloa Middle School:
 1. There was a lack of supporting documentation for the cash portion of donations received.
 2. No cash receipts were issued when student clubs turned in money to ASB office clerk.
 3. No inventory study or analysis was performed for the student store.
 4. There was no cash sales report generated for student store.
- School: San Jose Middle School:
 1. There was a lack of audit trail for cash received for donations and promotion income since the cash receipts book is not in use for all transactions. Cash receipts are only used for graduation gowns money collected at the end of the school year; however, the receipts are not pre-numbered.
 2. Cash receipts were booked to the QuickBooks on the date of deposit, not when the money was received.
 3. There was a lack of segregation of duties. The person who receives the money also inputs the transactions into the system, deposits the money to the bank, reconciles the accounts, and has the only access to safe.
- School: San Marin High School:
 1. There was a lack of supporting documentation for online and on-site cash receipts.
 2. No cash receipts were issued when student clubs turned in money to ASB office clerk.

Effect:

The lack of segregation of duties, pre-numbered cash receipts book, and lack of supporting documents could lead to a misappropriation of funds that may go undetected.

Cause:

The lack of oversight on the part of the ASB office.

Current Status:

Partially implemented, see Finding 2013-3.

Section II – Federal Award Findings and Questioned Costs

There were no federal award findings.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF PRIOR FISCAL YEAR AUDIT FINDINGS
June 30, 2013

Section III – State Award Findings and Questioned Costs

There were no state award findings.