

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

AUDIT REPORT
June 30, 2014

NOVATO UNIFIED SCHOOL DISTRICT

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NOVATO UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Board of Education
Novato Unified School District
Novato, California

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, 2014, 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, 2014, 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

Change in Accounting Principles

As discussed in note 1 to the basic financial statements effective July 1, 2013, Novato Unified School District adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 66, *Technical Correction-2012*, Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Our opinion was not modified with respect to this matter.

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 were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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, 2014, 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, 2014

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2013-2014

JUNE 30, 2014

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, 2014. 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 \$3,647,385 or 5.6% from 2012-13 to 2013-14, while expenditures increased by \$1,571,141 or 2.4% for the same period. The increase in revenue is attributed to the new State funding formula, Local Control Funding Formula (LCFF). The increase in expenditures is primary due to a salary increase of 3% for 2013-14 and a 1% increase for 2012-13 paid in 2013-14 (retroactive pay increase).
- General Fund expenditures and other sources and uses exceeded revenues and other uses by \$2,060,367; the District ended the fiscal year with available reserves of \$13.2 million which met the State recommended reserve level of 3% of total general fund expenditures, transfers out, and other uses (total outgo)
- In complying with GASB 34, fixed assets were valued and reported at historical cost. The total of the District's fixed assets, land, site, buildings, and equipment, valued on an acquisition cost basis was \$220 million. After depreciation, the June 30, 2014 book value for fixed assets totaled \$114.8 million
- A 3% salary increase (or equivalent) for all employees was implemented at a total cost of \$1,431,864 in addition to the 1% retro paid for the 2012-13 fiscal year at a cost of \$450,703.
- Class size was staffed at 22:1 for TK-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 2013-2014

JUNE 30, 2014

FINANCIAL HIGHLIGHTS CONTINUED

- Successful implementation of the State testing – Smarter Balanced
- Increase of student to device ratio resulting in a ratio of 3 devices for student district wide
- Continued implementation of Common Core State Standards through professional development of 760 certificated staff for a total of 9,028 hours for a total cost of \$206,050
- Community wide process resulting in a new NUSD Strategic Plan and development of the 2014-15 Local Control Accountability Plan (LCAP)
- Continued implementation of Program Based Budgeting
- Identification and implementation of operational efficiencies

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2013-2014

JUNE 30, 2014

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 account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the district as a whole and its activities in a way that helps answer the question, "How did we do financially during the 2013-2014 fiscal year?"

These two statements report the School District's net position and changes in those positions. 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 2013-2014

JUNE 30, 2014

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, the Building Fund, and the Bond Interest 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 Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2013-2014

JUNE 30, 2014

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The School District as a Whole

The District's net position was \$56.1 million at June 30, 2014. Of this amount \$15.3 million was unrestricted and \$9.4 was restricted. Net investment in capital assets account for \$31.4 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**

	2013-2014		2012-2013	
	Governmental Activities	Business- type Activities	Totals	Totals
Assets				
Cash and investments	\$27,263,559	\$75,711	\$27,339,270	\$29,437,574
Accounts receivable	10,997,540	214,570	11,212,110	13,352,429
Internal balances	210,707	-210,707	0	0
Inventories and prepaid expenses	122,754	35,631	158,385	115,033
Other assets	172,383		172,383	562,529
Capital assets (net of depreciation)	114,758,536	29,911	114,788,447	116,406,925
Total Assets	\$153,525,479	\$145,116	\$153,670,595	\$159,874,490
Liabilities				
Accounts payable and other current liabilities	\$5,491,981	\$13,014	\$5,504,995	\$6,359,905
Deferred revenue	23,959	3,757	27,716	44,089
Long-term liabilities	91,997,318		91,997,318	94,315,905
Total Liabilities	\$97,513,258	\$16,771	\$97,530,029	\$100,719,899
Net Position				
Net investment in capital assets	\$31,377,125	\$29,911	\$31,407,036	\$36,992,709
Restricted	9,414,224		9,414,224	7,102,999
Unrestricted	15,220,872	98,434	15,319,306	15,058,883
Total net position	\$56,012,221	\$128,345	\$56,140,566	\$59,154,591

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2013-2014

JUNE 30, 2014

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

The District's net position decreased \$3 million this fiscal year. (See Table 1)

Governmental Activities

The District's expenses for instructional and pupil services represented 70.5% percent of total expenses. The purely administrative activities of the District accounted for just 4.68% percent of total costs. The remaining 24.82% 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**

	2013-14		2012-2013
	Governmental Activities	Business- Type Activities	Total
Revenues			
Program Revenues	\$12,348,532	\$2,032,863	\$14,381,395
General Revenues			
Taxes levied for general purposes	13,070,237		13,070,237
Taxes levied for debt service	6,535,525		6,535,525
Tax levied for other specific purposes	4,494,666		4,494,666
Federal and State	37,929,907	76	37,929,983
Interest and investment earnings	30,627		30,627
Interagency revenues	41,824		41,824
Miscellaneous and transfers	1,561,181	13,935	1,575,116
Total general revenues	\$76,012,499	\$2,046,874	\$78,059,373
Expenses			
Instruction 54.65%	\$42,887,461		\$42,887,461
Instruction-related services 9.88%	7,755,094		7,755,094
Pupil support services 5.96%	4,676,224	2,102,443	6,778,667
General administration 4.68%	3,671,629	106,611	3,778,240
Plant Services 15.07%	11,828,141	5,469	11,833,610
Other 9.76%	7,659,971		7,659,971
Total Expenses	\$78,478,520	\$2,214,523	\$80,693,043
Change in Net Position	(\$2,466,021)	(\$167,649)	(\$2,633,670)

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2013-2014

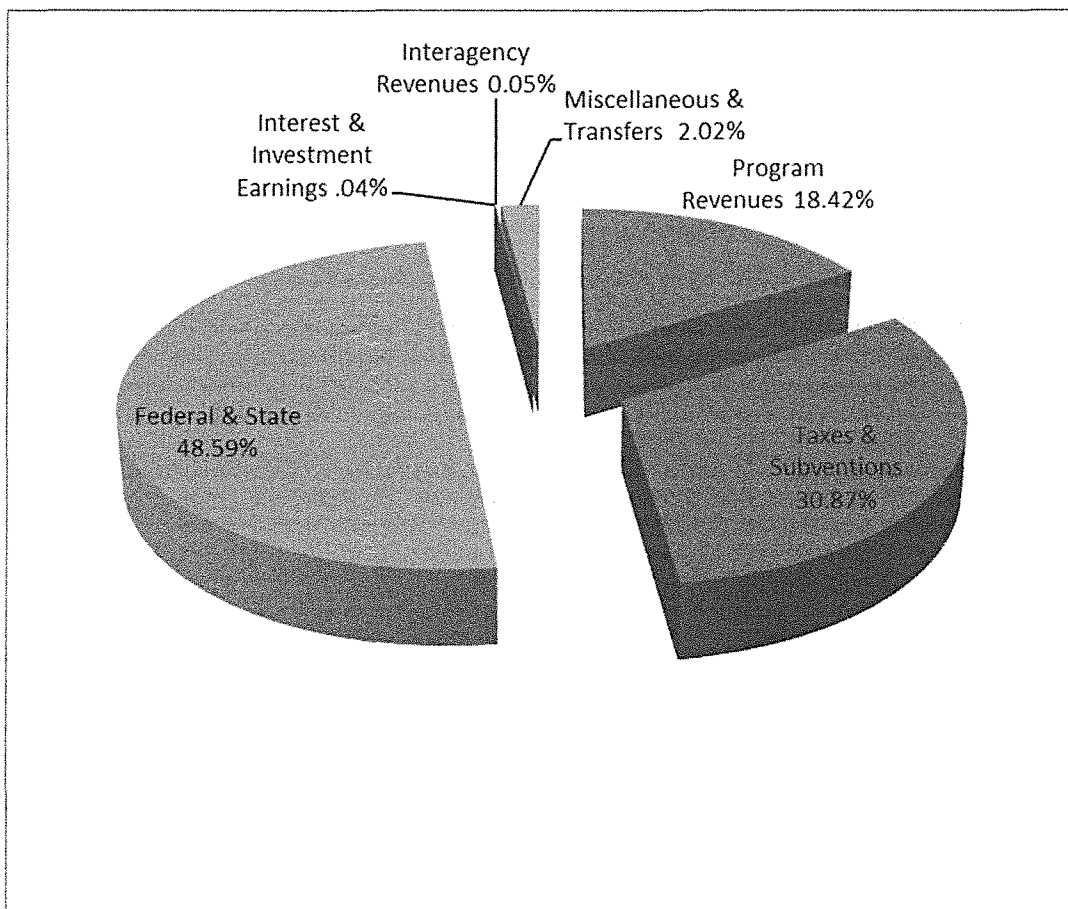
JUNE 30, 2014

**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 activities this year was \$80.7 million. The amount that our local taxpayers financed for these activities through property taxes was \$24.1 million. Federal and State aid totaled \$37.9 million.

**Sources of Revenue for the 2013-2014 Fiscal Year-Governmental Activities
Figure 1**

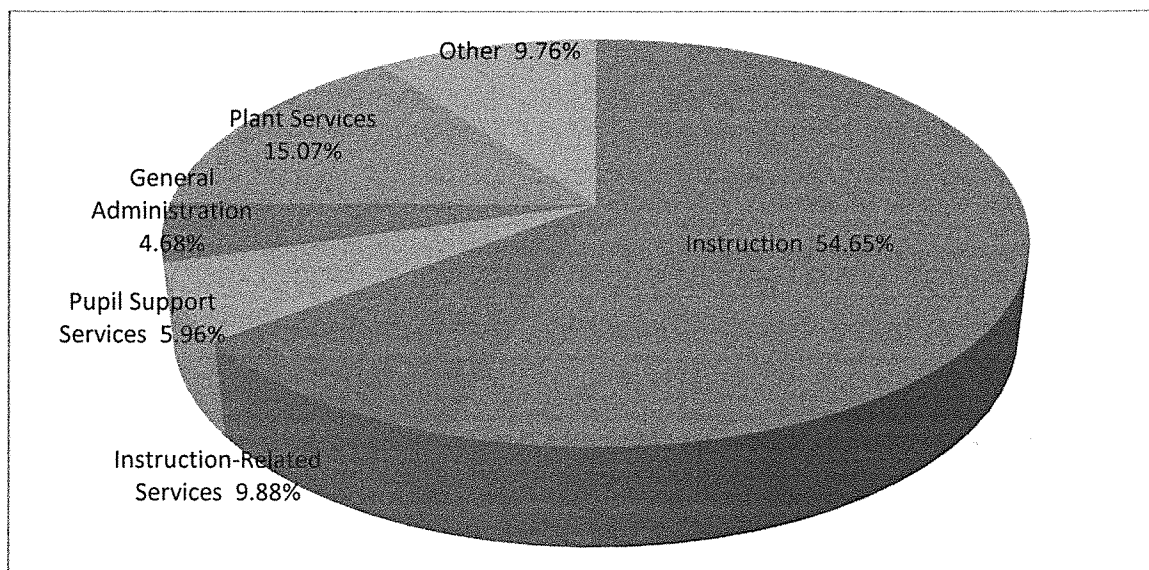


NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2013-2014

JUNE 30, 2014

Expenses for Fiscal Year 2013-2014 – Governmental Activities
Figure 2



NOVATO UNIFIED SCHOOL DISTRICT**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2013-2014****JUNE 30, 2014**

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 \$34.3 million, a decrease of \$3.3 million from the previous fiscal year's combined ending balance of \$37.6 million. This decrease is mainly reflected in the Building Fund. The General Fund balance increased by \$2 million.

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 2013-14 fiscal year, the District had invested \$219.9 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 \$114.8 million at June 30, 2014.

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2013-2014

JUNE 30, 2014

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, 2014 and 2013**

	2013-2014	2012-2013	Difference	Difference
Land	\$8,431,737	\$8,431,737	\$0	
Site Improvement	\$8,312,716	\$8,726,156	-\$413,440	-4.74%
Buildings	\$94,931,764	\$94,129,803	\$801,961	0.85%
Equipment	\$2,163,759	\$1,556,333	\$607,426	39.03%
Work in Progress	\$918,560	\$3,528,000	-\$2,609,440	-73.96%
Total	\$114,758,536	\$116,372,029	-\$1,613,493	-1.39%

Depreciation expense was charged to governmental activities:

Total depreciation expense	<u><u>\$7,659,971</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:

- Novato High School Cafeteria Addition
- Novato High School Dance Studio
- Novato High School Pool Replacement
- San Marin High School Cafeteria
- San Marin High School STEM Classroom Remodel
- Security Cameras and Safety Blinds
- Portable Projects (Olive, Pleasant Valley and San Ramon)
- Hamilton Gymnasium Joint-Use Project
- Technology

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2013-2014

JUNE 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Long-Term Debt

At June 30, 2014, the District had \$92 million in long-term debt outstanding.

**Table 4
Comparative Schedule of Outstanding Debt, June 30, 2014 and 2013**

	2013-2014	2012-2013
Certificates of Participation	\$0	\$0
General Obligation Bonds	\$87,310,000	\$89,335,000
General Obligation Bond Premiums	\$4,022,172	\$4,349,312
Capital Lease Obligations	\$32,314	\$62,713
Compensated Absences	\$432,832	\$368,880
Claims Payable	\$200,000	\$200,000
Total	<u>\$91,997,318</u>	<u>\$94,315,905</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 fiscal year 2015-16.

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, 2014

Assets	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
Cash in County treasury	\$ 27,253,769	\$ 75,711	\$ 27,329,480
Cash on hand and in banks	9,590		9,590
Revolving cash fund	200		200
Accounts receivable	10,997,540	214,570	11,212,110
Internal balances	210,707	(210,707)	
Inventories, at cost	44,473	35,631	80,104
Prepaid items	78,281		78,281
Net OPEB assets	172,383		172,383
Land	8,431,737		8,431,737
Construction in progress	918,560		918,560
Site improvements	29,150,711		29,150,711
Buildings and improvements	175,288,952		175,288,952
Machinery and equipment	6,144,147	74,776	6,218,923
Less: accumulated depreciation	<u>(105,175,571)</u>	<u>(44,865)</u>	<u>(105,220,436)</u>
Total Assets	<u>153,525,479</u>	<u>145,116</u>	<u>153,670,595</u>
Liabilities			
Accounts payable	3,806,087	13,014	3,819,101
Interest payable	1,685,894		1,685,894
Unearned revenue	23,959	3,757	27,716
Long-term liabilities:			
Due within one year	2,949,440		2,949,440
Due in more than one year	<u>89,047,878</u>		<u>89,047,878</u>
Total Liabilities	<u>97,513,258</u>	<u>16,771</u>	<u>97,530,029</u>
Net Position			
Net investment in capital assets	31,377,125	29,911	31,407,036
Restricted for:			
Capital projects	1,928,523		1,928,523
Debt service	3,012,917		3,012,917
Educational programs	4,472,784		4,472,784
Unrestricted	<u>15,220,872</u>	<u>98,434</u>	<u>15,319,306</u>
Total net position	<u>\$ 56,012,221</u>	<u>\$ 128,345</u>	<u>\$ 56,140,566</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 42,887,461	\$ 36,995	\$ 8,095,941	\$ 874,180
Instruction-related services:				
Instructional supervision and administration	2,388,646	4,821	948,516	
Instructional library, media, and technology	800,469	12,786	261,239	
School site administration	4,565,979	1,264	80,866	
Pupil services:				
Home-to-school transportation	1,722,183		21,615	
All other pupil services	2,954,041	15,796	1,151,696	
General administration:				
Centralized data processing	628,054	663	13,556	
All other general administration	3,043,575	871	208,284	
Plant services	6,255,252	697	15,453	
Ancillary services	454,382	7,283	148,797	
Interest on long-term debt	3,779,283			
Other outgo	1,339,224	20,867	426,346	
Depreciation (unallocated)	7,659,971			
Total governmental activities	78,478,520	102,043	11,372,309	874,180
Business-type activities				
Pupil services:				
Food services	2,102,443	642,872	1,286,606	
General administration:				
All other general administration	106,611	32,808	65,532	
Plant services	5,469	1,683	3,362	
Total business-type activities	2,214,523	677,363	1,355,500	
Total government	\$ 80,693,043	\$ 779,406	\$ 12,727,809	\$ 874,180

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

Total general revenues

Change in net position

Net position beginning of fiscal year

Restatements

Net position beginning of fiscal year, restated

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
\$ (33,880,345)	\$ -	\$ (33,880,345)
(1,435,309)		(1,435,309)
(526,444)		(526,444)
(4,483,849)		(4,483,849)
(1,700,568)		(1,700,568)
(1,786,549)		(1,786,549)
(613,835)		(613,835)
(2,834,420)		(2,834,420)
(6,239,102)		(6,239,102)
(298,302)		(298,302)
(3,779,283)		(3,779,283)
(892,011)		(892,011)
(7,659,971)		(7,659,971)
(66,129,988)		(66,129,988)
	(172,965)	(172,965)
	(8,271)	(8,271)
	(424)	(424)
	(181,660)	(181,660)
(66,129,988)	(181,660)	(66,311,648)
13,070,237		13,070,237
6,535,525		6,535,525
4,494,666		4,494,666
37,929,907		37,929,907
30,627	76	30,703
41,824		41,824
1,561,181	13,935	1,575,116
63,663,967	14,011	63,677,978
(2,466,021)	(167,649)	(2,633,670)
58,858,597	295,994	59,154,591
(380,355)		(380,355)
58,478,242	295,994	58,774,236
\$ 56,012,221	\$ 128,345	\$ 56,140,566

NOVATO UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2014

	General Fund	Building Fund	Bond Interest Redemption Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash in County treasury	\$ 9,656,377	\$ 8,609,834	\$ 4,685,489	\$ 3,826,572	\$ 26,778,272
Cash on hand and in banks	9,590				9,590
Cash in revolving fund	200				200
Accounts receivable	10,964,313			33,227	10,997,540
Due from other funds	210,707				210,707
Inventory, at cost	44,473				44,473
Prepaid items	78,281				78,281
Total assets	\$ 20,963,941	\$ 8,609,834	\$ 4,685,489	\$ 3,859,799	\$ 38,119,063
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 3,147,389	\$ 626,759	\$ -	\$ 29,352	\$ 3,803,500
Unearned revenue	23,959				23,959
Total liabilities	3,171,348	626,759		29,352	3,827,459
Fund balances:					
Nonspendable					
Revolving cash	200				200
Stores inventories	44,473				44,473
Prepaid items	78,281				78,281
Restricted					
Medi-Cal billing option	186,567				186,567
California Clean Energy Jobs Act	130,000				130,000
Lottery: Instructional material	687,777				687,777
Economic Impact Aid (EIA)	30,006				30,006
Economic Impact Aid (LEP)	58,523				58,523
Quality Education Investment Act	699,950				699,950
Construction		7,983,075		1,928,523	9,911,598
Debt service			4,685,489	13,322	4,698,811
Ongoing & Major Maintenance Account	694,869				694,869
Other Restricted Local	1,985,092				1,985,092
Committed					
Adult education program				76,022	76,022
Deferred maintenance				1,812,580	1,812,580
Unassigned	13,196,855				13,196,855
Total fund balances	17,792,593	7,983,075	4,685,489	3,830,447	34,291,604
Total liabilities and fund balances	\$ 20,963,941	\$ 8,609,834	\$ 4,685,489	\$ 3,859,799	\$ 38,119,063

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, 2014

Total fund balances - governmental funds \$ 34,291,604

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	\$ 219,934,107	
Accumulated depreciation	<u>(105,175,571)</u>	
Net		114,758,536

In governmental funds, bond premiums are recognized as other financing sources in the period they are incurred. In the government-wide statements, premiums are amortized over the life of the debt.

Unamortized bond premiums		(4,022,172)
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In governmental funds, Net OPEB asset has not been included as financial resources. 172,383

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. (1,685,894)

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	\$ (87,310,000)	
Capital leases	(32,314)	
Compensated absences	<u>(432,832)</u>	
Total		(87,775,146)

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) 272,910

Total net position, governmental activities \$ 56,012,221

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, 2014

	General Fund	Building Fund	Bond Interest Redemption Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
LCFF sources:					
State apportionments	\$ 28,453,997	\$ -	\$ -	\$ -	\$ 28,453,997
Education Protection Account Funds	8,456,749				8,456,749
Local sources	12,663,243				12,663,243
Federal	2,966,172				2,966,172
Other state	3,965,442		56,857	874,180	4,896,479
Other local	11,852,251	11,669	6,483,038	228,901	18,575,859
Total revenues	68,357,854	11,669	6,539,895	1,103,081	76,012,499
Expenditures:					
Certificated salaries	32,670,836			32,815	32,703,651
Classified salaries	10,035,477	146,610			10,182,087
Employee benefits	9,646,050	38,793		3,353	9,688,196
Books and supplies	3,128,666	271,178		16,575	3,416,419
Contracted services and other operating expenditures	9,074,749	408,354		80,637	9,563,740
Capital outlay	99,360	5,995,791		124,460	6,219,611
Other outgo	1,232,613				1,232,613
Debt service:					
Principal	30,399		2,025,000		2,055,399
Interest and fiscal charges	3,853		4,133,491		4,137,344
Total expenditures	65,922,003	6,860,726	6,158,491	257,840	79,199,060
Excess of revenues over (under) expenditures	2,435,851	(6,849,057)	381,404	845,241	(3,186,561)
Other Financing Sources (Uses):					
Transfers in		879,678		900,484	1,780,162
Transfers out	(375,484)			(1,479,678)	(1,855,162)
Total other financing sources (uses)	(375,484)	879,678		(579,194)	(75,000)
Net change in fund balances	2,060,367	(5,969,379)	381,404	266,047	(3,261,561)
Fund balances, July 1, 2013	15,732,226	13,952,454	4,304,085	3,564,400	37,553,165
Fund balances, June 30, 2014	<u>\$ 17,792,593</u>	<u>\$ 7,983,075</u>	<u>\$ 4,685,489</u>	<u>\$ 3,830,447</u>	<u>\$ 34,291,604</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, 2014

Total net change in fund balances - governmental funds	\$ (3,261,561)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$7,659,971) exceeded additions to capital outlay of \$6,179,698 in the period.	(1,480,273)
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities.	2,055,399
If a planned capital project is canceled and will not be completed, costs previously capitalized as Construction in Progress must be written off to expense. Costs written off for canceled projects were:	(133,220)
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:	30,921
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:	(63,952)
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 earned exceed amounts paid by:	(9,791)
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:	69,316
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:	
Amortization of premium for the period	327,140
Change in net position of governmental activities	\$ (2,466,021)

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	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	\$ 75,711	\$ -	\$ 75,711	\$ 475,497
Accounts receivable		214,570	214,570	
Inventory, at cost		35,631	35,631	
Total current assets	75,711	250,201	325,912	475,497
Non-current assets:				
Capital assets		74,776	74,776	
Less: accumulated depreciation		(44,865)	(44,865)	
Total non-current assets		29,911	29,911	
Total assets	75,711	280,112	355,823	475,497
Liabilities				
Current liabilities:				
Accounts payable		13,014	13,014	2,587
Due to other funds		210,707	210,707	
Unearned revenue		3,757	3,757	
Total current liabilities		227,478	227,478	2,587
Noncurrent liabilities:				
Claims payable				200,000
Total noncurrent liabilities				200,000
Total liabilities		227,478	227,478	202,587
Net Position				
Net investment in capital assets		29,911	29,911	
Unrestricted	75,711	22,723	98,434	272,910
Total net position	\$ 75,711	\$ 52,634	\$ 128,345	\$ 272,910

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, 2014

	Enterprise Funds			Governmental
	General Education Preschool Fund	Cafeteria Enterprise Fund	Totals	Activities Internal Service Fund Self-Insurance Fund
Operating Revenues:				
Federal revenue	\$ -	\$ 1,251,488	\$ 1,251,488	\$ -
Other state revenue		102,609	102,609	
Other local revenue	13,935	678,788	692,723	18,847
Total revenues	13,935	2,032,885	2,046,820	18,847
Operating Expenses:				
Classified salaries		935,513	935,513	
Employee benefits		259,761	259,761	
Books and supplies		864,348	864,348	4,964
Contracted services and other operating expenses		43,305	43,305	19,979
Depreciation		4,985	4,985	
Other outgo		106,611	106,611	
Total expenses		2,214,523	2,214,523	24,943
Operating income (loss)	13,935	(181,638)	(167,703)	(6,096)
Non-Operating Revenues:				
Interest income	76	(22)	54	412
Total non-operating revenues	76	(22)	54	412
Income (loss) before transfers	14,011	(181,660)	(167,649)	(5,684)
Transfer in				75,000
Change in net position	14,011	(181,660)	(167,649)	69,316
Net position, July 1, 2013	61,700	234,294	295,994	203,594
Net position, June 30, 2014	\$ 75,711	\$ 52,634	\$ 128,345	\$ 272,910

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For Fiscal Year Ended June 30, 2014

	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	\$ -	\$ 1,356,309	\$ 1,356,309	\$ -
Cash received from customers	13,935	678,788	692,723	
Cash received from insurance premiums				18,847
Cash received from other funds				77,378
Cash paid for salaries and benefits		(1,195,274)	(1,195,274)	
Cash paid for books and supplies		(668,598)	(668,598)	(4,964)
Cash paid for contracted services and other operating expenses		(64,592)	(64,592)	(17,567)
Cash paid for other outgo		(106,611)	(106,611)	
Net cash provided (used) by operating activities	13,935	22	13,957	73,694
Cash flows from investing activities:				
Interest received (paid)	76	(22)	54	412
Net cash provided (used) by investing activities	76	(22)	54	412
Cash flows from noncapital and related financing activities:				
Transfers from other funds				75,000
Net cash provided (used) by noncapital and related financing activities				75,000
Net increase (decrease) in cash and cash equivalents	14,011		14,011	149,106
Cash and cash equivalents at July 1, 2013	61,700		61,700	326,391
Cash and cash equivalents at June 30, 2014	\$ 75,711	\$ -	\$ 75,711	\$ 475,497
Reconciliation to Statement of Net Position:				
Cash in County treasury	\$ 75,711	\$ -	\$ 75,711	\$ 475,497
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ 13,935	\$ (181,638)	\$ (167,703)	\$ (6,096)
Adjustments to reconcile operating income (loss) to net cash provided (used)				
Depreciation		4,985	4,985	
(Increase) decrease in operating assets:				
Accounts receivable		2,212	2,212	
Inventory		(19,455)	(19,455)	
Due from other funds		133,397	133,397	77,378
Increase (decrease) in operating liabilities:				
Accounts payable		(1,832)	(1,832)	2,412
Due to other funds		62,353	62,353	
Net cash provided (used) by operating activities	\$ 13,935	\$ 22	\$ 13,957	\$ 73,694

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2014

	Agency Funds			Totals
	Payroll Revolving Fund	Novato Public Access TV Fund	Student Body Funds	
Assets				
Cash in County treasury	\$ 23,659	\$ 2	\$ -	\$ 23,661
Cash on hand and in banks			266,621	266,621
Accounts receivable	1,719	1		1,720
Total assets	\$ 25,378	\$ 3	\$ 266,621	\$ 292,002
Liabilities				
Accounts payable	\$ 25,378	\$ 3	\$ -	\$ 25,381
Due to student groups			266,621	266,621
Total liabilities	\$ 25,378	\$ 3	\$ 266,621	\$ 292,002

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 total net position. 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.

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 Funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, whereas the intent is that the costs of providing services on a continuing basis be financed or recovered primarily through user charges. The District maintains 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 per the California Government Code.

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 Premiums

The premium on long-term debt is 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. Property Tax

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 Control Funding Formula (LCFF) local sources by the District.

J. Estimates

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 65

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Items previously reported as assets and liabilities are now reported as deferred inflows or outflows of resources. Implementation of the statement and the impact on the District's financial statements are explained in Note 19 - Restatements.

Governmental Accounting Standards Board Statement No. 66

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 66, *Technical Correction - 2012*. This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement No. 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement No. 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. Implementation of the GASB Statement No. 66 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 67

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50 *Pension Disclosures* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. Implementation of the GASB Statement No. 67 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 70

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are non-exchange transactions. Implementation of the GASB Statement No. 70 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

NOTE 2 - CASH AND INVESTMENTS

The District's cash and investments as of June 30, 2014 consisted of the following:

Cash on hand and in banks	\$ 276,411
Cash and investments with County Treasurer	27,353,141
Total cash and investments	<u>\$ 27,629,552</u>

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

Cash in County Treasury, statement of net position	\$ 27,329,480
Cash on hand and in banks, statement of net position	9,590
Cash in revolving fund, statement of net position	200
Cash in County Treasury, statement of fiduciary assets and liabilities	23,661
Cash on hand and in banks, statement of fiduciary assets and liabilities	266,621
Total cash and investments	<u>\$ 27,629,552</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 (\$27,353,141 as of June 30, 2014). The fair value of this pool as of that date, as provided by the plan sponsor, was \$27,353,141. The District is considered to be an involuntary participant in the external pool. Interest is deposited in the participating funds. The County is restricted by Government Code Section 53635, pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Cash on Hand, in Banks, and in Revolving Fund

Cash balance on hand and in banks (\$276,211 as of June 30, 2014) 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 per the California Government Code.

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	\$ 27,353,141	\$ 27,353,141	\$ -	\$ -	\$ -
Total	\$ 27,353,141	\$ 27,353,141	\$ -	\$ -	\$ -

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	\$ 27,353,141	N/A	\$ -	\$ -	\$ -	\$ -	\$ 27,353,141
Total	\$ 27,353,141		\$ -	\$ -	\$ -	\$ -	\$ 27,353,141

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, 2014, 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	\$ 15,334
Other outgo	164,081
Non-major Governmental Fund	
Adult Education Fund	
Certificated salaries	4,815

NOTE 4 - RECEIVABLES

Receivables as of June 30, 2014, consist of the following:

	General Fund	Other Governmental Funds	Cafeteria Enterprise Fund	Fiduciary Funds
Federal Government				
Categorical Aid Programs	\$ 968,503	\$ -	\$ 201,268	\$ -
State Government				
Categorical Aid Programs	830,313		12,699	
Lottery	479,918			
Apportionment	8,110,473			
Local Government				
Fees	137,431	33,227		
Miscellaneous	437,675		603	1,720
Total Accounts Receivable	<u>\$ 10,964,313</u>	<u>\$ 33,227</u>	<u>\$ 214,570</u>	<u>\$ 1,720</u>

NOTE 5 - INTERFUND TRANSACTIONS

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

Due From/Due To Other Funds

Individual fund receivable and payable balances as of June 30, 2014, are as follows:

Funds	Interfund Receivables	Interfund Payables
Major Governmental Fund:		
General Fund	\$ 210,707	\$ -
Major Enterprise Fund:		
Cafeteria Enterprise Fund		210,707
Totals	<u>\$ 210,707</u>	<u>\$ 210,707</u>

Interfund Transfers

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

Interfund transfers for the 2013-2014 fiscal year, are as follows:

Funds	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ -	\$ 375,484
Building Fund	879,678	
Internal Service Fund:		
Self Insurance Fund	75,000	
Non-major Governmental Funds:		
Adult Education Fund	38,000	
Deferred Maintenance Fund	262,484	
Capital Facilities Fund		600,000
County Facilities Fund		879,678
Special Reserve for Capital Outlay Projects Fund	600,000	
Totals	<u>\$ 1,855,162</u>	<u>\$ 1,855,162</u>

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2014, is shown below:

Governmental Activities:

	Balance July 1, 2013	Additions	Deletions	Completed Projects	Balance June 30, 2014
Capital Assets, not being depreciated:					
Land	\$ 8,431,737	\$ -	\$ -	\$ -	\$ 8,431,737
Construction in progress	3,528,000	847,038	133,220	(3,323,258)	918,560
Total capital assets not being depreciated	<u>11,959,737</u>	<u>847,038</u>	<u>133,220</u>	<u>(3,323,258)</u>	<u>9,350,297</u>
Capital Assets, being depreciated:					
Improvement of sites	28,906,323	244,388			29,150,711
Buildings and building improvements	167,943,994	4,021,700		3,323,258	175,288,952
Machinery and equipment	5,077,575	1,066,572			6,144,147
Total capital assets being depreciated	<u>201,927,892</u>	<u>5,332,660</u>		<u>3,323,258</u>	<u>210,583,810</u>
Less accumulated depreciation for:					
Improvement of sites	20,180,167	657,828			20,837,995
Buildings and building improvements	73,814,191	6,542,997			80,357,188
Machinery and equipment	3,521,242	459,146			3,980,388
Total accumulated depreciation	<u>97,515,600</u>	<u>7,659,971</u>			<u>105,175,571</u>
Total capital assets, being depreciated, net	<u>104,412,292</u>	<u>(2,327,311)</u>		<u>3,323,258</u>	<u>105,408,239</u>
Governmental activities capital assets, net	<u>\$ 116,372,029</u>	<u>\$ (1,480,273)</u>	<u>\$ 133,220</u>	<u>\$ -</u>	<u>\$ 114,758,536</u>

Depreciation expense was charged to governmental activities as follows:

Governmental activities:

Unallocated	\$ 7,659,971
Total depreciation expense	<u>\$ 7,659,971</u>

Business-type Activities:

	Balance July 1, 2013	Additions	Deletions	Completed Projects	Balance June 30, 2014
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	39,880	4,985			44,865
Total accumulated depreciation	<u>39,880</u>	<u>4,985</u>			<u>44,865</u>
Total capital assets, being depreciated, net	<u>34,896</u>	<u>(4,985)</u>			<u>29,911</u>
Business-type activity capital assets, net	<u>\$ 34,896</u>	<u>\$ (4,985)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,911</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, 2014

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, 2014, the unamortized premium balance was \$342,660.

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, 2014, the unamortized premium was \$1,139,305.

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, 2014, the unamortized premium was \$2,540,207. 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, 2014, is as follows:

Bond Issue	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Balance Outstanding July 1, 2013	Issued Current Fiscal Year	Redeemed Current Fiscal Year	Balance Outstanding June 30, 2014
2005	3/23/2006	3.0 -5.125	8/1/2029	\$ 30,000,000	\$ 28,235,000	\$ -	\$ 290,000	\$ 27,945,000
2006	7/14/2006	4.0 - 5.0	8/1/2026	40,200,000	37,905,000		985,000	36,920,000
2011	9/22/2011	2.0-5.0	8/1/2026	24,290,000	23,195,000		750,000	22,445,000
				<u>\$ 94,490,000</u>	<u>\$ 89,335,000</u>	<u>\$ -</u>	<u>\$ 2,025,000</u>	<u>\$ 87,310,000</u>

The annual requirements to amortize general obligation bonds payable outstanding as of June 30, 2014, are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
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	4,275,000	3,501,279	7,776,279
2020-2024	30,485,000	13,868,202	44,353,202
2025-2029	35,675,000	4,933,328	40,608,328
2030	4,650,000	119,156	4,769,156
	<u>\$ 87,310,000</u>	<u>\$ 37,890,542</u>	<u>\$ 125,200,542</u>

NOTE 8 – 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 2014, the District contributed \$79,250 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 asset	(9,109)
Adjustment to annual required contribution	8,450
Annual OPEB cost (expense)	<u>89,041</u>
Contributions made	<u>(79,250)</u>
Increase (decrease) in net OPEB asset	9,791
Net OPEB obligation (assets) - beginning of fiscal year	<u>(182,174)</u>
Net OPEB obligation (assets) - end of fiscal year	<u><u>\$ (172,383)</u></u>

NOTE 8 – 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 (asset) for fiscal years 2012 - 2014 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contribution	Net OPEB Obligation (Assets)
6/30/2012	\$ 100,712	125.07%	\$ (184,886)
6/30/2013	89,042	96.95%	(182,174)
6/30/2014	89,041	89.00%	(172,383)

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

Actuarial Methods and Assumptions

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

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 9 – CLAIMS PAYABLE

As of June 30, 2014, 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, 2014

NOTE 10 – 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
2015	\$ 34,253
Total	34,253
Less amount representing interest	(1,939)
Present value of net minimum lease payments	<u>\$ 32,314</u>

NOTE 11 – LONG-TERM DEBT

A schedule of changes in long-term debt for the fiscal year ended June 30, 2014, is shown below:

Governmental Activities:

	Balance July 1, 2013	Additions	Repayment and Reductions	Balance June 30, 2014	Due Within One Year
General Obligation Bonds	\$ 89,335,000	\$ -	\$ 2,025,000	\$ 87,310,000	\$ 2,400,000
Bond Premiums	4,349,312		327,140	4,022,172	327,140
Capital Leases Payable	62,713		30,399	32,314	32,314
Claims Payable	200,000			200,000	
Compensated Absences	368,880	218,369	154,417	432,832	189,986
Totals	<u>\$ 94,315,905</u>	<u>\$ 218,369</u>	<u>\$ 2,536,956</u>	<u>\$ 91,997,318</u>	<u>\$ 2,949,440</u>

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the Novato Unified School District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 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, 2014, 2013, and 2012, were \$2,623,279, \$2,534,463, and \$2,451,071, 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 2013-2014, was 11.442% 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, 2014, 2013, and 2012, were \$1,087,488, \$1,029,642, and \$1,002,584, respectively, and equal 100% of the required contributions for each fiscal year.

NOTE 13 – 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 14 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Litigation

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

NOTE 15 – JOINT 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 16 – DEFERRED COMPENSATION PLAN

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

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

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

NOTE 17 – 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 18 – SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through December 10, 2014, the date these financial statements were available to be issued, and has determined there were no material events requiring disclosure.

NOTE 19 – RESTATEMENTS

Due to the implementation of GASB Statement No. 65, the District's unamortized bond issuance costs of \$380,355 at June 30, 2013 is now reported as part of net position in the government-wide statement of net position.

REQUIRED SUPPLEMENTARY INFORMATION

NOVATO UNIFIED SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
LCFF sources:				
State apportionments	\$ 22,126,930	\$ 23,321,028	\$ 28,453,997	\$ 5,132,969
Education Protection Account Funds	8,373,300	7,180,625	8,456,749	1,276,124
Local sources	11,156,501	18,570,106	12,663,243	(5,906,863)
Federal	3,015,084	3,376,530	2,966,172	(410,358)
Other state	9,037,268	3,711,911	3,965,442	253,531
Other local	10,358,898	11,159,323	11,852,251	692,928
Total revenues	64,067,981	67,319,523	68,357,854	1,038,331
Expenditures:				
Certificated salaries	30,896,735	33,333,693	32,670,836	662,857
Classified salaries	9,465,456	10,348,002	10,035,477	312,525
Employee benefits	9,775,030	10,126,870	9,646,050	480,820
Books and supplies	2,649,032	4,184,919	3,128,666	1,056,253
Contracted services and other operating expenditures	8,559,419	10,249,132	9,074,749	1,174,383
Capital outlay	3,071	84,026	99,360	(15,334)
Other outgo	1,170,125	1,068,532	1,232,613	(164,081)
Debt service:				
Principal	30,399	30,399	30,399	
Interest and fiscal charges	3,853	3,853	3,853	
Total expenditures	62,553,120	69,429,426	65,922,003	3,507,423
Excess of revenues over (under) expenditures	1,514,861	(2,109,903)	2,435,851	4,545,754
Other Financing Sources (Uses):				
Transfers out	(375,484)	(375,484)	(375,484)	
Total other financing sources (uses)	(375,484)	(375,484)	(375,484)	
Net change in fund balance	1,139,377	(2,485,387)	2,060,367	4,545,754
Fund balance, July 1, 2013	15,732,226	15,732,226	15,732,226	
Fund balance, June 30, 2014	\$ 16,871,603	\$ 13,246,839	\$ 17,792,593	\$ 4,545,754

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NOVATO UNIFIED SCHOOL DISTRICT
 OTHER POST-EMPLOYMENT BENEFIT TREND INFORMATION
 June 30, 2014

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 Actuarial Accrued 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, 2014

	Adult Education Fund	Deferred Maintenance Fund	Totals
Assets			
Cash in County treasury	\$ 76,410	\$ 1,812,580	\$ 1,888,990
Total assets	<u>\$ 76,410</u>	<u>\$ 1,812,580</u>	<u>\$ 1,888,990</u>
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 388	\$ -	\$ 388
Total liabilities	<u>388</u>	<u>-</u>	<u>388</u>
Fund balances:			
Committed			
Adult education program	76,022		76,022
Deferred maintenance		1,812,580	1,812,580
Total fund balances	<u>76,022</u>	<u>1,812,580</u>	<u>1,888,602</u>
Total liabilities and fund balances	<u>\$ 76,410</u>	<u>\$ 1,812,580</u>	<u>\$ 1,888,990</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, 2014

	Adult Education Fund	Deferred Maintenance Fund	Totals
Revenues:			
Other local	\$ 3,154	\$ 1,678	\$ 4,832
Total revenues	<u>3,154</u>	<u>1,678</u>	<u>4,832</u>
Expenditures:			
Certificated salaries	32,815		32,815
Employee benefits	3,353		3,353
Books and supplies	448		448
Contracted services and other operating expenditures	3,638	34,689	38,327
Capital outlay		64,600	64,600
Total expenditures	<u>40,254</u>	<u>99,289</u>	<u>139,543</u>
Excess of revenues over (under) expenditures	<u>(37,100)</u>	<u>(97,611)</u>	<u>(134,711)</u>
Other Financing Sources (Uses):			
Transfers in	<u>38,000</u>	<u>262,484</u>	<u>300,484</u>
Total other financing sources (uses)	<u>38,000</u>	<u>262,484</u>	<u>300,484</u>
Net change in fund balances	900	164,873	165,773
Fund balances, July 1, 2013	<u>75,122</u>	<u>1,647,707</u>	<u>1,722,829</u>
Fund balances, June 30, 2014	<u>\$ 76,022</u>	<u>\$ 1,812,580</u>	<u>\$ 1,888,602</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, 2014

	Adult Education Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other local	\$ 2,765	\$ 3,154	\$ 389
Total revenues	<u>2,765</u>	<u>3,154</u>	<u>389</u>
Expenditures:			
Certificated salaries	28,000	32,815	(4,815)
Classified salaries			
Employee benefits	3,766	3,353	413
Books and supplies	3,125	448	2,677
Contracted services and other operating expenditures	5,340	3,638	1,702
Capital outlay			
Total expenditures	<u>40,231</u>	<u>40,254</u>	<u>(23)</u>
Excess of revenues over (under) expenditures	<u>(37,466)</u>	<u>(37,100)</u>	<u>366</u>
Other Financing Sources (Uses):			
Transfers in	38,000	38,000	
Transfers out			
Total other financing sources (uses)	<u>38,000</u>	<u>38,000</u>	
Net change in fund balances	534	900	366
Fund balances, July 1, 2013	<u>75,122</u>	<u>75,122</u>	
Fund balances, June 30, 2014	<u>\$ 75,656</u>	<u>\$ 76,022</u>	<u>\$ 366</u>

Deferred Maintenance Fund			Totals		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ 838	\$ 1,678	\$ 840	\$ 3,603	\$ 4,832	\$ 1,229
838	1,678	840	3,603	4,832	1,229
			28,000	32,815	(4,815)
			3,766	3,353	413
			3,125	448	2,677
39,213	34,689	4,524	44,553	38,327	6,226
71,650	64,600	7,050	71,650	64,600	7,050
110,863	99,289	11,574	151,094	139,543	11,551
(110,025)	(97,611)	12,414	(147,491)	(134,711)	12,780
262,484	262,484		300,484	300,484	
262,484	262,484		300,484	300,484	
152,459	164,873	12,414	152,993	165,773	12,780
1,647,707	1,647,707		1,722,829	1,722,829	
<u>\$ 1,800,166</u>	<u>\$ 1,812,580</u>	<u>\$ 12,414</u>	<u>\$ 1,875,822</u>	<u>\$ 1,888,602</u>	<u>\$ 12,780</u>

NOVATO UNIFIED SCHOOL DISTRICT
BALANCE SHEET
NONMAJOR DEBT SERVICE FUND
June 30, 2014

	<u>Debt Service Fund</u>
Assets	
Cash in County Treasury	\$ <u>13,322</u>
Total assets	\$ <u><u>13,322</u></u>
 Liabilities and Fund Balance	
Fund balance:	
Restricted	
Debt service	\$ <u>13,322</u>
Total fund balance	<u>13,322</u>
Total liabilities and fund balance	\$ <u><u>13,322</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, 2014

	Debt Service Fund
Revenues:	
Other local	\$ 15
Total revenues	15
Net change in fund balance	15
Fund balance, July 1, 2013	13,307
Fund balance, June 30, 2014	\$ 13,322

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, 2014

	Debt Service Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other local	\$ -	\$ 15	\$ 15
Total revenues		15	15
Net change in fund balance		15	15
Fund balance, July 1, 2013	13,307	13,307	
Fund balance, June 30, 2014	<u>\$ 13,307</u>	<u>\$ 13,322</u>	<u>\$ 15</u>

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NOVATO UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 June 30, 2014

	Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund
Assets			
Cash in County Treasury	\$ 182,411	\$ 258	\$ 1,741,591
Accounts receivable	33,227		
Total assets	<u>\$ 215,638</u>	<u>\$ 258</u>	<u>\$ 1,741,591</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 28,964	\$ -	\$ -
Total liabilities	<u>28,964</u>		
Fund balances:			
Restricted			
Construction	186,674	258	1,741,591
Total fund balances	<u>186,674</u>	<u>258</u>	<u>1,741,591</u>
Total liabilities and fund balances	<u>\$ 215,638</u>	<u>\$ 258</u>	<u>\$ 1,741,591</u>

Totals

\$ 1,924,260
33,227

\$ 1,957,487

\$ 28,964

28,964

1,928,523

1,928,523

\$ 1,957,487

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, 2014

	Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund
Revenues:			
Other state	\$ -	\$ 874,180	\$ -
Other local	221,642	943	1,469
Total revenues	<u>221,642</u>	<u>875,123</u>	<u>1,469</u>
Expenditures:			
Books and supplies	16,127		
Contracted services and other operating expenditures	42,310		
Capital outlay	59,860		
Total expenditures	<u>118,297</u>		
Excess of revenues over (under) expenditures	<u>103,345</u>	<u>875,123</u>	<u>1,469</u>
Other Financing Sources (Uses):			
Transfers in			600,000
Transfers out	(600,000)	(879,678)	
Total other financing sources (uses)	<u>(600,000)</u>	<u>(879,678)</u>	<u>600,000</u>
Net change in fund balances	(496,655)	(4,555)	601,469
Fund balances, July 1, 2013	<u>683,329</u>	<u>4,813</u>	<u>1,140,122</u>
Fund balances, June 30, 2014	<u>\$ 186,674</u>	<u>\$ 258</u>	<u>\$ 1,741,591</u>

Totals

\$ 874,180
224,054

1,098,234

16,127

42,310
59,860

118,297

979,937

600,000
(1,479,678)

(879,678)

100,259

1,828,264

\$ 1,928,523

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, 2014

	Capital Facilities Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other state	\$ -	\$ -	\$ -
Other local	698,996	221,642	(477,354)
Total revenues	<u>698,996</u>	<u>221,642</u>	<u>(477,354)</u>
Expenditures:			
Books and supplies	24,169	16,127	8,042
Contracted services and other operating expenditures	124,702	42,310	82,392
Capital outlay	2,039,705	59,860	1,979,845
Debt service:			
Principal	255,000		255,000
Interest and fiscal charges	6,948		6,948
Total expenditures	<u>2,450,524</u>	<u>118,297</u>	<u>2,332,227</u>
Excess of revenues over (under) expenditures	<u>(1,751,528)</u>	<u>103,345</u>	<u>1,854,873</u>
Other Financing Sources (Uses):			
Proceeds from long term debt	273,125		(273,125)
Transfers in	600,000		(600,000)
Transfers out		(600,000)	(600,000)
Total other financing sources (uses)	<u>873,125</u>	<u>(600,000)</u>	<u>(1,473,125)</u>
Net change in fund balances	(878,403)	(496,655)	381,748
Fund balances, July 1, 2013	<u>683,329</u>	<u>683,329</u>	
Fund balances, June 30, 2014	<u>\$ (195,074)</u>	<u>\$ 186,674</u>	<u>\$ 381,748</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	\$ 874,180	\$ (2,170,858)	\$ -	\$ -	\$ -
	943	943		1,469	1,469
3,045,038	875,123	(2,169,915)		1,469	1,469
			10,904		10,904
			10,904		10,904
3,045,038	875,123	(2,169,915)	(10,904)	1,469	12,373
(3,045,038)	(879,678)	2,165,360	(600,000)	600,000	600,000
(3,045,038)	(879,678)	2,165,360	(600,000)	600,000	1,200,000
	(4,555)	(4,555)	(610,904)	601,469	1,212,373
4,813	4,813		1,140,122	1,140,122	
\$ 4,813	\$ 258	\$ (4,555)	\$ 529,218	\$ 1,741,591	\$ 1,212,373

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, 2014

	Totals		Variance Positive (Negative)
	Final Budget	Actual	
Revenues:			
Other state	\$ 3,045,038	\$ 874,180	\$ (2,170,858)
Other local	698,996	224,054	(474,942)
Total revenues	<u>3,744,034</u>	<u>1,098,234</u>	<u>(2,645,800)</u>
Expenditures:			
Books and supplies	24,169	16,127	8,042
Contracted services and other operating expenditures	135,606	42,310	93,296
Capital outlay	2,039,705	59,860	1,979,845
Debt service:			
Principal	255,000		255,000
Interest and fiscal charges	6,948		6,948
Total expenditures	<u>2,461,428</u>	<u>118,297</u>	<u>2,343,131</u>
Excess of revenues over (under) expenditures	<u>1,282,606</u>	<u>979,937</u>	<u>(302,669)</u>
Other Financing Sources (Uses):			
Proceeds from long term debt	273,125		(273,125)
Transfers in	600,000	600,000	
Transfers out	<u>(3,645,038)</u>	<u>(1,479,678)</u>	<u>2,165,360</u>
Total other financing sources (uses)	<u>(2,771,913)</u>	<u>(879,678)</u>	<u>1,892,235</u>
Net change in fund balances	(1,489,307)	100,259	1,589,566
Fund balances, July 1, 2013	<u>1,828,264</u>	<u>1,828,264</u>	
Fund balances, June 30, 2014	<u>\$ 338,957</u>	<u>\$ 1,928,523</u>	<u>\$ 1,589,566</u>

**NOVATO UNIFIED SCHOOL DISTRICT
ORGANIZATION
June 30, 2014**

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, 2014 were as follows:

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Shelly Scott	President	November, 2017
Debbie Butler	Vice President	November, 2015
Maria Aguila	Member	November, 2017
Cindi Clinton	Member	November, 2015
Thomas Cooper	Member	November, 2015
Derek Knell	Member	November, 2017
Ross Millerick	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, 2014

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary		
Kindergarten through Third	2,297.80	2,291.08
Fourth through Sixth	1,742.53	1,742.38
Seventh and Eighth	1,121.01	1,119.51
Extended Year Special Education		
Kindergarten through Third	1.84	1.84
Fourth through Sixth	2.13	2.13
Seventh and Eighth	0.21	0.21
Special Education - Nonpublic, Nonsectarian		
Kindergarten through Third	1.33	1.72
Fourth through Sixth	10.19	10.13
Seventh and Eighth	9.38	8.52
Extended Year Special Education - Nonpublic, Nonsectarian		
Kindergarten through Third	0.08	0.08
Fourth through Sixth	1.23	1.23
Seventh and Eighth	1.03	0.99
Community Day School		
Kindergarten through Third	0.00	0.00
Fourth through Sixth	0.00	0.00
Seventh and Eighth	6.80	7.53
Elementary totals	<u>5,195.56</u>	<u>5,187.35</u>
Secondary		
Ninth through Twelfth	2,338.09	2,325.83
Extended Year Special Education	0.10	0.10
Special Education - Nonpublic, Nonsectarian	16.54	16.41
Extended Year Special Education - nonpublic, Nonsectarian	2.49	2.49
Secondary totals	<u>2,357.22</u>	<u>2,344.83</u>
Total average daily attendance	<u><u>7,552.78</u></u>	<u><u>7,532.18</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, 2014

<u>Grades</u>	<u>Ed. Code 46207 Minutes Requirement</u>	<u>Ed. Code 46207 Revised Minutes Requirement</u>	<u>2013-2014 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	35,000	43,140	180	In compliance
Grade 1	50,400	49,000	53,480	180	In compliance
Grade 2	50,400	49,000	53,480	180	In compliance
Grade 3	50,400	49,000	53,515	180	In compliance
Grade 4	54,000	52,500	54,140	180	In compliance
Grade 5	54,000	52,500	54,140	180	In compliance
Grade 6	54,000	52,500	57,615	180	In compliance
Grade 7	54,000	52,500	57,615	180	In compliance
Grade 8	54,000	52,500	57,615	180	In compliance
Grade 9	64,800	63,000	66,966	180	In compliance
Grade 10	64,800	63,000	66,966	180	In compliance
Grade 11	64,800	63,000	66,966	180	In compliance
Grade 12	64,800	63,000	66,966	180	In compliance

Districts must maintain their instructional minutes as defined in Education Code Section 46207.

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, 2014

<u>General Fund</u>	(Budget)			
	<u>2015 (Note 1)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues and other financial sources	\$ 70,085,494	\$ 68,357,854	\$ 64,710,469	\$ 64,097,407
Expenditures	71,206,389	65,922,003	64,205,087	63,679,991
Other uses and transfers out	541,804	375,484	521,259	1,708,532
Total outgo	71,748,193	66,297,487	64,726,346	65,388,523
Change in fund balance	(1,662,699)	2,060,367	(15,877)	(1,291,116)
Ending fund balance	\$ 16,129,894	\$ 17,792,593	\$ 15,732,226	\$ 15,748,103
Available reserves (Note 2)	\$ 12,719,991	\$ 13,196,855	\$ 12,959,011	\$ 13,051,332
Available reserves as a percentage of total outgo	17.73%	19.91%	20.02%	19.96%
Total long-term debt	\$ 89,047,878	\$ 91,997,318	\$ 94,315,905	\$ 97,012,448
Average daily attendance at P-2	7,515	7,553	7,506	7,447

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

The General Fund's fund balance has increased by \$2,044,490 over the past two fiscal years. The fiscal year 2014-15 budget projects a decrease of \$1,662,699. 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 deficit during the 2014-15 fiscal year. Total long-term debt has decreased by \$5,015,130 over the past two fiscal years.

Average daily attendance has increased by 106 over the past two fiscal years. ADA is anticipated to decrease by 38 during the fiscal year 2014-15.

NOTES:

- 1 Budget 2015 is included for analytical purposes only and has not been subjected to audit.
- 2 Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainties contained within the General Fund.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
For the Fiscal Year Ended June 30, 2014

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, 2014

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	\$ 673,074
NCLB: Title I, Part A, Program Improvement LEA Corrective Action Responses	84.010	14955	74,248
Special Ed: IDEA - Basic Local Assistance Entitlement, Part B	84.027	13379	1,288,105
Special Ed: IDEA - Special Education Preschool Grants	84.173	13430	77,049
Special Ed: IDEA - Preschool Sec 611	84.027	13682	183,286
Special Ed: IDEA - Mental Health	84.027	14468	101,213
Vocational & Applied Technology Secondary I C	84.048	14894	40,664
NCLB - Title II, Part A Improving Teacher Quality Local Grants	84.367	15144	195,158
NCLB - Title III, Immigrant Education Program	84.365	14346	89,981
ROTC Reimbursement	84.000	14381	51,193
Total U.S. Department of Education			2,773,971
U.S. Department of Health and Human Services:			
Passed through Marin County Office of Education:			
Medi-Cal Billing Option	93.778	10013	192,201
Total U.S. Department of Health and Human Services			192,201
U.S. Department of Agriculture :			
Passed through California Department of Education (CDE):			
Child Nutrition: School Program			
School Breakfast Program	10.553	13390	845,958
National School Lunch Program	10.555	13391	393,377
Special Milk Program for Children	10.556	13392	9,877
Summer Food Service Program for Children	10.559	13004	2,276
Total U.S. Department of Agriculture			1,251,488
Total Expenditures of Federal Awards			\$ 4,217,660

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, 2014

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 the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOVATO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
 June 30, 2014

	<u>General Fund</u>	<u>Adult Education Fund</u>
June 30, 2014 Annual Financial and Budget Report Fund Balances/Net Position	<u>\$ 17,792,593</u>	<u>\$ 76,022</u>
June 30, 2014 Audited Financial Statements Fund Balances/Net Position	<u><u>\$ 17,792,593</u></u>	<u><u>\$ 76,022</u></u>
	<u>Bond Interest and Redemption Fund</u>	<u>Debt Service Fund</u>
June 30, 2014 Annual Financial and Budget Report Fund Balances/Net Position	<u>\$ 4,685,489</u>	<u>\$ 13,322</u>
June 30, 2014 Audited Financial Statements Fund Balances/Net Position	<u><u>\$ 4,685,489</u></u>	<u><u>\$ 13,322</u></u>

This schedule provides the information necessary to reconcile the fund balances/net position of all funds and the total liabilities of the long-term liabilities as reported on the Annual Financial and Budget Report to the audited financial statements.

<u>Deferred Maintenance Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>County School Facilities Fund</u>	<u>Special Reserve for Capital Outlay Projects Fund</u>
\$ 1,812,580	\$ 7,983,075	\$ 186,674	\$ 258	\$ 1,741,591
<u>\$ 1,812,580</u>	<u>\$ 7,983,075</u>	<u>\$ 186,674</u>	<u>\$ 258</u>	<u>\$ 1,741,591</u>

<u>Cafeteria Enterprise Fund</u>	<u>General Education Preschool</u>	<u>Self-Insurance Fund</u>
\$ 52,634	\$ 75,711	\$ 272,910
<u>\$ 52,634</u>	<u>\$ 75,711</u>	<u>\$ 272,910</u>

	<u>Long-Term Debt</u>
June 30, 2014 Annual Financial and Budget Report Total Liabilities	\$ 91,933,366
Understatement of compensated absences payable	<u>63,952</u>
June 30, 2014 Audited Financial Statements Long-Term Debt Total Liabilities	<u>\$ 91,997,318</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, 2014, 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, 2014.

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 District'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 over financial reporting that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify one deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-1 that we consider to be a significant deficiency.

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 response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was 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 District'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, 2014



MOSS, LEVY & HARTZHEIM LLP

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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 2013-2014*, 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, 2014.

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.

Auditor's 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 2013-2014*, 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:

Description	Procedures in Panel's Audit Guide	Procedures Performed
Attendance accounting		
Attendance reporting	6	Yes
Teacher certification and misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Instructional time for school districts	10	Yes
Instructional materials, general requirements	8	Yes
Ratios of administrative employees to teachers	1	Yes
Classroom teacher salaries	1	Yes

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
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Education protection account funds	1	Yes
Common core implementation funds	3	Yes
Unduplicated local control funding pupil counts	3	Yes
Charter Schools		
Contemporaneous Records of Attendance, for Mode of Instruction	8	Not Applicable
Nonclassroom-Based Instruction/Independent Study	1	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	15	Not Applicable
Annual Instructional Minutes - classroom based	3	Not Applicable
Facility grant program	4	Not Applicable
	1	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, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, not to provide an opinion of the effectiveness of the entity's internal control or on compliance outside of the items tested as noted above. This report is an integral part of an audit performed in accordance with *Standards and Procedures for Audit of California K-12 Local Education Agencies 2013-14*, published by the Education Audit Appeals Panel in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
December 10, 2014

The term "not applicable" is used above to mean either the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.



MOSS, LEVY & HARTZHEIM LLP

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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, 2014. 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 program for the fiscal year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the 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, 2014

FINDINGS AND RECOMMENDATIONS SECTION



NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

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

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	<u> X </u> No	
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Identification of major programs

CFDA Number (s)

Name of Federal Program or Cluster

84.027, 84.173

Special Education Cluster IDEA

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

\$300,000

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

Any audit findings disclosed that are required to be reported in accordance with Standards and Procedures for Audits of California K-12 Local Education Agencies?

_____ Yes	<u> X </u> No	
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Type of auditor’s report issued on compliance for state programs:

Unmodified

Section II - Financial Statement Findings

FINDING 2014-1
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. 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.
 2. Cash receipts were booked to the QuickBooks on the date of deposit, not when the money was received.

- School: San Jose Middle School:
 1. Bank deposit was not performed in timely manner. We noted some checks that were deposited to the bank two to three weeks after the cash receipt date.
 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 cash receipts for a donation and an event.
 2. Lack of supporting documentation to verify 2 transactions for PSAT Proctoring.
 3. One check was dated out of sequence.

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 2014-1 (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 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 deposit 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, 2014

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 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.

Current Status:

Implemented

Section I - 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.

Current Status:

Partially implemented - See Finding 2014-1.

Section I - 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.

Current Status:

Partially implemented - See Finding 2014-1.

Section II – Federal Award Findings and Questioned Costs

There were no federal award findings.

Section III – State Award Findings and Questioned Costs

There were no state award findings.