

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

AUDIT REPORT
June 30, 2015

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, 2015, 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States and the *2014-2015 Guide for Annual Audits of California K-12 Local Educational Agencies and State Compliance Reporting* published by the California Education Audit Appeals Panel. 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, 2015, 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, 2014, Novato Unified School District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is 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 61, the Schedule of Proportionate Share of Net Pension Liability on page 62, the Schedule of Contributions on page 64, and the Schedule of Funding Progress for Other Post-Employment Benefits Other than Pensions Trend Information on page 66, 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 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.

The financial and statistical information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2015, 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, 2015

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2014-2015

JUNE 30, 2015

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, 2015. 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 \$5,956,034 or 8.7% from 2013-14 to 2014-15, while expenditures increased by \$9,447,849 or 14.3% for the same period. The increase in revenue is attributed to funding of the new State funding formula, Local Control Funding Formula (LCFF). The increase in expenditures is due to an increase in the employer share of health benefit contribution; upgrade of the network infrastructure; significant investment in textbooks; and an one-time 2% bonus paid to all employees.
- General Fund expenditures and other sources and uses exceeded revenues and other uses by \$3,083,530; the District ended the year with available reserves of \$14.8 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 \$226 million. After depreciation, the June 30, 2015 book value for fixed assets totaled \$113 million
- An increase in health benefits contribution CAP resulted in an increase in benefits, equivalent to a 3% salary increase for certificated employees and 7% for classified staff for a total cost of \$1,975,152.
- A 2% bonus for all employees was paid out of the 2014-15 ending fund balance in the amount of \$910,233. This was part of the 2015-16 negotiated contracts.

**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2014-2015
JUNE 30, 2015**

FINANCIAL HIGHLIGHTS Continued

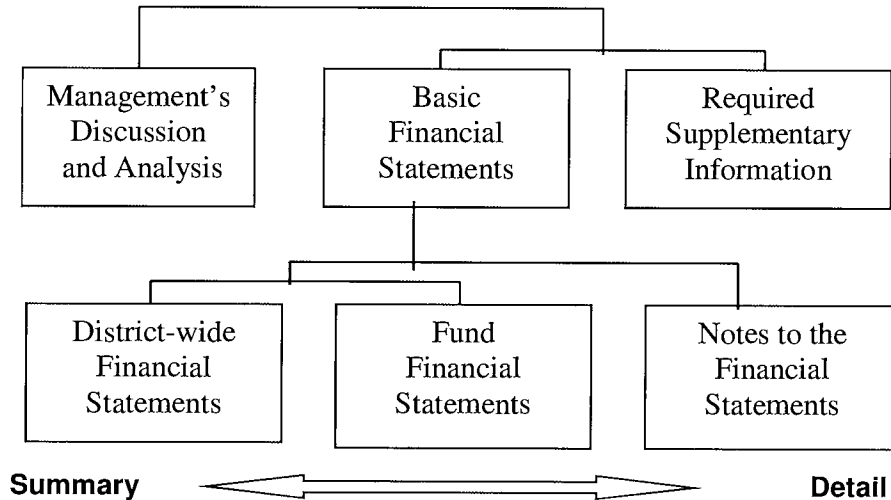
- Class size was staffed at 22:1 for TK-3, 30:1 for 4-8; and student contact of 155 for grades 9-12 with additional sections at the high schools to support English Learners.
- Successful implementation of the State testing – Smarter Balanced
- Increase of student to device ratio resulting in a ratio of 2 devices for 1 student district wide
- Continued implementation of Common Core State Standards
- Upgrade of network to support wireless devices and new Smarter Balance testing for a total project cost of \$1,122,221.
- Adoption of new math curriculum, CPM for secondary instruction and aligned with Common Core State Standards
- Purchase of textbooks totaling \$1,000,990.
- Community wide process resulting in a new NUSD Strategic Plan and development of the 2015-16 Local Control Accountability Plan (LCAP)
- Identification and implementation of operational efficiencies

**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2014-2015
JUNE 30, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Components of the Financial Section



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

**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2014-2015
JUNE 30, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Components of the Financial Section (Concluded)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the district as a whole and its activities in a way that helps answer the question, "How did we do financially during 2014-2015?"

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net assets, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools to assess the overall health of the District.

- ◆ Increases or decreases in the net assets of the District over time are indications of whether its financial position is improving or deteriorating, respectively.
- ◆ Additional non-financial factors such as condition of school buildings and other facilities, and changes to the property tax base of the District need to be considered in assessing the overall health of the District.

**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2014-2015
JUNE 30, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

- ◆ **Governmental Funds**
Most of the School District's activities are reported in governmental funds. The major governmental funds of the District are the General Fund and the Building Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
- ◆ **Proprietary Funds**
Proprietary funds use the full accrual basis of accounting, the same as the District-wide statements. The District currently has two types of proprietary funds, an internal service fund and an enterprise fund. The internal service fund of the District is the Self Insurance Fund used to account for the District's self-insured plan. The enterprise fund of the District is the Cafeteria Enterprise Fund used to account for the District's nutritional services program.
- ◆ **Fiduciary Funds**
The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The School District as a Whole

The District's net assets were (\$8.5) million at June 30, 2015. Of this amount (\$47.3) million was unrestricted and \$9.6 was restricted. Investments in capital assets, net of related debt, account for \$29.3 million of the total net assets. A comparative analysis of government-wide data is presented in Table 1.

**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2014-2015
JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

**Table 1
Comparative Statement of Net Assets**

| | 2014-2015 | | | 2013-2014 |
|---|----------------------------|-----------------------------|---------------|--------------|
| | Governmental Activities | Business-type Activities | Totals | Totals |
| Assets | | | | |
| Cash and investments | \$30,685,468 | \$134,538 | \$30,820,006 | \$27,339,270 |
| Accounts receivable | 3,428,446 | 206,622 | 3,635,068 | 11,212,110 |
| Internal balances | 248,029 | (248,029) | 0 | 0 |
| Inventories and prepaid expenses | 103,779 | 29,748 | 133,527 | 158,385 |
| Other assets | 85,537 | | 85,537 | 172,383 |
| Capital assets (net of depreciation) | 112,978,732 | 24,926 | 113,003,658 | 114,788,447 |
| Total Assets | 147,529,991 | 147,805 | 147,677,796 | 153,670,595 |
| Deferred Outflow of Resources | | | | |
| District's contributions subsequent to the measure date | 4,069,760 | 81,019 | 4,150,779 | 0 |
| Deferred loss on debt refunding | 1,628,803 | | 1,628,803 | 0 |
| Total Deferred Outflow of Resources | 5,698,563 | 81,019 | 5,779,582 | 0 |
| Liabilities | | | | |
| Accounts payable and other current liabilities | 5,941,455 | 17,863 | 5,959,318 | 5,504,995 |
| Deferred revenue | 67,461 | 3,088 | 70,549 | 27,716 |
| Long-term liabilities | 142,172,978 | 737,763 | 142,910,741 | 91,997,318 |
| Total Liabilities | 148,181,894 | 758,714 | 148,940,608 | 97,530,029 |
| Deferred Inflow of Resources | | | | |
| Differences between projected and actual earnings on pension plan investments | 13,501,444 | 253,503 | 13,754,947 | 0 |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 29,263,525 | 24,926 | 29,288,451 | 31,407,036 |
| Restricted | 9,559,878 | | 9,559,878 | 9,414,224 |
| Unrestricted | (47,278,187) | (808,319) | (48,086,506) | 15,319,306 |
| Total net assets | (\$8,454,784) | (\$783,393) | (\$9,238,177) | \$56,140,566 |

**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2014-2015
JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

The District's net asset position decreased (\$64.6) million this fiscal year. (See Table 1)

Governmental Activities

The District's expenses for instructional and pupil services represented 70.8% percent of total expenses. The purely administrative activities of the District accounted for 5% percent of total costs. The remaining 24.2% percent was spent in the areas of plant services and other expenses, interest on long-term debt and other outgo.

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

| | 2014-2015 | | | 2013-2014 |
|--|-------------------------|--------------------------|---------------|---------------|
| | Governmental Activities | Business-Type Activities | Total | Total |
| Revenues | | | | |
| Program Revenues | \$12,970,318 | \$2,112,149 | \$15,082,467 | \$14,381,395 |
| General Revenues | | | | |
| Taxes levied for general purposes | 17,197,826 | | 17,197,826 | 13,070,237 |
| Taxes levied for debt service | 6,807,125 | | 6,807,125 | 6,535,525 |
| Tax levied for other specific purposes | 4,463,363 | | 4,463,363 | 4,494,666 |
| Federal and State | 39,035,473 | | 39,035,473 | 37,929,983 |
| Interest and investment earnings | 30,776 | 142 | 30,918 | 30,627 |
| Interagency revenues | 8,334 | | 8,334 | 41,824 |
| Miscellaneous and transfers | 2,188,502 | 85,027 | 2,273,529 | 1,575,116 |
| Total general revenues | \$82,701,717 | \$2,197,318 | \$84,899,035 | \$78,059,373 |
| Expenses | | | | |
| Instruction | \$46,474,384 | | \$46,474,384 | \$42,887,461 |
| Instruction-related services | 8,253,099 | | 8,253,099 | 7,755,094 |
| Pupil support services | 5,057,434 | 2,085,815 | 7,143,249 | 6,778,667 |
| General administration | 4,259,441 | 90,689 | 4,350,130 | 3,778,240 |
| Plant Services | 12,473,676 | 6,331 | 12,480,007 | 11,833,610 |
| Other | 7,929,040 | | 7,929,040 | 7,659,971 |
| Total Expenses | \$84,447,074 | \$2,182,835 | \$86,629,909 | \$80,693,043 |
| Change in Net Assets | (\$1,745,357) | \$14,483 | (\$1,730,874) | (\$2,633,670) |

**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2014-2015
JUNE 30, 2015**

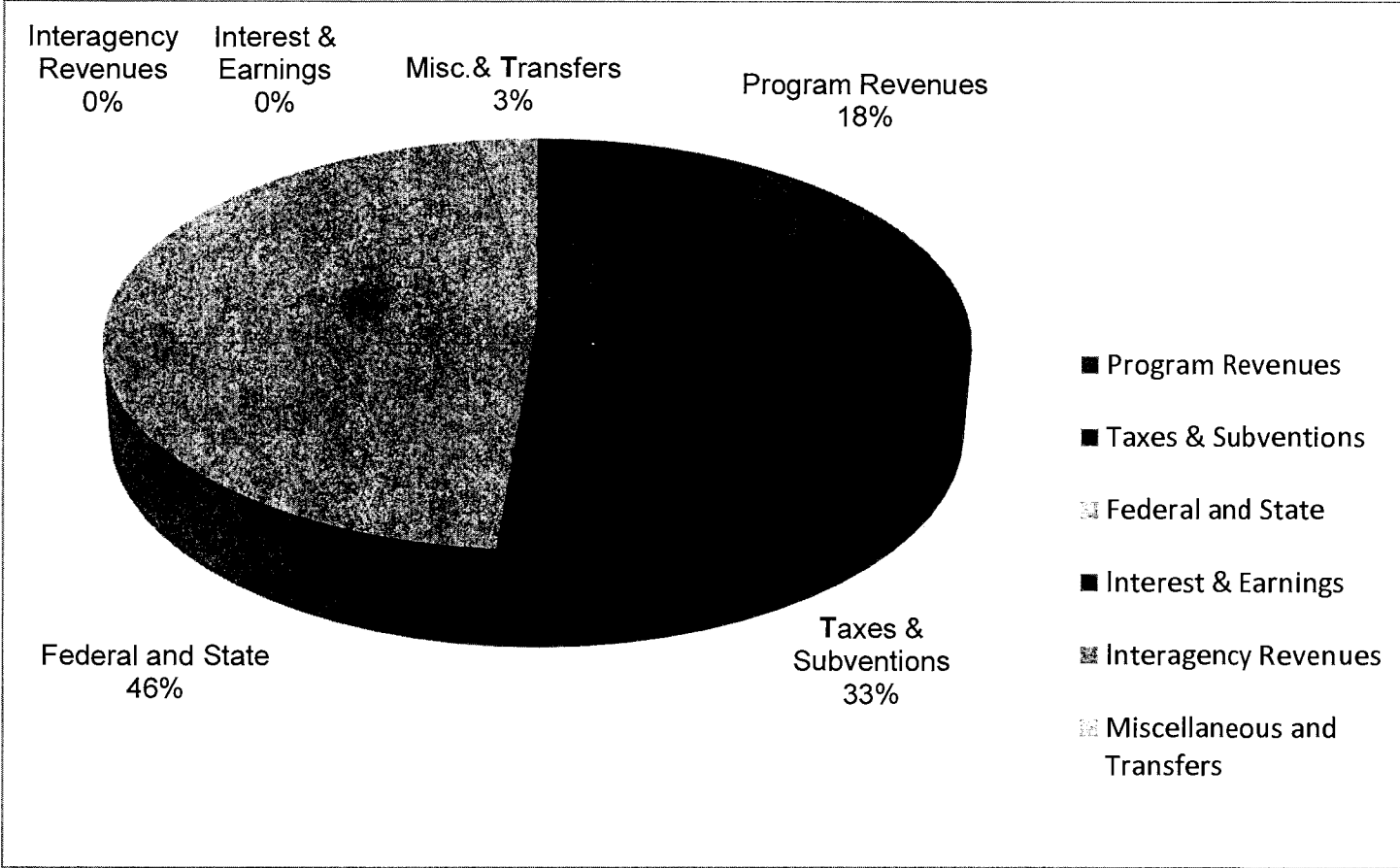
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONCLUDED)

Governmental Activities (Concluded)

As reported in the Statement of Activities, the cost of all of the District’s governmental activities this year was \$86.6 million. The amount that our local taxpayers financed for these activities through property taxes was \$28.5 million. Federal and State aid totaled \$39.0 million.

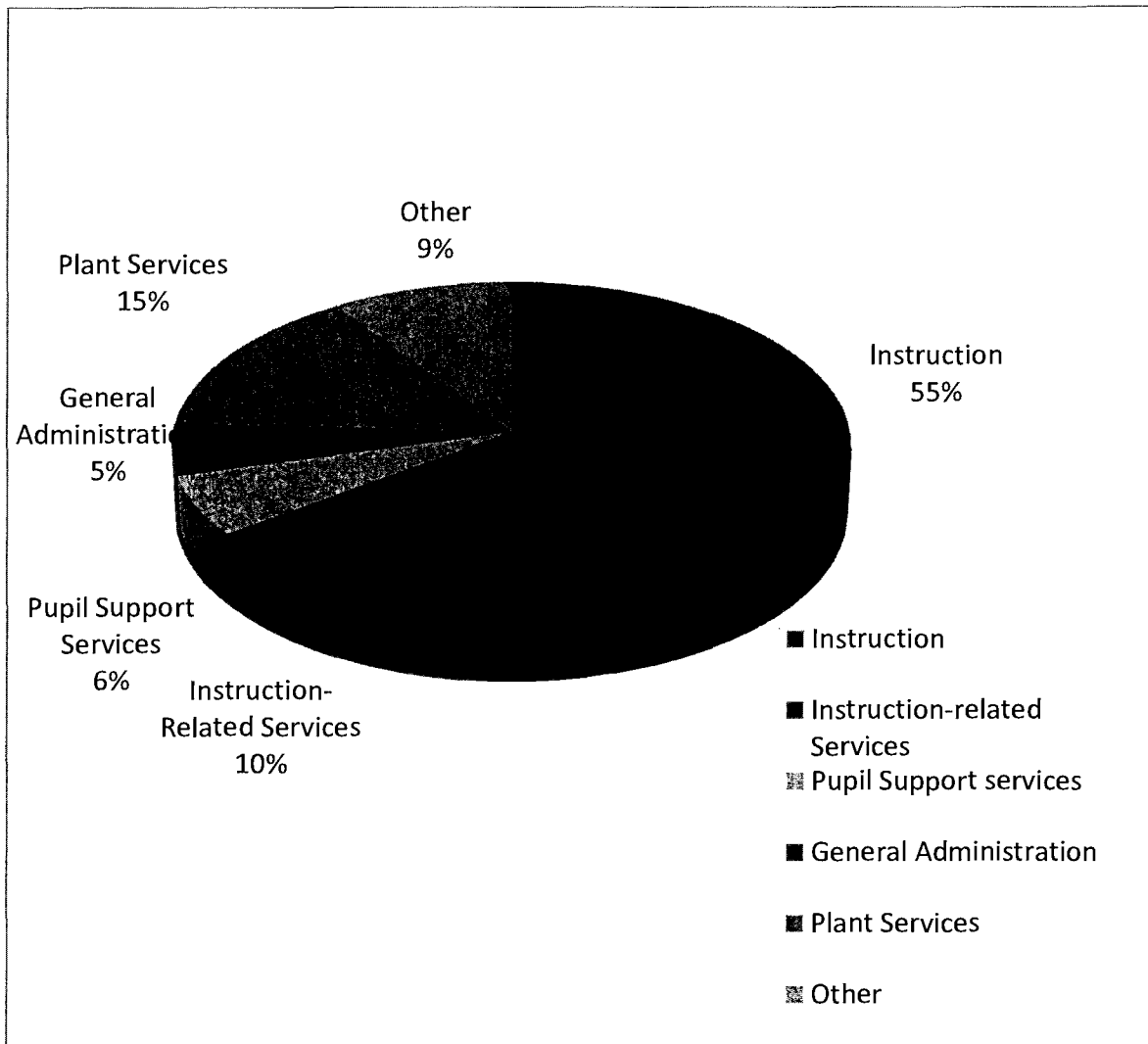
Sources of Revenue for the 2014-2015 Fiscal Year-Governmental Activities

Figure 1



NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2014-2015
JUNE 30, 2015

Expenses for Fiscal Year 2014-2015 – Governmental Activities
Figure 2



**NOVATO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2014-2015
JUNE 30, 2015**

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 million, a decrease of \$4.1 million from the previous fiscal year's combined ending balance of \$38.1 million. The General Fund balance decreased by \$3 million.

General Fund Budgetary Highlights

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - Governmental Activities

By the end of the 2014-2015 fiscal year, the District had invested \$226 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 \$113 million at June 30, 2015.

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2014-2015

JUNE 30, 2015

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, 2015 and 2014**

| | 2014-2015 | 2013-2014 | Difference | Difference |
|------------------|---------------|---------------|---------------|------------|
| Land | \$8,431,737 | \$8,431,737 | \$0 | |
| Site Improvement | 11,280,300 | 8,312,716 | 2,967,584 | 35.70% |
| Buildings | 89,593,786 | 94,931,764 | (5,337,978) | -5.62% |
| Equipment | 3,126,931 | 2,163,759 | 963,172 | 44.51% |
| Work in Progress | 545,978 | 918,560 | (372,582) | -40.56% |
| Total | \$112,978,732 | \$114,758,536 | (\$1,779,804) | -1.55% |

Depreciation expense was charged to governmental activities:

Total depreciation expense \$7,929,040

The primary increase in capital assets occurred in buildings, which include construction projects for site improvements and modernization of existing buildings. This year's major capital asset additions included:

Novato High School Dance Studio
Novato High School Pool Replacement
Shade Structures Hamilton and Lynwood Schools
Early Intervention Move to Hill Campus
Generator (Emergency Operations)
Sinaloa Portable Project
Wireless Infrastructure Project
Districtwide Asphalt Repair
Carpet District Office
Community Education Center Joint-Use Project

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2014-15

JUNE 30, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Long-Term Debt

At June 30, 2015, the District had \$91.1 million in long-term debt other than pensions outstanding, for a decrease of \$873,505 from the prior year.

Table 4
Comparative Schedule of Outstanding Debt, June 30, 2015 and 2014

| | 2014-2015 | 2013-2014 |
|----------------------------------|---------------|--------------|
| Certificates of Participation | \$0 | \$0 |
| General Obligation Bonds | \$78,230,000 | \$87,310,000 |
| General Obligation Bond Premiums | \$12,074,832 | \$4,022,172 |
| Capital Lease Obligations | | \$32,314 |
| Compensated Absences | \$418,981 | \$432,832 |
| Claims Payable | \$200,000 | \$200,000 |
| Early Retirement Incentive | \$200,000 | \$0 |
| Sub Total | \$91,123,813 | \$91,997,318 |
| Net Pension Liability | \$51,049,165 | |
| Total | \$142,172,978 | \$91,997,318 |

Net Pension Liability (NPL)

The District implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. The implementation resulted in a reduction of beginning net position of \$63.6 million. As of June 30, 2015, the District reported Deferred Outflows from pension activities of \$5.8, Deferred Inflows from pension activities of \$13.8 million, and a Net Pension Liability of \$51.8 million. We present more detailed information regarding our net pension liabilities in the Notes to the Financial Statement.

NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2014-15

JUNE 30, 2015

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.

In addition to the funding of the LCFF with full funding scheduled for 2020-21, school districts received one –time funding for programs specifically for teacher and administrators in the area of professional development to income effectives of educators. NUSD was allocated approximately \$640,000 and plans to spend the funds over three years.

One of the largest factors facing all school districts in California is the increase in PERS and STRS pension cost. This increased cost is unfunded and will need to be funded from the increases in State funding. It is possible in the 2017-18 and future years that the statutory cost of living (COLA) will be less than the increase in pension costs.

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 Assistant Superintendent, Business and Operations 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, 2015

| Assets | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|-----------------------|
| Cash in County treasury | \$ 30,675,504 | \$ 134,538 | \$ 30,810,042 |
| Cash on hand and in banks | 9,764 | | 9,764 |
| Revolving cash fund | 200 | | 200 |
| Accounts receivable | 3,428,446 | 206,622 | 3,635,068 |
| Internal balances | 248,029 | (248,029) | |
| Inventories, at cost | 42,133 | 29,748 | 71,881 |
| Prepaid items | 61,646 | | 61,646 |
| Net OPEB assets | 85,537 | | 85,537 |
| Land | 8,431,737 | | 8,431,737 |
| Construction in progress | 545,978 | | 545,978 |
| Site improvements | 32,875,595 | | 32,875,595 |
| Buildings and improvements | 176,597,650 | | 176,597,650 |
| Machinery and equipment | 7,632,383 | 74,776 | 7,707,159 |
| Less: accumulated depreciation | (113,104,611) | (49,850) | (113,154,461) |
| Total Assets | 147,529,991 | 147,805 | 147,677,796 |
| Deferred Outflow of Resources | | | |
| District's contributions subsequent to the measurement date | 4,069,760 | 81,019 | 4,150,779 |
| Deferred loss on debt refunding | 1,628,803 | | 1,628,803 |
| Total Deferred Outflow of Resources | 5,698,563 | 81,019 | 5,779,582 |
| Liabilities | | | |
| Accounts payable | 4,458,890 | 17,863 | 4,476,753 |
| Interest payable | 1,482,565 | | 1,482,565 |
| Unearned revenue | 67,461 | 3,088 | 70,549 |
| Long-term liabilities: | | | |
| Due within one year | 4,763,208 | | 4,763,208 |
| Due in more than one year | 137,409,770 | 737,763 | 138,147,533 |
| Total Liabilities | 148,181,894 | 758,714 | 148,940,608 |
| Deferred Inflow of Resources | | | |
| Differences between projected and actual earnings on pension plan investments | 13,501,444 | 253,503 | 13,754,947 |
| Net Position | | | |
| Net investment in capital assets | 29,263,525 | 24,926 | 29,288,451 |
| Restricted for: | | | |
| Capital projects | 2,126,162 | | 2,126,162 |
| Debt service | 4,147,624 | | 4,147,624 |
| Educational programs | 3,286,092 | | 3,286,092 |
| Unrestricted | (47,278,187) | (808,319) | (48,086,506) |
| Total net position (deficit) | \$ (8,454,784) | \$ (783,393) | \$ (9,238,177) |

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2015

| | Expenses | Charges for Services | Program Revenues Operating Grants and Contributions |
|--|----------------------|-------------------------|--|
| Governmental Activities: | | | |
| Instruction | \$ 46,474,384 | \$ 44,761 | \$ 8,888,584 |
| Instruction-related services: | | | |
| Instructional supervision and administration | 2,700,868 | 4,658 | 855,996 |
| Instructional library, media, and technology | 737,539 | 10,630 | 287,854 |
| School site administration | 4,814,692 | 362 | 199,860 |
| Pupil services: | | | |
| Home-to-school transportation | 1,902,678 | | 6,511 |
| Food services | 1,746 | | |
| All other pupil services | 3,153,010 | 15,170 | 1,293,694 |
| General administration: | | | |
| Centralized data processing | 877,284 | 304 | 8,224 |
| All other general administration | 3,382,157 | 1,031 | 202,815 |
| Plant services | 6,641,380 | 834 | 533,104 |
| Ancillary services | 465,962 | 6,479 | 184,200 |
| Interest on long-term debt | 3,704,394 | | |
| Other outgo | 1,661,940 | 17,498 | 473,537 |
| Depreciation (unallocated) | 7,929,040 | | |
| Total governmental activities | 84,447,074 | 101,727 | 12,934,379 |
| Business-type activities | | | |
| Pupil services: | | | |
| Food services | 2,085,815 | 689,967 | 1,257,070 |
| General administration: | | | |
| All other general administration | 90,689 | 29,897 | 54,292 |
| Plant services | 6,331 | 2,087 | 3,790 |
| Other outgo | | 26,650 | 48,396 |
| Total business-type activities | 2,182,835 | 748,601 | 1,363,548 |
| Total government | \$ 86,629,909 | \$ 850,328 | \$ 14,297,927 |

General revenues:

- Taxes and subventions:
 - Taxes levied for general purposes
 - Taxes levied for debt service
 - Taxes levied for other specific purposes
- Federal and state aid not restricted to specific purposes
- Interest and investment earnings
- Interagency revenues
- Miscellaneous
- Transfers
- Total general revenues

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

| Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position | | Total |
|--|--|-----------------------------|-----------------|
| | Governmental Activities | Business-type Activities | |
| \$ (65,788) | \$ (37,606,827) | \$ - | \$ (37,606,827) |
| | (1,840,214) | | (1,840,214) |
| | (439,055) | | (439,055) |
| | (4,614,470) | | (4,614,470) |
| | (1,896,167) | | (1,896,167) |
| | (1,746) | | (1,746) |
| | (1,844,146) | | (1,844,146) |
| | (868,756) | | (868,756) |
| | (3,178,311) | | (3,178,311) |
| | (6,107,442) | | (6,107,442) |
| | (275,283) | | (275,283) |
| | (3,704,394) | | (3,704,394) |
| | (1,170,905) | | (1,170,905) |
| | (7,929,040) | | (7,929,040) |
| (65,788) | (71,476,756) | | (71,476,756) |
| | | (138,778) | (138,778) |
| | | (6,500) | (6,500) |
| | | (454) | (454) |
| | | 75,046 | 75,046 |
| | | (70,686) | (70,686) |
| \$ (65,788) | (71,476,756) | (70,686) | (71,547,442) |
| | 17,197,826 | | 17,197,826 |
| | 6,807,125 | | 6,807,125 |
| | 4,463,363 | | 4,463,363 |
| | 39,035,473 | | 39,035,473 |
| | 30,776 | 142 | 30,918 |
| | 8,334 | | 8,334 |
| | 2,269,342 | 4,187 | 2,273,529 |
| | (80,840) | 80,840 | |
| | 69,731,399 | 85,169 | 69,816,568 |
| | (1,745,357) | 14,483 | (1,730,874) |
| | 56,012,221 | 128,345 | 56,140,566 |
| | (62,721,648) | (926,221) | (63,647,869) |
| | (6,709,427) | (797,876) | (7,507,303) |
| \$ (8,454,784) | \$ (783,393) | \$ | \$ (9,238,177) |

NOVATO UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2015

| | General Fund | Building Fund | Bond Interest Redemption Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|---------------------|--|--------------------------------|--------------------------------|
| Assets | | | | | |
| Cash in County treasury | \$ 15,429,281 | \$ 4,970,174 | \$ 5,616,843 | \$ 4,145,481 | \$ 30,161,779 |
| Cash on hand and in banks | 9,764 | | | | 9,764 |
| Cash in revolving fund | 200 | | | | 200 |
| Accounts receivable | 3,428,446 | | | | 3,428,446 |
| Due from other funds | 248,029 | | | | 248,029 |
| Inventory, at cost | 42,133 | | | | 42,133 |
| Prepaid items | 61,646 | | | | 61,646 |
| | <u>19,219,499</u> | <u>4,970,174</u> | <u>5,616,843</u> | <u>4,145,481</u> | <u>33,951,997</u> |
| Total assets | \$ 19,219,499 | \$ 4,970,174 | \$ 5,616,843 | \$ 4,145,481 | \$ 33,951,997 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 4,442,975 | \$ 9,352 | \$ - | \$ 4,207 | \$ 4,456,534 |
| Unearned revenue | 67,461 | | | | 67,461 |
| | <u>4,510,436</u> | <u>9,352</u> | | <u>4,207</u> | <u>4,523,995</u> |
| Total liabilities | 4,510,436 | 9,352 | | 4,207 | 4,523,995 |
| Fund balances: | | | | | |
| Nonspendable | | | | | |
| Revolving cash | 200 | | | | 200 |
| Stores inventories | 42,133 | | | | 42,133 |
| Prepaid items | 61,646 | | | | 61,646 |
| Restricted | | | | | |
| Medi-Cal billing option | 293,211 | | | | 293,211 |
| Other Restricted Federal | 1,026 | | | | 1,026 |
| California Clean Energy Jobs Act | 456,698 | | | | 456,698 |
| Lottery: Instructional material | 611,492 | | | | 611,492 |
| Construction | | 4,960,822 | | 2,126,162 | 7,086,984 |
| Debt service | | | 5,616,843 | 13,346 | 5,630,189 |
| Ongoing & Major Maintenance Account | 548,610 | | | | 548,610 |
| Other Restricted Local | 1,375,055 | | | | 1,375,055 |
| Committed | | | | | |
| Adult education program | | | | 116,631 | 116,631 |
| Deferred maintenance | | | | 1,885,135 | 1,885,135 |
| Unassigned | 11,318,992 | | | | 11,318,992 |
| | <u>14,709,063</u> | <u>4,960,822</u> | <u>5,616,843</u> | <u>4,141,274</u> | <u>29,428,002</u> |
| Total fund balances | 14,709,063 | 4,960,822 | 5,616,843 | 4,141,274 | 29,428,002 |
| Total liabilities and fund balances | \$ 19,219,499 | \$ 4,970,174 | \$ 5,616,843 | \$ 4,145,481 | \$ 33,951,997 |

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, 2015

Total fund balances - governmental funds \$ 29,428,002

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 | \$ | 226,083,343 |
| Accumulated depreciation | | <u>(113,104,611)</u> |

Net 112,978,732

In governmental funds, deferred loss on debt refunding has not been included as deferred outflow of resources. 1,628,803

In governmental funds, Net OPEB asset has not been included as financial resources. 85,537

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. (1,482,565)

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 | \$ | (78,230,000) |
| Unamortized bond premiums | | (12,074,832) |
| Net pension payable | | (51,049,165) |
| Retirement incentive payable | | (200,000) |
| Compensated absences | | <u>(418,981)</u> |

Total (141,972,978)

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position deferred outflows and inflows of resources relating to pensions are reported. (9,431,684)

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) 311,369

Total net position (deficit), governmental activities \$ (8,454,784)

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, 2015

| | General Fund | Building Fund | Bond Interest Redemption Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------|---------------|-------------------------------|--------------------------|--------------------------|
| Revenues: | | | | | |
| LCFF sources: | | | | | |
| State apportionments | \$ 26,997,354 | \$ - | \$ - | \$ - | \$ 26,997,354 |
| Education Protection Account Funds | 10,710,367 | | | | 10,710,367 |
| Local sources | 16,662,260 | | | | 16,662,260 |
| Federal | 3,338,399 | | | | 3,338,399 |
| Other state | 4,884,886 | | 55,850 | (64,274) | 4,876,462 |
| Other local | 11,720,623 | 9,871 | 7,830,543 | 636,678 | 20,197,715 |
| Total revenues | 74,313,889 | 9,871 | 7,886,393 | 572,404 | 82,782,557 |
| Expenditures: | | | | | |
| Certificated salaries | 34,598,397 | | | 51,711 | 34,650,108 |
| Classified salaries | 10,608,874 | 149,523 | | | 10,758,397 |
| Employee benefits | 13,915,471 | 41,315 | | 9,520 | 13,966,306 |
| Books and supplies | 3,698,946 | 12,235 | | 42,940 | 3,754,121 |
| Contracted services and other operating expenditures | 9,853,593 | 161,145 | 393,112 | 73,821 | 10,481,671 |
| Capital outlay | 1,482,180 | 4,088,610 | | 484,607 | 6,055,397 |
| Other outgo | 1,178,139 | | | | 1,178,139 |
| Debt service: | | | | | |
| Principal | 32,314 | | 2,400,000 | | 2,432,314 |
| Interest and fiscal charges | 1,939 | | 4,555,039 | | 4,556,978 |
| Total expenditures | 75,369,853 | 4,452,828 | 7,348,151 | 662,599 | 87,833,431 |
| Excess of revenues over (under) expenditures | (1,055,964) | (4,442,957) | 538,242 | (90,195) | (5,050,874) |
| Other Financing Sources (Uses): | | | | | |
| Proceeds from long term debt | | | 53,630,000 | | 53,630,000 |
| Premium on long term debt | | | 10,263,805 | | 10,263,805 |
| Payment to refunded bond escrow agent | | | (63,500,693) | | (63,500,693) |
| Transfers in | | 1,486,492 | | 401,022 | 1,887,514 |
| Transfers out | (2,027,566) | (65,788) | | | (2,093,354) |
| Total other financing sources (uses) | (2,027,566) | 1,420,704 | 393,112 | 401,022 | 187,272 |
| Net change in fund balances | (3,083,530) | (3,022,253) | 931,354 | 310,827 | (4,863,602) |
| Fund balances, July 1, 2014 | 17,792,593 | 7,983,075 | 4,685,489 | 3,830,447 | 34,291,604 |
| Fund balances, June 30, 2015 | \$ 14,709,063 | \$ 4,960,822 | \$ 5,616,843 | \$ 4,141,274 | \$ 29,428,002 |

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, 2015

| | |
|--|-----------------------|
| Total net change in fund balances - governmental funds | \$ (4,863,602) |
| 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 (\$7,929,040) exceeded additions to capital outlay of \$6,149,236 in the period. | (1,779,804) |
| 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. | 2,432,314 |
| In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt net of issue premium were: | (53,630,000) |
| In government funds, amount that was sent to the trustee of the escrow account is recognized as other financing uses. In the government-wide statements, the difference between the amount sent to escrow account and the amount of the principal outstanding on the refunded obligations is amortized as an adjustment to interest expense over the remaining life of the refunded bonds. This balance represents the unamortized deferred losses on refunding. Amounts sent to escrow account was: | 63,500,693 |
| In governmental funds, if debt is issued at a premium, the premium is recognized as an other financing source in the period it is incurred. In the government-wide statements, the premium plus a deferred loss from debt refunding, is amortized as interest over the life of the debt. Amortization of the debt issue premium, plus any deferred loss from debt refunding, for the period is: | (9,614,550) |
| 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: | 203,329 |
| 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: | 13,851 |
| 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 exceeded and amounts paid by: | (86,846) |
| In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Example: special termination benefits such as retirement incentives financed over time. This fiscal year, expenses incurred for such obligation less benefits paid were: | (200,000) |
| In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This fiscal year, the difference between accrual-basis pension costs and actual employer contributions was: | 2,240,799 |
| Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because the internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental activities in the statement of activities. The net increase in the internal service fund was: | <u>38,459</u> |
| Change in net position of governmental activities | <u>\$ (1,745,357)</u> |

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

| | Enterprise Funds | | | Governmental Activities Internal Service Fund Self-Insurance Fund |
|---|--|---------------------------------|--------------|--|
| | General Education Preschool Fund | Cafeteria Enterprise Fund | Total | |
| Assets | | | | |
| Current assets: | | | | |
| Cash in County treasury | \$ 80,039 | \$ 54,499 | \$ 134,538 | \$ 513,725 |
| Accounts receivable | | 206,622 | 206,622 | |
| Inventory, at cost | | 29,748 | 29,748 | |
| Total current assets | 80,039 | 290,869 | 370,908 | 513,725 |
| Non-current assets: | | | | |
| Capital assets | | 74,776 | 74,776 | |
| Less: accumulated depreciation | | (49,850) | (49,850) | |
| Total non-current assets | | 24,926 | 24,926 | |
| Total assets | 80,039 | 315,795 | 395,834 | 513,725 |
| Deferred Outflow of Resources | | | | |
| District's pension contributions subsequent to the measurement date | | | | |
| | | 81,019 | 81,019 | |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | | 17,863 | 17,863 | 2,356 |
| Due to other funds | | 248,029 | 248,029 | |
| Unearned revenue | | 3,088 | 3,088 | |
| Total current liabilities | | 268,980 | 268,980 | 2,356 |
| Noncurrent liabilities: | | | | |
| Net pension liabilities | | 737,763 | 737,763 | |
| Claims payable | | | | 200,000 |
| Total noncurrent liabilities | | 737,763 | 737,763 | 200,000 |
| Total liabilities | | 1,006,743 | 1,006,743 | 202,356 |
| Deferred Inflow of Resources | | | | |
| Differences between projected and actual earnings on pension plan investments | | | | |
| | | 253,503 | 253,503 | |
| Net Position | | | | |
| Net investment in capital assets | | 24,926 | 24,926 | |
| Unrestricted | 80,039 | (888,358) | (808,319) | 311,369 |
| Total net position (deficit) | \$ 80,039 | \$ (863,432) | \$ (783,393) | \$ 311,369 |

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, 2015

| | Enterprise Funds | | | Governmental |
|---|--|---------------------------------|--------------|--|
| | General Education Preschool Fund | Cafeteria Enterprise Fund | Total | Activities Internal Service Fund Self-Insurance Fund |
| Operating Revenues: | | | | |
| Federal revenue | \$ - | \$ 1,243,807 | \$ 1,243,807 | \$ - |
| Other state revenue | | 110,243 | 110,243 | |
| Other local revenue | 4,186 | 757,963 | 762,149 | 693 |
| Total revenues | 4,186 | 2,112,013 | 2,116,199 | 693 |
| Operating Expenses: | | | | |
| Classified salaries | | 930,548 | 930,548 | |
| Employee benefits | | 260,243 | 260,243 | |
| Books and supplies | | 860,343 | 860,343 | 1,953 |
| Contracted services and other operating expenses | | 36,025 | 36,025 | 86,115 |
| Depreciation | | 4,985 | 4,985 | |
| Other outgo | | 90,689 | 90,689 | |
| Total expenses | | 2,182,833 | 2,182,833 | 88,068 |
| Operating income (loss) | 4,186 | (70,820) | (66,634) | (87,375) |
| Non-Operating Revenues: | | | | |
| Interest income | 142 | 135 | 277 | 834 |
| Total non-operating revenues | 142 | 135 | 277 | 834 |
| Income (loss) before transfers | 4,328 | (70,685) | (66,357) | (86,541) |
| Transfers in | | 80,840 | 80,840 | 125,000 |
| Change in net position | 4,328 | 10,155 | 14,483 | 38,459 |
| Net position, July 1, 2014 | 75,711 | 52,634 | 128,345 | 272,910 |
| Restatement | | (926,221) | (926,221) | |
| Net position (deficit), July 1, 2014, restated | 75,711 | (873,587) | (797,876) | 272,910 |
| Net position (deficit), June 30, 2015 | \$ 80,039 | \$ (863,432) | \$ (783,393) | \$ 311,369 |

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For Fiscal Year Ended June 30, 2015

| | Enterprise Funds | | | Governmental |
|--|--|---------------------------------|--------------|--|
| | General Education Preschool Fund | Cafeteria Enterprise Fund | Total | Activities Internal Service Fund Self-Insurance Fund |
| Cash flows from operating activities: | | | | |
| Cash received from Federal and State nutrition programs | \$ - | \$ 1,361,998 | \$ 1,361,998 | \$ - |
| Cash received from customers | 4,186 | 757,294 | 761,480 | |
| Cash received from insurance premiums | | | | 693 |
| Cash paid for salaries and benefits | | (1,206,765) | (1,206,765) | |
| Cash paid for books and supplies | | (823,021) | (823,021) | (1,953) |
| Cash paid for contracted services and other operating expenses | | (25,293) | (25,293) | (86,346) |
| Cash paid for other outgo | | (90,689) | (90,689) | |
| Net cash provided (used) by operating activities | 4,186 | (26,476) | (22,290) | (87,606) |
| Cash flows from investing activities: | | | | |
| Interest received (paid) | 142 | 135 | 277 | 834 |
| Net cash provided (used) by investing activities | 142 | 135 | 277 | 834 |
| Cash flows from noncapital and related financing activities: | | | | |
| Transfers from other funds | | 80,840 | 80,840 | 125,000 |
| Net cash provided (used) by noncapital and related financing activities | | 80,840 | 80,840 | 125,000 |
| Net increase (decrease) in cash and cash equivalents | 4,328 | 54,499 | 58,827 | 38,228 |
| Cash and cash equivalents at July 1, 2014 | 75,711 | | 75,711 | 475,497 |
| Cash and cash equivalents at June 30, 2015 | \$ 80,039 | \$ 54,499 | \$ 134,538 | \$ 513,725 |
| Reconciliation to Statement of Net Position: | | | | |
| Cash in County treasury | \$ 80,039 | \$ 54,499 | \$ 134,538 | \$ 513,725 |
| | \$ 80,039 | \$ 54,499 | \$ 134,538 | \$ 513,725 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | | | |
| Operating income (loss) | \$ 4,186 | \$ (70,820) | \$ (66,634) | \$ (87,375) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) | | | | |
| Depreciation | | 4,985 | 4,985 | |
| (Increase) decrease in operating assets and deferred outflows of resources: | | | | |
| Accounts receivable | | 7,948 | 7,948 | |
| Inventory | | 5,883 | 5,883 | |
| Deferred outflows of resources | | (3,100) | | |
| Increase (decrease) in operating liabilities and deferred inflows of resources: | | | | |
| Accounts payable | | 4,849 | 4,849 | (231) |
| Unearned revenue | | (669) | (669) | |
| Due to other funds | | 37,322 | 37,322 | |
| Net pension liability | | (266,377) | | |
| Deferred inflows of resources | | 253,503 | | |
| Net cash provided (used) by operating activities | \$ 4,186 | \$ (26,476) | \$ (6,316) | \$ (87,606) |

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2015

| | Agency Funds | | | Totals |
|---------------------------|------------------------------|------------------------------------|--------------------------|-------------------|
| | Payroll Revolving Fund | Novato Public Access TV Fund | Student Body Funds | |
| Assets | | | | |
| Cash in County treasury | \$ 163,985 | \$ 31 | \$ - | \$ 164,016 |
| Cash on hand and in banks | | | 281,716 | 281,716 |
| Accounts receivable | 1,719 | 1 | | 1,720 |
| Total assets | \$ 165,704 | \$ 32 | \$ 281,716 | \$ 447,452 |
| Liabilities | | | | |
| Accounts payable | \$ 165,704 | \$ 32 | \$ - | \$ 165,736 |
| Due to student groups | | | 281,716 | 281,716 |
| Total liabilities | \$ 165,704 | \$ 32 | \$ 281,716 | \$ 447,452 |

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

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.

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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.

Pensions:

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Novato Unified School District's California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement Plan (CalSTRS) Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS and CalSTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported as fair value.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting (Continued)

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting (Continued)

Proprietary Funds (Continued):

Major Proprietary Fund (Continued)

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 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.
3. Student Body 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 68

For the fiscal year ended June 30, 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions." This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers" as well as the requirements of Statement No. 50, "Pension Disclosures". This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense related to pensions. Implementation of the GASB Statement No. 68 did have an impact on the District's financial statements for the fiscal year ended June 30, 2015, see Note 11- Pension Plans and Note 17 -Restatements.

Governmental Accounting Standards Board Statement No. 71

For the fiscal year ended June 30, 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to address an issue regarding application of the transition of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions." The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement will eliminate the source of potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. Implementation of the GASB Statement No. 71 did have an impact on the District's financial statements for the fiscal year ended June 30, 2015, see Note 11 – Pension Plans and Note 17 - Restatements.

J. Assets, Deferred Outflows, Liabilities, Deferred Inflows, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)

1. Deposits and Investments (Continued)

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

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)

J. Assets, Deferred Outflows, Liabilities, Deferred Inflows, 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 to 10 |
| 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)

J. Assets, Deferred Outflows, Liabilities, Deferred Inflows, 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. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has two items which qualify for reporting in this category; refer to Note 11 for a detailed listing of the deferred outflows of resources the District has recognized.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualify for reporting in this category; refer to Note 11 for a detailed list of the deferred inflows of revenues the District has recognized.

8. 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.

9. 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.

10. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)

10. Fund Balances

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.

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.

11. Property Taxes

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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.

L. Future Accounting Pronouncements

GASB Statements Nos. 72-76 listed below will be implemented in future financial statements:

| | | |
|------------------|---|--|
| Statement No. 72 | "Fair Value Measurement and Application" | The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. |
| Statement No. 73 | "Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68" | The provisions of this statement are effective for fiscal years beginning after June 15, 2015 - except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. |
| Statement No. 74 | "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" | The provisions of this statement are effective for fiscal years beginning after June 15, 2016. |
| Statement No. 75 | "Accounting and Financial Reporting Postemployment Benefit Plans Other Than Pension Plans" | The provisions of this statement are effective for fiscal years beginning after June 15, 2016. |
| Statement No. 76 | "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" | The provisions of this statement are effective for fiscal years beginning after June 15, 2015. |

NOTE 2 - CASH AND INVESTMENTS

The District's cash and investments as of June 30, 2015 consisted of the following:

| | |
|--|-----------------------------|
| Cash on hand and in banks | \$ 291,680 |
| Cash and investments with County Treasurer | <u>30,974,058</u> |
| Total cash and investments | <u><u>\$ 31,265,738</u></u> |

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

| | |
|--|----------------------|
| Cash in County Treasury, statement of net position | \$ 30,810,042 |
| Cash on hand and in banks, statement of net position | 9,764 |
| Cash in revolving fund, statement of net position | 200 |
| Cash in County Treasury, statement of fiduciary assets and liabilities | 164,016 |
| Cash on hand and in banks, statement of fiduciary assets and liabilities | 281,716 |
| Total cash and investments | <u>\$ 31,265,738</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 (\$30,974,058 as of June 30, 2015). The fair value of this pool as of that date, as provided by the plan sponsor, was \$30,974,058. 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 (\$291,480 as of June 30, 2015) 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.

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.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

| Investment Type | Carrying Amount | Remaining maturity (in Months) | | | |
|------------------------------|-----------------|--------------------------------|-----------------|-----------------|---------------------|
| | | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | More Than 60 Months |
| Marin County Investment Pool | \$ 30,974,058 | \$ 30,974,058 | \$ - | \$ - | \$ - |
| Total | \$ 30,974,058 | \$ 30,974,058 | \$ - | \$ - | \$ - |

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 | \$ 30,974,058 | N/A | \$ - | \$ - | \$ - | \$ - | \$ 30,974,058 |
| Total | \$ 30,974,058 | | \$ - | \$ - | \$ - | \$ - | \$ 30,974,058 |

Custodial Credit Risk

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

As of June 30, 2015, none of the District's deposits with financial institutions in excess of the Federal Depository Insurance Corporation limits were held in uncollateralized accounts.

Custodial Credit Risk (Continued)

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).

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS/DEFICIT FUND BALANCES/NET POSITION

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

| Fund | Excess Expenditures |
|-----------------------------|------------------------|
| Major Governmental Fund | |
| General Fund | |
| Certificated salaries | \$ 370,471 |
| Employee benefits | 1,488,918 |
| Principal | 32,314 |
| Interest and fiscal charges | 1,939 |

As of June 30, 2015, deficit net position was recorded in the following fund:

| | |
|---------------------------|------------|
| Major Proprietary Fund: | |
| Cafeteria Enterprise Fund | \$ 863,432 |

The deficit is due to inclusion of the net pension liability.

NOTE 4 - RECEIVABLES

Receivables as of June 30, 2015, consist of the following:

| | General Fund | Cafeteria Enterprise Fund | Fiduciary Funds |
|---------------------------|---------------------|------------------------------|-----------------|
| Federal Government | | | |
| Categorical Aid Programs | \$ 991,508 | \$ 189,847 | \$ - |
| State Government | | | |
| Categorical Aid Programs | 1,449,576 | 16,071 | |
| Lottery | 521,775 | | |
| Local Government | | | |
| Fees | 90,351 | | |
| Miscellaneous | 375,236 | 704 | 1,720 |
| Total Accounts Receivable | <u>\$ 3,428,446</u> | <u>\$ 206,622</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, 2015, are as follows:

| <u>Funds</u> | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|---------------------------|----------------------------------|-------------------------------|
| Major Governmental Fund: | | |
| General Fund | \$ 248,029 | \$ - |
| Major Enterprise Fund: | | |
| Cafeteria Enterprise Fund | | 248,029 |
| | <u>\$ 248,029</u> | <u>\$ 248,029</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 2014-2015 fiscal year, are as follows:

| <u>Funds</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|-------------------------------|---------------------|----------------------|
| Major Governmental Funds: | | |
| General Fund | \$ - | \$ 2,027,566 |
| Building Fund | 1,486,492 | 65,788 |
| Major Enterprise Fund: | | |
| Cafeteria Enterprise Fund | 80,840 | |
| Internal Service Fund: | | |
| Self Insurance Fund | 125,000 | |
| Non-major Governmental Funds: | | |
| Adult Education Fund | 72,750 | |
| Deferred Maintenance Fund | 262,484 | |
| County School Facilities Fund | 65,788 | |
| | <u>\$ 2,093,354</u> | <u>\$ 2,093,354</u> |

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2015, is shown below:

Governmental Activities:

| | Balance July 1, 2014 | Additions | Deletions | Completed Projects | Balance June 30, 2015 |
|--|-------------------------|-----------------------|-------------|-----------------------|--------------------------|
| Capital Assets, not being depreciated: | | | | | |
| Land | \$ 8,431,737 | \$ - | \$ - | \$ - | \$ 8,431,737 |
| Construction in progress | 918,560 | 466,846 | | (839,428) | 545,978 |
| Total capital assets not being depreciated | <u>9,350,297</u> | <u>466,846</u> | | <u>(839,428)</u> | <u>8,977,715</u> |
| Capital Assets, being depreciated: | | | | | |
| Improvement of sites | 29,150,711 | 3,246,573 | | 478,311 | 32,875,595 |
| Buildings and building improvements | 175,288,952 | 947,581 | | 361,117 | 176,597,650 |
| Machinery and equipment | 6,144,147 | 1,488,236 | | | 7,632,383 |
| Total capital assets being depreciated | <u>210,583,810</u> | <u>5,682,390</u> | | <u>839,428</u> | <u>217,105,628</u> |
| Less accumulated depreciation for: | | | | | |
| Improvement of sites | 20,837,995 | 757,300 | | | 21,595,295 |
| Buildings and building improvements | 80,357,188 | 6,646,676 | | | 87,003,864 |
| Machinery and equipment | 3,980,388 | 525,064 | | | 4,505,452 |
| Total accumulated depreciation | <u>105,175,571</u> | <u>7,929,040</u> | | | <u>113,104,611</u> |
| Total capital assets, being depreciated, net | <u>105,408,239</u> | <u>(2,246,650)</u> | | <u>839,428</u> | <u>104,001,017</u> |
| Governmental activities capital assets, net | <u>\$ 114,758,536</u> | <u>\$ (1,779,804)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 112,978,732</u> |

Depreciation expense was charged to governmental activities as follows:

Governmental activities:

| | |
|----------------------------|---------------------|
| Unallocated | \$ 7,929,040 |
| Total depreciation expense | <u>\$ 7,929,040</u> |

Business-type Activities:

| | Balance July 1, 2014 | Additions | Deletions | Completed Projects | Balance June 30, 2015 |
|--|-------------------------|-------------------|-------------|-----------------------|--------------------------|
| 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 | 44,865 | 4,985 | | | 49,850 |
| Total accumulated depreciation | <u>44,865</u> | <u>4,985</u> | | | <u>49,850</u> |
| Total capital assets, being depreciated, net | <u>29,911</u> | <u>(4,985)</u> | | | <u>24,926</u> |
| Business-type activity capital assets, net | <u>\$ 29,911</u> | <u>\$ (4,985)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 24,926</u> |

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

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

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 – GENERAL OBLIGATION BONDS

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.

On September 23, 2014, the district advance refunded the remaining outstanding balances of the General Obligation Bonds, Election of 2001, Series 2005 and a portion of the outstanding balances of Series 2006, in the total amount of \$60,310,000. The advance refunding resulted in a legal defeasance of the previously issued bonds. An irrevocable trust was established with funds sufficient to fund payments on the bonds until the redemption date. The difference between the debt service of the original bonds and the refunding bonds is \$11,151,887 and an economic gain (difference between the present values of the old and new debt) of \$9,173,593. Because the transaction qualifies as a legal defeasance the obligations for the defeased bonds have been removed from the District's financial statements.

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. As of June 30, 2015, the principal balance was \$0.

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, 2015, the remaining principal balance was \$2,995,000.

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, 2015, the unamortized premium was \$2,329,983. 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. As of June 30, 2015, the outstanding principal balance was \$21,605,000.

The County of Marin, California, (the County), on behalf of the District issued (in the aggregate principal amount) \$53,630,000 of General Obligation Bonds designated as "Novato Unified School District 2014 General Obligation Refunding Bonds" on September 23, 2014. The 2014 bonds were issued at a premium of \$10,263,805. As of June 30, 2015, the unamortized premium was \$9,744,849. 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 2005 and Series 2006 and to pay costs of issuance of the Bonds. As of June 30, 2015, the outstanding principal balance was \$53,630,000.

The outstanding general obligation bonded debt of the Novato Unified School District, as of June 30, 2015, is as follows:

| Date of Issue | Interest Rate % | Maturity Date | Amount of Original Issue | Balance Outstanding July 1, 2014 | Issued Current Fiscal Year | Redeemed Current Fiscal Year | Balance Outstanding June 30, 2015 |
|---------------|-----------------|---------------|--------------------------|----------------------------------|----------------------------|------------------------------|-----------------------------------|
| 3/23/2006 | 3.0 -5.125 | 8/1/2029 | \$ 30,000,000 | \$ 27,945,000 | \$ - | \$ 27,945,000 | \$ - |
| 7/14/2006 | 4.0 - 5.0 | 8/1/2026 | 40,200,000 | 36,920,000 | | 33,925,000 | 2,995,000 |
| 9/22/2011 | 2.0-5.0 | 8/1/2026 | 24,290,000 | 22,445,000 | | 840,000 | 21,605,000 |
| 9/23/2014 | 2.0-5.0 | 8/1/2029 | 53,630,000 | | 53,630,000 | | 53,630,000 |
| | | | <u>\$ 148,120,000</u> | <u>\$ 87,310,000</u> | <u>\$ 53,630,000</u> | <u>\$ 62,710,000</u> | <u>\$ 78,230,000</u> |

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 – GENERAL OBLIGATION BONDS (Continued)

The annual requirements to amortize general obligation bonds payable outstanding as of June 30, 2015, are as follows:

| Fiscal Years Ending June 30, | Principal | Interest | Total |
|---------------------------------|----------------------|----------------------|-----------------------|
| 2016 | \$ 3,570,000 | \$ 3,532,388 | \$ 7,102,388 |
| 2017 | 4,365,000 | 3,393,163 | 7,758,163 |
| 2018 | 3,660,000 | 3,247,838 | 6,907,838 |
| 2019 | 4,135,000 | 3,107,844 | 7,242,844 |
| 2020 | 4,625,000 | 2,933,975 | 7,558,975 |
| 2021-2025 | 29,525,000 | 10,898,776 | 40,423,776 |
| 2026-2030 | 28,350,000 | 2,817,750 | 31,167,750 |
| | <u>\$ 78,230,000</u> | <u>\$ 29,931,734</u> | <u>\$ 108,161,734</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 37 retirees and 667 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 2015, the District contributed \$88,389 to the plan, including current claim costs and plan expenses. No prefunding of benefits has been made.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Annual OPEB and Net OPEB Obligation

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

| | |
|--|---------------------------|
| Annual required contribution | <u>\$ 175,235</u> |
| Annual OPEB cost (expense) | 175,235 |
| Contributions made | <u>(88,389)</u> |
| (Increase) decrease in net OPEB asset | 86,846 |
| Net OPEB obligation (asset) - beginning of fiscal year | <u>(172,383)</u> |
| Net OPEB obligation (asset) - end of fiscal year | <u><u>\$ (85,537)</u></u> |

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 2013 - 2015 was as follows:

| <u>Fiscal Year</u> <u>Ended</u> | <u>Annual OPEB</u> <u>Cost</u> | <u>Annual OPEB</u> <u>Cost Contribution</u> | <u>Net OPEB</u> <u>Obligation (Asset)</u> |
|------------------------------------|-----------------------------------|--|--|
| 6/30/2013 | \$ 89,042 | 96.95% | \$ (182,174) |
| 6/30/2014 | 89,041 | 89.00% | (172,383) |
| 6/30/2015 | 175,235 | 50.44% | (85,537) |

Funded Status and Funding Progress

As of March 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$1,503,161, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,503,161.

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.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions (Continued)

In the March 1, 2015, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5 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 2.75% per year, and payroll increase of 2.75% 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 using a level percent, closed 30 year amortization period for the initial UAAL and a level percent, open 25 year amortization period for any residual UAAL.

NOTE 9 – CLAIMS PAYABLE

As of June 30, 2015, 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.

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.

As of June 30, 2015, the leases were paid off.

NOTE 11 – PENSION PLANS

State Teachers' Retirement System (CalSTRS)

A. General Information about the Pension Plan

Plan Descriptions – All qualified California full-time and part-time public school teachers from pre-kindergarten through community college and certain other employees of the public school system are eligible to participate in the CalSTRS Pension Plans, multiple-employer, cost-sharing defined benefit plans administered by the California State Teacher's Retirement System (CalSTRS). Benefit provisions under the Plans are established by the Teachers' Retirement Law (California Education Code Section 22000 et seq), as enacted and amended by the California Legislature. The benefit terms of the plans may be amended through legislation CalSTRS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalSTRS website.

Benefits Provided – The CALSTRS Defined Benefit Program has two benefit formulas:

CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform services that could be creditable to CalSTRS

CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform services that could be creditable to CalSTRS

NOTE 11 – PENSION PLANS (Continued)

State Teachers’ Retirement System (CalSTRS) (Continued)

A. General Information about the Pension Plan (Continued)

The Defined Benefit Program provides retirement benefits based on members’ final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and on survivors/beneficiaries upon death of eligible members.

After earning five years of credited service, members become 100 percent vested in retirement benefits.

After five years of credited service, a member (prior to age 60 if under Coverage A, no age limit if under Coverage B, as defined in Education Code Sections 24001 and 24101, respectively) is eligible for disability benefits of up to 50.0 percent of final compensation plus 10.0 percent of final compensation for each eligible child, up to a maximum addition of 40.0 percent. The member must have a disability that will exceed a period of 12 or more months to qualify for benefit.

Any compensation for service in excess of one year in a school year due to overtime or working additional assignments is credited to the Defined Benefit Supplement Program so long as it is under the creditable compensation limit. Other compensation, such as allowances, bonuses, cash in-lieu of fringe benefits, limited-period compensation or compensation determined to have been paid to enhance a benefit, are not creditable to any CalSTRS benefit program.

The Plans’ provisions and benefits in effect at June 30, 2015, are summarized as follows:

| Hire Date | Prior to January 1, 2013 | On or after January 1, 2013 |
|---|-----------------------------|--------------------------------|
| Benefit formula | 2.0% @ 60 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50-55 | 53 |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.4% | 2.00% |
| Required employee contributions rates | 8.15% | 8.15% |
| Required employer contribution rates | 8.88% | 8.88% |

Specific details for the retirement, disability or death benefit calculations for each of the pension plans are available in the CalSTRS Comprehensive Annual Financial Report (CAFR). The CalSTRS’ CAFR is available online at <http://www.calstrs.com/comprehensive-annual-financial-report>.

Contributions – Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers’ Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

For the fiscal year ended June 30, 2015, the contributions recognized as part of pension expense was as follows:

| | |
|-------------------------|--------------|
| Contribution – employer | \$ 2,623,279 |
| Contribution – state | \$ 1,762,916 |

NOTE 11 – PENSION PLANS (Continued)

State Teachers’ Retirement System (CalSTRS) (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported net pension liability for its proportionate share of the net pension liability in the amount of \$41,490,270.

The District’s net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the District’s proportion was 0.071%, which was the same as its proportion measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the District recognized pension expense of \$986,190. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ - | \$ - |
| Changes of assumptions | | |
| Net difference between projected and actual earnings on pension plan investments | | 10,216,900 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | | |
| District contributions subsequent to the measurement date | <u>3,020,029</u> | |
| Total | <u>\$ 3,020,029</u> | <u>\$ 10,216,900</u> |

NOTE 11 – PENSION PLANS (Continued)

State Teachers’ Retirement System (CalSTRS) (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

\$3,020,029 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| <u>Fiscal Year</u> <u>Ended June 30</u> | <u>Amount</u> |
|--|----------------|
| 2016 | \$ (2,554,225) |
| 2017 | (2,554,225) |
| 2018 | (2,554,225) |
| 2019 | (2,554,225) |

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

| | |
|-----------------------------------|---|
| Valuation Date | June 30, 2013 |
| Experience Study | July 1, 2006, through June 30, 2010 |
| Actuarial Cost Method | Entry age normal |
| Investment Rate of Return | 7.60% |
| Consumer Price Inflation | 3.00% |
| Wage Growth | 3.75% |
| Post-retirement Benefit Increases | 2.00% simple for DB Not applicable for DBS/CBB |

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 Experience Analysis for more information.

The long-term expected rate of return on pension plan investments was determined using a building- block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary’s (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

NOTE 11 – PENSION PLANS (Continued)

State Teachers’ Retirement System (CalSTRS) (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

| <u>Asset Class</u> | <u>Assumed Asset Allocation</u> | <u>Long-Term* Expected Real Rate of Return</u> |
|---------------------|-------------------------------------|--|
| Global Equity | 47 % | 4.50 % |
| Private Equity | 12 % | 6.2 % |
| Real Estate | 15 % | 5 % |
| Inflation Sensitive | 5 % | 3.2 % |
| Fixed Income | 20 % | 0.20 % |
| Cash/Liquidity | 1 % | 0.00 % |

*10-year geometric average

Discount Rate – The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the CalSTRS fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net pension liability, calculated using the discount rate, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | |
|-----------------------|---------------|
| 1% Decrease | 6.60% |
| Net Pension Liability | \$ 64,672,480 |
| Current Discount Rate | 7.60% |
| Net Pension Liability | \$ 41,490,270 |
| 1% Increase | 8.60% |
| Net Pension Liability | \$ 22,160,520 |

Pension Plan Fiduciary Net Position —Detailed information about pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

C. Payable to the Pension Plan

At June 30, 2015, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2015.

NOTE 11 – PENSION PLANS (Continued)

California Public Employees’ Retirement System (CalPERS)

A. General Information About the Pension Plan

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. Plan membership consists of non-teaching and non-certificated employees of public schools (K-12), community college districts, offices of education, charter and private schools (elective) in the State of California. 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.

Benefits Provided–The CalPERS Defined Benefit Program has two benefit formulas:

CalPERS 2% at 55: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalPERS

CalPERS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalPERS

The Defined Benefit Program provides retirement benefits based on members’ final compensation, age, and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members.

After earning five years of credited service, members become 100 percent vested in retirement benefits.

A family benefit is available if an active member dies and has at least one year of credited service.

Members’ accumulated contributions are refundable with interest upon separation from CalPERS. The board determines the credited interest rate each fiscal year. For the fiscal year ended June 30, 2014, the rate of interest credited to members’ accounts was 6 percent.

The member’s benefit is reduced dollar for dollar, regardless of age, for the first 180 days after retirement if the member performs activities in the public schools that could be creditable to CalPERS, unless the governing body of the school district takes specified actions with respect to a member who is above normal retirement age.

The Plans’ provisions and benefits in effect at June 30, 2015, are summarized as follows:

| Hire Date | Prior to January 1, 2013 | On or after January 1, 2013 |
|---|-----------------------------|--------------------------------|
| Benefit formula | 2.0% @ 55 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50-63 | 52-67 |
| Monthly benefits, as a % of eligible compensation | 1.17% to 2.5% | 1.00% to 2.5% |
| Required employee contributions rates | 7% | 7% |
| Required employer contribution rates | 11.771% | 11.771% |

Specific details for retirement, disability or death benefit calculations for each of the pension plans are available in the CalPERS’ Comprehensive Annual Financial Report (CAFR). The CalPERS’ CAFR is available online at <https://www.calpers.ca.gov/page/forms-publications>.

NOTE 11 – PENSION PLANS (Continued)

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

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

\$1,130,750 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Fiscal Year Ended June 30 | Amount |
|------------------------------|--------------|
| 2016 | \$ (884,512) |
| 2017 | (884,512) |
| 2018 | (884,512) |
| 2019 | (884,511) |

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

| | |
|-----------------------------------|--|
| Valuation Date | June 30, 2013 |
| Experience Study | July 1, 1997, through June 30, 2011 |
| Actuarial Cost Method | Entry age normal |
| Investment Rate of Return | 7.50% |
| Consumer Price Inflation | 2.75% |
| Wage Growth | Varies |
| Post-retirement Benefit Increases | Up to 2.00% until purchasing power protection Allowance flows purchasing power applies, 2.75% thereafter |

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.60 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plan in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

NOTE 11 – PENSION PLANS (Continued)

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

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed February 2018. Any changes to the discount rate will require Board action and proper stockholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal years. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectation’s as well as the expected pension fund cash flows. Using historical returns of all the funds’ asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates are net of administrative expenses.

| Asset Class | New Strategic Allocation | Expected Real Rate of Return Years 1 - 10 (a) | Expected Real Rate of Return Years 11+(b) |
|-------------------------------|--------------------------------|---|---|
| Global Equity | 47.0% | 5.25% | 5.71% |
| Global Fixed Income | 19.0% | 0.99% | 2.43% |
| Inflation Sensitive | 6.0% | 0.45% | 3.36% |
| Private Equity | 12.0% | 6.83% | 6.95% |
| Real Estate | 11.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 3.0% | 4.50% | 5.09% |
| Liquidity | 2.0% | -0.55% | -1.05% |
| Total | 100% | | |

(a) An expected inflation of 2.5% was used for this period

(b) An expected inflation of 3.0% was used for this period

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 11 – PENSION PLANS (Continued)

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

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate –
The following presents the District’s proportionate share of the net pension liability, calculated using the discount rate, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | | |
|-----------------------|----|------------|
| 1% Decrease | | 6.50% |
| Net Pension Liability | \$ | 18,062,689 |
| Current Discount Rate | | 7.50% |
| Net Pension Liability | \$ | 10,296,658 |
| 1% Increase | | 8.50% |
| Net Pension Liability | \$ | 3,807,357 |

Pension Plan Fiduciary Net Position —Detailed information about pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to the Pension Plan

At June 30, 2015, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2015.

NOTE 12 – LONG-TERM DEBT

A schedule of changes in long-term debt for the fiscal year ended June 30, 2015, is shown below:

Governmental Activities:

| | Balance July 1, 2014 | Restatements | Additions | Repayments and Reductions | Balance June 30, 2015 | Due Within One Year |
|------------------------------------|-------------------------|---------------|---------------|------------------------------|--------------------------|------------------------|
| General Obligation Bonds | \$ 87,310,000 | \$ - | \$ 53,630,000 | \$ (62,710,000) | \$ 78,230,000 | \$ 3,570,000 |
| Bond Premiums | 4,022,172 | | 10,263,805 | (2,211,145) | 12,074,832 | 902,166 |
| Capital Leases Payable | 32,314 | | | (32,314) | - | |
| Claims Payable | 200,000 | | | | 200,000 | |
| Net Pension Liability | | 66,354,496 | 21,828,398 | (37,133,729) | 51,049,165 | |
| Early Retirement Incentive Payable | | | 300,000 | (100,000) | 200,000 | 100,000 |
| Compensated Absences | 432,832 | | 176,135 | (189,986) | 418,981 | 191,042 |
| Totals | \$ 91,997,318 | \$ 66,354,496 | \$ 86,198,338 | \$ (102,377,174) | \$ 142,172,978 | \$ 4,763,208 |

Business-type Activities:

| | Balance July 1, 2014 | Restatements | Additions | Repayments and Reductions | Balance June 30, 2015 | Due Within One Year |
|-----------------------|-------------------------|--------------|------------|------------------------------|--------------------------|------------------------|
| Net Pension Liability | \$ - | \$ 1,004,140 | \$ 415,598 | \$ (681,975) | \$ 737,763 | \$ - |

NOTE 13 - 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 14 – 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 15 – 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.

NOVATO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 16 – 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 17 – RESTATEMENTS

Due to the implementation of GASB Statement Nos. 68 and No. 71, the District's deferred outflows relating to pensions of \$3,710,767 and pension liability \$67,358,636 at June 30, 2014 are not part of net position in the government-wide statement of net position.

| | Governmental Activities | Business-type Activities/Cafeteria Enterprise Fund |
|--|----------------------------|--|
| Ending Net Position per prior fiscal year audit | \$ 56,012,221 | 128,345 |
| Restatement, per GASB Statements No. 68 and No. 71 | (62,721,648) | (926,221) |
| Net Position, restated as of July 1, 2014 | <u>\$ (6,709,427)</u> | <u>\$ (797,876)</u> |

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REQUIRED SUPPLEMENTARY INFORMATION

NOVATO UNIFIED SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended June 30, 2015

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|----------------------|----------------------|----------------------|--|
| | Original | Final | | |
| Revenues: | | | | |
| LCFF sources: | | | | |
| State apportionments | \$ 31,746,229 | \$ 29,509,717 | \$ 26,997,354 | \$ (2,512,363) |
| Education Protection Account Funds | 7,309,866 | 8,833,165 | 10,710,367 | 1,877,202 |
| Local sources | 14,970,483 | 15,923,939 | 16,662,260 | 738,321 |
| Federal | 3,049,591 | 3,464,520 | 3,338,399 | (126,121) |
| Other state | 1,911,865 | 3,013,534 | 4,884,886 | 1,871,352 |
| Other local | 10,002,568 | 11,468,738 | 11,720,623 | 251,885 |
| Total revenues | <u>68,990,602</u> | <u>72,213,613</u> | <u>74,313,889</u> | <u>2,100,276</u> |
| Expenditures: | | | | |
| Certificated salaries | 33,617,605 | 34,227,926 | 34,598,397 | (370,471) |
| Classified salaries | 10,557,973 | 10,775,202 | 10,608,874 | 166,328 |
| Employee benefits | 11,674,915 | 12,426,553 | 13,915,471 | (1,488,918) |
| Books and supplies | 2,759,703 | 5,129,346 | 3,698,946 | 1,430,400 |
| Contracted services and other operating expenditures | 9,710,168 | 11,161,288 | 9,853,593 | 1,307,695 |
| Capital outlay | 24,071 | 1,496,319 | 1,482,180 | 14,139 |
| Other outgo | 1,572,424 | 1,331,653 | 1,178,139 | 153,514 |
| Debt service: | | | | |
| Principal | | | 32,314 | (32,314) |
| Interest and fiscal charges | | | 1,939 | (1,939) |
| Total expenditures | <u>69,916,859</u> | <u>76,548,287</u> | <u>75,369,853</u> | <u>1,178,434</u> |
| Excess of revenues over (under) expenditures | <u>(926,257)</u> | <u>(4,334,674)</u> | <u>(1,055,964)</u> | <u>3,278,710</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers out | <u>(541,804)</u> | <u>(2,078,296)</u> | <u>(2,027,566)</u> | <u>50,730</u> |
| Total other financing sources (uses) | <u>(541,804)</u> | <u>(2,078,296)</u> | <u>(2,027,566)</u> | <u>50,730</u> |
| Net change in fund balance | (1,468,061) | (6,412,970) | (3,083,530) | 3,329,440 |
| Fund balance, July 1, 2014 | <u>17,792,593</u> | <u>17,792,593</u> | <u>17,792,593</u> | |
| Fund balance, June 30, 2015 | <u>\$ 16,324,532</u> | <u>\$ 11,379,623</u> | <u>\$ 14,709,063</u> | <u>\$ 3,329,440</u> |

NOVATO UNIFIED SCHOOL DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

Last 10 Years*

As of June 30, 2015

The following table provides required supplementary information regarding the District's CALPERS Pension Plan.

| | <u>2015</u> |
|--|-------------------|
| Proportion of the net pension liability | 0.09070% |
| Proportionate share of the net pension liability | \$ 10,296,658 |
| Covered- employee payroll | \$ 9,504,352 |
| Proportionate share of the net pension liability as percentage of covered-employee payroll | 108.34% |
| Plan's total pension liability | \$ 68,292,799,349 |
| Plan's fiduciary net position | \$ 59,940,364,500 |
| Plan fiduciary net position as a percentage of the total pension liability | 87.77% |

*- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

NOVATO UNIFIED SCHOOL DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

Last 10 Years*

As of June 30, 2015

The following table provides required supplementary information regarding the District's CALSTRS Pension Plan.

| | <u>2015</u> |
|--|--------------------|
| Proportion of the net pension liability | 0.07100% |
| Proportionate share of the net pension liability | \$ 41,490,270 |
| Covered- employee payroll | \$ 31,797,321 |
| Proportionate share of the net pension liability as percentage of covered-employee payroll | 130.48% |
| Plan's total pension liability | \$ 248,911,000,000 |
| Plan's fiduciary net position | \$ 190,474,000,000 |
| Plan fiduciary net position as a percentage of the total pension liability | 76.52% |

*- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

NOVATO UNIFIED SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS

Last 10 Years*

As of June 30, 2015

The following table provides required supplementary information regarding the District's CALPERS Pension Plan.

| | <u>2015</u> |
|--|------------------|
| Contractually required contribution (actuarially determined) | \$ 1,130,750 |
| Contribution in relation to the actuarially determined contributions | <u>1,130,750</u> |
| Contribution deficiency (excess) | <u>\$ -</u> |
| Covered- employee payroll | \$ 9,606,236 |
| Contributions as a percentage of covered-employee payroll | 11.771% |

Notes to Schedule

Valuation Date: 6/30/2013

Methods and assumptions used to determine contribution rates:

| | |
|--------------------------|---|
| Actuarial cost method | Entry Age |
| Asset valuation method | 5-year smoothed market |
| Amortization method | The unfunded actuarial accrued liability is amortized over an open 17 year period as a level percentage of payroll |
| Discount rate | 7.75% |
| Amortization growth rate | 3.75% |
| Price Inflation | 3.25% |
| Salary increases | 3.75% plus merit component based on employee classification and years of service |
| Mortality | Sex distinct RP-2000 Combined Mortality projected to 2010 using Scale AA with a 2 year setback for males and a 4 year setback for females |

*- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

NOVATO UNIFIED SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS

Last 10 Years*

As of June 30, 2015

The following table provides required supplementary information regarding the District's CALSTRS Pension Plan.

| | <u>2015</u> |
|--|------------------|
| Contractually required contribution (actuarially determined) | \$ 3,020,029 |
| Contribution in relation to the actuarially determined contributions | <u>3,020,029</u> |
| Contribution deficiency (excess) | <u>\$ -</u> |
| Covered- employee payroll | \$ 34,009,336 |
| Contributions as a percentage of covered-employee payroll | 8.88% |

Notes to Schedule

Valuation Date: 6/30/2013

Methods and assumptions used to determine contribution rates:

| | |
|--------------------------|---|
| Actuarial cost method | Entry Age |
| Asset valuation method | Excepted value with 33% adjustment to market value |
| Amortization method | The unfunded actuarial accrued liability is amortized over an open 30 year period as a level percentage of payroll |
| Discount rate | 7.60% |
| Amortization growth rate | 3.75% |
| Price Inflation | 3.00% |
| Salary increases | 3.75% |
| Mortality | Sex distinct RP-2000 Combined Mortality projected to 2010 using Scale AA with a 2 year setback for males and a 4 year setback for females |

*- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

NOVATO UNIFIED SCHOOL DISTRICT
OTHER POST-EMPLOYMENT BENEFIT TREND INFORMATION
June 30, 2015

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 (UAAL) | 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% |
| 3/1/15 | 1,503,161 | - | 1,503,161 | 0% | * | * |

* Not available

SUPPLEMENTARY INFORMATION

NOVATO UNIFIED SCHOOL DISTRICT
BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2015

| | Adult Education Fund | Deferred Maintenance Fund | Totals |
|--|----------------------------|---------------------------------|---------------------|
| Assets | | | |
| Cash in County treasury | \$ 117,153 | \$ 1,885,135 | \$ 2,002,288 |
| Total assets | <u>\$ 117,153</u> | <u>\$ 1,885,135</u> | <u>\$ 2,002,288</u> |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 522 | \$ - | \$ 522 |
| Total liabilities | <u>522</u> | <u></u> | <u>522</u> |
| Fund balances: | | | |
| Committed | | | |
| Adult education program | 116,631 | | 116,631 |
| Deferred maintenance | | 1,885,135 | 1,885,135 |
| Total fund balances | <u>116,631</u> | <u>1,885,135</u> | <u>2,001,766</u> |
| Total liabilities and fund balances | <u>\$ 117,153</u> | <u>\$ 1,885,135</u> | <u>\$ 2,002,288</u> |

NOVATO UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2015

| | Adult Education Fund | Deferred Maintenance Fund | Totals |
|---|----------------------------|---------------------------------|---------------------|
| Revenues: | | | |
| Other state | \$ 1,514 | \$ - | \$ 1,514 |
| Other local | 32,047 | 3,165 | 35,212 |
| Total revenues | <u>33,561</u> | <u>3,165</u> | <u>36,726</u> |
| Expenditures: | | | |
| Certificated salaries | 51,711 | | 51,711 |
| Employee benefits | 9,520 | | 9,520 |
| Books and supplies | 584 | | 584 |
| Contracted services and other operating expenditures | 3,887 | 13,517 | 17,404 |
| Capital outlay | | 179,577 | 179,577 |
| Total expenditures | <u>65,702</u> | <u>193,094</u> | <u>258,796</u> |
| Excess of revenues over (under) expenditures | <u>(32,141)</u> | <u>(189,929)</u> | <u>(222,070)</u> |
| Other Financing Sources (Uses): | | | |
| Transfers in | <u>72,750</u> | <u>262,484</u> | <u>335,234</u> |
| Total other financing sources (uses) | <u>72,750</u> | <u>262,484</u> | <u>335,234</u> |
| Net change in fund balances | 40,609 | 72,555 | 113,164 |
| Fund balances, July 1, 2014 | <u>76,022</u> | <u>1,812,580</u> | <u>1,888,602</u> |
| Fund balances, June 30, 2015 | <u>\$ 116,631</u> | <u>\$ 1,885,135</u> | <u>\$ 2,001,766</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, 2015

| | Adult Education Fund | | |
|---|----------------------|-------------------|------------------------------------|
| | Final Budget | Actual | Variance Positive (Negative) |
| Revenues: | | | |
| Other state | \$ - | \$ 1,514 | \$ 1,514 |
| Other local | 31,922 | 32,047 | 125 |
| Total revenues | 31,922 | 33,561 | 1,639 |
| Expenditures: | | | |
| Certificated salaries | 84,162 | 51,711 | 32,451 |
| Employee benefits | 11,238 | 9,520 | 1,718 |
| Books and supplies | 2,982 | 584 | 2,398 |
| Contracted services and other operating expenditures | 6,130 | 3,887 | 2,243 |
| Capital outlay | | | |
| Total expenditures | 104,512 | 65,702 | 38,810 |
| Excess of revenues over (under) expenditures | (72,590) | (32,141) | 40,449 |
| Other Financing Sources (Uses): | | | |
| Transfers in | 72,750 | 72,750 | |
| Total other financing sources (uses) | 72,750 | 72,750 | |
| Net change in fund balances | 160 | 40,609 | 40,449 |
| Fund balances, July 1, 2014 | 76,022 | 76,022 | |
| Fund balances, June 30, 2015 | <u>\$ 76,182</u> | <u>\$ 116,631</u> | <u>\$ 40,449</u> |

| Deferred Maintenance Fund | | | Totals | | |
|---------------------------|--------------|------------------------------|--------------|--------------|------------------------------|
| Final Budget | Actual | Variance Positive (Negative) | Final Budget | Actual | Variance Positive (Negative) |
| \$ - | \$ - | \$ - | \$ - | \$ 1,514 | \$ 1,514 |
| | 3,165 | 3,165 | 31,922 | 35,212 | 3,290 |
| | 3,165 | 3,165 | 31,922 | 36,726 | 4,804 |
| | | | 84,162 | 51,711 | 32,451 |
| | | | 11,238 | 9,520 | 1,718 |
| | | | 2,982 | 584 | 2,398 |
| 29,681 | 13,517 | 16,164 | 35,811 | 17,404 | 18,407 |
| 205,483 | 179,577 | 25,906 | 205,483 | 179,577 | 25,906 |
| 235,164 | 193,094 | 42,070 | 339,676 | 258,796 | 80,880 |
| (235,164) | (189,929) | 45,235 | (307,754) | (222,070) | 85,684 |
| 262,484 | 262,484 | | 335,234 | 335,234 | |
| 262,484 | 262,484 | | 335,234 | 335,234 | |
| 27,320 | 72,555 | 45,235 | 27,480 | 113,164 | 85,684 |
| 1,812,580 | 1,812,580 | | 1,888,602 | 1,888,602 | |
| \$ 1,839,900 | \$ 1,885,135 | \$ 45,235 | \$ 1,916,082 | \$ 2,001,766 | \$ 85,684 |

NOVATO UNIFIED SCHOOL DISTRICT
BALANCE SHEET
NONMAJOR DEBT SERVICE FUND
June 30, 2015

| | <u>Debt Service Fund</u> |
|---|----------------------------------|
| Assets | |
| Cash in County Treasury | <u>\$ 13,346</u> |
| Total assets | <u><u>\$ 13,346</u></u> |
| Liabilities and Fund Balance | |
| Fund balance: | |
| Restricted | |
| Debt service | <u>\$ 13,346</u> |
| Total fund balance | <u>13,346</u> |
| Total liabilities and fund balance | <u><u>\$ 13,346</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, 2015

| | Debt Service Fund |
|-----------------------------|-------------------------|
| Revenues: | |
| Other local | \$ 24 |
| Total revenues | 24 |
| Net change in fund balance | 24 |
| Fund balance, July 1, 2014 | 13,322 |
| Fund balance, June 30, 2015 | \$ 13,346 |

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, 2015

| | Debt Service Fund | | |
|-----------------------------|-------------------|------------------|------------------------------------|
| | Final Budget | Actual | Variance Positive (Negative) |
| Revenues: | | | |
| Other local | \$ 15 | \$ 24 | \$ 9 |
| Total revenues | 15 | 24 | 9 |
| Net change in fund balance | 15 | 24 | 9 |
| Fund balance, July 1, 2014 | 13,322 | 13,322 | |
| Fund balance, June 30, 2015 | <u>\$ 13,337</u> | <u>\$ 13,346</u> | <u>\$ 9</u> |

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
June 30, 2015

| | Capital Facilities Fund | County School Facilities Fund | Special Reserve for Capital Outlay Projects Fund |
|--------------------------------------|-------------------------------|--|---|
| | <u> </u> | <u> </u> | <u> </u> |
| Assets | | | |
| Cash in County Treasury | \$ 325,956 | \$ 259 | \$ 1,803,632 |
| Total assets | <u>\$ 325,956</u> | <u>\$ 259</u> | <u>\$ 1,803,632</u> |
| | | | |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 435 | \$ - | \$ 3,250 |
| Total liabilities | <u>435</u> | <u> </u> | <u>3,250</u> |
| Fund balances: | | | |
| Restricted | | | |
| Construction | <u>325,521</u> | <u>259</u> | <u>1,800,382</u> |
| Total fund balances | <u>325,521</u> | <u>259</u> | <u>1,800,382</u> |
| Total liabilities and fund balances | <u>\$ 325,956</u> | <u>\$ 259</u> | <u>\$ 1,803,632</u> |

Totals

\$ 2,129,847

\$ 2,129,847

\$ 3,685

3,685

2,126,162

2,126,162

\$ 2,129,847

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, 2015

| | Capital Facilities Fund | County School Facilities Fund | Special Reserve for Capital Outlay Projects Fund |
|---|-------------------------------|--|---|
| Revenues: | | | |
| Other state | \$ - | \$ (65,788) | \$ - |
| Other local | 248,203 | 1 | 353,238 |
| Total revenues | <u>248,203</u> | <u>(65,787)</u> | <u>353,238</u> |
| Expenditures: | | | |
| Books and supplies | 42,356 | | |
| Contracted services and other operating expenditures | 15,105 | | 41,312 |
| Capital outlay | 51,895 | | 253,135 |
| Total expenditures | <u>109,356</u> | | <u>294,447</u> |
| Excess of revenues over (under) expenditures | <u>138,847</u> | <u>(65,787)</u> | <u>58,791</u> |
| Other Financing Sources (Uses): | | | |
| Transfers in | | 65,788 | |
| Total other financing sources (uses) | | <u>65,788</u> | |
| Net change in fund balances | 138,847 | 1 | 58,791 |
| Fund balances, July 1, 2014 | <u>186,674</u> | <u>258</u> | <u>1,741,591</u> |
| Fund balances, June 30, 2015 | <u>\$ 325,521</u> | <u>\$ 259</u> | <u>\$ 1,800,382</u> |

| <u>Totals</u> | |
|---------------|-------------------------|
| \$ | (65,788) |
| | <u>601,442</u> |
| | <u>535,654</u> |
| | 42,356 |
| | 56,417 |
| | <u>305,030</u> |
| | <u>403,803</u> |
| | <u>131,851</u> |
| | <u>65,788</u> |
| | <u>65,788</u> |
| | 197,639 |
| | <u>1,928,523</u> |
| \$ | <u><u>2,126,162</u></u> |

NOVATO UNIFIED SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
NONMAJOR CAPITAL PROJECTS FUNDS
For the Fiscal Year Ended June 30, 2015

| | Capital Facilities Fund | | |
|---|-------------------------|-------------------|------------------------------------|
| | Final Budget | Actual | Variance Positive (Negative) |
| Revenues: | | | |
| Other state | \$ - | \$ - | \$ - |
| Other local | 188,744 | 248,203 | 59,459 |
| Total revenues | <u>188,744</u> | <u>248,203</u> | <u>59,459</u> |
| Expenditures: | | | |
| Books and supplies | 42,356 | 42,356 | |
| Contracted services and other operating expenditures | 16,856 | 15,105 | 1,751 |
| Capital outlay | 57,867 | 51,895 | 5,972 |
| Total expenditures | <u>117,079</u> | <u>109,356</u> | <u>7,723</u> |
| Excess of revenues over (under) expenditures | <u>71,665</u> | <u>138,847</u> | <u>67,182</u> |
| Other Financing Sources (Uses): | | | |
| Transfers in | | | |
| Total other financing sources (uses) | | | |
| Net change in fund balances | 71,665 | 138,847 | 67,182 |
| Fund balances, July 1, 2014 | <u>186,674</u> | <u>186,674</u> | |
| Fund balances, June 30, 2015 | <u>\$ 258,339</u> | <u>\$ 325,521</u> | <u>\$ 67,182</u> |

| County School Facilities Fund | | | Special Reserve Fund for Capital Outlay Projects | | |
|-------------------------------|-------------|------------------------------|--|--------------|------------------------------|
| Final Budget | Actual | Variance Positive (Negative) | Final Budget | Actual | Variance Positive (Negative) |
| \$ | \$ (65,788) | \$ (65,788) | \$ - | \$ - | \$ - |
| | 1 | 1 | 1,045,158 | 353,238 | (691,920) |
| | (65,787) | (65,787) | 1,045,158 | 353,238 | (691,920) |
| | | | 47,800 | 41,312 | 6,488 |
| | | | 954,456 | 253,135 | 701,321 |
| | | | 1,002,256 | 294,447 | 707,809 |
| | (65,787) | (65,787) | 42,902 | 58,791 | 15,889 |
| | 65,788 | 65,788 | | | |
| | 65,788 | 65,788 | | | |
| | 1 | 1 | 42,902 | 58,791 | 15,889 |
| 258 | 258 | | 1,741,591 | 1,741,591 | |
| \$ 258 | \$ 259 | \$ 1 | \$ 1,784,493 | \$ 1,800,382 | \$ 15,889 |

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, 2015

| | Totals | | |
|---|---------------------|---------------------|------------------------------------|
| | Final Budget | Actual | Variance Positive (Negative) |
| Revenues: | | | |
| Other state | \$ | \$ (65,788) | \$ (65,788) |
| Other local | 1,233,902 | 601,442 | (632,460) |
| Total revenues | <u>1,233,902</u> | <u>535,654</u> | <u>(698,248)</u> |
| Expenditures: | | | |
| Books and supplies | 42,356 | 42,356 | |
| Contracted services and other operating expenditures | 64,656 | 56,417 | 8,239 |
| Capital outlay | 1,012,323 | 305,030 | 707,293 |
| Total expenditures | <u>1,119,335</u> | <u>403,803</u> | <u>715,532</u> |
| Excess of revenues over (under) expenditures | <u>114,567</u> | <u>131,851</u> | <u>17,284</u> |
| Other Financing Sources (Uses): | | | |
| Transfers in | | 65,788 | 65,788 |
| Total other financing sources (uses) | | <u>65,788</u> | <u>65,788</u> |
| Net change in fund balances | 114,567 | 197,639 | 83,072 |
| Fund balances, July 1, 2014 | <u>1,928,523</u> | <u>1,928,523</u> | |
| Fund balances, June 30, 2015 | <u>\$ 2,043,090</u> | <u>\$ 2,126,162</u> | <u>\$ 83,072</u> |

**NOVATO UNIFIED SCHOOL DISTRICT
ORGANIZATION
June 30, 2015**

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 seven elementary schools and one K-8 school. Along with two middle schools and two comprehensive high schools, NUSD also has an Education Center housing a continuation high school, an independent study student program serving grades K-12, and a community day school currently serving 7th and 8th grade students. All schools offer special education services.

The Board of Education and the District Administrators for the fiscal year ended June 30, 2015 were as follows:

BOARD OF EDUCATION

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

ADMINISTRATION

Dr. Shalee Cunningham
Superintendent

Pam Conklin
Assistant Superintendent, Human Resources

Karen Maloney
Assistant Superintendent, Business & Operations

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Fiscal Year Ended June 30, 2015

| | <u>Second Period Report</u> | <u>Annual Report</u> |
|--|-------------------------------------|--------------------------|
| Elementary | | |
| Kindergarten through Third | 2,208.63 | 2,207.30 |
| Fourth through Sixth | 1,700.76 | 1,704.46 |
| Seventh and Eighth | 1,165.70 | 1,165.03 |
| Extended Year Special Education | | |
| Kindergarten through Third | 2.25 | 2.25 |
| Fourth through Sixth | 2.21 | 2.21 |
| Seventh and Eighth | 0.41 | 0.41 |
| Special Education - Nonpublic, Nonsectarian | | |
| Kindergarten through Third | 2.24 | 2.47 |
| Fourth through Sixth | 9.63 | 9.67 |
| Seventh and Eighth | 8.46 | 8.46 |
| Extended Year Special Education - Nonpublic, Nonsectarian | | |
| Kindergarten through Third | 0.11 | 0.11 |
| Fourth through Sixth | 0.97 | 0.97 |
| Seventh and Eighth | 0.93 | 0.93 |
| Community Day School | | |
| Kindergarten through Third | 0.00 | 0.00 |
| Fourth through Sixth | 0.00 | 0.00 |
| Seventh and Eighth | 4.36 | 5.56 |
| Elementary totals | <u>5,106.66</u> | <u>5,109.83</u> |
| Secondary | | |
| Ninth through Twelfth | 2,340.81 | 2,329.93 |
| Extended Year Special Education | 0.07 | 0.07 |
| Special Education - Nonpublic, Nonsectarian | 19.61 | 20.15 |
| Extended Year Special Education - nonpublic, Nonsectarian | 2.30 | 2.30 |
| Community Day Schol | 0.10 | 0.07 |
| Secondary totals | <u>2,362.89</u> | <u>2,352.52</u> |
| Total average daily attendance | <u><u>7,469.55</u></u> | <u><u>7,462.35</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 Novato Charter School. The Novato 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, 2015

| Grades | Ed. Code | Ed. Code | 2014-2015 Actual Minutes | Number of Days Traditional Calendar | Status |
|--------------|---------------------------------|--|--------------------------------|--|---------------|
| | 46207 Minutes Requirement | 46207 Revised Minutes Requirement | | | |
| 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, 2015

| <u>General Fund</u> | (Budget) <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|-------------------------|----------------------|----------------------|----------------------|
| Revenues and other financial sources | \$ 79,460,647 | \$ 74,313,889 | \$ 68,357,854 | \$ 64,710,469 |
| Expenditures | 75,341,638 | 75,369,853 | 65,922,003 | 64,205,087 |
| Other uses and transfers out | 545,234 | 2,027,566 | 375,484 | 521,259 |
| Total outgo | 75,886,872 | 77,397,419 | 66,297,487 | 64,726,346 |
| Change in fund balance | 3,573,775 | (3,083,530) | 2,060,367 | (15,877) |
| Ending fund balance | <u>\$ 18,282,838</u> | <u>\$ 14,709,063</u> | <u>\$ 17,792,593</u> | <u>\$ 15,732,226</u> |
| Available reserves (Note 1) | <u>\$ 4,124,809</u> | <u>\$ 11,318,992</u> | <u>\$ 13,196,855</u> | <u>\$ 12,959,011</u> |
| Available reserves as a percentage of total outgo | 5.44% | 14.62% | 19.91% | 20.02% |
| Total long-term debt | \$ 138,147,533 | \$ 142,910,741 | \$ 91,997,318 | \$ 94,315,905 |
| Average daily attendance at P-2 | 7,339 | 7,470 | 7,553 | 7,506 |

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

The General Fund's fund balance has decreased by \$1,023,163 over the past two fiscal years. The fiscal year 2015-16 budget projects an increase of \$3,573,775. For a District this size, the State recommends available reserve of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in two of the past three fiscal years, and anticipates an operating surplus during the 2015-16 fiscal year. Total long-term debt has increased by \$48,594,836 over the past two fiscal years.

Average daily attendance has decreased by 36 over the past two fiscal years. ADA is anticipated to decrease by 131 during the fiscal year 2015-16.

NOTES:

- 1 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, 2015

As of June 30, 2010, Novato Charter School was 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, 2015

| 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 | \$ 855,739 |
| NCLB: Title I, Part G - Advanced Placement Test Fee Reimbursement Program | 84.330 | 14831 | 2,553 |
| Special Ed: IDEA - Basic Local Assistance Entitlement, Part B | 84.027 | 13379 | 1,371,697 |
| Special Ed: IDEA - Special Education Preschool Grants | 84.173 | 13430 | 82,623 |
| Special Ed: IDEA - Preschool Sec 611 | 84.027 | 13682 | 194,472 |
| Special Ed: IDEA - Mental Health | 84.027 | 14468 | 81,445 |
| Vocational & Applied Technology Secondary I C | 84.048 | 14894 | 45,021 |
| NCLB - Title II, Part A Improving Teacher Quality Local Grants | 84.367 | 15144 | 208,013 |
| NCLB - Title III, Immigrant Education Program | 84.365 | 14346 | 106,929 |
| ROTC Reimbursement | 84.000 | 14381 | <u>73,098</u> |
| Total U.S. Department of Education | | | <u>3,021,590</u> |
| U.S. Department of Health and Human Services: | | | |
| Passed through Marin County Office of Education: | | | |
| Medi-Cal Billing Option | 93.778 | 10013 | 192,127 |
| Medi-Cal Administrative Activities | 93.778 | 00000 | <u>18,037</u> |
| Total U.S. Department of Health and Human Services | | | <u>210,164</u> |
| U.S. Department of Agriculture : | | | |
| Passed through California Department of Education (CDE): | | | |
| Child Nutrition: School Program | | | |
| School Breakfast Program | 10.553 | 13390 | 381,457 |
| National School Lunch Program | 10.555 | 13391 | 855,523 |
| Summer Food Service Program for Children | 10.559 | 13004 | <u>6,827</u> |
| Total U.S. Department of Agriculture | | | <u>1,243,807</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 4,475,561</u> |
| Reconciliation to Federal Revenues | | | |
| Total Federal Program Expenditures | | | \$ 4,475,561 |
| Revenue in excess of expenditures related to Federal Entitlements: | | | |
| Medi-Cal | | | <u>106,645</u> |
| Total Federal Program Revenues | | | <u>\$ 4,582,206</u> |

The accompanying note is an integral part of this schedule

NOVATO UNIFIED SCHOOL DISTRICT
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2015

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, 2015

| | General Fund | Adult Education Fund |
|--|--|-----------------------------|
| | <u> </u> | <u> </u> |
| June 30, 2015 Annual Financial and Budget Report Fund Balances/Net Position | \$ 14,709,063 | \$ 116,631 |
| | <u> </u> | <u> </u> |
| June 30, 2015 Audited Financial Statements Fund Balances/Net Position | \$ 14,709,063 | \$ 116,631 |
| | <u> </u> | <u> </u> |
| | Bond Interest and Redemption Fund | Debt Service Fund |
| | <u> </u> | <u> </u> |
| June 30, 2015 Annual Financial and Budget Report Fund Balances/Net Position | \$ 5,616,843 | \$ 13,346 |
| | <u> </u> | <u> </u> |
| Understatement of net pension liability | | |
| Understatement of deferred inflow of resources | | |
| Understatement of deferred outflow of resources | | |
| | <u> </u> | <u> </u> |
| June 30, 2015 Audited Financial Statements Fund Balances/Net Position | \$ 5,616,843 | \$ 13,346 |
| | <u> </u> | <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> |
|--|--------------------------|--|--|---|
|--|--------------------------|--|--|---|

| | | | | |
|---------------------|---------------------|-------------------|---------------|---------------------|
| <u>\$ 1,885,135</u> | <u>\$ 4,960,822</u> | <u>\$ 325,521</u> | <u>\$ 259</u> | <u>\$ 1,800,382</u> |
|---------------------|---------------------|-------------------|---------------|---------------------|

| | | | | |
|---------------------|---------------------|-------------------|---------------|---------------------|
| <u>\$ 1,885,135</u> | <u>\$ 4,960,822</u> | <u>\$ 325,521</u> | <u>\$ 259</u> | <u>\$ 1,800,382</u> |
|---------------------|---------------------|-------------------|---------------|---------------------|

| <u>Cafeteria Enterprise Fund</u> | <u>General Education Preschool Fund</u> | <u>Self-Insurance Fund</u> |
|--|---|--------------------------------|
|--|---|--------------------------------|

| | | |
|------------------|------------------|-------------------|
| <u>\$ 46,815</u> | <u>\$ 80,039</u> | <u>\$ 311,369</u> |
|------------------|------------------|-------------------|

(737,763)
(253,503)
81,019

| | | |
|---------------------|------------------|-------------------|
| <u>\$ (863,432)</u> | <u>\$ 80,039</u> | <u>\$ 311,369</u> |
|---------------------|------------------|-------------------|

Long-Term
Debt

| | |
|--|-----------------------|
| June 30, 2015 Annual Financial and Budget Report Total Liabilities | \$ 89,224,013 |
| Understatement of bond premiums | 1,699,800 |
| Understatement of net pension liability | 51,049,165 |
| Understatement of early retirement incentive | <u>200,000</u> |
| June 30, 2015 Audited Financial Statements Long-Term Debt Total Liabilities | <u>\$ 142,172,978</u> |

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MOSS, LEVY & HARTZHEIM LLP

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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, 2015, 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, 2015.

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 a deficiency in internal control, described in the accompanying schedule of audit findings and questioned costs that we consider to be a significant deficiency, finding 2015-1.

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, 2015



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 2014-2015*, 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, 2015.

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 2014-2015*, 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 Performed |
|--|----------------------|
| Attendance accounting | |
| Attendance reporting | Yes |
| Teacher certification and misassignments | Yes |
| Kindergarten continuance | Yes |
| Independent study | Yes |
| Continuation education | Yes |
| Instructional time for school districts | Yes |
| Instructional materials, general requirements | Yes |
| Ratios of administrative employees to teachers | Yes |
| Classroom teacher salaries | Yes |

| Description | Procedures Performed |
|---|-------------------------|
| Early retirement incentive | Not Applicable |
| Gann limit calculation | Yes |
| School accountability report card | Yes |
| Juvenile court schools | Not Applicable |
| Middle or early college high schools | Not Applicable |
| K-3 grade span adjustment | Yes |
| Transportation maintenance of effort | Yes |
| Regional occupational centers or programs maintenance of effort | Yes |
| Adult education maintenance of effort | Yes |
| California clean energy jobs act | Yes |
| After school education and safety program | |
| General requirements | Yes |
| After school | Yes |
| Before school | Not Applicable |
| Proper expenditures of education protection account funds | Yes |
| Common core implementation funds | Yes |
| Unduplicated local control funding pupil counts | Yes |
| Local control and accountability plan | Yes |
| Charter schools | |
| Attendance | Not Applicable |
| Mode of instruction | Not Applicable |
| Nonclassroom-based instruction/independent Study | Not Applicable |
| Determination of funding for nonclassroom-based instruction | Not Applicable |
| Annual instructional minutes - classroom based | Not Applicable |
| Facility grant program | 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, 2015.

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 2014-15*, 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, 2015

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, 2015. 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, the 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, 2015.

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, 2015

FINDINGS AND RECOMMENDATIONS SECTION

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2015

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 | |
| 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: | <u>Unmodified</u> |
|---|-------------------|

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

Identification of major programs

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

| | |
|--|------------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | <u>\$300,000</u> |
|--|------------------|

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

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 |
|---|-----------|-----------------|

| | |
|---|-------------------|
| Type of auditor’s report issued on compliance for state programs: | <u>Unmodified</u> |
|---|-------------------|

Section II - Financial Statement Findings

FINDING 2015-1
ASSOCIATED STUDENT BODY
INTERNAL CONTROL
30000

Condition:

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

- School: Novato High School:
 1. Lack of supporting documentation to verify cash receipts for two events.
 2. Lack of supporting documentation to verify cash receipts for two fundraising activities.

Effect:

The 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.

LEA's Corrective Action Plan:

The District concurs with the recommendations and will work closely with staff to correct deficiencies.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2015

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2015

Section IV – State Award Findings and Questioned Costs

There were no state award findings.

Section I - 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.

Current Status:

Partially implemented - See Finding 2015-1.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF PRIOR FISCAL YEAR AUDIT FINDINGS
June 30, 2015

Section II – Federal Award Findings and Questioned Costs

There were no federal award findings.

NOVATO UNIFIED SCHOOL DISTRICT
SCHEDULE OF PRIOR FISCAL YEAR AUDIT FINDINGS
June 30, 2015

Section III – State Award Findings and Questioned Costs

There were no state award findings.