

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

AUDIT REPORT  
June 30, 2016

**NOVATO UNIFIED SCHOOL DISTRICT**  
**TABLE OF CONTENTS**  
 June 30, 2016

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**FINANCIAL SECTION**

Independent Auditor's Report ..... 1

Management's Discussion and Analysis ..... 3

Basic Financial Statements:

    Government-wide Financial Statements:

        Statement of Net Position ..... 17

        Statement of Activities ..... 18

    Fund Financial Statements:

        Balance Sheet – Governmental Funds ..... 20

        Reconciliation of the Governmental Funds Balance Sheet  
         to the Statement of Net Position ..... 21

        Statement of Revenues, Expenditures, and Changes in  
         Fund Balances – Governmental Funds ..... 22

        Reconciliation of the Statement of Revenues,  
         Expenditures, and Changes in Fund Balances  
         of Governmental Funds to the Statement of Activities ..... 24

        Statement of Net Position – Proprietary Funds ..... 25

        Statement of Revenues, Expenses, and Changes in Net Position –  
         Proprietary Funds ..... 26

        Statement of Cash Flows – Proprietary Funds ..... 27

        Statement of Fiduciary Assets and Liabilities – Fiduciary Funds ..... 28

    Notes to Basic Financial Statements ..... 29

**REQUIRED SUPPLEMENTARY INFORMATION**

Budgetary Comparison Schedules:

    General Fund ..... 59

Schedule of Proportionate Share of Net Pension Liability ..... 60

Schedule of Pension Contributions ..... 62

Schedule of Funding Progress for Post-employment Benefits ..... 64

**SUPPLEMENTARY INFORMATION**

Combining and Individual Fund Financial Statements and Schedules:

    Balance Sheet – Nonmajor Special Revenue Funds ..... 65

    Statement of Revenues, Expenditures, and Changes in  
     Fund Balance – Nonmajor Special Revenue Funds ..... 66

    Schedule of Revenues, Expenditures, and Changes in  
     Fund Balance – Budget and Actual – Nonmajor Special  
     Revenue Funds ..... 67

    Balance Sheet – Nonmajor Debt Service Fund ..... 71

    Statement of Revenues, Expenditures, and Changes in  
     Fund Balances – Nonmajor Debt Service Fund ..... 72

    Schedule of Revenues, Expenditures, and Changes in  
     Fund Balances – Budget and Actual – Nonmajor Debt Service Fund ..... 73

    Combining Balance Sheet – Nonmajor Capital Projects Funds ..... 74

    Combining Statement of Revenues, Expenditures, and Changes in  
     Fund Balances – Nonmajor Capital Projects Funds ..... 76

    Combining Schedule of Revenues, Expenditures, and Changes in  
     Fund Balances – Budget and Actual – Nonmajor Capital Projects Funds ..... 78

**NOVATO UNIFIED SCHOOL DISTRICT**  
**TABLE OF CONTENTS**  
June 30, 2016

---

**SUPPLEMENTARY INFORMATION (Continued)**

Organization.....	81
Schedule of Average Daily Attendance .....	82
Schedule of Instructional Time .....	83
Schedule of Financial Trends and Analysis .....	85
Schedule of Expenditures of Federal Awards.....	86
Note to the Schedule of Expenditures of Federal Awards .....	87
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	88
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 <i>Government Auditing Standards</i> .....	91
Independent Auditor's Report on State Compliance.....	93
Independent Auditor's Report on Compliance For Each Major Program and on On Internal Control over Compliance Required by the Uniform Guidance.....	95

**FINDINGS AND RECOMMENDATIONS SECTION**

Schedule of Audit Findings and Questioned Costs .....	97
Summary Schedule of Prior Fiscal Year Audit Findings .....	101

## FINANCIAL SECTION



# MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

## PARTNERS

RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA  
ALEXANDER C HOM, CPA  
ADAM V GUISE, CPA  
TRAVIS J HOLE, CPA

## COMMERCIAL ACCOUNTING & TAX SERVICES

433 N. CAMDEN DRIVE, SUITE 730  
BEVERLY HILLS, CA 90210  
TEL: 310.273.2745  
FAX: 310.670.1689  
www.mlhcpas.com

## GOVERNMENTAL AUDIT SERVICES

5800 HANNUM AVENUE, SUITE E  
CULVER CITY, CA 90230  
TEL: 310.670.2745  
FAX: 310.670.1689  
www.mlhcpas.com

## 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, 2016, 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 *2015-2016 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, 2016, 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.

## **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 59, the Schedule of Proportionate Share of Net Pension Liability on page 60, the Schedule of Pension Contributions on page 62, and the Schedule of Funding Progress for Other Post-Employment Benefits Other than Pensions Trend Information on page 64, 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards*, and is also not a required part of the basic financial statements of the District.

The combining and individual fund financial statements, financial and statistical information, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, 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 15, 2016

## NOVATO UNIFIED SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2015-2016

JUNE 30, 2016

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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, 2016. 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 \$9,687,966 or 13.0% from 2014-15 to 2015-16, while expenditures increased by \$4,992,391 or 6.6% 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 a 6% increase to all salary schedules; upgrade of the network infrastructure; significant investment in textbooks; and a one-time 2% bonus paid to all employees.
- General Fund revenues exceeded expenditures and other sources and uses by \$3,200,498; the District ended the year with available reserves of \$6.5 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 \$232 million. After depreciation, the June 30, 2016 book value for fixed assets totaled \$111 million.

**NOVATO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2015-2016  
JUNE 30, 2016**

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**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
- Implementation of 1 to 1 Pilot Program – 374 computing devices distributed to students
- 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 \$947,651
- Refresh of 166 teacher computers
- Implementation of Local Control Accountability Plan (LCAP)
- Solar structures installed at 10 school sites with estimated savings of \$8 to \$12 million over 20 years
- Completion of the District Education Facility Master Plan
- Development and launch of a modern District-wide website
- Transfer of \$1 Million to Special Reserve to offset PERS/ STRS future increases
- Approval of a \$222 Million General Obligation Bond placed on the November 8, 2016 ballot.



**NOVATO UNIFIED SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2015-2016**

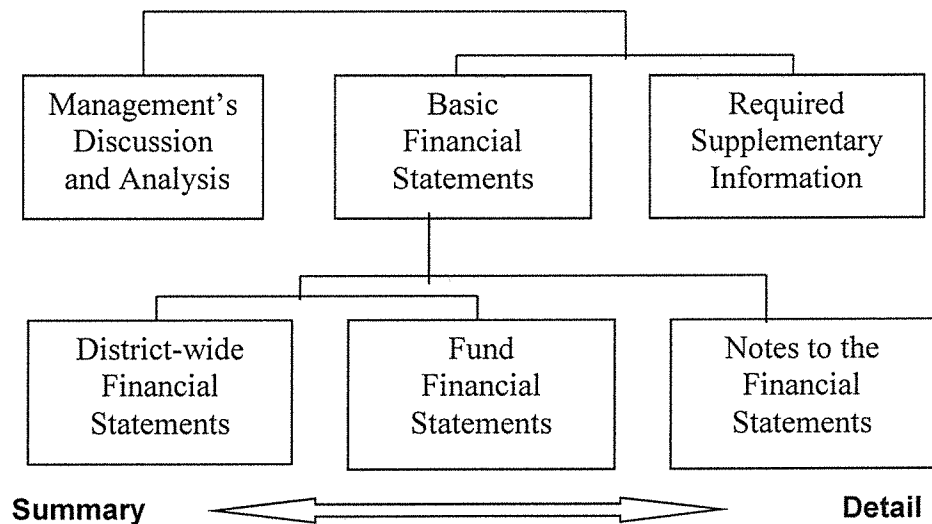
**JUNE 30, 2016**

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**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 2015-2016

JUNE 30, 2016

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### 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 2015-2016?"

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 2015-2016

JUNE 30, 2016

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### 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, Cafeteria 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 one type of proprietary funds, an internal service fund. The internal service fund of the District is the Self Insurance Fund used to account for the District's self-insured plan.

- ◆ **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 (\$7.0) million at June 30, 2016. Of this amount (\$45.1) million was unrestricted and \$8.4 was restricted. Investments in capital assets, net of related debt, account for \$29.7 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 2015-2016  
JUNE 30, 2016

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

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

	2015-16			2014-15
	Governmental Activities	Business-type Activities	Totals	Totals
<b>Assets</b>				
Cash and investments	\$29,530,367	\$85,954	\$29,616,321	\$30,820,006
Accounts receivable	4,427,102	0	4,427,102	3,635,068
Internal balances	0	0	0	0
Inventories and prepaid expenses	171,101	0	171,101	133,527
Other assets	0	0	0	85,537
Capital assets (net of depreciation)	110,663,239	0	110,663,239	113,003,658
<b>Total Assets</b>	<b>144,791,809</b>	<b>85,954</b>	<b>144,877,763</b>	<b>147,677,796</b>
<b>Deferred Outflow of Resources</b>				
Pension-related	6,265,625	0	6,265,625	4,150,779
Deferred loss on debt refunding	1,496,255	0	1,496,255	1,628,803
<b>Total Deferred Outflow of Resources</b>	<b>7,761,880</b>	<b>0</b>	<b>7,761,880</b>	<b>5,779,582</b>
<b>Liabilities</b>				
Accounts payable and other current liabilities	5,422,086		5,422,086	5,959,318
Deferred revenue	203,088		203,088	70,549
Long-term liabilities	147,245,059		147,245,059	142,910,741
<b>Total Liabilities</b>	<b>152,870,233</b>	<b>0</b>	<b>152,870,233</b>	<b>148,940,608</b>
<b>Deferred Inflow of Resources</b>				
Pension-related	6,789,211	0	6,789,211	13,754,947
<b>Net Assets</b>				
Net investment in capital assets	29,715,974		29,715,974	29,288,451
Restricted	8,384,120		8,384,120	9,559,878
Unrestricted	(45,205,851)	85,954	(45,119,897)	(48,086,506)
<b>Total net assets</b>	<b>(\$7,105,757)</b>	<b>\$85,954</b>	<b>(\$7,019,803)</b>	<b>(\$9,238,177)</b>

**NOVATO UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2015-2016**

**JUNE 30, 2016**

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

The District's net asset position increased (\$2.2) million this fiscal year. (See Table 1)

**Governmental Activities**

The District's expenses for instructional and pupil services represented 72.9% percent of total expenses. The purely administrative activities of the District accounted for 6.2% percent of total costs. The remaining 20.9% percent was spent in the areas of plant services and other expenses, interest on long-term debt and other outgo.

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

	2015-16			2014-15
	Governmental Activities	Business- Type Activities	Total	Total
<b>Revenues</b>				
Program Revenues	\$16,220,622	\$0	\$16,220,622	\$15,082,467
General Revenues				
Taxes levied for general purposes	31,513,127		31,513,127	17,197,826
Taxes levied for debt service	6,717,722		6,717,722	6,807,125
Tax levied for other specific purposes	4,483,049		4,483,049	4,463,363
Federal and State	33,866,664		33,866,664	39,035,473
Interest and investment earnings	58,716	178	58,894	30,918
Interagency revenues	9,602		9,602	8,334
Miscellaneous and transfers	1,338,053	(16,152)	1,321,901	2,273,529
<b>Total program and general revenues</b>	<b>\$94,207,555</b>	<b>(\$15,974)</b>	<b>\$94,191,581</b>	<b>\$84,899,035</b>
<b>Expenses</b>				
Instruction	\$49,922,611		\$49,922,611	\$46,474,384
Instruction-related Services	9,450,079		9,450,079	8,253,099
Pupil Support services	7,642,173		7,642,173	7,143,249
General Administration	5,676,874		5,676,874	4,350,130
Plant Services	6,931,475		6,931,475	12,480,007
Other	12,349,995		12,349,995	7,929,040
<b>Total Expenses</b>	<b>\$91,973,207</b>	<b>\$0</b>	<b>\$91,973,207</b>	<b>\$86,629,909</b>
<b>Change in Net Assets</b>	<b>\$2,234,348</b>	<b>(\$15,974)</b>	<b>\$2,218,374</b>	<b>(\$1,730,874)</b>

NOVATO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2015-2016  
JUNE 30, 2016

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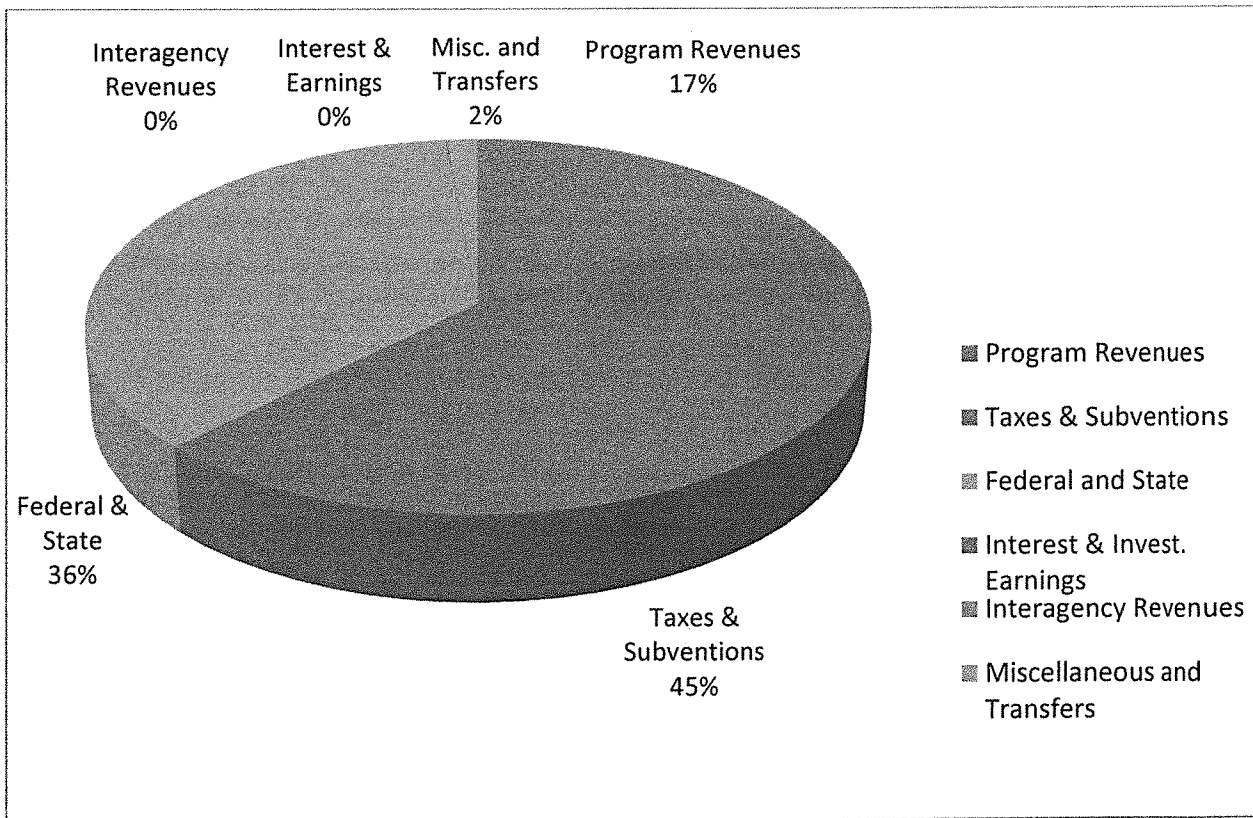
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONCLUDED)

Governmental Activities (Concluded)

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was \$92.0 million. The amount that our local taxpayers financed for these activities through property taxes was \$42.7 million. Federal and State aid totaled \$33.9 million.

Sources of Revenue for the 2015-2016 Fiscal Year-Governmental Activities

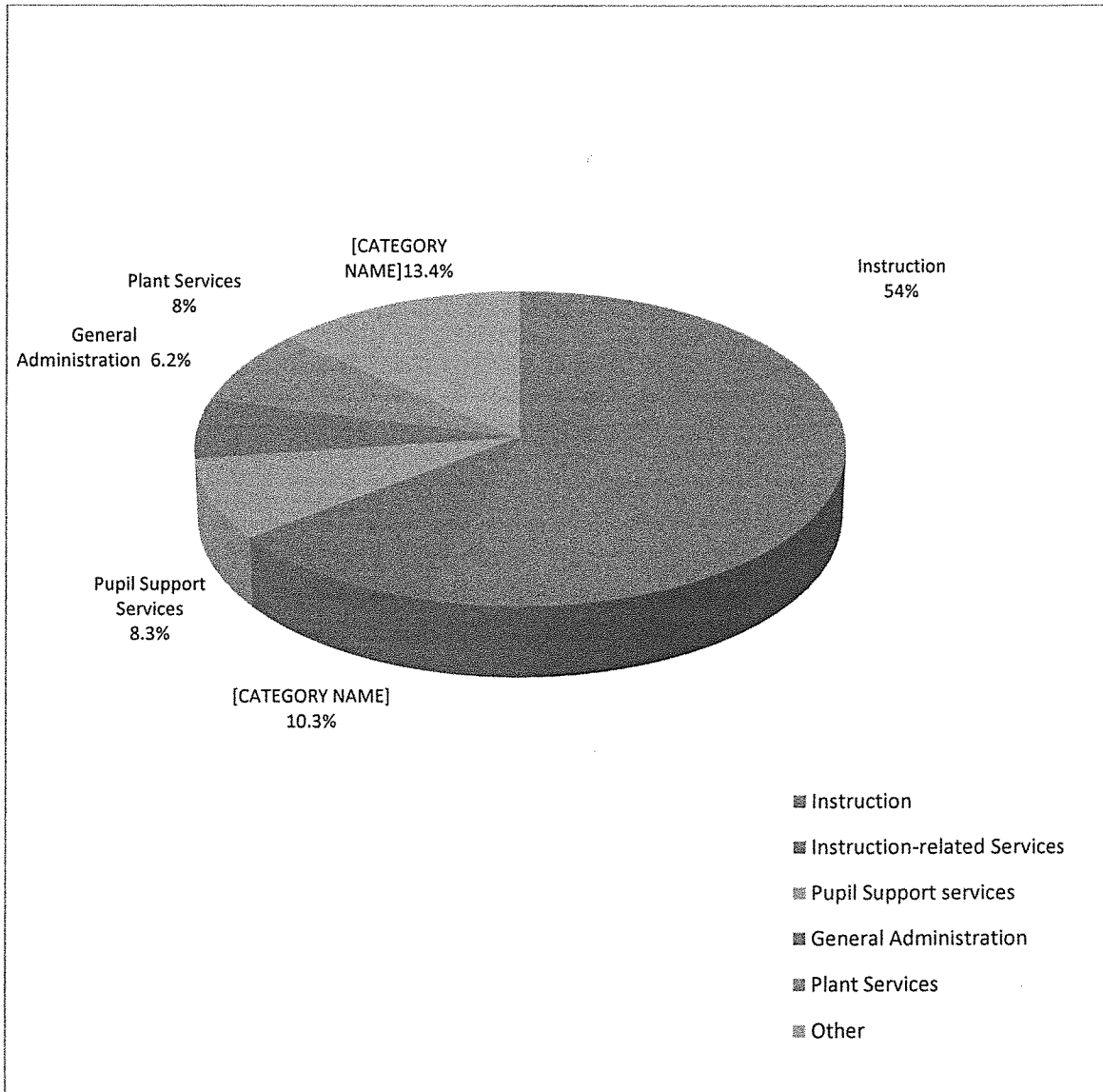
Figure 1



NOVATO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2015-2016  
JUNE 30, 2016

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Expenses for Fiscal Year 2015-2016 – Governmental Activities  
Figure 2



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**NOVATO UNIFIED SCHOOL DISTRICT****MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2015-2016****JUNE 30, 2016**

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**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 \$29.5 million, an increase of \$0.1 million from the previous fiscal year's combined ending balance of \$29.4 million. The General Fund balance increased by \$3.2 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 2015-2016 fiscal year, the District had invested \$232 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 \$111 million at June 30, 2016.



NOVATO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2015-2016

JUNE 30, 2016

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, 2016 and 2015**

	2015-16	2014-2015	Difference	Difference
Land	\$8,431,737	\$8,431,737	\$0	
Site Improvement	11,068,486	11,280,300	(211,814)	-1.88%
Buildings	86,825,001	89,593,786	(2,768,785)	-3.09%
Equipment	3,687,167	3,126,931	560,236	17.92%
Work in Progress	650,848	545,978	104,870	19.21%
<b>Total</b>	<b>\$110,663,239</b>	<b>\$112,978,732</b>	<b>(\$2,315,493)</b>	<b>-2.05%</b>

Depreciation expense was charged to governmental activities:

Total depreciation expense	<u>\$7,822,786</u>
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The primary increase in capital assets occurred in buildings, which include construction projects for site improvements and modernization of existing buildings. This year's major capital asset additions included:

- Community Education Center
- District Wide IT Infrastructure Upgrade
- District Wide Asphalt Repair
- District Office HVAC
- San Jose Building Conversion
- Vehicles and Equipment

**NOVATO UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2015-15**

**JUNE 30, 2016**

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

**Long-Term Debt**

At June 30, 2016, the District had \$86.7 million in long-term debt other than pensions outstanding, for a decrease of \$4.4 million from the prior year.

**Table 4  
Comparative Schedule of Outstanding Debt, June 30, 2016 and 2015**

	2015-16	2014-15
General Obligation Bonds	\$74,660,000	\$78,230,000
General Obligation Bond Premiums	\$11,172,666	\$12,074,832
OPEB	\$219	(\$85,537)
Compensated Absences	\$526,225	\$418,981
Claims Payable	\$200,000	\$200,000
Early Retirement Incentive	\$100,000	\$200,000
Sub Total	\$86,659,110	\$91,038,276
Net Pension Liability	\$60,585,951	\$51,049,165
Total	\$147,245,061	\$142,087,441

**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, 2016, the District reported Deferred Outflows from pension activities of \$6.3 million, Deferred Inflows from pension activities of \$6.8 million, and a Net Pension Liability of \$60.6 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 2015-15**

**JUNE 30, 2016**

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#### **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. 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.

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, 2016**

<b>Assets</b>	Governmental Activities	Business-type Activities	Total
Cash in County treasury	\$ 29,520,002	\$ 85,954	\$ 29,605,956
Cash on hand and in banks	10,165		10,165
Revolving cash fund	200		200
Accounts receivable	4,427,102		4,427,102
Inventories, at cost	59,191		59,191
Prepaid items	111,910		111,910
Land	8,431,737		8,431,737
Construction in progress	650,848		650,848
Site improvements	33,464,353		33,464,353
Buildings and improvements	180,163,736		180,163,736
Machinery and equipment	8,929,792		8,929,792
Less: accumulated depreciation	(120,977,227)		(120,977,227)
<b>Total Assets</b>	<b>144,791,809</b>	<b>85,954</b>	<b>144,877,763</b>
<b>Deferred Outflow of Resources</b>			
Deferred outflows related to net pension liability	6,265,625		6,265,625
Deferred loss on debt refunding	1,496,255		1,496,255
<b>Total Deferred Outflow of Resources</b>	<b>7,761,880</b>		<b>7,761,880</b>
<b>Liabilities</b>			
Accounts payable	3,995,092		3,995,092
Interest payable	1,426,994		1,426,994
Unearned revenue	203,088		203,088
Long-term liabilities:			
Due within one year	5,628,359		5,628,359
Due in more than one year	141,616,702		141,616,702
<b>Total Liabilities</b>	<b>152,870,235</b>		<b>152,870,235</b>
<b>Deferred Inflow of Resources</b>			
Deferred inflows related to net pension liability	6,789,211		6,789,211
<b>Total Deferred Inflow of Resources</b>	<b>6,789,211</b>		<b>6,789,211</b>
<b>Net Position</b>			
Net investment in capital assets	29,715,974		29,715,974
Restricted for:			
Capital projects	248,744		248,744
Debt service	3,827,101		3,827,101
Educational programs	4,148,584		4,148,584
Cafeteria	159,691		159,691
Unrestricted	(45,205,851)	85,954	(45,119,897)
<b>Total net position (deficit)</b>	<b>\$ (7,105,757)</b>	<b>\$ 85,954</b>	<b>\$ (7,019,803)</b>

See notes to basic financial statements

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2016

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 49,922,611	\$ 30,423	\$ 9,796,284	\$ -
Instruction-related services:				
Instructional supervision and administration	3,430,832	2,491	1,057,054	
Instructional library, media, and technology	813,063	7,841	298,591	
School site administration	5,206,184	505	235,862	
Pupil services:				
Home-to-school transportation	2,156,451		8,167	
Food services	2,163,091	687,416	1,432,149	
All other pupil services	3,322,631	10,750	1,397,048	
General administration:				
Centralized data processing	1,789,398	601	22,821	
All other general administration	3,887,476	566	274,787	
Plant services	6,931,475	3,065	283,780	
Ancillary services	578,745	5,025	202,019	
Interest on long-term debt	2,707,199			
Other outgo	1,241,285	11,883	451,494	
Depreciation (unallocated)	7,822,766			
Total governmental activities	<u>91,973,207</u>	<u>760,566</u>	<u>15,460,056</u>	
Total government	<u>\$ 91,973,207</u>	<u>\$ 760,566</u>	<u>\$ 15,460,056</u>	<u>\$ -</u>

General revenues:

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

Change in net position

Net position beginning of fiscal year  
Restatement  
Net position beginning of fiscal year, restated  
  
Net position end of fiscal year

See notes to basic financial statements

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
\$ (40,095,904)	\$ -	\$ (40,095,904)
(2,371,287)		(2,371,287)
(506,631)		(506,631)
(4,969,817)		(4,969,817)
(2,148,284)		(2,148,284)
(43,526)		(43,526)
(1,914,833)		(1,914,833)
(1,765,976)		(1,765,976)
(3,612,123)		(3,612,123)
(6,644,630)		(6,644,630)
(371,701)		(371,701)
(2,707,199)		(2,707,199)
(777,908)		(777,908)
(7,822,766)		(7,822,766)
<u>(75,752,585)</u>		<u>(75,752,585)</u>
<u>(75,752,585)</u>		<u>(75,752,585)</u>
31,513,127		31,513,127
6,717,722		6,717,722
4,483,049		4,483,049
33,866,664		33,866,664
58,716	178	58,894
9,602		9,602
1,316,164	5,737	1,321,901
21,889	(21,889)	
<u>77,986,933</u>	<u>(15,974)</u>	<u>77,970,959</u>
<u>2,234,348</u>	<u>(15,974)</u>	<u>2,218,374</u>
(8,454,784)	(783,393)	(9,238,177)
(885,321)	885,321	
<u>(9,340,105)</u>	<u>101,928</u>	<u>(9,238,177)</u>
<u>\$ (7,105,757)</u>	<u>\$ 85,954</u>	<u>\$ (7,019,803)</u>

NOVATO UNIFIED SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
June 30, 2016

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash in County treasury	\$ 17,697,388	\$ 3,498,267	\$ 5,240,720	\$ 2,604,974	\$ 29,041,349
Cash on hand and in banks	10,165				10,165
Cash in revolving fund	200				200
Accounts receivable	3,810,469			616,633	4,427,102
Due from other funds	128,466	304,113			432,579
Inventory, at cost	34,917			24,274	59,191
Prepaid items	111,910				111,910
<b>Total assets</b>	<b>\$ 21,793,515</b>	<b>\$ 3,802,380</b>	<b>\$ 5,240,720</b>	<b>\$ 3,245,881</b>	<b>\$ 34,082,496</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 3,379,841	\$ 413,234	\$ -	\$ 193,414	\$ 3,986,489
Due to other funds	304,113			128,466	432,579
Unearned revenue	200,000			3,088	203,088
<b>Total liabilities</b>	<b>3,883,954</b>	<b>413,234</b>		<b>324,968</b>	<b>4,622,156</b>
<b>Fund balances:</b>					
<b>Nonspendable</b>					
Revolving cash	200				200
Stores inventories	34,917			24,274	59,191
Prepaid items	111,910				111,910
<b>Restricted</b>					
Medi-Cal billing option	332,102				332,102
Educator Effectiveness	640,059				640,059
California Clean Energy Jobs Act	480,737				480,737
Lottery: Instructional material	943,012				943,012
Construction		3,389,146		248,744	3,637,890
Debt service			5,240,720	13,375	5,254,095
Ongoing & major maintenance account	341,273				341,273
Cafeteria				135,417	135,417
Other restricted local	1,411,401				1,411,401
<b>Committed</b>					
Adult education program				244,123	244,123
Deferred maintenance				1,216,567	1,216,567
<b>Assigned</b>					
Special reserve	1,000,085				1,000,085
Construction				1,038,413	1,038,413
Other	7,117,751				7,117,751
<b>Unassigned</b>	<b>5,496,114</b>				<b>5,496,114</b>
<b>Total fund balances</b>	<b>17,909,561</b>	<b>3,389,146</b>	<b>5,240,720</b>	<b>2,920,913</b>	<b>29,460,340</b>
<b>Total liabilities and fund balances</b>	<b>\$ 21,793,515</b>	<b>\$ 3,802,380</b>	<b>\$ 5,240,720</b>	<b>\$ 3,245,881</b>	<b>\$ 34,082,496</b>

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, 2016

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Total fund balances - governmental funds \$ 29,460,340

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	\$	231,640,466
Accumulated depreciation		<u>(120,977,227)</u>

Net 110,663,239

In governmental funds, deferred loss on debt refunding has not been included as deferred outflow of resources. 1,496,255

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. (1,426,994)

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	\$	(74,660,000)
Unamortized bond premiums		(11,172,666)
OPEB		(219)
Net pension payable		(60,585,951)
Retirement incentive payable		(100,000)
Compensated absences		<u>(526,225)</u>

Total (147,045,061)

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. (523,586)

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) 270,050

Total net position (deficit), governmental activities \$ (7,105,757)

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, 2016

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds
<b>Revenues:</b>				
LCFF sources:				
State apportionments	\$ 20,230,097	\$ -	\$ -	\$ 357,484
Education Protection Account Funds	9,066,396			
Local sources	30,160,211			
Federal	3,403,027			1,330,512
Other state	9,578,193		51,204	198,219
Other local	11,563,931	8,750	6,675,060	1,562,582
Total revenues	<u>84,001,855</u>	<u>8,750</u>	<u>6,726,264</u>	<u>3,448,797</u>
<b>Expenditures:</b>				
Certificated salaries	36,985,038			40,007
Classified salaries	11,387,831	139,923		901,137
Employee benefits	16,119,175	36,602		268,194
Books and supplies	2,613,705	2,033		1,072,941
Contracted services and other operating expenditures	10,412,974	294,404		89,835
Capital outlay	1,602,236	1,411,577		2,453,933
Other outgo	1,241,285			
Debt service:				
Principal			3,570,000	
Interest and fiscal charges			3,532,387	
Total expenditures	<u>80,362,244</u>	<u>1,884,539</u>	<u>7,102,387</u>	<u>4,826,047</u>
Excess of revenues over (under) expenditures	<u>3,639,611</u>	<u>(1,875,789)</u>	<u>(376,123)</u>	<u>(1,377,250)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in		304,113		156,889
Transfers out	(439,113)			
Total other financing sources (uses)	<u>(439,113)</u>	<u>304,113</u>		<u>156,889</u>
Net change in fund balances	3,200,498	(1,571,676)	(376,123)	(1,220,361)
Fund balances, July 1, 2015	14,709,063	4,960,822	5,616,843	4,141,274
Fund balances, June 30, 2016	<u>\$ 17,909,561</u>	<u>\$ 3,389,146</u>	<u>\$ 5,240,720</u>	<u>\$ 2,920,913</u>

See notes to basic financial statements

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Total  
Governmental  
Funds

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\$ 20,587,581  
9,066,396  
30,160,211  
4,733,539  
9,827,616  

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19,810,323

---

94,185,666

37,025,045  
12,428,891  
16,423,971  
3,688,679

10,797,213  
5,467,746  
1,241,285

3,570,000  

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3,532,387

---

94,175,217

---

10,449

461,002  

---

(439,113)

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21,889

32,338

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29,428,002

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\$ 29,460,340

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**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, 2016**

Total net change in fund balances - governmental funds	\$ 32,338
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 (\$7,822,766) exceeded additions to capital outlay of \$5,482,347 in the period.	(2,340,419)
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.	3,570,000
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:	769,618
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:	55,571
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:	(107,244)
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:	(85,756)
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:	100,000
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:	281,559
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>(41,319)</u>
Change in net position of governmental activities	<u>\$ 2,234,348</u>

See notes to basic financial statements

NOVATO UNIFIED SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
June 30, 2016

	Enterprise Funds		Governmental	
	General Education Preschool Fund	Cafeteria Enterprise Fund	Activities Internal Service Fund Self-Insurance Fund	
		Total		
<b>Assets</b>				
Current assets:				
Cash in County treasury	\$ 85,954	\$ -	\$ 85,954	\$ 478,653
Total current assets	85,954		85,954	478,653
Total assets	85,954		85,954	478,653
<b>Liabilities</b>				
Current liabilities:				
Accounts payable				8,603
Total current liabilities				8,603
Noncurrent liabilities:				
Claims payable				200,000
Total noncurrent liabilities				200,000
Total liabilities				208,603
<b>Net Position</b>				
Net investment in capital assets				
Unrestricted	85,954		85,954	270,050
Total net position (deficit)	\$ 85,954	\$ -	\$ 85,954	\$ 270,050

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, 2016**

	Enterprise Funds		Governmental Activities Internal Service Fund Self-Insurance Fund
	General Education Preschool Fund	Cafeteria Enterprise Fund	
<b>Operating Revenues:</b>			
Federal revenue	\$ -	\$ -	\$ -
Other state revenue			
Other local revenue	5,773		5,773
Total revenues	5,773		5,773
<b>Operating Expenses:</b>			
Books and supplies			2,221
Contracted services and other operating expenses			78,765
Total expenses			80,986
Operating income (loss)	5,773		(42,153)
<b>Non-Operating Revenues:</b>			
Interest income	142		142
Total non-operating revenues	142		142
Income (loss) before transfers	5,915		5,915
Transfer out		(21,889)	(21,889)
Change in net position	5,915	(21,889)	(15,974)
Net position, July 1, 2015	80,039	(863,432)	(783,393)
Restatement		885,321	885,321
Net position (deficit), July 1, 2015, restated	80,039	21,889	101,928
Net position (deficit), June 30, 2016	\$ 85,954	\$ -	\$ 85,954

See notes to basic financial statements

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For Fiscal Year Ended June 30, 2016**

	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 customers	\$ 5,773	\$ -	\$ 5,773	\$ -
Cash received from insurance premiums				38,833
Cash paid for books and supplies				(2,221)
Cash paid for contracted services and other operating expenses				(72,518)
Net cash provided (used) by operating activities	5,773		5,773	(35,906)
Cash flows from investing activities:				
Interest received (paid)	142		142	834
Net cash provided (used) by investing activities	142		142	834
Net increase (decrease) in cash and cash equivalents	5,915		5,915	(35,072)
Cash and cash equivalents at July 1, 2015	80,039		80,039	513,725
Cash and cash equivalents at June 30, 2016	<u>\$ 85,954</u>	<u>\$ -</u>	<u>\$ 85,954</u>	<u>\$ 478,653</u>
Reconciliation to Statement of Net Position:				
Cash in County treasury	<u>\$ 85,954</u>	<u>\$ -</u>	<u>\$ 85,954</u>	<u>\$ 478,653</u>
	<u>\$ 85,954</u>	<u>\$ -</u>	<u>\$ 85,954</u>	<u>\$ 478,653</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ 5,773	\$ -	\$ 5,773	\$ (42,153)
Increase (decrease) in operating liabilities and deferred inflows of resources:				
Accounts payable				6,247
Net cash provided (used) by operating activities	<u>\$ 5,773</u>	<u>\$ -</u>	<u>\$ 5,773</u>	<u>\$ (35,906)</u>

See notes to basic financial statements

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**FIDUCIARY FUNDS**  
**June 30, 2016**

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	Agency Funds			Totals
	Payroll Revolving Fund	Novato Public Access TV Fund	Student Body Funds	
<b>Assets</b>				
Cash in County treasury	\$ 182,194	\$ 63,368	\$ -	\$ 245,562
Cash on hand and in banks			224,246	224,246
Accounts receivable		1		1
<b>Total assets</b>	<u>\$ 182,194</u>	<u>\$ 63,369</u>	<u>\$ 224,246</u>	<u>\$ 469,809</u>
<b>Liabilities</b>				
Accounts payable	\$ 182,194	\$ 63,369	\$ -	\$ 245,563
Due to student groups			224,246	224,246
<b>Total liabilities</b>	<u>\$ 182,194</u>	<u>\$ 63,369</u>	<u>\$ 224,246</u>	<u>\$ 469,809</u>

See notes to basic financial statements



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

A. Accounting Policies

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

B. Reporting Entity

The reporting entity is the Novato Unified School District. There are no component units included in this report which meet the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39 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. One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) did not meet the GASB Statement No. 54 special revenue fund definition. The Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. This fund is to fund future increases in STRS/PERS for employer costs. The fund equity is assigned, and accordingly has been combined with the General Fund for presentation in these financial statements.

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 are 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 comprise 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 three 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.
3. The Cafeteria Fund is used to account for revenues and expenditures made to operate the District's cafeteria.

**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:

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. Fund Accounting (Continued)

*Proprietary Funds (Continued):*

Major Proprietary Fund (Continued)

1. The General Education Preschool Fund accounts for the before and after school childcare program funded by parent fees.
2. The Cafeteria Enterprise Fund is used to account for revenues received and expenses incurred to operate the District's nutritional service program.

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

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

*Fiduciary Funds:*

**Agency Funds** are used to account for assets of others for which the District acts as an agent. The District maintains six agency funds for the student body accounts. The 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. 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.

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)**

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

**5. Deferred Loss on Refunding**

The District has incurred a loss on the refunding of its debt. The deferred loss is being amortized using the straight line method over the lesser of the remaining period of the old debt or the remaining period of the new debt on the government-wide statements.

**6. 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)**

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

**7. 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.

**8. 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 10 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 qualifies for reporting in this category; refer to Note 10 for a detailed list of the deferred inflows of revenues the District has recognized.

**9. 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.

**10. 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.

**11. 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)**

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

**11. Fund Balances (Continued)**

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.

**12. 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)**

J. Estimates

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

K. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 74	"Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans"	The provision of this statement is effective for fiscal years beginning after June 15, 2016.
Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provision of this statement is effective for fiscal years beginning after June 15, 2017.
Statement No. 77	"Tax Abatement Disclosures"	The provision of this statement is effective for fiscal years beginning after December 15, 2015.
Statement No. 78	"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"	The provision of this statement is effective for fiscal years beginning after December 15, 2015.
Statement No. 79	"Certain External Investment Pools and Pool Participants"	The provision of this statement is effective for fiscal years beginning after December 15, 2015.
Statement No. 80	"Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14"	The provision of this statement is effective for fiscal years beginning after December 15, 2015.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provision of this statement is effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provision of this statement is effective for fiscal years beginning after December 15, 2017.

**NOTE 2 - CASH AND INVESTMENTS**

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

Cash on hand and in banks	\$ 234,611
Cash and investments with County Treasurer	<u>29,851,518</u>
 Total cash and investments	 <u><u>\$ 30,086,129</u></u>
 Cash in County Treasury, statement of net position	 \$ 29,605,956
Cash on hand and in banks, statement of net position	10,165
Cash in revolving fund, statement of net position	200
Cash in County Treasury, statement of fiduciary assets and liabilities	245,562
Cash on hand and in banks, statement of fiduciary assets and liabilities	<u>224,246</u>
 Total cash and investments	 <u><u>\$ 30,086,129</u></u>

This District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District had investments in the San Marin Investment Pool, however, this external pool is not measured under Level 1, 2, 3.

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Marin County Treasury as part of the common investment pool (\$29,851,518 as of June 30, 2016). The fair value of this pool as of that date, as provided by the plan sponsor, was \$29,851,518. 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 (\$234,411 as of June 30, 2016) 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.

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Carrying Amount	Remaining maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Marin County Investment Pool	\$ 29,851,518	\$ 29,851,518	\$ -	\$ -	\$ -
Total	\$ 29,851,518	\$ 29,851,518	\$ -	\$ -	\$ -

Disclosures Relating to Credit Risk

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Marin County Investment Pool	\$ 29,851,518	N/A	\$ -	\$ -	\$ -	\$ -	\$ 29,851,518
Total	\$ 29,851,518		\$ -	\$ -	\$ -	\$ -	\$ 29,851,518

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, 2016, none of the District's deposits with financial institutions in excess of the Federal Depository Insurance Corporation limits were held in uncollateralized accounts.

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

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).

**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
Non-major Governmental Fund	
Special Revenue Fund	
Deferred Maintenance Fund	\$ 248,179

**NOTE 4 - RECEIVABLES**

Receivables as of June 30, 2016, consist of the following:

	General Fund	Other Governmental Funds
Federal Government		
Categorical Aid Programs	\$ 1,840,554	\$ 177,211
State Government		
Categorical Aid Programs	839,222	85,000
Lottery	861,329	14,535
Local Government		
Fees	211,759	339,887
Miscellaneous	57,605	
Total Accounts Receivable	\$ 3,810,469	\$ 616,633

**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, 2016, are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Funds:		
General Fund	\$ 128,466	\$ 304,113
Building Fund	304,113	
Non-major Governmental Fund:		
Cafeteria Special Revenue Fund		128,466
 Totals	 <u>\$ 432,579</u>	 <u>\$ 432,579</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 2015-2016 fiscal year, are as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ -	\$ 439,113
Building Fund	304,113	
Major Enterprise Fund:		
Cafeteria Enterprise Fund		21,889
Non-major Governmental Fund:		
Cafeteria Fund	156,889	
 Totals	 <u>\$ 461,002</u>	 <u>\$ 461,002</u>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the fiscal year ended June 30, 2016, is shown below:

**Governmental Activities:**

	Balance July 1, 2015	Additions	Deletions	Completed Projects	Prior Period Adjustments	Balance June 30, 2016
Capital Assets, not being depreciated:						
Land	\$ 8,431,737	\$ -	\$ -	\$ -	\$ -	\$ 8,431,737
Construction in progress	545,978	527,046		(422,176)		650,848
Total capital assets not being depreciated	<u>8,977,715</u>	<u>527,046</u>		<u>(422,176)</u>		<u>9,082,585</u>
Capital Assets, being depreciated:						
Improvement of sites	32,875,595	588,758				33,464,353
Buildings and building improvements	176,597,650	3,143,910		422,176		180,163,736
Machinery and equipment	7,632,383	1,222,633			74,776	8,929,792
Total capital assets being depreciated	<u>217,105,628</u>	<u>4,955,301</u>		<u>422,176</u>	<u>74,776</u>	<u>222,557,881</u>
Less accumulated depreciation for:						
Improvement of sites	21,595,295	800,572				22,395,867
Buildings and building improvements	87,003,864	6,334,871				93,338,735
Machinery and equipment	4,505,452	687,323			49,850	5,242,625
Total accumulated depreciation	<u>113,104,611</u>	<u>7,822,766</u>			<u>49,850</u>	<u>120,977,227</u>
Total capital assets, being depreciated, net	<u>104,001,017</u>	<u>(2,867,465)</u>		<u>422,176</u>	<u>24,926</u>	<u>101,580,654</u>
Governmental activities capital assets, net	<u>\$ 112,978,732</u>	<u>\$ (2,340,419)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,926</u>	<u>\$ 110,663,239</u>

Depreciation expense was charged to governmental activities as follows:

Governmental activities:

Unallocated	\$ 7,822,766
Total depreciation expense	<u>\$ 7,822,766</u>

**Business-type Activities:**

	Balance July 1, 2015	Additions	Deletions	Completed Projects	Prior Period Adjustments	Balance June 30, 2016
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	49,850				(49,850)	
Total accumulated depreciation	<u>49,850</u>				<u>(49,850)</u>	
Total capital assets, being depreciated, net	<u>24,926</u>				<u>(24,926)</u>	
Business-type activity capital assets, net	<u>\$ 24,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (24,926)</u>	<u>\$ -</u>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

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**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 redemption date for Series 2005 is August 1, 2014 with zero remaining balance as of June 30, 2016. The redemption date for Series 2006 is August 1, 2016 with the remaining balance of 32,750,000 as of June 30, 2016. 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) \$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, 2016, the remaining principal balance was \$1,615,000.

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, 2016, the unamortized premium was \$2,119,759. 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, 2016, the outstanding principal balance was \$20,665,000.

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, 2016, the unamortized premium was \$9,052,907. 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, 2016, the outstanding principal balance was \$52,380,000.

The outstanding general obligation bonded debt of the Novato Unified School District, as of June 30, 2016, is as follows:

Bond Issue	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Balance Outstanding July 1, 2015	Issued Current Fiscal Year	Redeemed Current Fiscal Year	Balance Outstanding June 30, 2016	Due within One Year
2006	7/14/2006	4.0 - 5.0	8/1/2026	40,200,000	2,995,000		1,380,000	1,615,000	1,615,000
2011	9/22/2011	2.0-5.0	8/1/2026	24,290,000	21,605,000		940,000	20,665,000	1,060,000
2014	9/23/2014	2.0-5.0	8/1/2029	53,630,000	53,630,000		1,250,000	52,380,000	1,690,000
				<u>\$ 118,120,000</u>	<u>\$ 78,230,000</u>	<u>\$ -</u>	<u>\$ 3,570,000</u>	<u>\$ 74,660,000</u>	<u>\$ 4,365,000</u>



**NOTE 7 – GENERAL OBLIGATION BONDS (Continued)**

The annual requirements to amortize general obligation bonds payable outstanding as of June 30, 2016, are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
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	5,175,000	2,726,225	7,901,225
2022-2026	32,715,000	9,380,926	42,095,926
2027-2030	19,985,000	1,609,375	21,594,375
	<u>\$ 74,660,000</u>	<u>\$ 26,399,346</u>	<u>\$ 101,059,346</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 2016, the District contributed \$89,921 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	\$ 175,235
Interest on net OPEB asset	(3,849)
Adjustment to annual required contribution	4,291
Annual OPEB cost (expense)	<u>175,677</u>
Contributions made	<u>(89,921)</u>
(Increase) decrease in net OPEB asset	85,756
Net OPEB obligation (asset) - beginning of fiscal year	<u>(85,537)</u>
Net OPEB obligation (asset) - end of fiscal year	<u><u>\$ 219</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 2014 - 2016 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contribution	Net OPEB Obligation (Asset)
6/30/2014	89,041	89.00%	(172,383)
6/30/2015	175,235	50.44%	(85,537)
6/30/2016	175,677	51.19%	219

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, 2016, 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 – 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 10 – 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, 2016, 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	9.2%	8.56%
Required employer contribution rates	10.73%	10.73%

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, 2016, the contributions recognized as part of pension expense was as follows:

Contribution – employer	\$ 3,020,029
Contribution – state	\$ 2,268,704

**NOTE 10 – 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, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share to the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$ 46,924,828
State's proportionate share of the net pension liability associate with the District	<u>24,817,624</u>
Total	<u>\$ 71,742,452</u>

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, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 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, 2015, the District's proportion was 0.069%, which decreased by 0.002%, its proportion measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$3,521,467. At June 30, 2016, 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	\$ -	\$ 784,125
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments		3,825,136
Changes in proportion and differences between District contributions and proportionate share of contributions	136,982	811,501
District contributions subsequent to the measurement date	<u>3,846,124</u>	
Total	<u>\$ 3,983,106</u>	<u>\$ 5,420,762</u>

**NOTE 10 – PENSION PLANS (Continued)**

**State Teachers' Retirement System (CalSTRS) (Continued)**

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

\$3,846,124 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 Ended June 30</u>	<u>Amount</u>
2017	\$ (1,199,392)
2018	(1,199,392)
2019	(1,199,392)
2020	(1,199,392)
2021	(243,108)
2022	(243,104)
	<u>\$ (5,283,780)</u>

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
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 10 – 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	\$ 70,852,838
Current Discount Rate	7.60%
Net Pension Liability	\$ 46,924,828
1% Increase	8.60%
Net Pension Liability	\$ 27,038,721

**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, 2016, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2016.

**NOTE 10 – 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, 2015, 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, 2016, 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	11.847%	11.847%

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 10 – 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)**

\$1,277,192 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, 2017. 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
2017	\$ (80,857)
2018	(80,857)
2019	(84,466)
2020	(116,942)
	\$ (363,122)

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Experience Study	July 1, 1997, through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.65%
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, 2014 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.

**Changes of Assumptions** – GASB No. 68, paragraph 68 states that the long term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expenses. The discount rate was changed from 7.50% (net of administrative expenses in 2014) to 7.65% as of June 30, 2015 to correct the adjustment which previously reduced the discount rate for administrative expenses.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan (including PERF B), 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plan in the Public Employees Retirement Fund (PERF), including PERF B. The stress test results are presented in a detailed report called “GASB Crossover” that can be obtained from the CalPERS’ website under the GASB No.68 section.

**NOTE 10 – 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	51.0%	5.25%	5.71%
Global Debt Securities	19.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	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

**NOTE 10 – 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		6.65%
Net Pension Liability	\$	22,234,616
Current Discount Rate		7.65%
Net Pension Liability	\$	13,661,123
1% Increase		8.65%
Net Pension Liability	\$	6,531,691

**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, 2016, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2016.

**NOTE 11 – LONG-TERM DEBT**

A schedule of changes in long-term debt for the fiscal year ended June 30, 2016, is shown below:

Governmental Activities:

	Balance July 1, 2015	Restatements	Additions	Repayments and Reductions	Balance June 30, 2016	Due Within One Year
General Obligation Bonds	\$ 78,230,000	\$ -	\$ -	\$ (3,570,000)	\$ 74,660,000	\$ 4,365,000
Bond Premiums	12,074,832			(902,166)	11,172,666	902,166
OPEB	(85,537)		175,677	(89,921)	219	
Claims Payable	200,000				200,000	
Net Pension Liability	51,049,165	737,763	12,949,802	(4,150,779)	60,585,951	
Early Retirement Incentive Payable	200,000			(100,000)	100,000	100,000
Compensated Absences	418,981		298,286	(191,042)	526,225	261,193
Totals	\$ 142,087,441	\$ 737,763	\$ 13,423,765	\$ (9,003,908)	\$ 147,245,061	\$ 5,628,359

Business-type Activities:

	Balance July 1, 2015	Restatements	Additions	Repayments and Reductions	Balance June 30, 2016	Due Within One Year
Net Pension Liability	\$ 737,763	\$ (737,763)		\$ -	\$ -	\$ -

**NOTE 12 - 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 13 – 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 14 – DEFERRED COMPENSATION PLAN**

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

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

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

**NOTE 15 – 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 16 – RESTATEMENT**

Due to the District closing the Cafeteria Enterprise Fund and creating the new Cafeteria Special Revenue Fund, the related capital assets and net pension liability are included in the governmental activities of the government-wide statement of net position.

	Governmental Activities	Business-type Activities/Cafeteria Enterprise Fund
Ending Net Position per prior fiscal year audit	\$ (8,454,784)	\$ (783,393)
Restatement, transferred Cafeteria Enterprise capital assets and net pension liability	<u>(885,321)</u>	<u>885,321</u>
Net Position, restated as of July 1, 2015	<u>\$ (9,340,105)</u>	<u>\$ 101,928</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

NOVATO UNIFIED SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
LCFF sources:				
State apportionments	\$ 35,249,585	\$ 19,999,762	\$ 20,230,097	\$ 230,335
Education Protection Account Funds	8,731,423	9,766,622	9,066,396	(700,226)
Local sources	15,919,823	29,602,741	30,160,211	557,470
Federal	3,141,451	3,443,333	3,403,027	(40,306)
Other state	6,428,974	8,846,198	9,578,193	731,995
Other local	9,989,391	11,191,536	11,563,931	372,395
<b>Total revenues</b>	<b>79,460,647</b>	<b>82,850,192</b>	<b>84,001,855</b>	<b>1,151,663</b>
<b>Expenditures:</b>				
Certificated salaries	36,488,388	36,593,443	36,985,038	(391,595)
Classified salaries	10,860,917	11,616,074	11,387,831	228,243
Employee benefits	14,316,032	15,811,523	16,119,175	(307,652)
Books and supplies	1,959,812	3,914,909	2,613,705	1,301,204
Contracted services and other operating expenditures	9,723,012	11,361,096	10,412,974	948,122
Capital outlay	417,000	1,992,782	1,602,236	390,546
Other outgo	1,576,477	1,160,743	1,241,285	(80,542)
<b>Total expenditures</b>	<b>75,341,638</b>	<b>82,450,570</b>	<b>80,362,244</b>	<b>2,088,326</b>
Excess of revenues over (under) expenditures	4,119,009	399,622	3,639,611	3,239,989
<b>Other Financing Sources (Uses):</b>				
Transfers out	(545,234)	(135,000)	(439,113)	(304,113)
<b>Total other financing sources (uses)</b>	<b>(545,234)</b>	<b>(135,000)</b>	<b>(439,113)</b>	<b>(304,113)</b>
Net change in fund balance	3,573,775	264,622	3,200,498	2,935,876
Fund balance, July 1, 2015	14,709,063	14,709,063	14,709,063	
Fund balance, June 30, 2016	\$ 18,282,838	\$ 14,973,685	\$ 17,909,561	\$ 2,935,876



**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
 Last 10 Years\*  
 As of June 30, 2016

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

Measurement date	FYE 2016		FYE 2015	
	June 30, 2015		June 30, 2014	
Proportion of the net pension liability		0.0927%		0.0907%
Proportionate share of the net pension liability	\$	13,661,123	\$	10,296,658
Covered- employee payroll	\$	9,606,236	\$	9,504,352
Proportionate share of the net pension liability as percentage of covered-employee payroll		142.21%		108.34%
Plan's total pension liability	\$	71,651,164,353	\$	68,292,799,349
Plan's fiduciary net position	\$	56,911,065,643	\$	59,940,364,500
Plan fiduciary net position as a percentage of the total pension liability		79.43%		87.77%

\*- Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**NOVATO UNIFIED SCHOOL DISTRICT****SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**

Last 10 Years\*

As of June 30, 2016

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

Measurement date	FYE 2016		FYE 2015	
	June 30, 2015		June 30, 2014	
Proportion of the net pension liability		0.0697%		0.0710%
Proportionate share of the net pension liability	\$	46,924,828	\$	41,490,270
Covered- employee payroll	\$	34,009,336	\$	31,797,321
Proportionate share of the net pension liability as percentage of covered-employee payroll		137.98%		130.48%
Plan's total pension liability	\$	259,146,248,000	\$	248,911,000,000
Plan's fiduciary net position	\$	191,822,335,995	\$	190,474,000,000
Plan fiduciary net position as a percentage of the total pension liability		74.02%		76.52%

\*- Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**NOVATO UNIFIED SCHOOL DISTRICT**

SCHEDULE OF CONTRIBUTIONS

Last 10 Years\*

As of June 30, 2016

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

	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	1,277,192	\$ 1,130,750
Contribution in relation to the actuarially determined contributions	<u>1,277,192</u>	<u>1,130,750</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered- employee payroll	\$ 10,780,721	\$ 9,606,236
Contributions as a percentage of covered-employee payroll	11.847%	11.771%

**Notes to Schedule**

Valuation Date: 6/30/2014

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
Valuation Date:	6/30/2014
Discount rate:	7.65%

\*- Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**NOVATO UNIFIED SCHOOL DISTRICT**

SCHEDULE OF CONTRIBUTIONS

Last 10 Years\*

As of June 30, 2016

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

	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 3,846,124	\$ 3,020,029
Contribution in relation to the actuarially determined contributions	<u>3,846,124</u>	<u>3,020,029</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered- employee payroll	\$ 35,844,585	\$ 34,009,336
Contributions as a percentage of covered-employee payroll	10.73%	8.88%

**Notes to Schedule**

Valuation Date: 6/30/2014

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 two years are shown.

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FUNDING PROGRESS FOR POST-EMPLOYMENT BENEFIT**  
**June 30, 2016**

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**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, 2016

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	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Total
<b>Assets</b>				
Cash in County treasury	\$ 252,226	\$ 84,543	\$ 1,258,885	\$ 1,595,654
Accounts receivable	85,000	192,923		277,923
Inventory, at cost		24,274		24,274
	<u>337,226</u>	<u>301,740</u>	<u>1,258,885</u>	<u>1,897,851</u>
<b>Total assets</b>	<b>\$ 337,226</b>	<b>\$ 301,740</b>	<b>\$ 1,258,885</b>	<b>\$ 1,897,851</b>
 <b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 93,103	\$ 10,495	\$ 42,318	\$ 145,916
Due to other funds		128,466		128,466
Unearned revenue		3,088		3,088
	<u>93,103</u>	<u>142,049</u>	<u>42,318</u>	<u>277,470</u>
<b>Fund balances:</b>				
<b>Nonspendable</b>				
Revolving cash				
Stores inventories		24,274		24,274
<b>Restricted</b>				
Cafeteria		135,417		135,417
<b>Committed</b>				
Adult education program	244,123			244,123
Deferred maintenance			1,216,567	1,216,567
	<u>244,123</u>	<u>159,691</u>	<u>1,216,567</u>	<u>1,620,381</u>
<b>Total fund balances</b>	<b>244,123</b>	<b>159,691</b>	<b>1,216,567</b>	<b>1,620,381</b>
<b>Total liabilities and fund balances</b>	<b>\$ 337,226</b>	<b>\$ 301,740</b>	<b>\$ 1,258,885</b>	<b>\$ 1,897,851</b>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**For the Fiscal Year Ended June 30, 2016**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Totals
<b>Revenues:</b>				
Revenue from revenue limit:				
State apportionment	\$ 95,000	\$ -	\$ 262,484	\$ 357,484
Federal		1,330,512		1,330,512
Other state	96,469	101,750		198,219
Other local	85,294	695,415	3,092	783,801
	<u>276,763</u>	<u>2,127,677</u>	<u>265,576</u>	<u>2,670,016</u>
<b>Expenditures:</b>				
Certificated salaries	40,007			40,007
Classified salaries		901,137		901,137
Employee benefits	5,791	262,403		268,194
Books and supplies	89,151	921,430		1,010,581
Contracted services and other operating expenditures	14,322	39,905	13,237	67,464
Capital outlay			920,907	920,907
	<u>149,271</u>	<u>2,124,875</u>	<u>934,144</u>	<u>3,208,290</u>
Excess of revenues over (under) expenditures	<u>127,492</u>	<u>2,802</u>	<u>(668,568)</u>	<u>(538,274)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in		156,889		156,889
		<u>156,889</u>		<u>156,889</u>
Net change in fund balances	127,492	159,691	(668,568)	(381,385)
Fund balances, July 1, 2015	<u>116,631</u>		<u>1,885,135</u>	<u>2,001,766</u>
Fund balances, June 30, 2016	<u>\$ 244,123</u>	<u>\$ 159,691</u>	<u>\$ 1,216,567</u>	<u>\$ 1,620,381</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, 2016**

	Adult Education Fund			
	Final Budget	Actual	Variance Positive (Negative)	Final Budget
<b>Revenues:</b>				
Revenue from revenue limit:				
State apportionment	\$ 95,000	\$ 95,000	\$ -	\$ -
Federal				1,241,000
Other state	96,658	96,469	(189)	107,000
Other local	85,008	85,294	286	751,083
<b>Total revenues</b>	<b>276,666</b>	<b>276,763</b>	<b>97</b>	<b>2,099,083</b>
<b>Expenditures:</b>				
Certificated salaries	55,803	40,007	15,796	
Classified salaries				948,411
Employee benefits	11,212	5,791	5,421	274,074
Books and supplies	169,343	89,151	80,192	911,212
Contracted services and other operating expenditures	16,724	14,322	2,402	51,493
Capital outlay				
<b>Total expenditures</b>	<b>253,082</b>	<b>149,271</b>	<b>103,811</b>	<b>2,185,190</b>
<b>Excess of revenues over (under) expenditures</b>	<b>23,584</b>	<b>127,492</b>	<b>103,908</b>	<b>(86,107)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in				135,000
<b>Total other financing sources (uses)</b>				<b>135,000</b>
<b>Net change in fund balances</b>	<b>23,584</b>	<b>127,492</b>	<b>103,908</b>	<b>48,893</b>
Fund balances, July 1, 2015	116,631	116,631		
<b>Fund balances, June 30, 2016</b>	<b>\$ 140,215</b>	<b>\$ 244,123</b>	<b>\$ 103,908</b>	<b>\$ 48,893</b>

Cafeteria Fund		Deferred Maintenance Fund		
Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ 262,484	\$ 262,484	\$ -
1,330,512	89,512			
101,750	(5,250)			
695,415	(55,668)		3,092	3,092
<u>2,127,677</u>	<u>28,594</u>	<u>262,484</u>	<u>265,576</u>	<u>3,092</u>
901,137	47,274			
262,403	11,671			
921,430	(10,218)			
39,905	11,588	15,000	13,237	1,763
		670,965	920,907	(249,942)
<u>2,124,875</u>	<u>60,315</u>	<u>685,965</u>	<u>934,144</u>	<u>(248,179)</u>
<u>2,802</u>	<u>88,909</u>	<u>(423,481)</u>	<u>(668,568)</u>	<u>(245,087)</u>
<u>156,889</u>	<u>21,889</u>			
<u>156,889</u>	<u>21,889</u>			
159,691	110,798	(423,481)	(668,568)	(245,087)
		1,885,135	1,885,135	
<u>\$ 159,691</u>	<u>\$ 110,798</u>	<u>\$ 1,461,654</u>	<u>\$ 1,216,567</u>	<u>\$ (245,087)</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, 2016**

	Totals		
	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Revenue from revenue limit:			
State apportionment	\$ 357,484	\$ 357,484	\$ -
Federal	1,241,000	1,330,512	89,512
Other state	203,658	198,219	(5,439)
Other local	836,091	783,801	(52,290)
<b>Total revenues</b>	<b>2,638,233</b>	<b>2,670,016</b>	<b>31,783</b>
<b>Expenditures:</b>			
Certificated salaries	55,803	40,007	15,796
Classified salaries	948,411	901,137	47,274
Employee benefits	285,286	268,194	17,092
Books and supplies	1,080,555	1,010,581	69,974
Contracted services and other operating expenditures	83,217	67,464	15,753
Capital outlay	670,965	920,907	(249,942)
<b>Total expenditures</b>	<b>3,124,237</b>	<b>3,208,290</b>	<b>(84,053)</b>
Excess of revenues over (under) expenditures	(486,004)	(538,274)	(52,270)
<b>Other Financing Sources (Uses):</b>			
Transfers in	135,000	156,889	21,889
<b>Total other financing sources (uses)</b>	<b>135,000</b>	<b>156,889</b>	<b>21,889</b>
Net change in fund balances	(351,004)	(381,385)	(30,381)
Fund balances, July 1, 2015	2,001,766	2,001,766	
Fund balances, June 30, 2016	<u>\$ 1,650,762</u>	<u>\$ 1,620,381</u>	<u>\$ (30,381)</u>

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**NOVATO UNIFIED SCHOOL DISTRICT**  
**BALANCE SHEET**  
**NONMAJOR DEBT SERVICE FUND**  
**June 30, 2016**

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	<u>Debt Service Fund</u>
<b>Assets</b>	
Cash in County Treasury	\$ 13,375
Total assets	<u>\$ 13,375</u>
<b>Liabilities and Fund Balance</b>	
Fund balance:	
Restricted	
Debt service	<u>\$ 13,375</u>
Total fund balance	<u>13,375</u>
Total liabilities and fund balance	<u>\$ 13,375</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, 2016**

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	Debt Service Fund
<b>Revenues:</b>	
Other local	\$ 29
Total revenues	<u>29</u>
Net change in fund balance	29
Fund balance, July 1, 2015	<u>13,346</u>
Fund balance, June 30, 2016	<u><u>\$ 13,375</u></u>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**NONMAJOR DEBT SERVICE FUND**  
**For the Fiscal Year Ended June 30, 2016**

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	Debt Service Fund		
	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Other local	\$ 24	\$ 29	\$ 5
Total revenues	<u>24</u>	<u>29</u>	<u>5</u>
Net change in fund balance	24	29	5
Fund balance, July 1, 2015	<u>13,346</u>	<u>13,346</u>	
Fund balance, June 30, 2016	<u><u>\$ 13,370</u></u>	<u><u>\$ 13,375</u></u>	<u><u>\$ 5</u></u>

**NOVATO UNIFIED SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**NONMAJOR CAPITAL PROJECTS FUNDS**  
 June 30, 2016

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	Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Assets</b>			
Cash in County Treasury	\$ 269,774	\$ 267	\$ 725,904
Accounts receivable			338,710
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 269,774</u>	<u>\$ 267</u>	<u>\$ 1,064,614</u>

**Liabilities and Fund Balances**

Liabilities:			
Accounts payable	\$ 21,297	\$ -	\$ 26,201
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>21,297</u>	<u>                    </u>	<u>26,201</u>
Fund balances:			
Restricted			
Construction	248,477	267	
Assigned			
Construction			1,038,413
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>248,477</u>	<u>267</u>	<u>1,038,413</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund balances	<u>\$ 269,774</u>	<u>\$ 267</u>	<u>\$ 1,064,614</u>



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Totals

\$ 995,945  
338,710  
\$ 1,334,655

\$ 47,498  
47,498

248,744

1,038,413

1,287,157

\$ 1,334,655

**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, 2016**

	Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund
<b>Revenues:</b>			
Other local	\$ 88,192	\$ 8	\$ 690,552
Total revenues	<u>88,192</u>	<u>8</u>	<u>690,552</u>
<b>Expenditures:</b>			
Books and supplies	27,362		34,998
Contracted services and other operating expenditures	1,179		21,192
Capital outlay	136,695		1,396,331
Total expenditures	<u>165,236</u>		<u>1,452,521</u>
Excess of revenues over (under) expenditures	<u>(77,044)</u>	<u>8</u>	<u>(761,969)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in			
Total other financing sources (uses)			
Net change in fund balances	(77,044)	8	(761,969)
Fund balances, July 1, 2015	<u>325,521</u>	<u>259</u>	<u>1,800,382</u>
Fund balances, June 30, 2016	<u>\$ 248,477</u>	<u>\$ 267</u>	<u>\$ 1,038,413</u>

---

<u>Totals</u>	
\$	<u>778,752</u>
	<u>778,752</u>
	62,360
	22,371
	<u>1,533,026</u>
	<u>1,617,757</u>
	<u>(839,005)</u>
	<u>(839,005)</u>
	<u>2,126,162</u>
\$	<u><u>1,287,157</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, 2016**

	Capital Facilities Fund		
	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Other local	\$ 170,000	\$ 88,192	\$ (81,808)
Total revenues	<u>170,000</u>	<u>88,192</u>	<u>(81,808)</u>
<b>Expenditures:</b>			
Books and supplies	27,576	27,362	214
Contracted services and other operating expenditures	3,500	1,179	2,321
Capital outlay	<u>188,099</u>	<u>136,695</u>	<u>51,404</u>
Total expenditures	<u>219,175</u>	<u>165,236</u>	<u>53,939</u>
Excess of revenues over (under) expenditures	<u>(49,175)</u>	<u>(77,044)</u>	<u>(27,869)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in			
Total other financing sources (uses)			
Net change in fund balances	(49,175)	(77,044)	(27,869)
Fund balances, July 1, 2015	<u>325,521</u>	<u>325,521</u>	
Fund balances, June 30, 2016	<u>\$ 276,346</u>	<u>\$ 248,477</u>	<u>\$ (27,869)</u>

County School Facilities Fund			Special Reserve Fund for Capital Outlay Projects		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ 8	\$ 8	\$ 750,000	\$ 690,552	\$ (59,448)
	8	8	750,000	690,552	(59,448)
			40,473	34,998	5,475
			31,665	21,192	10,473
			1,450,383	1,396,331	54,052
			1,522,521	1,452,521	70,000
	8	8	(772,521)	(761,969)	10,552
	8	8	(772,521)	(761,969)	10,552
259	259		1,800,382	1,800,382	
\$ 259	\$ 267	\$ 8	\$ 1,027,861	\$ 1,038,413	\$ 10,552

**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, 2016**

	Totals		
	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Other local	\$ 920,000	\$ 778,752	\$ (141,248)
Total revenues	<u>920,000</u>	<u>778,752</u>	<u>(141,248)</u>
<b>Expenditures:</b>			
Books and supplies	68,049	62,360	5,689
Contracted services and other operating expenditures	35,165	22,371	12,794
Capital outlay	<u>1,638,482</u>	<u>1,533,026</u>	<u>105,456</u>
Total expenditures	<u>1,741,696</u>	<u>1,617,757</u>	<u>123,939</u>
Excess of revenues over (under) expenditures	<u>(821,696)</u>	<u>(839,005)</u>	<u>(17,309)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in			
Total other financing sources (uses)			
Net change in fund balances	(821,696)	(839,005)	(17,309)
Fund balances, July 1, 2015	<u>2,126,162</u>	<u>2,126,162</u>	
Fund balances, June 30, 2016	<u>\$ 1,304,466</u>	<u>\$ 1,287,157</u>	<u>\$ (17,309)</u>

**NOVATO UNIFIED SCHOOL DISTRICT  
ORGANIZATION  
June 30, 2016**

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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 7<sup>th</sup> and 8<sup>th</sup> grade students. All schools offer special education services.

The Board of Education and the District Administrators for the fiscal year ended June 30, 2016 were as follows:

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Derek Knell	President	November, 2017
Thomas Cooper	Vice President	November, 2019
Maria Aguila	Member	November, 2017
Debbie Butler	Member	November, 2019
Greg Mack	Member	November, 2019
Ross Millerick	Member	November, 2019
Shelly Scott	Member	November, 2017

ADMINISTRATION

Jim Hogeboom  
Superintendent

Kris Cosca  
Assistant Superintendent, Human Resources

Karen Maloney  
Assistant Superintendent, Business & Operations

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF INSTRUCTIONAL TIME**  
**For the Fiscal Year Ended June 30, 2016**

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	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary		
Kindergarten through Third	2,097.01	2,099.33
Fourth through Sixth	1,703.42	1,706.83
Seventh and Eighth	1,184.86	1,185.31
Extended Year Special Education		
Kindergarten through Third	1.72	1.72
Fourth through Sixth	1.70	1.70
Seventh and Eighth	0.43	0.43
Special Education - Nonpublic, Nonsectarian		
Kindergarten through Third	1.29	1.40
Fourth through Sixth	8.73	8.45
Seventh and Eighth	7.37	7.25
Extended Year Special Education - Nonpublic, Nonsectarian		
Kindergarten through Third	0.23	0.23
Fourth through Sixth	1.09	1.09
Seventh and Eighth	0.64	0.64
Community Day School		
Kindergarten through Third	0.00	0.00
Fourth through Sixth	0.00	0.00
Seventh and Eighth	4.42	4.60
Elementary totals	<u>5,012.91</u>	<u>5,018.98</u>
Secondary		
Ninth through Twelfth	2,380.79	2,374.94
Extended Year Special Education	1.27	1.27
Special Education - Nonpublic, Nonsectarian	22.97	22.28
Extended Year Special Education - nonpublic, Nonsectarian	2.91	2.91
Community Day School	0.00	0.00
Secondary totals	<u>2,407.94</u>	<u>2,401.40</u>
Total average daily attendance	<u><u>7,420.85</u></u>	<u><u>7,420.38</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.



**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF INSTRUCTIONAL TIME**  
**For the Fiscal Year Ended June 30, 2016**

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<u>Grades</u>	<u>Ed Code</u> 46207 <u>Minutes</u> <u>Requirement</u>	<u>2014-15</u> <u>Actual</u> <u>Minutes</u>	<u>Number of</u> <u>Days</u> <u>Traditional</u> <u>Calendar</u>	<u>Status</u>
Kindergarten	36,000	45,405	180	In Compliance
Grade 1	50,400	53,635	180	In Compliance
Grade 2	50,400	53,635	180	In Compliance
Grade 3	50,400	53,635	180	In Compliance
Grade 4	54,000	54,300	180	In Compliance
Grade 5	54,000	54,300	180	In Compliance
Grade 6	54,000	58,186	180	In Compliance
Grade 7	54,000	58,196	180	In Compliance
Grade 8	54,000	58,146	180	In Compliance
Grade 9	64,800	66,966	180	In Compliance
Grade 10	64,800	66,966	180	In Compliance
Grade 11	64,800	66,966	180	In Compliance
Grade 12	64,800	66,966	180	In Compliance

\*Per Education Code Section 46111, no kindergarten student shall be kept in school in any day for more than four hours, exclusive of recesses. This would allow a maximum of 43,200 minutes of instructional time for kindergarten students. The Districted received a waiver of these requirements from the State Department of Education.

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. The District has met or exceeded its Local Control Funding Formula target funding.

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**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF CHARTER SCHOOLS**  
**For the Fiscal Year Ended June 30, 2016**

<u>General Fund*</u>	(Budget) 2017	2016	2015	2014
Revenues and other financial sources	\$ 81,280,593	\$ 84,001,855	\$ 74,313,889	\$ 68,357,854
Expenditures	81,851,502	80,362,244	75,369,853	65,922,003
Other uses and transfers out	135,000	439,113	2,027,566	375,484
Total outgo	81,986,502	80,801,357	77,397,419	66,297,487
Change in fund balance	(705,909)	3,200,498	(3,083,530)	2,060,367
Ending fund balance	\$ 17,203,652	\$ 17,909,561	\$ 14,709,063	\$ 17,792,593
Available reserves (Note 1)	\$ 6,191,345	\$ 6,496,199	\$ 11,318,992	\$ 13,196,855
Available reserves as a percentage of total outgo	7.55%	8.04%	14.62%	19.91%
Total long-term debt	\$ 141,616,702	\$ 147,245,061	\$ 142,910,741	\$ 91,997,318
Average daily attendance at P-2	7,298	7,421	7,470	7,553

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

The General Fund's fund balance has increased by \$116,968 over the past two fiscal years. The fiscal year 2016-17 budget projects a decrease of \$705,909. 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 one of the past three fiscal years, and anticipates an operating deficit during the 2016-17 fiscal year. Total long-term debt has increased by \$55,247,743 over the past two fiscal years.

Average daily attendance has decreased by 132 over the past two fiscal years. ADA is anticipated to decrease by 123 during the fiscal year 2016-17.

**NOTES:**

- 1 Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainties contained within the General Fund and Special Reserve Fund for Other Than Capital Outlay Projects.

\*In conformity with GASB Statement No. 54 – General Fund presented in this fund statement included Special Reserve Fund for Other than Capital Outlay Projects Fund.

NOVATO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2016

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal Catalog (CFDA) Number	Pass-through Entity Identification Number	Federal Expenditures
<b>Federal Programs:</b>			
U.S. Department of Education:			
Passed through the California Department of Education (CDE):			
NCLB: Title I, Part A - Basic Grants Low Income and Neglected	84.010	14329	\$ 748,722
NCLB: Title I, Part G - Advanced Placement Test Fee Reimbursement Program	84.330	14831	5,289
NCLB - Title II, Part A Improving Teacher Quality Local Grants	84.367	14341	212,427
NCLB - Title III, Immigrant Education Program	84.365	15146	13,384
NCLB - Title III, Limited English Proficient (LEP) Student Program	84.365	14346	167,694
Vocational & Applied Technology Secondary I C	84.048	14894	44,719
<b>Special Education (IDEA) State Grants Cluster:</b>			
Special Ed: IDEA - Basic Local Assistance Entitlement, Part B	84.027	13379	1,354,981
Special Ed: IDEA - Special Education Preschool Grants	84.173	13430	81,966
Special Ed: IDEA - Preschool Sec 611	84.027	13682	193,921
Special Ed: IDEA - Mental Health	84.027	14468	91,136
Total Special Education Cluster			<u>1,722,004</u>
Total U.S. Department of Education			<u>2,914,239</u>
U.S. Department of Health and Human Services:			
Passed through Marin County Office of Education:			
<b>Medicaid Cluster</b>			
Medi-Cal Billing Option	93.778	10013	199,024
Medi-Cal Administrative Activities	93.778	10060	106,099
Total Medicaid Cluster			<u>305,123</u>
Total U.S. Department of Health and Human Services			<u>305,123</u>
U.S. Department of Defense			
Air Force Junior ROTC Program	12.000	N/A	81,972
Total U.S. Department of Defense			<u>81,972</u>
U.S. Department of Agriculture :			
Passed through California Department of Education (CDE):			
<b>Child Nutrition Cluster</b>			
School Breakfast Program	10.553	13390	380,889
National School Lunch Program	10.555	13391	825,228
Summer Food Service Program for Children	10.559	13004	15,516
Total Child Nutrition Cluster			<u>1,221,633</u>
Commodities Supplemental Food Program*	10.565	13396	108,879
Total U.S. Department of Agriculture			<u>1,330,512</u>
Total Expenditures of Federal Awards			<u>\$ 4,631,846</u>
Reconciliation to Federal Revenues			
Total Federal Program Expenditures			\$ 4,631,846
Revenue in excess of expenditures related to Federal Entitlements:			
Medi-Cal Billing Option			<u>101,693</u>
Total Federal Program Revenues			<u>\$ 4,733,539</u>

\* Indicates a noncash expenditures

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, 2016**

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**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 State requirements, 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, 2016**

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	<u>General Fund</u>	<u>Adult Education Fund</u>	<u>Cafeteria Special Revenue Fund</u>
June 30, 2016 Annual Financial and Budget Report Fund Balances/Net Position	\$ 16,909,476	\$ 244,123	\$ 156,002
Understatement of accounts receivable			<u>3,689</u>
June 30, 2016 Audited Financial Statements Fund Balances/Net Position	<u>\$ 16,909,476</u>	<u>\$ 244,123</u>	<u>\$ 159,691</u>
	<u>Special Reserve for Capital Outlay Projects Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Debt Service Fund</u>
June 30, 2016 Annual Financial and Budget Report Fund Balances/Net Position	<u>\$ 1,038,413</u>	<u>\$ 5,240,720</u>	<u>\$ 13,375</u>
June 30, 2016 Audited Financial Statements Fund Balances/Net Position	<u>\$ 1,038,413</u>	<u>\$ 5,240,720</u>	<u>\$ 13,375</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>Special Reserve for Other than Capital Outlay Projects Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>County School Facilities Fund</u>
\$ 1,216,567	\$ 1,000,085	\$ 3,389,146	\$ 248,477	\$ 267
<u>\$ 1,216,567</u>	<u>\$ 1,000,085</u>	<u>\$ 3,389,146</u>	<u>\$ 248,477</u>	<u>\$ 267</u>

<u>Cafeteria Enterprise Fund</u>	<u>General Education Preschool Fund</u>	<u>Self-Insurance Fund</u>
\$ -	\$ 85,954	\$ 270,050
<u>\$ -</u>	<u>\$ 85,954</u>	<u>\$ 270,050</u>

	<u>Long-Term Debt</u>
June 30, 2016 Annual Financial and Budget Report Total Liabilities	\$ 135,891,595
Understatement of OPEB	219
Understatement of net pension liability	<u>11,353,247</u>
June 30, 2016 Audited Financial Statements Long-Term Debt Total Liabilities	<u>\$ 147,245,061</u>

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS**

RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA  
ALEXANDER C HOM, CPA  
ADAM V GUISE, CPA  
TRAVIS J HOLE, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES  
433 N. CAMDEN DRIVE, SUITE 730  
BEVERLY HILLS, CA 90210  
TEL: 310.273.2745  
FAX: 310.670.1689  
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES  
5800 E. HANNUM AVENUE, SUITE E  
CULVER CITY, CA 90230  
TEL: 310.670.2745  
FAX: 310.670.1689  
www.mlhcpas.com

**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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 15, 2016.

**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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 certain deficiencies in internal control, described in the accompanying schedule of audit findings and questioned costs that we consider to be significant deficiencies, findings 2016-1.

**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 findings identified in our audit 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 District'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 15, 2016



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA
ALEXANDER C HOM, CPA
ADAM V GUISE, CPA
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GOVERNMENTAL AUDIT SERVICES

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CULVER CITY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
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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 2015-2016 Guide for Annual Audits of California K-12 Local Educational Agencies and State Compliance Reporting, published by the California 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, 2016.

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 2015-2016, published by the Education Audit Appeals Panel. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

Table with 2 columns: Description, Procedures Performed. Rows include LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOL: Attendance accounting, Attendance reporting, Teacher certification and misassignments, Kindergarten continuance, Independent study, Continuation education, Instructional time, Instructional materials, Ratios of administrative employees to teachers, Classroom teacher salaries.

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
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS:</b>	
Educator Effectiveness	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
Unduplicated local control funding pupil counts	Yes
Local control and accountability plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Yes
<b>Charter schools</b>	
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, 2016.

### Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the statutory requirements for programs noted above, which are required to be reported in accordance with the *2015-2016 Guide for Annual Audits of California K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2016-2. Our opinion is not modified with respect to this matter.

### 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 *2015-2016 Guide for Annual Audits of California K-12 Local Education Agencies and State Compliance Reporting*, 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, LLP  
Culver City, California  
December 15, 2016

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

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS**

RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA  
ALEXANDER C HOM, CPA  
ADAM V GUISE, CPA  
TRAVIS J HOLE, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES  
433 N. CAMDEN DRIVE, SUITE 730  
BEVERLY HILLS, CA 90210  
TEL: 310.273.2745  
FAX: 310.670.1689  
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES  
5800 E. HANNUM AVENUE, SUITE E  
CULVER CITY, CA 90230  
TEL: 310.670.2745  
FAX: 310.670.1689  
www.mlhcpas.com

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Education  
Novato Unified School District  
Novato, California

**Report on Compliance for Each Major Federal Program**

We have audited Novato Unified School District (District)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 of its major federal programs for the year ended June 30, 2016.

**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 the 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over

compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 any 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Moss, Levy & Hartzheim*

MOSS, LEVY & HARTZHEIM, LLP  
Culver City, California  
December 15, 2016

## FINDINGS AND RECOMMENDATIONS SECTION

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
June 30, 2016

**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?	<u>          </u>	Yes	<u>  X  </u> No
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>  X  </u>	Yes	<u>          </u> None
Noncompliance material to financial statements noted?	<u>          </u>	Yes	<u>  X  </u> No

*Federal Awards*

Internal control over major programs:			
Material weakness(es) identified?	<u>          </u>	Yes	<u>  X  </u> No
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>          </u>	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 Uniform Guidance, 2CFR 200.516 (a)	<u>          </u>	Yes	<u>  X  </u> No

Identification of major programs

<u>CFDA Number (s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555, and 10.559</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>		
Auditee qualified as low-risk auditee:	<u>  X  </u>	Yes	<u>          </u> 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?	<u>  X  </u>	Yes	<u>          </u> No
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Type of auditor’s report issued on compliance for state programs:	<u>Unmodified</u>		
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**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
June 30, 2016

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**Section II - Financial Statement Findings**

**FINDING 2016-1**  
**ASSOCIATED STUDENT BODY**  
**INTERNAL CONTROL**  
**30000**

**Condition:**

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

- School: San Marin High School:
  1. Check disbursements:
    - a. Check number didn't agree between the accounting book and bank records.
    - b. Items shipped to personal address instead of school address.
    - c. Checks are not issued in sequential order.
  2. Check Receipts:
    - a. Receipt details did not contain sufficient descriptions of the events, therefore, details and events could not be determined.
    - b. Deposits were not made in a timely manner (longer than 30 calendar days).
- School: Sinaloa Middle School
  1. One of the five disbursements tested was missing the ASB secretary approval signature.

**Effect:**

The lack of control over check disbursements and check receipts 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 and cash disbursements 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 one cash receipts book for all cash received.

**LEA's Corrective Action Plan:**

**Check Disbursements:**

- A. When using Quickbooks, all checks will be printed from the main account to avoid misnumbering of checks. In addition, a paper log will be kept assuring accuracy of the check numbering.
- B. Rules and regulations regarding purchases will be reviewed by the Director of Fiscal Services, Administration, Staff, ASB Leadership, and Club members.
- C. All checks will be recorded in sequential order, including voided checks.

**Check Receipts:**

- A. Fundraising events will be required to submit "Request for Fundraiser Approval & Revenue Projection" and use a prenumbered ticket system to assure the accuracy of revenue.
- B. All deposits will be made within two weeks of receipt. Donations without clear designation will be deposited into a holding sub-account until the donor's designation is identified.

**NOVATO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
June 30, 2016

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**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, 2016

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

**FINDING 2016-2**  
**UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNT**  
**40000**

**Criteria:**

In accordance with Education Code Section 42238.02, Local Educational Agencies should provide accurate California Longitudinal Pupil Achievement Data System (CALPADS) to report aggregate English learner, foster youth, and free or reduced-price meal eligibility pupil data according to regulations prescribed by the State Board of Education.

**Condition:**

Tested all students reported on the CALPADs report that were not directly certified and classified as free or reduced and noted that one student was not eligible for the NSLP Program

**Effect:**

The District overstated 17 English learners.

	District's Enrollment Count	Certified Total Unduplicated Pupil Count	Unduplicated Count Adjustment <u>Based On Eligibility for:</u>			Adjusted Total Unduplicated Pupil Count	Adjusted District's Enrollment Count
			FRPM	EL Funding	FRPM and EL		
Novato Unified School District	23388	8909	0	-17	0	8892	23388
Total	23388	8909	0	-17	0	8892	23388

**Cause:**

District's error while submitting student's EL status to CalPad

**Questioned Costs:**

\$12,720

**Recommendation:**

Implement procedures to cross-reference students' records and CALPADS reports to ensure the data are correctly recorded and reported in the CALPADS.

**District's Corrective Action Plan:**

The following corrective procedures for English Learner identification will be implemented to ensure the data is correctly recorded and reported in CALPADS.

1. Educational Services in collaboration with IT will create a yearly timeline of monitoring procedures in order to ensure accurate reporting each month.
2. Educational Services in collaboration with IT with cross-reference students' language fluency records between AERIES and CALPADS data in order to ensure accurate reporting each month.

**Section I - Financial Statement Findings**

**FINDING 2015-1**  
**ASSOCIATED STUDENT BODY**  
**INTERNAL CONTROL**  
**30000**

**Condition:**

During our review of ASB cash receipts at 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.

**Current Status:**

Not implemented, see Finding 2016-1.

**Section II – Federal Award Findings and Questioned Costs**

There were no federal award findings.

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

There were no state award findings.