

**MILL VALLEY SCHOOL DISTRICT
COUNTY OF MARIN
MILL VALLEY, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2012

MILL VALLEY SCHOOL DISTRICT

JUNE 30, 2012

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MILL VALLEY SCHOOL DISTRICT

JUNE 30, 2012

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Education
Mill Valley School District
Mill Valley, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mill Valley School District, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mill Valley School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. The assets, liabilities, net assets, fund balance, revenues, expenses (expenditures) of the discretely presented component unit were not available.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of the District, as of June 30, 2012, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, except for the effects of omitting the discretely presented component unit as discussed above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mill Valley School District, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012 on our consideration of the Mill Valley School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, the budgetary comparison information on page 49, and the schedule of funding progress on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mill Valley School District's financial statements as a whole. The accompanying combining fund financial statements and supplementary schedules listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2012

**MILL VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

This section of Mill Valley School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 and 2, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities, presented on pages 14 through 15, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 16 through 19, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statement provides financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's financial status declined during the course of the year, as total net assets decreased \$290,548 or 16.2%.
- On the Statement of Activities, total current year expenses exceeded total current year revenues by \$290,548.
- Capital assets, net of depreciation, increased \$10,888,253 due to the current year acquisition and/or construction of \$11,802,134 of new capital assets, and the current year recognition of \$913,881 of depreciation expense.
- Total long-term liabilities increased \$30,116,958, due primarily to the issuance of \$30,605,000 in general obligation bonds during fiscal year 2011-12.
- The District's P-2 average daily attendance (ADA) increased from 2,711 in fiscal year 2010-11, up to 2,867 in fiscal year 2011-12, an increase of 156 ADA or 5.8%.
- The District's General Fund incurred an operating deficit of \$158,872 during fiscal year 2011-12, and recognized a \$154,378 decrease in its available reserves.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of total General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2011-12, total General Fund expenditures totaled \$30,284,380. At June 30, 2012, the District had available reserves of \$4,367,610 which represents a reserve of 14.4%.

**MILL VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and Management's Discussion and Analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, government-wide and funds.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
 - ❖ Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
 - ❖ Short and long-term financial information about the activities of the District that operate like businesses are provided in the proprietary fund statements.
 - ❖ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

Reporting the District as a Whole

The District as a whole is reported in the government-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Assets. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health or position (net assets) can be measured by the difference between the District's assets and liabilities.

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

**MILL VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

In the Statement of Net Assets and the Statement of Activities, we divide the District into two kinds of activities:

Governmental Activities:

The basic services provided by the District, such as regular and special education, administration, and special education transportation are included here, and are primarily financed by property taxes. Non-basic services, such as child nutrition are also included here, but are financed by a combination of local revenues and state and federal programs.

Business-type Activities:

The District does not provide any services that should be included in this category.

Reporting the District's Most Significant Funds

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law and bond covenants. However, the District establishes many other funds as needed to control and manage money for specific purposes.

Governmental Funds:

The major governmental funds of Mill Valley School District are the General Fund, Bond Interest and Redemption fund, and Building Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting 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. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

Proprietary Funds:

Services for which the District charges a fee are generally reported in proprietary funds on a full accrual basis. These include both Enterprise funds and Internal Service funds. Enterprise funds are considered business-type activities and are also reported under a full accrual method. This is the same basis as business-type activities; therefore no reconciling entries are required. Internal service funds are reported with the Governmental Funds. The District has no funds of this type.

Fiduciary Funds:

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in a separate fiduciary statement. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**MILL VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's net assets decreased from \$1,788,287 at June 30, 2011 to \$1,497,739 at June 30, 2012, a decrease of 16.2%.

<u>Comparative Statement of Net Assets</u>		
	Governmental Activities	
	2011	2012
<u>Assets</u>		
Deposits and Investments	\$ 35,656,087	\$ 54,869,412
Receivables	1,712,063	1,471,606
Prepaid Expenses	406,743	118,902
Capital Assets, net *	21,930,120	32,818,373
Total Assets *	59,705,013	89,278,293
<u>Liabilities</u>		
Current	6,743,483	6,627,621
Long-term	51,173,243	81,152,933
Total Liabilities	57,916,726	87,780,554
<u>Net Assets</u>		
Invested in Capital Assets		
- Net of Related Debt *	4,744,171	4,919,725
Restricted for Capital Projects	82,628	116,148
Restricted for Debt Service	(10,450,483)	(10,079,682)
Restricted for Educational Programs	772,254	638,522
Restricted for Other Purposes	2,500	21,507
Unrestricted	6,637,217	5,881,519
Total Net Assets *	\$ 1,788,287	\$ 1,497,739

* The prior year balances have been adjusted to reflect the restatement described in Note 19.

Table includes financial data of the combined governmental funds.

The deficit balance presented above for Restricted for Debt Service represents the difference between the obligation for accumulated accreted interest on the District's outstanding capital appreciation bonds and accrued interest on the District's long-term liabilities, and the amount available in the Bond Interest and Redemption Fund. This deficit will be eliminated by future property tax collections.

**MILL VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

The District's total current year expenses exceeded total current year revenues by \$290,548.

<u>Comparative Statement of Changes in Net Assets</u>		
	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2012</u>
<u>Program Revenues</u>		
Charges for Services	\$ 247,638	\$ 517,097
Operating Grants & Contributions	5,023,693	5,455,352
<u>General Revenues</u>		
Taxes Levied	26,001,507	26,370,475
Federal & State Aid	1,439,426	772,209
Interest & Investment Earnings	179,579	71,598
Transfers	0	4,526
Miscellaneous	1,416,950	1,900,352
Total Revenues	<u>34,308,793</u>	<u>35,091,609</u>
<u>Expenses</u>		
Instruction	19,844,136	21,103,723
Instruction-Related Services	3,489,012	3,363,064
Pupil Services	1,397,302	1,635,454
General Administration	2,868,715	2,849,238
Plant Services	2,754,279	2,894,634
Interest on Long-Term Debt	2,917,558	2,782,153
Other Outgo	654,636	753,891
Total Expenses	<u>33,925,638</u>	<u>35,382,157</u>
Changes in Net Assets	<u>\$ 383,155</u>	<u>\$ (290,548)</u>

Table includes financial data of the combined governmental funds.

**MILL VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

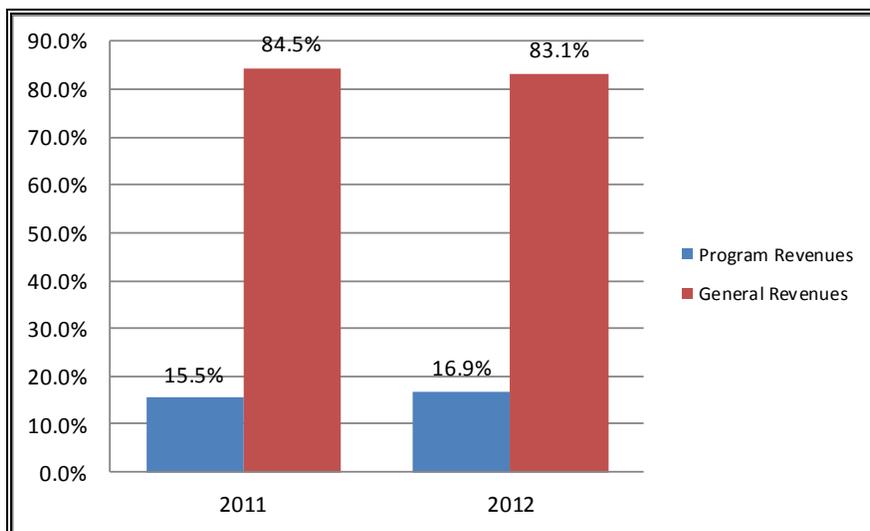
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

	Total Cost of Services		Net Cost of Services	
	2011	2012	2011	2012
Instruction	\$ 19,844,136	\$ 21,103,723	\$ 15,866,293	\$ 16,832,091
Instruction-Related Services	3,489,012	3,363,064	3,002,442	2,894,875
Pupil Services	1,397,302	1,635,454	786,747	745,894
General Administration	2,868,715	2,849,238	2,860,979	2,730,207
Plant Services	2,754,279	2,894,634	2,754,279	2,893,073
Interest on Long-Term Debt	2,917,558	2,782,153	2,917,558	2,782,153
Other Outgo	654,636	753,891	466,009	531,415
Totals	\$ 33,925,638	\$ 35,382,157	\$ 28,654,307	\$ 29,409,708

Table includes financial data of the combined governmental funds.

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$29,409,708 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



For fiscal year 2011-12, program revenues financed 16.9% of the total cost of providing the services listed above, while the remaining 83.1% was financed by the general revenues of the District.

**MILL VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

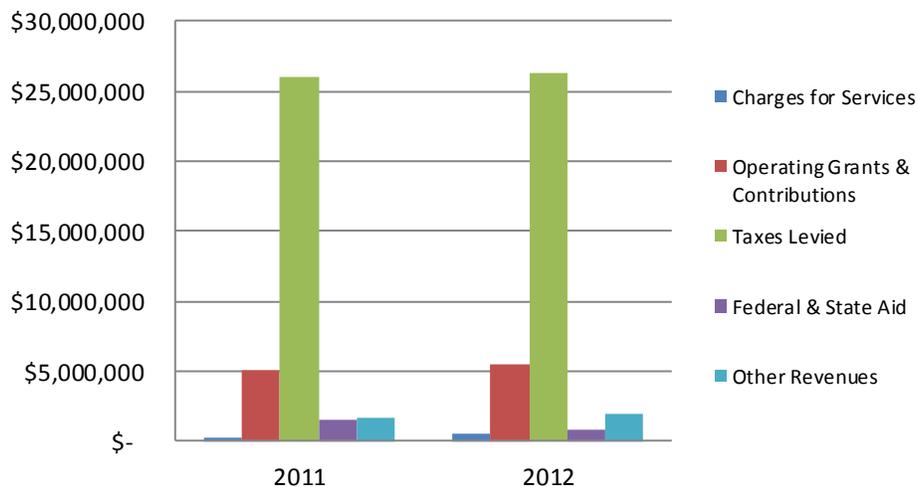
GOVERNMENTAL ACTIVITIES (CONTINUED)

Summary of Revenues For Governmental Functions

	<u>FYE 2011 Amount</u>	<u>Percent of Total</u>	<u>FYE 2012 Amount</u>	<u>Percent of Total</u>
<u>Program Revenues</u>				
Charges for Services	\$ 247,638	0.72%	\$ 517,097	1.47%
Operating Grants & Contributions	5,023,693	14.64%	5,455,352	15.55%
<u>General Revenues</u>				
Taxes Levied	26,001,507	75.79%	26,370,475	75.15%
Federal & State Aid	1,439,426	4.20%	772,209	2.20%
Other Revenues	1,596,529	4.65%	1,976,476	5.63%
Total Revenues	\$ 34,308,793	100.00%	\$ 35,091,609	100.00%

Table includes financial data of the combined governmental funds.

Comparative Revenues



**MILL VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

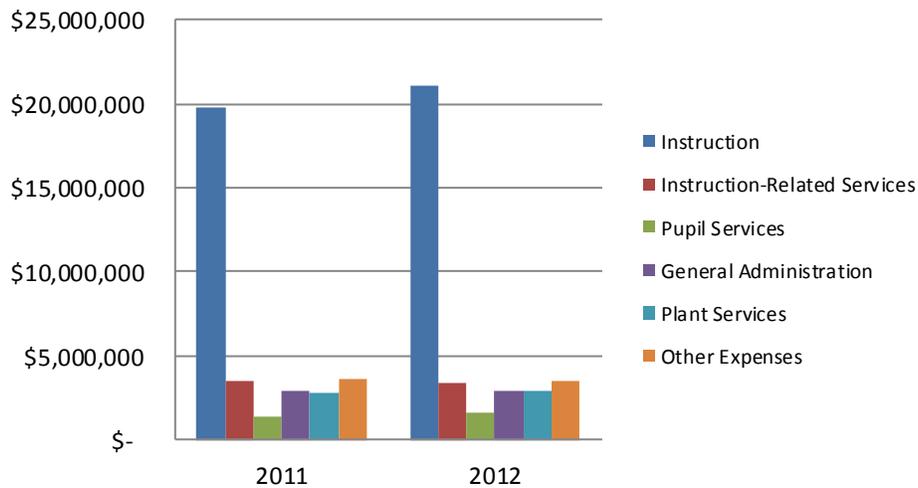
GOVERNMENTAL ACTIVITIES (CONTINUED)

Summary of Expenses For Governmental Functions

<u>Expenses</u>	<u>FYE 2011 Amount</u>	<u>Percent of Total</u>	<u>FYE 2012 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 19,844,136	58.49%	\$ 21,103,723	59.65%
Instruction-Related Services	3,489,012	10.28%	3,363,064	9.50%
Pupil Services	1,397,302	4.12%	1,635,454	4.62%
General Administration	2,868,715	8.46%	2,849,238	8.05%
Plant Services	2,754,279	8.12%	2,894,634	8.18%
Other Expenses	3,572,194	10.53%	3,536,044	9.99%
Total Expenses	\$ 33,925,638	100.00%	\$ 35,382,157	100.00%

Table includes financial data of the combined governmental funds.

Comparative Expenses



**MILL VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

	Governmental Activities	
	2011	2012
	<u>2011</u>	<u>2012</u>
Land	\$ 1,673,666	\$ 1,673,666
Sites and Improvements *	5,460,285	5,460,285
Buildings and Improvements *	42,741,024	42,741,024
Furniture and Equipment	282,917	282,917
Work in Progress	5,240,816	17,042,950
Subtotals *	55,398,708	67,200,842
Less: Accumulated Depreciation *	(33,468,588)	(34,382,469)
Capital Assets, net *	<u>\$ 21,930,120</u>	<u>\$ 32,818,373</u>

** The prior year balances have been adjusted to reflect the restatement in Note 19.*

Capital assets, net of depreciation, increased \$10,888,253 due to the current year acquisition and/or construction of \$11,802,134 of new capital assets, and the current year recognition of \$913,881 of depreciation expense.

	Governmental Activities	
	2011	2012
	<u>2011</u>	<u>2012</u>
Compensated Absences	\$ 77,272	\$ 84,473
General Obligation Bonds: Current Interest	29,195,000	59,800,000
General Obligation Bonds: Capital Appreciation	23,804,066	22,602,567
Capital Lease	0	162,080
Other Post Employment Benefits	824,177	1,368,353
Totals	<u>\$ 53,900,515</u>	<u>\$ 84,017,473</u>

Total long-term liabilities increased \$30,116,958, due primarily to the issuance of \$30,605,000 in general obligation bonds during fiscal year 2011-12.

**MILL VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONCLUDED)

GOVERNMENTAL ACTIVITIES (CONCLUDED)

The general obligation bonds are financed by the local taxpayers and represent 98.1% of the District's total long-term liabilities. The District has satisfied all of its debt service requirements for its bonded debt and continues to maintain an excellent credit rating on all of its debt issues. The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

The fund balance of the General Fund decreased \$158,872 during fiscal year 2011-12, while the combined fund balances of other District governmental funds increased \$19,726,833, due primarily to \$18,503,964 bond proceeds received and unspent in the current fiscal year in the Building Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim to reflect the most current financial information available at that point in time.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The District is expected to maintain its basic aid status during fiscal year 2012-13. Accordingly, the District's revenue limit funding is expected to remain generally stable. However, due to the recent growth in student enrollment, expenditures are projected to increase.
- On November 4, 2008, the qualified voters of the District voted to approve a measure to authorize the amendment of the existing special tax for the purpose of providing specified educational programs, increasing the amount of the tax and extending the length of the tax for a period of four additional years. Under the amended special tax, the parcel tax shall increase to \$663.38 beginning July 1, 2009, and the 5% annual rate adjustments will continue beginning July 1, 2010, until the new expiration date of June 30, 2018.
- On November 6, 2012 the qualified voters of the District voted to approve a measure to authorize a special tax for the purpose of providing specified educational programs for a period of eight years. The special tax of \$196.00 per year per parcel commences July 1, 2013, and adjusts annually commensurate with the annual percentage increase to the San Francisco-Oakland-San Jose Price Index (CPI), not to exceed 3% per year and expires June 30, 2021.

**MILL VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE (CONCLUDED)

- The State's economic condition is another factor affecting the District's future. Since the financial well being of the District is affected by the economic condition of the state, management will need to plan carefully and prudently to provide the resources to meet student needs over the next several years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

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 regarding this report or need additional financial information, contact the District Office, Mill Valley School District, 411 Sycamore Avenue, Mill Valley, California 94941.

**MILL VALLEY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 54,869,412
Receivables (Note 4)	1,471,606
Prepaid Expenses (Note 1H)	118,902
Capital Assets: (Note 6)	
Land	1,673,666
Sites and Improvements	5,460,285
Buildings and Improvements	42,741,024
Furniture and Equipment	282,917
Work-in-Progress	17,042,950
Less: Accumulated Depreciation	(34,382,469)
Total Assets	89,278,293
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	3,257,840
Deferred Revenue (Note 1H)	505,241
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences (Note 1H)	84,473
General Obligation Bonds (Note 7)	
Capital Appreciation	2,595,000
Capital Lease (Note 8)	80,067
Other Post Employment Benefits (Note 9)	105,000
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 7)	
Current Interest	59,800,000
Capital Appreciation	20,007,567
Capital Lease (Note 8)	82,013
Other Post Employment Benefits (Note 9)	1,263,353
Total Liabilities	87,780,554
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	4,919,725
Restricted:	
For Capital Projects	116,148
For Debt Service	(10,079,682)
For Educational Programs	638,522
For Other Purposes	21,507
Unrestricted	5,881,519
Total Net Assets	\$ 1,497,739

**MILL VALLEY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<u>Governmental Activities</u>					
Instruction	\$ 21,103,723		\$ 4,271,632		\$ (16,832,091)
Instruction-Related Services:					
Supervision of Instruction	300,359		125,396		(174,963)
Instructional Library and Technology	965,400		264,011		(701,389)
School Site Administration	2,097,305		78,782		(2,018,523)
Pupil Services:					
Home-to-School Transportation	5,971		2,444		(3,527)
Food Services	625,657	\$ 517,055	79,957		(28,645)
Other Pupil Services	1,003,826		290,104		(713,722)
General Administration:					
Data Processing Services	385,019		1,263		(383,756)
Other General Administration	2,464,219		117,768		(2,346,451)
Plant Services	2,894,634	42	1,519		(2,893,073)
Interest on Long-Term Debt	2,782,153				(2,782,153)
Other Outgo	753,891		222,476		(531,415)
Total Governmental Activities	<u>\$ 35,382,157</u>	<u>\$ 517,097</u>	<u>\$ 5,455,352</u>	<u>\$ 0</u>	<u>(29,409,708)</u>
<u>General Revenues</u>					
Taxes Levied for General Purposes					15,397,053
Taxes Levied for Debt Service					3,864,126
Taxes Levied for Specific Purposes					7,109,296
Federal and State Aid - Unrestricted					772,209
Interest and Investment Earnings					71,598
Transfers from Other Agencies					4,526
Miscellaneous					1,900,352
Total General Revenues					<u>29,119,160</u>
Change in Net Assets					(290,548)
Net Assets - July 1, 2011 (As restated - Note 19)					1,788,287
Net Assets - June 30, 2012					<u>\$ 1,497,739</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**MILL VALLEY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Building</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Deposits and Investments (Note 2)	\$ 6,975,705	\$ 4,355,535	\$ 42,014,454	\$ 1,523,718	\$ 54,869,412
Receivables (Note 4)	1,453,006			18,600	1,471,606
Total Assets	<u>\$ 8,428,711</u>	<u>\$ 4,355,535</u>	<u>\$ 42,014,454</u>	<u>\$ 1,542,318</u>	<u>\$ 56,341,018</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts Payable	\$ 1,658,289		\$ 805,659	\$ 25,206	\$ 2,489,154
Deferred Revenue (Note 1H)	14,932				14,932
Total Liabilities	<u>1,673,221</u>		<u>805,659</u>	<u>25,206</u>	<u>2,504,086</u>
Fund Balances: (Note 11)					
Nonspendable	2,500				2,500
Restricted	638,522	\$ 4,355,535	41,208,795	135,155	46,338,007
Assigned	1,746,858			1,381,957	3,128,815
Unassigned	4,367,610				4,367,610
Total Fund Balances	<u>6,755,490</u>	<u>4,355,535</u>	<u>41,208,795</u>	<u>1,517,112</u>	<u>53,836,932</u>
Total Liabilities and Fund Balances	<u>\$ 8,428,711</u>	<u>\$ 4,355,535</u>	<u>\$ 42,014,454</u>	<u>\$ 1,542,318</u>	<u>\$ 56,341,018</u>

**MILL VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balances - Governmental Funds \$ 53,836,932

Amounts reported for governmental activities in the statement of net assets are different from amounts reported in governmental funds due to the following:

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

Capital Assets	\$ 67,200,842	
Accumulated Depreciation	(34,382,469)	
Net		32,818,373

Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs, reported as prepaid expenses on the statement of net assets are: 118,902

Unamortized premiums: In governmental funds, bond premiums are recognized as revenues in the period they are received. In the government-wide statements, premiums are amortized over the life of the debt. Unamortized premiums, reported as deferred revenue on the statement of net assets are: (490,309)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statements of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owed at the end of the period was: (768,686)

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities reported at the end of the period are:

Compensated Absences	84,473	
General Obligation Bonds:		
Current Interest	59,800,000	
Capital Appreciation	22,602,567	
Capital Lease	162,080	
Other Post Employment Benefits	1,368,353	
Total		(84,017,473)

Total Net Assets - Governmental Activities \$ 1,497,739

**MILL VALLEY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Building</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>					
Revenue Limit Sources:					
State Apportionment	\$ (57,253)				\$ (57,253)
Local Taxes	15,397,053				15,397,053
Total Revenue Limit Sources	15,339,800				15,339,800
Federal Revenue	860,329			\$ 76,054	936,383
State Revenue	889,601	\$ 22,737		85,471	997,809
Local Revenue	12,790,185	3,847,246	\$ 200,889	628,272	17,466,592
Total Revenues	29,879,915	3,869,983	200,889	789,797	34,740,584
<u>Expenditures</u>					
Instruction	19,953,938				19,953,938
Supervision of Instruction	291,740				291,740
Instructional Library and Technology	937,696				937,696
School Site Administration	2,037,119				2,037,119
Home-To-School Transportation	5,800				5,800
Food Services				607,703	607,703
Other Pupil Services	975,019				975,019
Data Processing Services	373,970				373,970
Other General Administration	2,376,573			9,730	2,386,303
Plant Services	2,495,727			17,084	2,512,811
Facilities Acquisition and Construction			11,981,036	119,854	12,100,890
Debt Service:					
Principal Retirement	83,513	2,485,000			2,568,513
Interest and Issuance Costs	492	1,239,763	120,000		1,360,255
Other Outgo	752,793				752,793
Total Expenditures	30,284,380	3,724,763	12,101,036	754,371	46,864,550
Excess of Revenues Over (Under) Expenditures	(404,465)	145,220	(11,900,147)	35,426	(12,123,966)
<u>Other Financing Sources (Uses)</u>					
Operating Transfers In				50,000	50,000
Operating Transfers Out				(50,000)	(50,000)
Other Sources	245,593	841,334	30,605,000		31,691,927
Total Other Financing Sources (Uses)	245,593	841,334	30,605,000	0	31,691,927
Net Change in Fund Balances	(158,872)	986,554	18,704,853	35,426	19,567,961
Fund Balances - July 1, 2011	6,914,362	3,368,981	22,503,942	1,481,686	34,268,971
Fund Balances - June 30, 2012	\$ 6,755,490	\$ 4,355,535	\$ 41,208,795	\$ 1,517,112	\$ 53,836,932

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MILL VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net Change in Fund Balances - Governmental Funds \$ 19,567,961

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds due to the following:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Capital Outlays	\$ 11,802,134	
Depreciation Expense	(913,881)	
Net		10,888,253

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were: (30,850,593)

Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and the issue costs amortized in the current period are:

Issue costs incurred during the period	120,000	
Issue costs amortized during the period	(1,098)	
Net		118,902

Amortization of debt issue premium: In governmental funds, if debt is issued at a premium, the premium is recognized as Other Financing Sources in the period it is received. In the government-wide statements, premiums are amortized as interest over the life of the debt. The difference between premiums recognized in the current period and the premiums amortized in the current period are:

Bond premiums recognized during the period	(494,835)	
Bond premiums amortized during the period	4,526	
Net		(490,309)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statements of activities, compensated absences are measured by the amounts earned during the fiscal year. The difference between amounts paid and amounts earned was: (7,201)

Post employment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs accrued and employer contributions was: (544,176)

Debt service: 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. Expenditures for repayment of the principal portion of long-term debt were:

General Obligation Bonds - Capital Appreciation	2,485,000	
Capital Lease	83,513	
		2,568,513

Accreted interest: In governmental funds, accreted interest on capital appreciation bonds is recognized as an expenditure in the period that it becomes due. In the government-wide statements, accreted interest is recognized as an expense as the capital appreciation bonds accrete in value. The amount of accreted interest recognized in the current period was: (1,283,501)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, interest expense 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: (258,397)

Change in Net Assets of Governmental Activities **\$ (290,548)**

MILL VALLEY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2012

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 11,619	\$ 11,619
<u>Liabilities</u>		
Due to Student Groups	11,619	11,619
<u>Net Assets</u>		
Total Net Assets	\$ 0	\$ 0

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Mill Valley School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a five member Board of Education elected by registered voters of the District, which comprises an area in Marin County. The District was established in 1891 and serves students in kindergarten through grade eight.

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

The governmental financial reporting entity consists of the following:

- The primary government
- Organizations for which the primary government is financially accountable
- Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete

The nucleus of a financial reporting entity is usually a primary government. Governmental Accounting Standards Board (GASB) Statement No. 14 (GASB 14), *The Financial Reporting Entity*, defines a *primary government* as any state government, general-purpose local government, or special-purpose government that meets all of the following criteria:

- It has a separately elected governing body
- It is legally separate
- It is fiscally independent of other state and local governments

The primary government consists of all funds that make up the legal entity. The primary government also consists of funds for which it has a fiduciary responsibility, even though those funds may represent organizations that do not meet the definition for inclusion in the financial reporting entity.

Component units include legally separate organizations (whether governmental, not-for-profit, or for-profit organizations) for which elected officials of the primary government are financially accountable. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has (a) a separately elected governing board, (b) a governing board appointed by a higher level of government, or (c) a jointly appointed board. The primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization.

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

An organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways and indicates that an organization has a financial benefit or burden relationship with a primary government if any one of the following conditions exist:

- The primary government is legally entitled to or can otherwise access the organization's resources.
- The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
- The primary government is obligated in some manner for the debt of the organization.

In addition, GASB 14 also requires certain organizations to be included as component units if the nature and significance of their relationship with the primary governments are such that excluding them would render the financial reporting entity's financial statements misleading or incomplete.

Based on the GASB 14 criteria and definitions, the District is the primary government and there are no material potential component units which should be included in the Financial Reporting Entity in these financial statements.

GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, provides further guidance, stating that a legally separate organization should be reported as a component unit if all of the following criteria are met:

- The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the primary government or its component units.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization.
- The economic resources received or held by the organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The District has determined that the Mill Valley Schools Community Foundation, Kiddo!, (the Foundation), a non-profit, public benefit corporation, meets the criteria set forth in GASB 39. However, since the Foundation does not issue audited financial statements, the financial statements of the District include only the financial data of the primary government, which consists of all funds that comprise the District's legal entity, and all funds for which it has a fiduciary responsibility. The financial statements do not include financial data of the Foundation, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the primary government. As a result, these financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Financial Reporting Entity, or the respective changes in its financial position.

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Concluded)

The District has determined that the cost of including audited financial data, of its legally separate component unit, in the financial statements of the District, far exceeds the benefits to be received by including such data. In addition, since the District's various oversight agencies do not require such data to be included, the District has elected to omit such data from its financial statements.

B. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the District and its component units. The effect of interfund activity, within the governmental and business type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

Fund Financial Statements:

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

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

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.

Fiduciary funds are reported using the economic resources measurement focus.

C. 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. 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. Under 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 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state apportionments, the California Department of Education has defined available as collectible within one year.

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 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.

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Deferred Revenue:

Deferred 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 deferred revenue.

On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

On an 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.

D. Fund Accounting

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

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Debt Service Funds - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

Capital Projects Funds - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The District's accounts are organized into major, non-major, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District.

The *Bond Interest and Redemption Fund* is used to account for District taxes received and expended to pay bond interest and redeem bond principal and related costs.

The *Building Fund* is used to account for the proceeds generated from the sale of general obligation bonds. Expenditures are made from this fund for the purpose of financing the construction, renovation and repair of certain District facilities.

Non-major Governmental Funds:

The *Deferred Maintenance Fund* is used for the purpose of major repairs or replacement of District property.

The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's cafeteria program.

The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

The *County School Facilities Fund* is used to account for state apportionments (Education Code Sections 17009.5 and 17070.10-17076.10).

The *Capital Projects - Special Reserve Fund* is used to accumulate funds for major maintenance and capital outlay projects of the District. The proceeds from major dispositions of District property are accounted for in this fund.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains one agency fund for the student body activities at Mill Valley Middle School. The student body fund is used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. 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 Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented for the General Fund as required supplementary information on page 49.

Formal budgetary integration was employed as a management control device during the 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 (See Note 3).

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 at June 30.

H. Assets, Liabilities and Equity

1. Deposits and Investments

The District is authorized to maintain cash in banks and revolving funds that are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC).

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001).

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 the FDIC or are collateralized.

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Concluded)

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations.

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

2. Prepaid Expenses

Prepaid expenses include the costs of issuance associated with the bonds issued since the implementation of GASB Statement No. 34. The costs will be amortized over the life of the bonds.

Prepaid expenses are equally offset by a net assets reserve, which indicates that this amount is not "available for appropriation and expenditure" even though it is a component of net current assets.

3. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market 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 assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Sites and Improvements	14-36
Buildings and Improvements	7-40
Furniture and Equipment	10-20

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. Deferred revenue includes premiums associated with bonds, issued after the implementation of GASB Statement 34, which are amortized over the life of the bond obligation.

5. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements.

Accumulated 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.

6. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as long-term liabilities in the Statement of Net Assets. Premiums and discounts, as well as issuance costs, related to long-term debt issued after the implementation of GASB Statement 34, are deferred and amortized over the life of the debt. Long-term debt is reported net of applicable premiums or discounts. In the fund financial statements, governmental funds recognize premiums and discounts as well as bond issuance costs, during the period the debt is issued. The face amount of the debt issued, premiums, or discounts are reported as other financing sources or uses.

7. Fund Balances

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The allowable classifications used in the governmental fund financial statements are as follows:

Nonspendable Fund Balance includes amounts not in spendable form, such as inventory, or amounts required to be maintained intact legally or contractually (principal endowment) (e.g. pre-paid items, permanent scholarships).

Restricted Fund Balance includes funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation (e.g. debt service, capital projects, state and federal grant funds).

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

7. Fund Balances (Concluded)

Committed Fund Balance consists of funds that are set aside for a specific purpose by the District's highest level of decision making authority (Governing Board). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

Assigned Fund Balance consists of funds that are set aside with the intent to be used for a specific purpose by the District's highest level of decision making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance. The Governing Board delegated authority to the Superintendent and/or their designee to identify intended uses of assigned funds.

Unassigned Fund Balance consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls. The District established a minimum fund balance policy which requires a reserve for economic uncertainties, consisting of unassigned amounts equal to three (3) percent of general fund operating expenditures and other financing uses. In addition, in order to build a fiscally prudent reserve, the Governing Board has designated a target of two times the current year differential between community funded property taxes and the state's revenue limit guarantee. At a minimum, the District reserve fund shall be at least the current year differential between community funded property taxes and the state's revenue limit guarantee; or one month's average operating expenditures, whichever is greater.

The District considers restricted fund balances to have been spent first when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

8. Revenue Limit/Property Tax

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

The County of Marin 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 as 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.

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

H. Assets, Liabilities and Equity (Concluded)

8. Revenue Limit/Property Tax (Concluded)

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 alternative 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 year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District. The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the applicable attendance period ADA to derive the District's total entitlement. The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the State General Fund, and is known as the state apportionment. Since the total computed entitlement is generally less than the allocated property tax revenues, the District continues to be funded under the basic aid provision.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks		\$ 11,619
Cash in Revolving Fund	\$ 2,500	
County Pool Investments	<u>54,866,912</u>	
Total Deposits and Investments	<u>\$ 54,869,412</u>	<u>\$ 11,619</u>

Cash on Hand and in Banks / Cash in Revolving Fund

Cash on hand and in banks consists of all cash held by the District and all cash maintained in commercial bank accounts owned by the District, exclusive of amounts held in revolving funds. Cash in revolving fund consists of all cash maintained in commercial bank accounts that are used as revolving funds.

County Pool Investments

County pool investments consist of District cash held by the Marin County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio in relation to the amortized cost of that portfolio).

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

General Authorization

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedule below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, as the length of the maturity of an investment increases, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury that purchases 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.

Segmented Time Distribution

Information about the sensitivity of the fair value of the District's investment to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 54,866,912	\$ 54,887,907	\$ 43,331,895	\$ 11,535,017

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Credit Risk

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 a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 54,866,912	\$ 54,887,907			\$ 54,866,912

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. However, the District does not hold any investments in any one issuer, at year-end, that represents five percent or more of the total investments held by the District.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, 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 market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies.

California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

Custodial Credit Risk - Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2012, the District does not have any investments that are held by counterparties.

Derivative Investments

The District does not directly invest in any derivative investments. Information relating to the use of derivative investments by the Marin County Treasury was not available.

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in the General Fund were as follows:

	<u>Excess Expenditures</u>
Employee Benefits	\$ 43,816

The District incurred unanticipated expenditures in the expenditure classification above for which the budget was not revised.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012 consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 218,051	\$ 13,534	\$ 231,585
State Government	567,374	687	568,061
Local Governments	57,132	4,379	61,511
Miscellaneous	610,449		610,449
Totals	\$ 1,453,006	\$ 18,600	\$ 1,471,606

NOTE 5 - INTERFUND ACTIVITIES

Interfund transactions are reported as 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. 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.

A. Due From/Due To Other Funds

There were no individual fund interfund receivable and payable balances at June 30, 2012.

B. Interfund Transfers

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

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 5 - INTERFUND ACTIVITIES (CONCLUDED)

B. Interfund Transfers (Concluded)

Interfund transfers for fiscal year 2011-12 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Capital Facilities		\$ 50,000
Capital Projects - Special Reserve	\$ 50,000	<u> </u>
Totals	<u>\$ 50,000</u>	<u>\$ 50,000</u>

Transfer of \$50,000 from the Capital Facilities Fund to the Capital Projects - Special Reserve Fund to repay part of the loan borrowed in previous years.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2012, is shown below:

	<u>Balances</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2012</u>
Land	\$ 1,673,666			\$ 1,673,666
Sites and Improvements *	5,460,285			5,460,285
Buildings and Improvements *	42,741,024			42,741,024
Furniture and Equipment	282,917			282,917
Work-in-Progress	5,240,816	\$ 11,802,134		17,042,950
Totals at Historical Cost *	<u>55,398,708</u>	<u>11,802,134</u>	<u>\$ 0</u>	<u>67,200,842</u>
Less Accumulated Depreciation for:				
Sites and Improvements *	2,739,500	188,859		2,928,359
Buildings and Improvements *	30,453,135	722,701		31,175,836
Furniture and Equipment	275,953	2,321		278,274
Total Accumulated Depreciation *	<u>33,468,588</u>	<u>913,881</u>	<u>0</u>	<u>34,382,469</u>
Governmental Activities				
Capital Assets, net *	<u>\$ 21,930,120</u>	<u>\$ 10,888,253</u>	<u>\$ 0</u>	<u>\$ 32,818,373</u>

* The prior year balances have been adjusted to reflect the restatement in Note 19.

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 605,609
Supervision of Instruction	8,619
Instructional Library and Technology	27,704
School Site Administration	60,186
Home-To-School Transportation	171
Food Services	17,954
Other Pupil Services	28,807
Data Processing Services	11,049
Other General Administration	70,715
Plant Services	<u>83,067</u>
Total	<u>\$ 913,881</u>

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 7 - GENERAL OBLIGATION BONDS

On the November 3, 2009 general election, the registered voters of the District approved Measure C, which authorized the District to issue up to \$59,800,000 in general obligation bonds to finance the acquisition and construction of school facilities projects in the District. On April 19, 2012, the District issued the second and final series of the of general obligation bonds in the amount of \$30,605,000.

The outstanding general obligation debt of the District as of June 30, 2012 is as follows:

A. Current Interest Bonds

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2011	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2012
3/9/10	3.00-5.00	8/1/34	\$ 29,195,000	\$ 29,195,000			\$ 29,195,000
4/19/12	2.00-4.25	8/1/39	<u>30,605,000</u>	<u>0</u>	<u>\$ 30,605,000</u>		<u>30,605,000</u>
Totals			<u>\$ 59,800,000</u>	<u>\$ 29,195,000</u>	<u>\$ 30,605,000</u>	<u>\$ 0</u>	<u>\$ 59,800,000</u>

The annual requirements to amortize the current interest bonds payable, outstanding as of June 30, 2012, are as follows:

Year Ended June 30	Principal	Interest	Totals
2013	\$ 0	\$ 2,197,730	\$ 2,197,730
2014	0	2,462,700	2,462,700
2015	0	2,462,700	2,462,700
2016	75,000	2,461,950	2,536,950
2017	180,000	2,459,400	2,639,400
2018-2022	2,695,000	12,127,125	14,822,125
2023-2027	6,590,000	11,377,550	17,967,550
2028-2032	12,345,000	9,385,062	21,730,062
2033-2037	20,550,000	5,816,425	26,366,425
2038-2042	17,365,000	1,079,300	18,444,300
Totals	<u>\$ 59,800,000</u>	<u>\$ 51,829,942</u>	<u>\$ 111,629,942</u>

B. Capital Appreciation Bonds

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2011	Accreted Interest Current Year	Redeemed Current Year	Outstanding June 30, 2012
8/2/94	6.20-6.40	8/1/19	\$ 2,889,198	\$ 4,842,753	\$ 280,106	\$ 550,000	\$ 4,572,859
8/1/95	6.30-6.70	8/1/20	2,731,793	4,724,489	283,627	510,000	4,498,116
2/1/96	5.65-5.85	8/1/20	4,680,809	7,644,913	403,676	830,000	7,218,589
7/23/98	4.95-5.30	7/1/23	<u>3,417,300</u>	<u>6,591,911</u>	<u>316,092</u>	<u>595,000</u>	<u>6,313,003</u>
Totals			<u>\$ 13,719,100</u>	<u>\$ 23,804,066</u>	<u>\$ 1,283,501</u>	<u>\$ 2,485,000</u>	<u>\$ 22,602,567</u>

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)

B. Capital Appreciation Bonds (Continued)

The outstanding obligation for the 1994 series A capital appreciation serial and term bonds at June 30, 2012, was as follows:

Year Ended <u>June 30</u>	<u>Rate %</u>	Amount of Original Issue (Principal)	Accreted Interest	<u>Totals</u>
2013	6.25	\$ 193,249	\$ 388,783	\$ 582,032
2014	6.30	190,824	388,917	579,741
2015	6.30	189,472	386,162	575,634
2016	6.40	185,310	387,541	572,851
2017	6.40	184,274	385,377	569,651
2018-2022	6.40	547,647	1,145,303	1,692,950
Totals		<u>\$ 1,490,776</u>	<u>\$ 3,082,083</u>	<u>\$ 4,572,859</u>

The annual requirements to amortize the 1994 series A capital appreciation serial and term bonds at June 30, 2012, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 193,249	\$ 391,751	\$ 585,000
2014	190,824	429,176	620,000
2015	189,472	465,528	655,000
2016	185,310	510,307	695,617
2017	184,274	552,436	736,710
2018-2022	547,647	1,938,801	2,486,448
Totals	<u>\$ 1,490,776</u>	<u>\$ 4,287,999</u>	<u>\$ 5,778,775</u>

The outstanding obligation for the 1994 series B capital appreciation serial bonds at June 30, 2012, was as follows:

Year Ended <u>June 30</u>	<u>Rate %</u>	Amount of Original Issue (Principal)	Accreted Interest	<u>Totals</u>
2013	6.40	\$ 183,334	\$ 348,900	\$ 532,234
2014	6.45	180,212	347,274	527,486
2015	6.50	174,994	341,428	516,422
2016	6.50	172,496	336,562	509,058
2017	6.55	167,921	331,708	499,629
2018-2022	6.60-6.70	631,414	1,281,873	1,913,287
Totals		<u>\$ 1,510,371</u>	<u>\$ 2,987,745</u>	<u>\$ 4,498,116</u>

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)

B. Capital Appreciation Bonds (Continued)

The annual requirements to amortize the 1994 series B capital appreciation serial bonds at June 30, 2012, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 183,334	\$ 351,666	\$ 535,000
2014	180,212	384,788	565,000
2015	174,994	415,006	590,000
2016	172,496	447,504	620,000
2017	167,921	482,079	650,000
2018-2022	631,414	2,318,586	2,950,000
Totals	<u>\$ 1,510,371</u>	<u>\$ 4,399,629</u>	<u>\$ 5,910,000</u>

The outstanding obligation for the 1994 series C capital appreciation serial bonds at June 30, 2012, was as follows:

Year Ended <u>June 30</u>	<u>Rate %</u>	Amount of Original Issue (Principal)	Accreted Interest	<u>Totals</u>
2013	5.70	\$ 342,194	\$ 518,802	\$ 860,996
2014	5.70	336,582	510,300	846,882
2015	5.75	327,596	503,294	830,890
2016	5.75	322,783	495,902	818,685
2017	5.80	312,817	486,925	799,742
2018-2022	5.80-5.85	1,190,372	1,871,022	3,061,394
Totals		<u>\$ 2,832,344</u>	<u>\$ 4,386,245</u>	<u>\$ 7,218,589</u>

The annual requirements to amortize the 1994 series C capital appreciation serial bonds at June 30, 2012, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 342,194	\$ 522,806	\$ 865,000
2014	336,582	563,418	900,000
2015	327,596	607,404	935,000
2016	322,783	652,217	975,000
2017	312,817	697,183	1,010,000
2018-2022	1,190,372	3,284,628	4,475,000
Totals	<u>\$ 2,832,344</u>	<u>\$ 6,327,656</u>	<u>\$ 9,160,000</u>

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)

B. Capital Appreciation Bonds (Concluded)

The outstanding obligation for the 1998 series A capital appreciation serial bonds at June 30, 2012, was as follows:

Year Ended <u>June 30</u>	<u>Rate %</u>	Amount of Original Issue (Principal)	Accreted Interest	<u>Totals</u>
2013	5.00	\$ 305,195	\$ 302,319	\$ 607,514
2014	5.05	295,462	296,691	592,153
2015	5.10	285,594	290,685	576,279
2016	5.10	277,930	282,885	560,815
2017	5.15	269,966	278,498	548,464
2018-2022	5.20-5.25	1,229,370	1,288,130	2,517,500
2023-2027	5.30	439,028	471,250	910,278
Totals		<u>\$ 3,102,545</u>	<u>\$ 3,210,458</u>	<u>\$ 6,313,003</u>

The annual requirements to amortize the 1998 series A capital appreciation serial bonds at June 30, 2012, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 305,195	\$ 304,805	\$ 610,000
2014	295,462	329,538	625,000
2015	285,594	354,406	640,000
2016	277,930	377,070	655,000
2017	269,966	405,034	675,000
2018-2022	1,229,370	2,395,630	3,625,000
2023-2027	439,028	1,140,972	1,580,000
Totals	<u>\$ 3,102,545</u>	<u>\$ 5,307,455</u>	<u>\$ 8,410,000</u>

NOTE 8 - CAPITAL LEASE

The District leases computers valued at \$245,593, under an agreement, which provides for titles to pass upon expiration of the lease term.

Future minimum lease payments under this agreement are as follows:

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - CAPITAL LEASE (CONCLUDED)

Year Ended <u>June 30</u>	<u>Lease Payments</u>
2013	\$ 84,005
2014	84,005
Total payments	168,010
Less amounts representing interest	<u>(5,930)</u>
Present value of net minimum lease payments	<u>\$ 162,080</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for these assets.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

From an accrual accounting perspective, the cost of other post employment benefits (OPEB), like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in future years when the benefits are paid or provided. Governmental Accounting Standards Board Statement No. 45 requires an accrual basis measurement and recognition of OPEB cost over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan.

Plan Descriptions: Employees are eligible for retiree health benefits if they satisfy the following requirements:

Classified - Retirees who are at least age 55, with at least 20 years of employment with the District, of which at least 10 years were full-time service, and employed by the District at the time of retirement.

Certificated - Employees who are between 55 and 62 years old and have at least 20 full-time years of service with the District may elect to retire under the Medical Option II. Employees who were employed by the District before June 30, 2007, and have at least 25 years of District service at retirement are also eligible to receive a District paid medical benefit. In lieu of 20 years, certificated employees who are at least 50 on July 1, 2011 need at least 10 full-time years of service with the District at retirement or are between age 45 and age 49 on July 1, 2011 need at least 15 full-time years of service with the District at retirement to retire under Medical Option II.

The District and retirees share in the cost of benefits as follows:

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Medical Benefits: Classified - The District pays for classified retirees and their dependents, the cost of CalPERS medical premiums up to a fixed dollar cap based on the elected coverage (single \$610.44, 2-party \$1,220.88, and family \$1,527.57) for up to 5 years after retirement or until age 65, whichever comes first. Thereafter, the District will pay the retiree \$1,000 per year toward the cost of medical premiums until age 70. However, for any eligible retiree who elects continuation of CalPERS Health Plan coverage, the District will pay at least the minimum monthly premium amount specified by CalPERS under the "unequal method", and the retiree will pay the remaining premium amount.

Certificated - For certificated retirees who elect Medical Option II upon early retirement, the District pays for retirees and their dependents, the cost of CalPERS medical premiums up to a fixed dollar cap based on the elected coverage (single \$610.44, 2-party \$1,220.88, and family \$1,527.57) until age 65. For certificated employees hired before June 30, 2007 and who retire with at least 25 years of service, but do not elect the Medical Option II, the District pays for retirees and their dependents, the cost of CalPERS medical premiums up to a fixed dollar cap based on the elected coverage for 3 years. If during the 3 year period, the retiree reaches age 65, the District will pay the Medicare Supplement premium plus the Medicare Part B premium, subject to the fixed dollar District cap. After the 3 year period (or age 65 for Medical Option II retirees), retirees may elect continuation of CalPERS Health Plan coverage, in which case the District will pay the minimum monthly premium amount specified by CalPERS under the "unequal method" and the retiree will pay the balance.

Beginning in February 1, 2011, active full time certificated employees will pay \$350 per year for the sole purpose of prefunding the retiree medical benefit. If the employee terminates employment from the District after 5 years of service but prior to retirement, the accumulated contributions (without interest) will be refunded to the employee.

Beginning in July 1, 2011, active full time classified employees will pay \$150 per year for the sole purpose of prefunding the retiree medical benefit. If the employee terminates employment from the District after 5 years of service but prior to retirement, the accumulated contributions (without interest) will be refunded to the employee.

Dental and Vision Benefits - Retirees and their spouses may continue dental and vision coverage upon retirement. The entire cost of the premiums is paid for by retirees. The District paid dental and vision benefits will expire on the same date as the District paid medical benefits expire for these retirees. The District will not pay for dental or vision coverage for any other current or future retirees. There is a group of retirees for whom the District is paying dental coverage and vision coverage.

All contracts with District employees will be renegotiated at various times in the future and, thus, costs and benefits are subject to change. Benefits and contribution requirements (both employee and employer) for the OPEB Plan are established by various labor agreements.

For the District, OPEB benefits are administered by District personnel. No separate financial statements are issued.

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The number of participants as of January 1, 2011, the effective date of the biennial OPEB valuation is as follows:

Active employees	287
Retired employees	<u>41</u>
Total	<u><u>328</u></u>

Funding Policy: The District currently pays for post employment health care benefits on a pay-as-you-go basis. Although the District is studying the establishment of a trust to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation: The following table shows the components of the District's annual OPEB cost for the fiscal year ended June 30, 2012, the amount actually contributed to the plan, and changes in the District's net OPEB obligation that resulted in a net OPEB obligation of \$1,368,353 for the year ended June 30, 2012:

Level Percentage of Projected Payroll Amortization

Calculation of ARC under Projected Unit Credit Cost Method

Normal cost with interest to end of year	\$ 385,334
Amortization of UAAL with interest to end of year	<u>283,547</u>
Annual required contribution (ARC)	668,881
Interest on net OPEB obligation	37,088
Adjustment to ARC	<u>(53,288)</u>
Annual OPEB cost (expense)	652,681
Contributions for the fiscal year	<u>(108,505)</u>
Increase in net OPEB obligation	544,176
Net OPEB obligation - June 30, 2011	<u>824,177</u>
Net OPEB obligation - June 30, 2012	<u><u>\$ 1,368,353</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the last three fiscal years are presented in the following table:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 652,681	16.6%	\$ 1,368,353
June 30, 2011	286,923	40.0%	824,177
June 30, 2010	444,201	23.7%	651,944

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)

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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include mortality, turnover, disability, retirement and other factors that affect the number of people eligible to receive future retiree benefits. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011, actuarial valuation, the liabilities were computed using the projected unit credit cost method and the District's unfunded actuarial accrued liability (UAAL) is being amortized using the level percentage of projected payroll method over 20 years. The actuarial assumptions utilized a 4.5% discount rate, the expected long-term rate of return on District assets. The compensation increase rate of 3.25% was provided by the District and based on the historical per annum increase. The valuation assumes an initial healthcare cost trend rate of 8.5% which grades down to an ultimate rate of 5% by 2079 and beyond.

NOTE 10 - LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2012, is shown below:

	Balances July 1, 2011	Additions	Deductions	Balances June 30, 2012	Due within One Year
Compensated Absences	\$ 77,272	\$ 84,473	\$ 77,272	\$ 84,473	\$ 84,473
General Obligation Bonds					
Current Interest	29,195,000	30,605,000		59,800,000	
Capital Appreciation	23,804,066	1,283,501	2,485,000	22,602,567	2,595,000
Capital Lease	0	245,593	83,513	162,080	80,067
Other Post Employment Benefits	824,177	652,681	108,505	1,368,353	105,000
Totals	\$ 53,900,515	\$ 32,871,248	\$ 2,754,290	\$ 84,017,473	\$ 2,864,540

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - FUND BALANCES

The District's fund balances at June 30, 2012 consisted of the following:

	General Fund	Bond Interest Redemption Fund	Building Fund	Non-Major Governmental Funds	Totals
Nonspendable	\$ 2,500				\$ 2,500
Restricted	638,522	\$ 4,355,535	\$ 41,208,795	\$ 135,155	46,338,007
Assigned	1,746,858			1,381,957	3,128,815
Unassigned:					
Economic Uncertainties	4,367,610				4,367,610
Totals	<u>\$ 6,755,490</u>	<u>\$ 4,355,535</u>	<u>\$ 41,208,795</u>	<u>\$ 1,517,112</u>	<u>\$ 53,836,932</u>

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (CalSTRS) and classified employees are members of the Public Employees' Retirement System (CalPERS).

A. State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from the CalSTRS Executive Office, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-12 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$1,161,346, \$1,134,597, and \$1,079,200, respectively, and equal 100% of the required contributions for each year.

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

B. California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-12 was 10.923%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$495,886, \$462,597, and \$404,461, respectively, and equal 100% of the required contributions for each year.

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and participating employees vest immediately. The District contributes 6.2% of an employee's gross earnings. In addition, each employee was required to contribute 4.2% of his or her gross earnings.

NOTE 13 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (CalSTRS) for K-12 education. These payments consist of state general fund contributions of \$635,093 to CalSTRS (4.855% of salaries subject to CalSTRS).

NOTE 14 - OPERATING LEASES

A. Facilities

The District leases certain excess facilities to others. The rental revenue from these leases for the year ended June 30, 2012 was \$996,516. A majority of these leases are long-term leases.

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 14 - OPERATING LEASES (CONCLUDED)

B. Portables

The District has entered into various operating leases for portables with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration dates.

NOTE 15 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011-12, the District participated in one joint powers authority (JPA) for purposes of pooling for risk. There were no significant reductions in coverage during the year.

NOTE 16 - JOINT VENTURES

The District participates in two joint ventures under joint powers agreements with Marin School Insurance Authority (MSIA) for workers' compensation and property and liability insurance, and Marin Pupils Transportation Agency (MPTA) for pupil transportation services for special education children. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and/or provide coverage or services for its members. The JPAs are governed by a board consisting of a representative from each member district. Each board controls the operations of their JPAs, 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 their participation in the JPAs.

The JPAs are audited on an annual basis. Audited financial statements can be obtained by contacting each JPA's management.

NOTE 17 - ECONOMIC DEPENDENCY

During fiscal year 2011-12, the District received \$7,107,186 of parcel tax revenue that is subject to voter approval, and \$1,953,237 from the Mill Valley Schools Community, Kiddo!, that are subject to voluntary public contributions. The parcel tax is used to support various programs in the District.

NOTE 18 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

The District has received other 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.

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 18 - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

B. Litigation

The District is subject to various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

C. Long-Term Interfund Loan

On June 17, 1996, the Mill Valley School District Board of Trustee approved and adopted a Board resolution to loan funds from the Capital Projects - Special Reserve Fund to the Capital Facilities Fund as bridge financing for the Edna Maguire School site expansion. The resolution authorized the District to expend \$2,047,870 from the Capital Projects - Special Reserve Fund to construct four buildings at the Edna Maguire School site.

The resolution also provided that beginning in the 1996-97 school year, the District would begin repaying the expended funds from the Capital Facilities Fund, with interest computed monthly at the prime rate. As of June 30, 2012, the outstanding balance on this loan is \$1,454,310.

D. Construction Commitments

As of June 30, 2012, the District has the following commitments with respect to unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Old Mill Elementary School Modernization	\$ 20,000	May-12
Tam Valley Elementary School Modernization	7,860	Sept-12
Tam Valley Elementary School Modernization	261,664	Dec-12
Edna Maguire Elementary School Modernization	29,844,897	Dec-13
Mill Valley Middle School - ADA	22,650	Aug-12
Mill Valley Middle School - Portables	322,059	Dec-12
Strawberry Point Modernization	1,538,858	Dec-12
Park Elementary School Modernization	<u>2,780,439</u>	Dec-12
Total	<u>\$ 34,798,427</u>	

MILL VALLEY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 19 - RESTATEMENT OF NET ASSETS

The July 1, 2011 net assets balance on the Statement of Activities has been restated for the following:

The beginning capital assets and accumulated depreciation balances have been adjusted to reflect the valuations included in the District's most recent capital assets valuation report, which was prepared by American Appraisal Associates.

The net effect of this restatement on the current year financial statements is as follows:

	Statement of Activities
Net Assets - July 1, 2011 (as originally stated)	\$ 10,480,003
Sites and Improvements - Cost	115,900
Sites and Improvements - Accumulated Depreciation	813,655
Buildings and Improvements - Cost	1,957,926
Buildings and Improvements - Accumulated Depreciation	(11,381,468)
Furniture and Equipment - Cost	(188,116)
Furniture and Equipment - Accumulated Depreciation	(9,613)
Net Restatement	(8,691,716)
Net Assets - July 1, 2011 (as restated)	\$ 1,788,287

SUPPLEMENTARY INFORMATION SECTION

MILL VALLEY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Revenue Limit Sources:				
State Apportionment	\$ (77,817)	\$ (77,817)	\$ (57,253)	\$ 20,564
Local Sources	15,227,399	15,420,528	15,397,053	(23,475)
Total Revenue Limit Sources	15,149,582	15,342,711	15,339,800	(2,911)
Federal Revenue	563,255	891,856	860,329	(31,527)
Other State Revenue	857,262	885,333	889,601	4,268
Other Local Revenue	11,457,160	12,700,190	12,790,185	89,995
Total Revenues	28,027,259	29,820,090	29,879,915	59,825
<u>Expenditures</u>				
Certificated Salaries	14,525,372	14,599,197	14,444,595	154,602
Classified Salaries	4,375,423	4,618,792	4,547,906	70,886
Employee Benefits	6,013,392	6,204,392	6,248,208	(43,816)
Books and Supplies	739,626	2,335,411	1,513,353	822,058
Services and Other				
Operating Expenditures	2,492,538	2,815,718	2,693,520	122,198
Debt Service:				
Principal Retirement	83,513	83,513	83,513	
Interest and Fiscal Charges	492	492	492	
Other Expenditures	671,560	767,087	752,793	14,294
Total Expenditures	28,901,916	31,424,602	30,284,380	1,140,222
Excess of Revenues (Under) Expenditures	(874,657)	(1,604,512)	(404,465)	1,200,047
<u>Other Financing Sources (Uses)</u>				
Operating Transfers Out	(20,000)	(2,500)		2,500
Other Sources	245,593	245,593	245,593	
Total Other Financing Sources (Uses)	225,593	243,093	245,593	2,500
Net Change in Fund Balances	(649,064)	(1,361,419)	(158,872)	\$ 1,202,547
Fund Balances - July 1, 2011	6,914,362	6,914,362	6,914,362	
Fund Balances - June 30, 2012	\$ 6,265,298	\$ 5,552,943	\$ 6,755,490	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**MILL VALLEY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Deferred Maintenance	Cafeteria
<u>Assets</u>		
Deposits and Investments	\$ 548,888	\$ 17,314
Receivables		18,600
Total Assets	\$ 548,888	\$ 35,914
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts Payable		\$ 16,907
Total Liabilities		16,907
Fund Balances:		
Restricted		19,007
Assigned	\$ 548,888	
Total Fund Balances	548,888	19,007
Total Liabilities and Fund Balances	\$ 548,888	\$ 35,914

Capital Facilities	County School Facilities	Capital Projects - Special Reserve	Total Non-Major Governmental Funds
\$ 68,593	\$ 50,600	\$ 838,323	\$ 1,523,718
			18,600
<u>\$ 68,593</u>	<u>\$ 50,600</u>	<u>\$ 838,323</u>	<u>\$ 1,542,318</u>
\$ 3,045		\$ 5,254	\$ 25,206
<u>3,045</u>		<u>5,254</u>	<u>25,206</u>
65,548	\$ 50,600		135,155
		833,069	1,381,957
<u>65,548</u>	<u>50,600</u>	<u>833,069</u>	<u>1,517,112</u>
<u>\$ 68,593</u>	<u>\$ 50,600</u>	<u>\$ 838,323</u>	<u>\$ 1,542,318</u>

**MILL VALLEY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Deferred Maintenance	Cafeteria
<u>Revenues</u>		
Federal Revenue		\$ 76,054
State Revenue	\$ 81,564	3,907
Local Revenue	1,095	517,145
Total Revenues	82,659	597,106
<u>Expenditures</u>		
Food Services		607,703
Other General Administration		
Plant Services	16,983	101
Facilities Acquisition and Construction		
Total Expenditures	16,983	607,804
Excess of Revenues Over (Under) Expenditures	65,676	(10,698)
<u>Other Financing Sources (Uses)</u>		
Operating Transfers In		
Operating Transfers Out		
Total Other Financing Sources (Uses)	0	0
Net Change in Fund Balances	65,676	(10,698)
Fund Balances - July 1, 2011	483,212	29,705
Fund Balances - June 30, 2012	\$ 548,888	\$ 19,007

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Capital Facilities</u>	<u>County School Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
			\$ 76,054
			85,471
\$ 107,902	\$ 115	\$ 2,015	628,272
<u>107,902</u>	<u>115</u>	<u>2,015</u>	<u>789,797</u>
			607,703
9,730			9,730
14,767		105,087	17,084
<u>24,497</u>	<u>0</u>	<u>105,087</u>	<u>119,854</u>
83,405	115	(103,072)	35,426
(50,000)		50,000	50,000
<u>(50,000)</u>	<u>0</u>	<u>50,000</u>	<u>(50,000)</u>
33,405	115	(53,072)	35,426
<u>32,143</u>	<u>50,485</u>	<u>886,141</u>	<u>1,481,686</u>
<u>\$ 65,548</u>	<u>\$ 50,600</u>	<u>\$ 833,069</u>	<u>\$ 1,517,112</u>

MILL VALLEY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
1/1/11	\$ 0	\$ 2,159,158	\$ 2,159,158	0%	\$ 17,828,380	12.1%
1/1/09	\$ 0	\$ 2,964,079	\$ 2,964,079	0%	\$ 16,290,824	18.2%

SEE NOTES TO SUPPLEMENTARY INFORMATION

**MILL VALLEY SCHOOL DISTRICT
ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

ORGANIZATION

The Mill Valley School District was established on May 1, 1891, and it comprises of an area of approximately 64 square miles located in Marin County. There were no changes in the boundaries of the District during the current year. The District is currently operating five elementary schools and one intermediate school.

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Robin Moses	President	November 2013
Leslie Wachtel	Vice-President / Clerk	November 2015
Raoul Wertz	Member	November 2013
Steve Sell	Member	November 2013
Bob Jacobs	Member	November 2015

ADMINISTRATION

Paul Johnson
Superintendent

Michele Rollins, Ed. D.
Assistant Superintendent/
Business Services

MILL VALLEY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Second Period Report</u>		<u>Annual Report</u>
	<u>District Reported</u>	<u>Audited</u>	<u>District Reported</u>
<u>Elementary</u>			
Kindergarten	342.40	345.01	346.24
First through Third	991.00	1,006.78	1,009.04
Fourth through Sixth	948.70	966.19	965.95
Seventh and Eighth	501.70	506.17	503.18
Home and Hospital	0.14	0.18	0.61
Special Education - SDC	36.50	36.04	36.16
Special Education - Nonpublic	3.48	3.88	4.37
Extended Year Special Education - SDC	2.85	2.85	2.85
Extended Year Program - Nonpublic	0.31	0.31	0.31
Totals	<u>2,827.08</u>	<u>2,867.41</u>	<u>2,868.71</u>

MILL VALLEY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>Adjusted 1982-83 Actual Minutes</u>	<u>1986-87 Minutes Required</u>	<u>Adjusted 1986-87 Minutes Required</u>	<u>2011-12 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,500	29,400	36,000	33,600	42,545	180	N/A	In Compliance
Grade 1	46,110	43,036	50,400	47,040	52,410	180	N/A	In Compliance
Grade 2	46,110	43,036	50,400	47,040	52,410	180	N/A	In Compliance
Grade 3	46,110	43,036	50,400	47,040	52,410	180	N/A	In Compliance
Grade 4	46,110	43,036	54,000	50,400	54,205	180	N/A	In Compliance
Grade 5	46,110	43,036	54,000	50,400	54,205	180	N/A	In Compliance
Grade 6	46,110	43,036	54,000	50,400	56,688	180	N/A	In Compliance
Grade 7	54,000	50,400	54,000	50,400	56,688	180	N/A	In Compliance
Grade 8	54,000	50,400	54,000	50,400	56,688	180	N/A	In Compliance

SEE NOTES TO SUPPLEMENTARY INFORMATION

MILL VALLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
U.S. Department of Agriculture: Passed through California Department of Education (CDE): National School Lunch	10.555	13524	\$ 76,054
U.S. Department of Education: Passed through CDE			
NCLB: Title I Basic Grants Low-Income & Neglected	84.010	14329	72,333
NCLB: Title II - Enhancing Education Through Technology	84.318	14334	269
ARRA: Title II Enhancing Education Through Technology	84.386	15019	994
NCLB: Title II - Improving Teacher Quality	84.367	14341	46,833
NCLB: Title III - Limited English Proficient	84.365	14346	6,700
NCLB: Title III - Immigrant Education Program	84.365	15146	6,447
ARRA State Fiscal Stabilization Fund	84.394	25008	9,722
Education Jobs Fund	84.410	25152	341,401
Passed through Marin County SELPA: <i>Special Education Cluster:</i> IDEA Part B Basic Local Assistance	84.027	13379	<u>385,352</u>
Total			<u>\$ 946,105</u>

**MILL VALLEY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General Fund	Special Reserve For Post Employment Benefits Fund
June 30, 2012 Annual Financial and Budget Report Fund Balances	\$ 5,154,376	\$ 1,601,114
Reclassification Increasing (Decreasing) Fund Balances:		
Overstatement of Fund Balance		(1,601,114)
Understatement of Fund Balance	1,601,114	
June 30, 2012 Audited Financial Statements Fund Balances	<u>\$ 6,755,490</u>	<u>\$ 0</u>

The reclassification of fund balances above was required as a result of the definition of special revenue funds prescribed by GASB 54.

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2012.

MILL VALLEY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	GENERAL FUND			
	(Budget) * 2012-13	2011-12	2010-11	2009-10
Revenues and Other Financial Sources	\$ 29,611,470	\$ 30,125,508	\$ 29,594,029	\$ 29,060,023
Expenditures	30,236,560	30,284,380	28,800,862	27,764,184
Other Uses and Transfers Out	2,500	0	150,000	433,673
Total Outgo	30,239,060	30,284,380	28,950,862	28,197,857
Change in Fund Balance	(627,590)	(158,872)	643,167	862,166
Ending Fund Balance	\$ 6,127,900	\$ 6,755,490	\$ 6,914,362	\$ 6,271,195
Available Reserves	\$ 3,828,742	\$ 4,367,610	\$ 4,521,988	\$ 4,053,165
Reserve for Economic Uncertainties **	\$ 3,828,742	\$ 4,367,610	\$ 4,521,988	\$ 4,053,165
Available Reserves as a Percentage of Total Outgo	12.7%	14.4%	15.6%	14.4%
Average Daily Attendance at P-2	3,005	2,867	2,711	2,611
Total Long-Term Liabilities	\$ 81,152,933	\$ 84,017,473	\$ 53,900,515	\$ 54,748,439

* Amounts reported for the 2012-13 budget are presented for analytical purposes only and have not been audited.

** Reported balances are a component of available reserves.

The fund balance of the General Fund increased \$484,295 (7.7%) over the past two years. The fiscal year 2012-13 budget projects a decrease of \$627,590 (9.3%). For a district this size, the state recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District produced operating surpluses of \$862,166 and \$643,167 during fiscal years 2009-10 and 2010-11, respectively, and incurred an operating deficit of \$158,872 during fiscal year 2011-12.

Average daily attendance (ADA) increased 256 ADA over the past two years. The District projects an increase of 138 ADA during fiscal year 2012-13.

Total long-term liabilities increased \$29,269,034 over the past two years, due primarily to the issuance of \$30,605,000 in general obligation bonds during fiscal year 2011-12.

MILL VALLEY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District is required to present a Schedule of Revenues, Expenditures, and Changes in Fund Balance budgetary comparison for the General Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget, final adopted budget, and the actual revenues and expenditures of each of these funds by object.

B. Combining Statements

Combining statements are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. These statements present more detailed information about the financial position and financial activities of the District's individual funds.

C. Schedule of Funding Progress

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, the District is required to present a Schedule of Funding Progress which shows the funding progress of the District's OPEB plan for the most recent valuation and the two preceding valuations. The information required to be disclosed includes the valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll and the ratio of the unfunded actuarial liability (or funding excess) to annual covered payroll.

D. Schedule of Average Daily Attendance

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.

E. Schedule of Instructional Time

The District received state funding under the Basic Aid Provision and therefore did not receive incentive funding for increasing instructional time as provided by the incentive for longer instructional day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

F. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes the federal grant activities of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

MILL VALLEY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

G. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported in the Annual Financial and Budget Report to the audited financial statements.

H. Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current 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.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
Mill Valley School District
Mill Valley, California

We have audited Mill Valley School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12* to the state laws and regulations listed below for the year ended June 30, 2012. Compliance with the requirements of state laws and regulations is the responsibility of the District's management. Our responsibility is to express an opinion on Mill Valley School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, prescribed in the California Code of Regulations, Title 5, section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Mill Valley School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Mill Valley School District's compliance with those requirements.

<u>Description</u>	Procedures in Education Audit Appeals Panel's <u>Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Not Applicable
Continuation Education	10	Not Applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes

<u>Description</u>	<u>Procedures In Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or Charter Schools With Only One School Serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	5	Not Applicable
Before School	6	Not Applicable
Contemporaneous Records of Attendance For Charter Schools	3	Not Applicable
Mode of Instruction for Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/ Independent Study for Charter Schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction for Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based For Charter Schools	4	Not Applicable

In our opinion, Mill Valley School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2012, except as described in the accompanying Schedule of Findings and Questioned Costs.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the District's Board, management, California State Controller's Office, California Department of Finance, California Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
 Certified Public Accountants

December 7, 2012

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

**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
Mill Valley School District
Mill Valley, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mill Valley School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2012. The report on the financial statements was qualified because the financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Mill Valley School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the District's Board, management, California State Controller's Office, California Department of Finance, California Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2012

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Mill Valley School District
Mill Valley, California

Compliance

We have audited Mill Valley School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Mill Valley School District's major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on Mill Valley School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mill Valley School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Mill Valley School District's compliance with those requirements.

In our opinion, Mill Valley School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Mill Valley School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the District's Board, management, California State Controller's Office, California Department of Finance, California Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2012

FINDINGS AND QUESTIONED COSTS SECTION

MILL VALLEY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified?	_____ Yes	_____ <input checked="" type="checkbox"/> No	
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	_____ <input checked="" type="checkbox"/> None reported	
Noncompliance material to financial statements noted?	_____ Yes	_____ <input checked="" type="checkbox"/> No	

Federal Awards

Internal control over major programs:

Material weaknesses identified?	_____ Yes	_____ <input checked="" type="checkbox"/> No	
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	_____ <input checked="" type="checkbox"/> None reported	

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)

	_____ Yes	_____ <input checked="" type="checkbox"/> No	
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Identification of major programs:

<u>CFDA Numbers</u>	<u>Federal Program</u>
84.410	Education Jobs Fund

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

Auditee qualified as low-risk auditee? _____ Yes _____ No

State Awards

Internal control over state programs:

Material weaknesses identified?	_____ Yes	_____ <input checked="" type="checkbox"/> No	
Significant deficiencies identified not considered to be material weaknesses?	_____ <input checked="" type="checkbox"/> Yes	_____ None reported	

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

MILL VALLEY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

There are no matters to report for the fiscal year ended June 30, 2012.

MILL VALLEY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no matters to report for the fiscal year ended June 30, 2012.

MILL VALLEY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

12 - 1 / 10000

SIGNIFICANT DEFICIENCY

ATTENDANCE REPORTING

<u>Criteria:</u>	In accordance with Education Code Section 46000, attendance in all schools and classes shall be recorded and kept according to regulations prescribed by the State Board of Education.
<u>Condition:</u>	Mathematical errors occurred in the accumulation of the attendance data used in calculating the Average Daily Attendance (ADA) for the P-2 attendance report.
<u>Questioned Costs:</u>	ADA reported on the P-2 attendance report for fiscal year 2011-12 was understated by 40.33 ADA. The District is funded under the Basic Aid Provision and did not receive any state apportionment funds during fiscal year 2011-12.
<u>Context:</u>	The condition noted was identified during the verification of all manual calculations involved in the preparation of the P-2 attendance report.
<u>Effect:</u>	Errors in attendance reporting to the state occurred and were not detected by the District.
<u>Cause:</u>	Information reported on District attendance reports was not independently traced to supporting documentation and manual calculations were not independently verified by a second employee.
<u>Recommendation:</u>	Someone other than the preparer of the attendance reports should review supporting documentation and manual calculations used in the preparation of attendance reports, to ensure that reported information is accurate and complete. The District's P-2 attendance report should be revised to reflect the audited ADA presented on the Schedule of Average Daily Attendance on page 56 of this report.
<u>District Response:</u>	The attendance reports will be reviewed independently by another employee other than the person preparing the reports. In addition, supporting reports will be run through the attendance software and all calculations will be checked and verified to ensure the data is correctly reported. A revised 2011-12 P-2 attendance report has been filed with the state.

MILL VALLEY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

12 - 2 / 40000

SIGNIFICANT DEFICIENCY

CLASS SIZE REDUCTION

Criteria:

1. In accordance with the "Submittal Instructions for the Certification and Form J-7CSR Report of Enrollment for the Kindergarten and Grades One through Three Class Size Reduction (K-3 CSR) Program for 2011-12," the results of the average daily enrollment (class size) calculation should be rounded and reported to the nearest whole number, with no decimals. A class size of 20.4 to 20.44 rounds down to 20, and a class of 20.45 and above rounds to 20.5 which in turn rounds up to 21, except as provided for in Education Code Section 52124.3 for classes equal to or greater than 20.5.

2. All reports should be thoroughly reviewed for accuracy, by someone other than the individual who prepared the reports, prior to being submitted to the state.

Conditions:

1. The District incorrectly rounded classes to the nearest whole numbers.
2. Errors were made in the accumulation of data used to prepare the Form J-7CSR.

Questioned Costs: \$37,485. (35 overstated eligible pupils X \$1,071)

Context: All K-3 class size reduction classes claimed by the District were tested for compliance.

Effect: The District claimed more funding than it was entitled to receive, based on the actual number of eligible pupils served in qualifying class size reduction classes during fiscal year 2011-12.

Causes:

1. The District incorrectly rounded several class sizes, and the errors were not discovered prior to submitting Form J-7CSR to the state.
2. The District made errors when they input the average class sizes into a summary spreadsheet, and the errors were not discovered prior to submitting Form J-7CSR to the state.

Recommendation: The District should establish procedures to ensure that a second employee reviews Form J-7CSR and its supporting documents for accuracy prior to submitting the form to the state. In addition, the District should amend Form J-7CSR for fiscal year 2011-12 to reflect 1,153 eligible pupils, as follows:

MILL VALLEY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

CLASS SIZE REDUCTION (CONCLUDED)

Recommendation (Concluded):

Revised Form J-7CSR (Audited)

<u>Grade Level</u>	<u>Class Size</u>						<u>Total</u>
	<u>19</u>	<u>20</u>	<u>20.45- 21.44</u>	<u>21.45- 22.44</u>	<u>22.95- 24.94</u>	<u>24.95- greater</u>	
Kindergarten					11	3	14
Grade One	3	9	4				16
Grade Two			7	10			17
Grade Three			9	5		2	16
Combination		1					1
Subtotal Classes	<u>3</u>	<u>10</u>	<u>20</u>	<u>15</u>	<u>11</u>	<u>5</u>	<u>64</u>
Subtotal Eligible Pupils	<u>57</u>	<u>200</u>	<u>380</u>	<u>270</u>	<u>176</u>	<u>70</u>	<u>1,153</u>

District Response:

The Form J-7CSR and the supporting data will be reviewed independently by another employee other than the person preparing the reports to ensure that the calculations are correctly rounded and claimed in the appropriate areas of the Form J-7CSR. A revised Form J-7CSR has been filed with the state.

**MILL VALLEY SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
11 - 1 / 30000		
SIGNIFICANT DEFICIENCY		
<u>MEAL REIMBURSEMENT CLAIM REPORTING</u>		
The District should require that all District-wide monthly lunch count reports be independently verified for mathematical accuracy to ensure that reported counts are accurate and complete, prior to submitting the claim for reimbursement to the state.	Implemented	
<u>STATE AWARDS</u>		
11 - 2 / 10000		
SIGNIFICANT DEFICIENCY		
<u>ATTENDANCE</u>		
The District should enforce procedures that require weekly attendance class roster reports to be signed at the end of each week by the teachers who recorded the attendance.	Implemented	