

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**

**AUDIT REPORT**

**JUNE 30, 2011**

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
OF CONTRA COSTA COUNTY**

**CONCORD, CALIFORNIA**

**JUNE 30, 2011**

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The Mount Diablo Unified School District was established on July 1, 1949. The District is a political subdivision of the State of California. The District is located in Contra Costa County. There were no changes in the boundaries of the District during the current year. The District currently operates twenty-nine elementary schools, ten middle schools, and six high schools. This District also maintains two special education schools, one continuation education high school, five necessary small high schools, one independent study school and two adult education centers.

The Board of Education of Mount Diablo Unified School District is composed of five members elected at large within the boundaries of the District. The Board and Administrative Staff manage and control the affairs of the District.

GOVERNING BOARD

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Gary Eberhart	President	December 2012
Sherry Whitmarsh	Vice-President	December 2012
Linda Mayo	Member	December 2014
Lynne Dennler	Member	December 2014
Cheryl Hansen	Member	December 2014

DISTRICT ADMINISTRATORS

Steven Lawrence, Ph.D.  
*Superintendent*

Rose Lock  
*Assistant Superintendent-Student Achievement and School Support*

Julie Braun Martin  
*Assistant Superintendent-Personnel Services*

Mildred Browne, Ed.D.  
*Assistant Superintendent-Pupil Services and Special Education*

Bryan Richards  
*Chief Financial Officer*

Gregory J. Rolen, Esq.  
*General Counsel*

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Mount Diablo Unified School District  
Concord, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mount Diablo Unified School District, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mount Diablo Unified 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; and *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010 – 11*. 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.

In our opinion, 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 Mount Diablo Unified School District, as of June 30, 2011, and the respective changes in financial position, and, where applicable, cash flows 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 November 30, 2011 on our consideration of the Mount Diablo Unified 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 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.

The required supplementary information, such as management’s discussion and analysis on pages 3 through 10, the budgetary comparison schedule on pages 51, and the schedule of funding progress on page 52 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mount Diablo Unified School District’s basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by the U. S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and the Combining Statements – Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Chintalata Accountancy Corporation*

San Diego, California

November 30, 2011

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**INTRODUCTION**

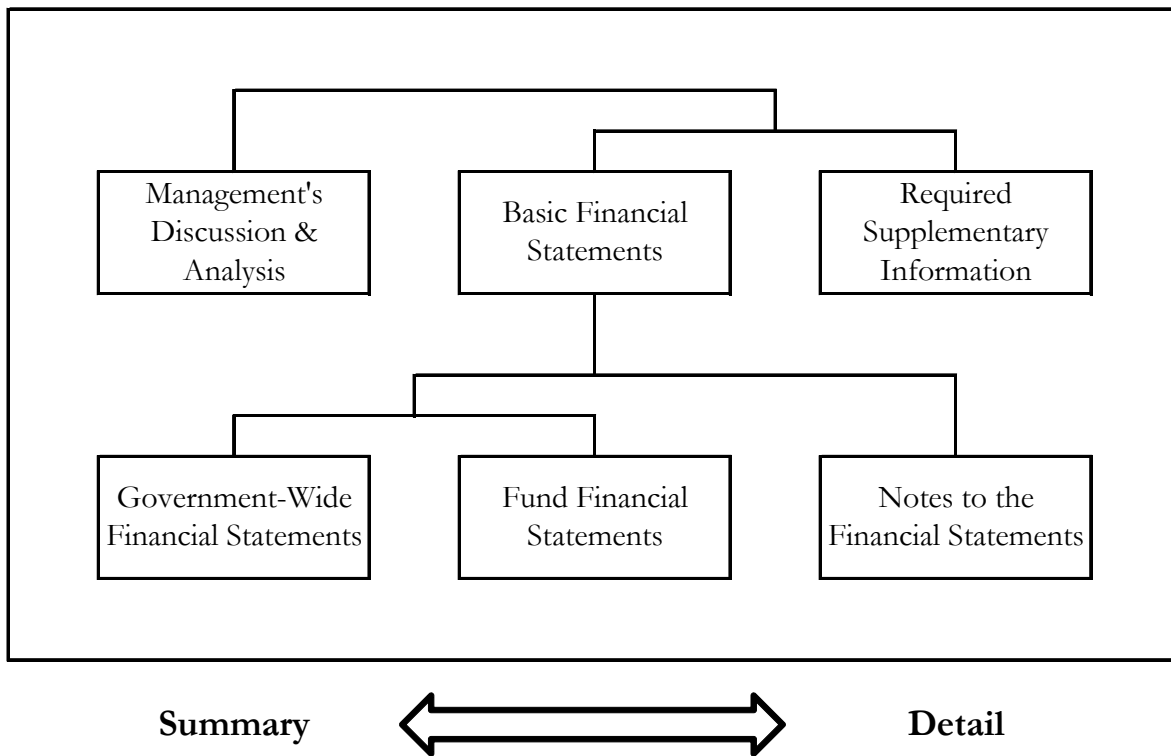
Our discussion and analysis of Mount Diablo Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. It should be read in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- ▶ Total net assets were \$202,703,559 at June 30, 2011. This was an increase of \$9,730,489 over the prior year.
- ▶ Overall revenues were \$339,436,434, which exceeded expenses of \$329,705,945.

**OVERVIEW OF FINANCIAL STATEMENTS**

**Components of the Financials Section**



**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. 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 financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
  
- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
  - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
  
  - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

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

### **Government-Wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. The District experienced an increase in net assets. To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in enrollment, changes in the property tax base, changes in program funding by the Federal and state governments, and condition of facilities.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Revenue limit funding and federal and state grants finance most of these activities.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE**

**Net Assets**

The District's combined net assets were \$202,703,559 at June 30, 2011, as reflected in Table A-1 below. Of this amount, \$22,555,279 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations.

**Table A-1  
Mount Diablo Unified School District's Net Assets**

	<b>Governmental Activities</b>		<b>Total Percentage Change</b>
	<b>2010</b>	<b>2011</b>	<b>2010-11</b>
Current assets	\$ 133,528,242	\$ 240,293,612	80%
Noncurrent assets	401,669,810	405,249,798	1%
<b>Total assets</b>	<b>535,198,052</b>	<b>645,543,410</b>	<b>21%</b>
Current liabilities	45,996,893	42,048,596	-9%
Noncurrent liabilities	296,228,089	400,791,255	35%
<b>Total liabilities</b>	<b>342,224,982</b>	<b>442,839,851</b>	<b>29%</b>
Invested in capital assets, net of related debt	152,519,771	123,136,564	-19%
Restricted	36,811,453	57,011,716	55%
Unrestricted	3,641,846	22,555,279	519%
<b>Total net assets</b>	<b>\$ 192,973,070</b>	<b>\$ 202,703,559</b>	<b>5%</b>

District government-wide assets and liabilities increased primarily due to school construction and modernization related to the issuance Measure C Bonds.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)**

**Changes in Net Assets**

As shown in Table A-2 below, the District's total revenues were \$339,436,434. The majority of the revenue comes from revenue limit, property taxes, and federal and state aid (70%). Program revenues were approximately 28% of the District's total revenue. Miscellaneous local sources accounted for the remaining 2%.

The total cost of all programs and services was \$329,705,945. The District's expenses are predominately related to educating and caring for students (67%). Pupil Services (including transportation and food) account for 10% of expenses. Administrative activities accounted for just 3% of total costs. Plant services, which represent the facilities maintenance and operations costs, account for 8% of all costs. The remaining expenses were for ancillary services, community services, and other outgo (12%).

**Table A-2  
Changes in Mount Diablo Unified School District's Net Assets**

	<b>Governmental Activities</b>		<b>Total Percentage Change</b>
	<b>2010</b>	<b>2011</b>	<b>2010-11</b>
<b>Revenues:</b>			
<i>Program revenues</i>			
Charges for services	\$ 5,447,641	\$ 5,215,146	-4%
Operating grants and contributions	78,430,335	90,107,950	15%
Capital grants and contributions	105,363	51,857	-51%
<i>General revenues</i>			
Property taxes	116,884,473	119,081,231	2%
Other revenues	105,563,457	124,980,250	18%
<b>Total revenues</b>	<b>306,431,269</b>	<b>339,436,434</b>	<b>11%</b>
<b>Expenses:</b>			
Instructional services	221,760,445	220,390,366	-1%
Pupil support services	31,429,841	32,963,322	5%
Maintenance and operations	29,056,529	26,898,792	-7%
Administration	12,495,979	11,048,988	-12%
Other expenses	32,942,804	38,404,477	17%
<b>Total expenses</b>	<b>327,685,598</b>	<b>329,705,945</b>	<b>1%</b>
<b>Change in net assets</b>	<b>\$(21,254,329)</b>	<b>\$ 9,730,489</b>	<b>146%</b>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)**

**Changes in Net Assets (continued)**

As reported in the Statement of Activities on page 12, the cost of all our governmental activities this year was \$329,705,945 (refer to Table A-3). The amount that our taxpayers ultimately financed for these activities through taxes was only \$234,330,992 because the cost was paid by those who benefited from the programs (\$5,215,146), and by other governments and organizations who subsidized certain programs with grants and contributions (\$90,159,807).

**Table A-3  
Net Costs of Mount Diablo Unified School District's  
Governmental Activities**

	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
Instructional services	\$ 220,390,366	\$ 153,161,889
Pupil support services	32,963,322	15,379,336
Maintenance and operations	26,898,792	25,367,684
Administration	11,048,988	7,583,179
Other expenses	38,404,477	32,838,904
<b>Total expenses</b>	<b>\$ 329,705,945</b>	<b>\$ 234,330,992</b>

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$218,538,522, which is greater than last year's ending fund balance of \$100,388,427. The District's General Fund had \$24,305,003 more in operating revenues than expenditures in 2010-2011.

**CURRENT YEAR BUDGET 2010-11**

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a monthly basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals are the District's actual transactions and show subsequent year original adopted budget.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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**CURRENT YEAR BUDGET 2010-11 (continued)**

Budget adjustments to revenues and expenditures for the year include:

- Award of various Federal and state grants not included in the original adopted budget
- A supplemental allocation of State Fiscal Stabilization Funds
- Utilization of the Federal Education Jobs Funds
- An allocation of prior year Special Disabilities Adjustment funding from the state
- An appropriation of the prior year Mandated Costs reimbursements
- The implementation of three furlough days during 2010-11
- The establishment of caps to medical contributions for classified bargaining units and management
- The sale of bonds for various capital construction projects

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As shown in Table A-4, by the end of 2010-11 the District had invested \$579,501,616 in capital assets. The current year additions are due to school modernization and construction related to the Measure C bond measure approved by the voters of the District.

**Table A-4  
Mount Diablo Unified School District's Capital Assets**

	<b>Governmental Activities</b>		<b>Total Percentage Change</b>
	<b>2010</b>	<b>2011</b>	<b>2010-11</b>
Land	\$ 14,436,462	\$ 14,436,462	0%
Site improvements	22,066,045	23,153,547	5%
Buildings	509,231,931	511,164,488	0%
Furniture and equipment	15,613,539	17,133,169	10%
Construction in progress	2,414,952	13,613,950	464%
<b>Total capital assets</b>	<b>\$ 563,762,929</b>	<b>\$ 579,501,616</b>	<b>3%</b>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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

**Long-Term Debt**

At year-end, the District had \$414,162,186 in long-term debt, an increase of 35% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

**Table A-5  
Mount Diablo Unified School District's Long-Term Debt**

	<b>Governmental Activities</b>		<b>Total</b>
	<b>2010</b>	<b>2011</b>	<b>Percentage Change 2010-11</b>
General obligation bonds	\$ 211,005,700	\$ 331,297,071	57%
Mello-Roos bonds	60,058,079	56,424,663	-6%
Certificates of participation	5,469,001	-	-100%
Capital leases	8,628,693	1,239,634	-86%
Compensated absence	3,359,989	3,042,481	-9%
Other general long-term debt	5,539,042	5,439,570	-2%
Net OPEB obligations	12,689,288	16,718,767	32%
<b>Total long-term debt</b>	<b>\$ 306,749,792</b>	<b>\$ 414,162,186</b>	<b>35%</b>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

- At the state level, the budget situation continues to reflect challenging economic times. The 2011 state Budget was balanced on optimistic revenue projections and contains "trigger" language that would reduce school funding mid-year, should the state fail to meet those projections. In addition, one-time sources of federal funding from the American Recovery and Reinvestment Act and the Education Jobs Act are ending and to continue program services funded by these sources will require either new federal funding or a reallocation of district funds. State categorical program flexibility continues for the 2010-11 and 2011-12 fiscal years with no anticipated changes. School districts continue to be authorized to use funding from 42 Tier III categorical programs for any purpose. K-3 class size reduction penalties have been relaxed through 2012-13 and school agencies maintain the flexibility to shorten the school year until 2014-15.
- Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2011-12 fiscal year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at Mount Diablo Unified School District, 1936 Carlotta Drive, Concord, California, 94519.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 190,680,653
Accounts receivable	49,138,287
Inventory	474,672
Total current assets	240,293,612
Deferred charges	4,508,919
Capital assets, non-depreciable	28,050,412
Capital assets, depreciable, net	372,690,467
Total non-current assets	405,249,798
<b>Total Assets</b>	<b>645,543,410</b>
<b>LIABILITIES</b>	
Accrued liabilities	26,371,710
Deferred revenue	2,305,955
Long-term liabilities, current portion	13,370,931
Total current liabilities	42,048,596
Long-term liabilities, non-current portion	400,791,255
<b>Total Liabilities</b>	<b>442,839,851</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	123,136,564
Restricted for:	
Capital projects	2,143,801
Debt service	39,619,159
Educational programs	13,180,548
Other purposes	2,068,208
Unrestricted	22,555,279
<b>Total Net Assets</b>	<b>\$ 202,703,559</b>

The accompanying notes are an integral part of these financial statements.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

Function/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants		
<b>GOVERNMENTAL ACTIVITIES</b>						
Instruction	\$ 186,181,679	\$ 379,452	\$ 59,409,313	\$ 51,857	\$	(126,341,057)
Instruction-related services						
Instructional supervision and administration	10,465,057	5,623	5,299,540	-		(5,159,894)
Instructional library, media, and technology	3,041,513	7,679	391,450	-		(2,642,384)
School site administration	20,702,117	1,896	1,681,667	-		(19,018,554)
Pupil services						
Home-to-school transportation	7,578,049	200,191	2,437,332	-		(4,940,526)
Food services	10,849,769	3,548,902	6,838,275	-		(462,592)
All other pupil services	14,535,504	87,366	4,471,920	-		(9,976,218)
General administration						
Centralized data processing	2,654,959	3,533	28,345	-		(2,623,081)
All other general administration	8,394,029	181,967	3,251,964	-		(4,960,098)
Plant services	26,898,792	270,082	1,261,026	-		(25,367,684)
Ancillary services	1,537,291	41,602	333,791	-		(1,161,898)
Community services	595,685	-	402,979	-		(192,706)
Enterprise activities	44,956	179	1,434	-		(43,343)
Interest on long-term debt	17,748,420	-	-	-		(17,748,420)
Transfer to other agencies	1,810,507	486,674	4,298,914	-		2,975,081
Depreciation (unallocated)	16,667,618	-	-	-		(16,667,618)
<b>Total Governmental Activities</b>	<b>\$ 329,705,945</b>	<b>\$ 5,215,146</b>	<b>\$ 90,107,950</b>	<b>\$ 51,857</b>		<b>(234,330,992)</b>
General revenues						
Taxes and subventions						
						93,130,799
						25,329,584
						620,848
						119,423,588
						275,809
						2,000
						5,278,853
						<b>244,061,481</b>
<b>CHANGE IN NET ASSETS</b>						
						9,730,489
<b>Net Assets - Beginning</b>						
						192,973,070
<b>Net Assets - Ending</b>						
					\$	202,703,559

The accompanying notes are an integral part of these financial statements.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011**

	General Fund	Building Fund	Debt Service for Blended Component Unit Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 26,854,602	\$ 105,342,781	\$ 27,393,075	\$ 31,090,195	\$ 190,680,653
Accounts receivable	47,512,344	-	-	1,625,943	49,138,287
Due from other funds	2,445,656	24,223	-	1,557,606	4,027,485
Stores inventory	419,478	-	-	55,194	474,672
<b>Total Assets</b>	<b>\$ 77,232,080</b>	<b>\$ 105,367,004</b>	<b>\$ 27,393,075</b>	<b>\$ 34,328,938</b>	<b>\$ 244,321,097</b>
<b>LIABILITIES</b>					
Accrued liabilities	\$ 14,650,643	\$ 4,240,357	\$ -	\$ 558,135	\$ 19,449,135
Due to other funds	1,551,501	2,192	-	2,473,792	4,027,485
Deferred revenue	2,305,955	-	-	-	2,305,955
<b>Total Liabilities</b>	<b>18,508,099</b>	<b>4,242,549</b>	<b>-</b>	<b>3,031,927</b>	<b>25,782,575</b>
<b>FUND BALANCES</b>					
Nonspendable	719,478	-	-	55,193	774,671
Restricted	13,180,548	101,124,455	27,393,075	29,547,615	171,245,693
Committed	-	-	-	1,694,203	1,694,203
Assigned	8,009,223	-	-	-	8,009,223
Unassigned	36,814,732	-	-	-	36,814,732
<b>Total Fund Balances</b>	<b>58,723,981</b>	<b>101,124,455</b>	<b>27,393,075</b>	<b>31,297,011</b>	<b>218,538,522</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 77,232,080</b>	<b>\$ 105,367,004</b>	<b>\$ 27,393,075</b>	<b>\$ 34,328,938</b>	<b>\$ 244,321,097</b>

The accompanying notes are an integral part of these financial statements.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT  
OF NET ASSETS  
JUNE 30, 2011**

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**Total Fund Balance - Governmental Funds** \$ 218,538,522

Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:

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	\$ 579,501,616	
Accumulated depreciation	(178,760,737)	400,740,879

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Unamortized costs:

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the governmental-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in deferred charges on the statement of net assets are:

4,508,919

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 statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was:

(6,922,575)

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 relating to governmental activities consist of:

General obligation bonds	\$ 332,642,571	
Mello-Roos bonds	56,424,663	
Capital leases	1,239,634	
Compensated absence	3,042,481	
Construction loan	5,439,570	
Net OPEB obligations	16,718,767	
Deferred amount on refunding	(1,345,500)	(414,162,186)

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**Total Net Assets - Governmental Activities** \$ 202,703,559

The accompanying notes are an integral part of these financial statements.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Building Fund	Debt Service for Blended Component Unit Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Revenue limit sources					
State aid	\$ 78,868,670	\$ -	\$ -	\$ -	\$ 78,868,670
Local sources	93,130,798	-	-	-	93,130,798
Transfers	(494,369)	-	-	600,000	105,631
Federal sources	33,588,624	-	-	8,384,055	41,972,679
Other state sources	79,147,484	-	-	1,172,421	80,319,905
Other local sources	13,360,030	312,601	6,723,140	24,642,979	45,038,750
<b>Total Revenues</b>	<b>297,601,237</b>	<b>312,601</b>	<b>6,723,140</b>	<b>34,799,455</b>	<b>339,436,433</b>
<b>EXPENDITURES</b>					
Instruction	180,284,893	-	-	3,269,125	183,554,018
Instruction-related services					
Instructional supervision and administration	9,950,592	-	-	497,841	10,448,433
Instructional library, media, and technology	2,912,696	-	-	85,616	2,998,312
School site administration	18,976,702	-	-	1,508,361	20,485,063
Pupil services					
Home-to-school transportation	8,365,249	-	-	-	8,365,249
Food services	436	-	-	10,791,609	10,792,045
All other pupil services	14,359,565	-	-	6,731	14,366,296
General administration					
Centralized data processing	2,643,382	-	-	-	2,643,382
All other general administration	7,504,490	-	-	824,234	8,328,724
Plant services	24,113,822	144	-	2,556,849	26,670,815
Facilities acquisition and maintenance	215,246	10,969,016	-	3,506,577	14,690,839
Ancillary services	1,537,290	-	-	-	1,537,290
Community services	579,996	-	-	690	580,686
Enterprise activities	44,954	-	-	-	44,954
Transfers to other agencies	1,060,197	-	-	-	1,060,197
Debt service					
Principal	486,961	8,628,693	3,635,000	11,068,877	23,819,531
Interest and other	259,763	4,385,188	2,408,809	11,012,010	18,065,770
<b>Total Expenditures</b>	<b>273,296,234</b>	<b>23,983,041</b>	<b>6,043,809</b>	<b>45,128,520</b>	<b>348,451,604</b>
<b>Excess (Deficiency) of Revenues</b>					
<b>Over Expenditures</b>	<b>24,305,003</b>	<b>(23,670,440)</b>	<b>679,331</b>	<b>(10,329,065)</b>	<b>(9,015,171)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	1,572,413	1,781,511	-	9,467,143	12,821,067
Other sources	1,326,000	162,027,321	-	3,081,945	166,435,266
Transfers out	(3,614,453)	(5,042,690)	(810,000)	(3,353,924)	(12,821,067)
Other uses	-	(39,270,000)	-	-	(39,270,000)
<b>Net Financing Sources (Uses)</b>	<b>(716,040)</b>	<b>119,496,142</b>	<b>(810,000)</b>	<b>9,195,164</b>	<b>127,165,266</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>23,588,963</b>	<b>95,825,702</b>	<b>(130,669)</b>	<b>(1,133,901)</b>	<b>118,150,095</b>
<b>Fund Balance - Beginning</b>	<b>35,135,018</b>	<b>5,298,753</b>	<b>27,523,744</b>	<b>32,430,912</b>	<b>100,388,427</b>
<b>Fund Balance - Ending</b>	<b>\$ 58,723,981</b>	<b>\$ 101,124,455</b>	<b>\$ 27,393,075</b>	<b>\$ 31,297,011</b>	<b>\$ 218,538,522</b>

The accompanying notes are an integral part of these financial statements.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

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Net Change in Fund Balances - Governmental Funds \$ 118,150,095

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

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 estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay: \$	15,738,687	
Depreciation expense:	(16,667,618)	(928,931)

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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:

63,089,531

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:

(165,089,766)

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 issue costs amortized for the period is:

Issue costs incurred during the period: \$	2,427,102	
Issue costs amortized for the period:	(625,655)	1,801,447

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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, it is recognized in the period 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:

(1,879,728)

Accreted interest on long-term debt:

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditures from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period.

(2,562,646)

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:

317,508

Postemployment 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 and actual employer contributions was:

(4,029,479)

Amortization of debt issue premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:

862,458

<b>Change in net assets of Governmental Activities</b>	<b>\$</b>	<b>9,730,489</b>
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The accompanying notes are an integral part of these financial statements.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
 FIDUCIARY FUNDS  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2011**

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	<u>Private-Purpose Trust Fund</u>	<u>ASB Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 49,873	\$ 1,464,542
<b>Total Assets</b>	<b>49,873</b>	<b>\$ 1,464,542</b>
<b>LIABILITIES</b>		
Due to other agencies/student groups	-	\$ 1,464,542
<b>Total Liabilities</b>	<b>-</b>	<b>\$ 1,464,542</b>
<b>NET ASSETS</b>		
Unrestricted	49,873	
<b>Total Net Assets</b>	<b>49,873</b>	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 49,873</b>	

The accompanying notes are an integral part of these financial statements.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011**

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	<u>Private-Purpose Trust Fund</u>
<b>ADDITIONS</b>	
Investment earnings	\$ 1,480
<b>Total Additions</b>	<b>1,480</b>
<b>DELETIONS</b>	
Other trust activities	8,303
<b>Total Deletions</b>	<b>8,303</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(6,823)</b>
<b>Net Assets - Beginning</b>	<b>56,696</b>
<b>Net Assets - Ending</b>	<b>\$ 49,873</b>

The accompanying notes are an integral part of these financial statements.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

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

**A. Financial Reporting Entity**

Mount Diablo Unified School District (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 District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

**B. Component Unit**

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. In addition, component units are other legally separate organizations for which the District is not financially accountable, but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

The District and Mount Diablo Unified School District Education Facilities Financing Corporation (the Corporation) have a financial and operational relationship that meets the reporting entity definition criteria of the GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the Corporation as a component unit of the District. Therefore, the financial activities of the Corporation have been included in the financial statements of the District.

The District's reporting entity excludes Eagle Peak Montessori Charter School, a non-profit benefit corporation in the District's attendance area with a separate Board of Directors.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Other Related Entities

**Joint Powers Authority (JPA).** The District is associated with three JPAs. These organizations do not meet the criteria for inclusion as a component unit of the District. Additional information is presented in Note 14 to the financial statements. These organizations are:

- Contra Costa County Schools Insurance Group (CCCSIG)
- Schools Excess Liability Fund (SELF)
- School Self-Insurance of Contra Costa County (SSICCC)

D. Basis of Presentation

**Government-Wide Statements.** The statement of net assets and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

**Fund Financial Statements.** The fund financial statements provide information about the District's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – *governmental* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

*Governmental funds* are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Basis of Presentation (*continued*)

*Fiduciary funds* are used to account for assets held by the LEA in a trustee or agency capacity for others that cannot be used to support the LEA's own programs.

Major Governmental Funds

**General Fund.** The general fund is the main operating fund of the LEA. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of an LEA's activities are reported in the general fund unless there is a compelling reason to account for an activity in another fund. An LEA may have only one general fund.

**Building Fund.** This fund exists primarily to account separately for proceeds from the sale of bonds (Education Code Section 15146) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund (Fund 21) are proceeds from the sale or lease-with-option-to-purchase of real property (Education Code Section 17462) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (Education Code Section 41003).

**Debt Service Fund for Blended Component Units.** This fund is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the LEA under generally accepted accounting principles (GAAP). The Mello-Roos Community Facilities Act of 1982 (Government Code Section 53311 et seq.) allows any county, city, special district, school district, or joint powers authority to establish, upon approval of two-thirds of the voters in the district, a "Community Facilities District" (CFD) for the purpose of selling tax-exempt bonds to finance public improvements and services.

Non-Major Governmental Funds

**Special Revenue Funds** are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

**Adult Education Fund.** This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (Education Code Sections 52616[b] and 52501.5[a]).

MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Basis of Presentation (*continued*)

**Cafeteria Special Revenue Fund.** This fund is used to account separately for federal, state, and local resources to operate the food service program (Education Code Sections 38090–38093). The Cafeteria Special Revenue Fund (Fund 13) shall be used only for those expenditures authorized by the governing board as necessary for the operation of the LEA's food service program (Education Code Sections 38091 and 38100).

**Deferred Maintenance Fund.** This fund is used to account separately for state apportionments and the LEA's contributions for deferred maintenance purposes (Education Code Sections 17582–17587). In addition, whenever the state funds provided pursuant to Education Code Sections 17584 and 17585 (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the district (Education Code Sections 17582 and 17583).

**Capital Project Funds.** Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

**Capital Facilities Fund.** This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (Education Code Sections 17620–17626). The authority for these levies may be county/city ordinances (Government Code Sections 65970–65981) or private agreements between the LEA and the developer. Interest earned in the Capital Facilities Fund (Fund 25) is restricted to that fund (Government Code Section 66006).

**County School Facilities Fund.** This fund is established pursuant to Education Code Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (Education Code Section 17070 et seq.).

MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Basis of Presentation (*continued*)

**Capital Project Fund for Blended Component Units.** This fund is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the LEA under generally accepted accounting principles (GAAP). The Mello-Roos Community Facilities Act of 1982 (Government Code Section 53311 et seq.) allows any county, city, special district, school district, or joint powers authority to establish, upon approval of two-thirds of the voters in the district, a "Community Facilities District" (CFD) for the purpose of selling tax-exempt bonds to finance public improvements and services.

**Debt Service Funds.** Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

**Bond Interest and Redemption Fund.** This fund is used for the repayment of bonds issued for an LEA (Education Code Sections 15125–15262). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund (Fund 21) of the LEA. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund (Fund 51) of the LEA. The county auditor maintains control over the LEA's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

Fiduciary Funds

**Trust and Agency Funds.** Trust and Agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the LEA's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

**Foundation Private-Purpose Trust Fund.** This fund is used to account separately for gifts or bequests per Education Code Section 41031 that benefit individuals, private organizations, or other governments and under which neither principal nor income may be used for purposes that support the LEA's own programs.

**Student Body Fund.** The Student Body Fund is an agency fund and, therefore, consists only of accounts such as Cash and balancing liability accounts, such as Due to Student Groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (Education Code Sections 48930–48938).

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Basis of Accounting – Measurement Focus**

**Government-Wide and Fiduciary Financial Statements**

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

All governmental-type activities of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

**Governmental Funds**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within one year after year-end. All other revenue items are considered to be measurable and available only when the District receives cash. Revenue limits, property taxes, and grant awards are recorded the same as what is described for Government-Wide Statements. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, early retirement and postemployment healthcare benefits and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**Revenues – Exchange and Non-Exchange Transactions**

Revenue limits and other state apportionments are government mandated non-exchange transactions and are recognized when all eligibility requirements have been met. When the annual calculation of the revenue limit (Form K-12 Annual) is made, and the District's actual tax receipts as reported by the county auditor is subtracted, the result determines the annual state aid to which the LEA is entitled. If the difference between the calculated annual state aid and the state aid received on the second principal apportionment is positive a receivable is recorded, and if it is negative a payable is recorded. The District recognizes property tax revenues actually received as reported on CDE's Principal Apportionment Tax Software, used by county offices of education and county auditors to report school district and county taxes. The District makes no accrual for property taxes receivable as of June 30.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Basis of Accounting – Measurement Focus (continued)**

The District receives grant awards that are "reimbursement type" or "expenditure driven." The eligibility requirements of these awards have not been met until the LEA has made the required expenditures of the grant within the time period specified by the grantor. Revenue is recognized in the period in which the qualifying expenditures are made. Cash received but unspent at the end of the fiscal period is booked as a liability, and revenue is reduced to the amount that has been expended.

The District also receives funds for which they have fulfilled specific eligibility requirements or have provided a particular service. Once the LEAs have provided these services, they have earned the revenue provided. Any unspent money may be carried to the next year to be expended for the same restricted purposes. Revenue is recognized in the period that the service is provided, and any carryover becomes a part of the LEA's ending fund balance.

**Deferred Revenue**

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Assets, Liabilities, and Net Assets**

**Deposits and Investments**

The cash balances of substantially all funds are pooled and invested by the county treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2011, based on market process. The individual funds' portions of the pool's fair value are presented as "Cash in County." Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

**Cash and Cash Equivalents**

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Cash in County is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

**Inventories and Prepaid Items**

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure."

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. Land site improvements and buildings purchased or acquired with an original cost of \$25,000 or more, and equipment purchased or acquired with an original cost of \$10,000 or more, are recorded at historical cost or estimated historical cost. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Depreciation of capital assets is computed and recorded using the straight-line method over the following estimated useful life:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and improvements	30 years
Equipment	5-20 years
Vehicles	8 years

**Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net assets.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Assets, Liabilities, and Net Assets (continued)**

**Compensated Absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported.

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

**Deferred Issuance Costs, Premiums, and Discounts**

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

F. Assets, Liabilities, and Net Assets (*continued*)

*Restricted* - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide, proprietary fund, and fiduciary trust fund statements.

*Committed* - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

*Assigned* - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

*Unassigned* - In the general fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the general fund, that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Assets, Liabilities, and Net Assets (continued)**

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has related debt outstanding as of June 30, 2011. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**G. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

**H. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**I. Budgetary Data**

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have been included as revenue and expenditures as required under generally accepted accounting principles.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**J. Changes in Accounting Principle**

For the fiscal year ended June 30, 2011, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Summary of Deposits and Investments**

	<b>Governmental Activities</b>	<b>Fiduciary Funds</b>	<b>Total</b>
Cash in county treasury	\$ 151,653,597	\$ 4,873	\$ 151,658,470
Cash on hand and in banks	39,754	1,464,542	1,504,296
Cash in revolving fund	300,000	-	300,000
Cash with fiscal agent	25,603	-	25,603
Cash collections awaiting deposits	1,861	-	1,861
California Asset Management Program	24,223,203	-	24,223,203
Local agency investment	14,436,635	-	14,436,635
Treasury note	-	45,000	45,000
<b>Total</b>	<b>\$ 190,680,653</b>	<b>\$ 1,514,415</b>	<b>\$ 192,195,068</b>

**B. Policies and Practices**

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; collateralized mortgage obligations; and the Contra Costa County Investment Pool.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

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**NOTE 2 – DEPOSITS AND INVESTMENTS (continued)**

**B. Policies and Practices (continued)**

**Investment in County Treasury** – 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 fair value of the District's investment in the pool is reported in the accounting financial statements at amounts 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). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**Local Agency Investment Fund** - The District is considered to be a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the County Office's investment in the pool is reported in the accompanying financial statement at amounts based upon the County Office's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the LAIF, which is recorded on the amortized cost basis.

**California Asset Management Program** - The District places funds with the California Asset Management Program (CAMP), a California Joint Powers Authority. CAMP provides California public agencies with comprehensive investment management and accounting services. CAMP currently offers its shareholders both the California Asset Management Trust Cash Reserve Portfolio and individually managed portfolios. The District has an individually managed portfolio under a separate agreement with PFM Asset Management, LLC.

**Cash with Fiscal Agent** – Cash with Fiscal Agent represents treasury money market funds held by trustee Wells Fargo. The funds are restricted for debt repayment.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011**

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**NOTE 2 – DEPOSITS AND INVESTMENTS (continued)**

**C. General Authorizations**

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the investment policy:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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 Corporate 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

**D. Interest Rate Risk**

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

**Specific Identification**

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type:	Fair Value	Maturity
Cash in county treasury	\$ 151,810,128	151 days
Pooled Money Investment Account	\$ 38,765,855	237 days

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011**

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**NOTE 2 – DEPOSITS AND INVESTMENTS (continued)**

**E. 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. The investment with the Contra Costa County Investment Pool is rated AA Af/S1+ by Standard & Poor’s. The investments within the Local Agency Investment Fund is rated are least BBB by Standard & Poor’s. The investment with the California Asset Management Program is rated AA Am by Standard & Poor’s.

**F. 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. As of June 30, 2011, the District's bank balance was not exposed to custodial credit risk because it was collateralized with securities held by the pledging financial institution's trust department or agent in the name of the District.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Receivables at June 30, 2011, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	<b>General Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Activities</b>
Federal Government			
Categorical aid	\$ 6,005,456	\$ 1,501,661	\$ 7,507,117
State Government			
Apportionment	20,455,282	-	20,455,282
Categorical aid	14,978,602	77,963	15,056,565
Lottery	2,417,842	-	2,417,842
Other Local Sources	3,655,162	46,319	3,701,481
<b>Total</b>	<b>\$ 47,512,344</b>	<b>\$ 1,625,943</b>	<b>\$ 49,138,287</b>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 01, 2010	Additions	Deductions	Balance June 30, 2011
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 14,436,462	\$ -	\$ -	\$ 14,436,462
Construction in progress	2,414,952	14,219,057	3,020,059	13,613,950
<hr/>				
Total Capital Assets not Being Depreciated	16,851,414	14,219,057	3,020,059	28,050,412
<hr/>				
Capital assets being depreciated				
Land improvements	22,066,045	1,087,502	-	23,153,547
Buildings & improvements	509,231,931	1,932,557	-	511,164,488
Furniture & equipment	15,613,539	1,519,630	-	17,133,169
<hr/>				
Total Capital Assets Being Depreciated	546,911,515	4,539,689	-	551,451,204
<hr/>				
Less Accumulated Depreciation				
Land improvements	1,919,440	773,711	-	2,693,151
Buildings & improvements	146,044,508	15,434,599	-	161,479,107
Furniture & equipment	14,129,171	459,308	-	14,588,479
<hr/>				
Total Accumulated Depreciation	162,093,119	16,667,618	-	178,760,737
<hr/>				
<b>Governmental Activities</b>				
<b>Capital Assets, net</b>	<b>\$ 401,669,810</b>	<b>\$ 2,091,128</b>	<b>\$ 3,020,059</b>	<b>\$ 400,740,879</b>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

**NOTE 5 – INTERFUND TRANSACTIONS**

**A. Interfund Receivables/Payables (Due From/Due To)**

Due To Other Funds	Due From Other Funds			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 1,551,501	\$ 1,551,501
Building Fund	2,192	-	-	2,192
Non-Major Funds	2,443,464	24,223	6,105	2,473,792
<b>Total Due From Other Funds</b>	<b>\$ 2,445,656</b>	<b>\$ 24,223</b>	<b>\$ 1,557,606</b>	<b>\$ 4,027,485</b>
Due from the Adult Education Fund to the General Fund for the correction of the 2009-10 due to/from.			\$	448,219
Due from the Adult Education Fund to the Building Fund for the correction of the 2009-10 due to/from.				22,528
Due from the Adult Education Fund to the General Fund to record allocated CU's				1,049,425
Due from the Adult Education Fund to the General Fund imbursement of expenditures				1,256
Due from the Cafeteria Fund to the General Fund for indirect costs				37,715
Due from the Cafeteria Fund to the General Fund for 2009-10 balance forward adjustment				32,289
Due from the Cafeteria Fund to the Capital Facilities Fund for 2009-10 balance forward adjustment				150
Due from the Cafeteria Fund to the Capital Project Fund for Blended Component Units for 2009-10 balance forward adjustment				1,021
Due from the Cafeteria Fund to the Building Fund for 2009-10 balance forward adjustment				1,695
Due from the Cafeteria Fund to County School Facilities Fund for 2009-10 balance forward adjustment				173
Due from the Cafeteria Fund to Adult Education Fund for 2009-10 balance forward adjustment				4,761
Due from the Cafeteria Fund to the General Fund to to record allocated CU's				806,101
Due from the Cafeteria Fund to the General Fund for expenditure transfers				68,459
Due from the Building Fund to the General Fund for expenditure transfers				2,192
Due from the General Fund to the Deferred Maintenance fund to restore the Tier III flexibility in this fund.				114,866
Due from the General Fund to the Adult Education Fund for indirect costs overpayment				5,401
Due from the General Fund to the Capital Facilities Fund for 2009-10 balance forward adjustment				161
Due from the General Fund to the County School Facilities Fund for 2009-10 balance forward adjustment				504
Due from the General Fund to the Capital Project Fund for Blended Component Units for 2009-10 balance forward adjustment				1,064
Due from the General Fund to the Cafeteria Fund for 2009-10 balance forward adjustment				552,941
Due from the General Fund to the Cafeteria Fund for revenue limit needy meals				600,000
Due from the General Fund to the Adult Education for revenue limit deferral				189,097
Due from the General Fund to the Adult Education for contribution in lieu of lottery funding				87,467
<b>Total</b>			\$	<b>4,027,485</b>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

**NOTE 5 – INTERFUND TRANSACTIONS (continued)**

**B. Operating Transfers**

Interfund Transfers Out	Interfund Transfers In			
	General Fund	Building Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ -	\$ 3,614,453	\$ 3,614,453
Building Fund	-	-	5,042,690	5,042,690
Debt Service Fund for Blended Component Units	-	-	810,000	810,000
Non-Major Fund	1,572,413	1,781,511	-	3,353,924
<b>Total Interfund Transfers</b>	<b>\$ 1,572,413</b>	<b>\$ 1,781,511</b>	<b>\$ 9,467,143</b>	<b>\$ 12,821,067</b>
Transfer from General Fund to Adult Education Fund for adult education's share of lottery revenue and Tier III adult education funds.			\$	3,499,587
Transfer from General Fund to Deferred Maintenance Fund for Tier III deferred maintenance funds.				114,866
Transfer from Deferred Maintenance Fund to General Fund to reverse the prior year transfer as it was not required.				1,572,413
Transfer from Building Fund to Bond Interest and Redemption Fund for prepayment of 1998 debt				5,042,690
Transfer from Bond Interest and Redemption Fund to Building Fund for cost of issuance on 2010 bonds				1,781,511
Transfer from Debt Service Fund for BCU to Capital Project Fund for BCU for Measure A furniture and equipment.				810,000
<b>Total</b>			\$	<b>12,821,067</b>

**NOTE 6 – ACCRUED LIABILITIES**

Accrued liabilities at June 30, 2011, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
Payroll	\$ 1,695,314	\$ 13,096	\$ 212,816	\$ 1,921,226
Construction	-	4,227,261	218,372	4,445,633
Vendors payable	12,955,329	-	126,947	13,082,276
<b>Total</b>	<b>\$ 14,650,643</b>	<b>\$ 4,240,357</b>	<b>\$ 558,135</b>	<b>\$ 19,449,135</b>

**NOTE 7 – DEFERRED REVENUE**

The District periodically will receive grant money prior to making expenditures for that grant. The source of that grant money is listed below by fund. The deferred revenue totals at June 30, 2011, consist of the following:

	General Fund
Federal sources	\$ 2,157,149
State categorical sources	137,443
Local deferrals	11,363
<b>Total</b>	<b>\$ 2,305,955</b>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

**NOTE 8 – LONG-TERM DEBT**

A schedule of changes in long-term debt for the year ended June 30, 2011 is shown below:

	Balance July 01, 2010	Accretion/ Additions	Deductions	Balance June 30, 2011	Balance Due In One Year
<b>Governmental Activities</b>					
Mello-Roos Bonds:					
Series 2002	\$ 21,415,000	\$ -	\$ 1,255,000	\$ 20,160,000	\$ 1,305,000
Series 2005	13,695,000	-	565,000	13,130,000	565,000
Series 2006	24,970,000	-	1,815,000	23,155,000	1,900,000
Net issuance discount	(21,921)	-	(1,584)	(20,337)	(1,584)
General Obligation (GO) Bonds:					
Series 2002	42,775,000	-	40,990,000	1,785,000	1,785,000
Series 2004	105,870,000	-	3,420,000	102,450,000	3,565,000
Series 2006	58,880,000	-	790,000	58,090,000	1,085,000
Series 2010	-	123,557,703	-	123,557,703	1,685,000
Series 2011 Refunding	-	37,790,000	-	37,790,000	775,000
Net issuance premium	3,480,700	6,324,209	835,041	8,969,868	521,354
Deferred amount on refunding	-	(1,345,500)	-	(1,345,500)	(89,700)
Certificates of Participation (COPs)	5,440,000	-	5,440,000	-	-
Issuance costs/premiums	29,001	-	29,001	-	-
Construction loan	5,539,042	-	99,472	5,439,570	99,472
Capital leases	8,628,693	1,326,000	8,715,059	1,239,634	176,389
Net OPEB obligations	12,689,288	4,029,479	-	16,718,767	-
Compensated absences	3,359,989	-	317,508	3,042,481	-
<b>Total</b>	<b>\$ 306,749,792</b>	<b>\$ 171,681,891</b>	<b>\$ 64,269,497</b>	<b>\$ 414,162,186</b>	<b>\$ 13,370,931</b>

Payments on the Mello-Roos Bonds are made from the Debt Service Fund. Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the Certificates of Participation are made from the General Fund. Payments on the construction loan are made from the Capital Facilities Fund. Payments on the capitalized lease obligations are made from the General Fund. Payments on Post-Employment Healthcare benefits and compensated absences are made from the fund for which the related employee worked.

**A. Mello-Roos Measure "A" Bonds**

In a general election held on November 7, 1989, voters approved, under Measure "A", a \$90,000,000 Mello-Roos Bond issue.

On June 20, 2002, the District issued Series 2002 Measure "A" Bonds totaling \$29,000,000. A portion of the bond proceeds were being invested to be used to retire the series 1992 Measure "A" Bonds during the year ended June 30, 2003. Repayment of the 2002 bonds is made from special parcel tax revenues levied in connection with the bond issue. The bonds bear interest at rates ranging from 1.75% to 5.00% and are scheduled to mature through 2022. The principal balance as of June 30, 2011 was \$20,160,000.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**A. Mello-Roos Measure “A” Bonds (continued)**

On June 30, 2005, the District issued Series 2005 Measure “A” Bonds totaling \$15,760,000. A portion of the bond proceeds were being invested to be used to retire the series 1995 Measure “A” Bonds during the year ended June 30, 2007. Repayment of the 2005 bonds is made from special parcel tax revenues levied in connection with the bond issue. The bonds bear interest at rates ranging from 3.00% to 4.20% and are scheduled to mature through 2025. The principal balance as of June 30, 2011 was \$13,130,000.

On June 14, 2006, the District issued Series 2006 Special Tax Refunding Bonds totaling \$29,995,000. A portion of the bond proceeds were being invested to be used to retire the series 1996 Measure “A” Bonds during the year ended June 30, 2007. Repayment of the 2006 bonds is made from special parcel tax revenues levied in connection with the bond issue. The bonds bear interest at rates ranging from 3.625% to 4.500% and are scheduled to mature through 2027. The principal balance as of June 30, 2011 was \$23,155,000.

The Series 2002, Series 2005 and Series 2006 Measure “A” Bonds are scheduled to mature as follows:

<b>Fiscal Year</b>				
<b>Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
2012	\$ 3,770,000	\$ 2,270,530	\$	6,040,530
2013	3,905,000	2,127,877		6,032,877
2014	4,055,000	1,977,763		6,032,763
2015	4,220,000	1,819,125		6,039,125
2016	4,380,000	1,649,806		6,029,806
2017-2021	24,870,000	5,288,292		30,158,292
2022-2026	11,045,000	882,629		11,927,629
2027	200,000	4,500		204,500
<b>Total</b>	<b>\$ 56,445,000</b>	<b>\$ 16,020,522</b>	<b>\$</b>	<b>72,465,522</b>

**B. General Obligation Bonds**

**2002 Election Measure C**

In a general election held on March 5, 2002, voters approved, under Measure “C”, a \$250,000,000 General Obligation Bond issue.

On June 20, 2002, the District issued Series 2002 Measure “C” Bonds totaling \$69,400,000. Bond proceeds are being used to improve health and safety conditions of schools. Repayment of the bonds is made from ad valorem property taxes levied and collected upon all property within the District subject to taxation by the District. The bonds bear interest at rates ranging from 3.25% to 5.00% and are scheduled to mature through 2026. The principal balance outstanding as of June 30, 2011 is \$1,785,000.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**B. General Obligation Bonds (continued)**

On June 10, 2004, the District issued Series 2005 Measure “C” Bonds totaling \$121,000,000. Bond proceeds are being used to improve health and safety conditions of schools. Repayment of the bonds is made from ad valorem property taxes levied and collected upon all property within the District subject to taxation by the District. The bonds bear interest at rates ranging from 3.00% to 5.625% and are scheduled to mature through 2030. The principal balance outstanding as of June 30, 2011 is \$102,450,000.

On May 11, 2006, the District issued Series 2006 Measure “C” Bonds totaling \$59,600,000. Bond proceeds are being used to improve health and safety conditions of schools. Repayment of the bonds is made from ad valorem property taxes levied and collected upon all property within the District subject to taxation by the District. The bonds bear interest at rates ranging from 4.25% to 5.00% and are scheduled to mature through 2031. The principal balance as of June 30, 2011 is \$58,090,000.

The Series 2002, 2005 and 2006 Measure “C” Bonds are scheduled to mature as follows:

<b>Fiscal Year</b>				
<b>Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
2012	\$ 6,435,000	\$ 7,858,292	\$ 14,293,292	
2013	5,150,000	7,563,449	12,713,449	
2014	5,335,000	7,290,449	12,625,449	
2015	5,010,000	7,037,558	12,047,558	
2016	5,205,000	6,823,749	12,028,749	
2017-2021	29,790,000	30,090,918	59,880,918	
2022-2026	35,505,000	22,079,425	57,584,425	
2027-2031	69,895,000	10,379,750	80,274,750	
<b>Total</b>	<b>\$ 162,325,000</b>	<b>\$ 99,123,590</b>	<b>\$ 261,448,590</b>	

**2010 Election Measure C**

In a general election held on June 8, 2010, voters approved, under Measure “C”, a \$348,000,000 General Obligation Bond issue.

On September 22, 2010, two election 2010 general obligation bonds were issued. The Series A general obligation bond was issued for an aggregate principal amount of \$50,456,475 and consists of current interest bonds, capital appreciation bonds, and convertible capital appreciation bonds. The Series B general obligation bond was issued for an aggregate principal amount of \$59,540,000 and consists of current interest bonds. The bonds have stated interest rates of 1.689% to 5.702% and mature on August 1, 2035 and August 1, 2027, respectively. The principal balance excluding accreted interest as of June 30, 2011 is \$50,456,475 and \$59,540,000, respectively.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**B. General Obligation Bonds (continued)**

On March 29, 2011, two additional election 2010 general obligation bonds were issued. The Series C general obligation bond was issued for an aggregate principal amount of \$3,865,000 and consists of current interest bonds with stated interest rates of 2.0% to 5.4%. The Series D general obligation bond was issued for an aggregate principal amount of \$10,998,582 and consists of current interest bonds and capital appreciation bonds. The bonds have stated interest rates of 5.0% to 5.5% and rates of accretion ranging from 9.8% to 11.999% and mature on August 1, 2025 and August 1, 2031, respectively. The principal balance excluding accreted interest as of June 30, 2011 is \$3,865,000 and \$7,133,582, respectively.

The Election 2010 of Series A, B, C and D Measure “C” Bonds are scheduled to mature as follows:

<b>Fiscal Year</b>			
<b>Ended June 30,</b>	<b>Principal*</b>		<b>Interest</b>
2012	\$ 1,685,000	\$	2,370,278
2013	5,000		3,509,592
2014	-		3,347,812
2015	-		3,347,812
2016	3,922,272		3,505,540
2017-2021	23,901,170		15,647,668
2022-2026	29,127,900		32,249,953
2027-2031	40,810,753		46,277,906
2032-2036	21,542,962		25,361,525
<b>Total</b>	<b>\$ 120,995,057</b>	<b>\$</b>	<b>135,618,086</b>

*\* Principal amount excludes accreted interest of \$2,562,646*

**2011 Refunding General Obligation Bond**

On June 7, 2011, the District issued Series 2011 General Obligation Refunding Bonds for an aggregate amount of \$37,790,000, and consists of current interest bonds bearing fixed interest rates ranging from 2.0% to 5.0% with a maturity date of August 1, 2026. The net proceeds of \$40,615,500 (after issuance costs of \$416,764, plus premium of \$3,242,264) were used to refund a portion of the District’s Election 2002, Series 2002 general obligation bonds and to pay certain costs of issuance associated with the Refunding Bonds.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District’s liabilities. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred charges on refunding of \$1,345,500 remain to be amortized. As of June 30, 2011, the principal balance outstanding on the defeased debt amounted to \$37,790,000.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**B. General Obligation Bonds (continued)**

The refunding decreased the District’s total debt service payments by \$4,676,908. The transaction resulted in an economic gain (difference between the present value of debt service on the old and the new bonds) of \$3,547,623.

The 2011 Refunding General Obligation Bonds are scheduled to mature as follows:

<b>Fiscal Year</b>				
<b>Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
2012	\$ 775,000	\$ 177,454	\$	952,454
2013	1,875,000	1,572,238		3,447,238
2014	1,920,000	1,515,488		3,435,488
2015	1,990,000	1,447,588		3,437,588
2016	2,055,000	1,377,238		3,432,238
2017-2021	11,535,000	5,583,550		17,118,550
2022-2026	14,320,000	2,983,425		17,303,425
2027	3,320,000	161,000		3,481,000
<b>Total</b>	<b>\$ 37,790,000</b>	<b>\$ 14,817,981</b>	<b>\$</b>	<b>52,607,981</b>

**C. Certificates of Participation**

During the fiscal year ended June 30, 1998, the District issued \$7,760,000 of Certificates of Participation, with interest rates ranging from 4% to 12%. The Certificates were paid-in-full using proceeds from the Election 2010 General Obligation Bonds.

**D. Construction Loan**

In February 2003, the Redevelopment Agency of the City of Pittsburg made an interest-free loan of \$6,178,936 to the District. The loan is to be used for the construction of an elementary school within the City of Pittsburg. Beginning June 1, 2005, the District will pay 24% of all impact fees collected by the District in the City of Pittsburg after January 1, 2005. The District will continue to make payments equivalent to 24% of impact fees collected in the City every six months on June 1<sup>st</sup> and January 1<sup>st</sup> until June 1, 2040 or until the loan is paid off, whichever occurs first. The balance at June 30, 2011 is \$5,439,570.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**E. Capitalized Lease Obligations**

The District leases computer equipment, copy machines and portable classrooms under agreements which provide for title to pass upon expiration of the lease period.

Future yearly payments on capitalized lease obligation are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2012	\$ 209,992
2013	209,992
2014	209,992
2015	209,992
2016	209,992
2017-2018	314,990
Total	<u>1,364,950</u>
Less: Amount representing interest	(125,316)
Present value of minimum lease payments	<u>\$ 1,239,634</u>

**F. Other Leases**

All other leases are treated as operating leases and are subject to annual appropriations and recorded as expenditures when paid.

**G. Compensated Absences**

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$3,042,481.

**H. Other Postemployment Benefits**

The District follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The District's annual required contribution for the year ended June 30, 2011, was \$8,043,769 and contributions made by the District during the year were \$4,086,706, which resulted in an increase to the net OPEB obligation of \$4,029,479. See Note 11 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

**NOTE 9 – FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Debt Service for Blended Component Unit Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Non-spendable</b>					
Revolving cash	\$ 300,000	\$ -	\$ -	\$ -	\$ 300,000
Stores inventory	419,478	-	-	55,193	474,671
<b>Restricted</b>					
Educational programs	13,180,548	-	-	-	13,180,548
School modernization and new construction	-	101,124,455	-	-	101,124,455
State school facilities projects	-	-	-	10,578,738	10,578,738
Other capital projects	-	-	-	4,674,585	4,674,585
Cafeteria	-	-	-	2,068,208	2,068,208
Debt service	-	-	27,393,075	12,226,084	39,619,159
<b>Committed</b>					
Adult education	-	-	-	1,248,649	1,248,649
Deferred maintenance	-	-	-	445,554	445,554
<b>Assigned</b>					
IRS assessment	533,500	-	-	-	533,500
Tier III carryover	5,688,903	-	-	-	5,688,903
Site carryover	1,786,820	-	-	-	1,786,820
<b>Unassigned</b>					
Reserve for economic uncertainties	5,982,076	-	-	-	5,982,076
Unassigned	30,832,656	-	-	-	30,832,656
<b>Total</b>	<b>\$ 58,723,981</b>	<b>\$ 101,124,455</b>	<b>\$ 27,393,075</b>	<b>\$ 31,297,011</b>	<b>\$ 218,538,522</b>

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District’s Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than two months of general fund operating expenditures, or 2 percent of General Fund expenditures and other financing uses.

**NOTE 10 – EXPENDITURES (BUDGET VERSUS ACTUAL)**

At June 30, 2011, the following District funds exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
Cafeteria Special Revenue Fund	\$ 11,896,858	\$ 12,110,024	\$ (213,166)
Capital Facilities Fund	\$ 1,344,297	\$ 1,518,815	\$ (174,518)
Bond Interest and Redemption Fund	\$ 17,771,511	\$ 23,762,926	\$ (5,991,415)
Debt Service Fund for Blended Component Units	\$ 6,731,062	\$ 6,853,809	\$ (122,747)
Foundation Private-Purpose Trust Fund	\$ 4,000	\$ 8,303	\$ (4,303)

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011**

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**NOTE 11 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Mount Diablo Unified School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2007-08.

**Plan Descriptions and Contribution Information**

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	1,034
Active plan members	3,306
<u>Total</u>	<u>4,340</u>

\* As of May 1, 2008 actuarial valuation

Number of participating employers	1
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The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District and meet the age and service requirements for eligibility. The District offers subsidized health insurance until age 65.

The District’s funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2010-11, the District contributed \$4,086,706.

**Annual OPEB Cost and Net OPEB Obligation**

The District’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation to the Plan:

Annual required contribution	\$	8,043,769
Interest on net OPEB obligation		634,464
Adjustment to annual required contribution		(562,048)
Annual OPEB cost (expense)		8,116,185
Contributions made		(4,086,706)
Increase in net OPEB obligation		4,029,479
Net OPEB obligation, beginning of the year		12,689,288
Net OPEB obligation, end of the year	\$	<u>16,718,767</u>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011**

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**NOTE 11 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS  
 (OPEB) (continued)**

**Annual OPEB Cost and Net OPEB Obligation (continued)**

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three fiscal years are as follows:

<b>Fiscal Year Ended June 30,</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2009	\$ 8,256,208	47%	\$ 8,622,710
2010	\$ 8,091,904	47%	\$ 12,689,288
2011	\$ 8,116,185	50%	\$ 16,718,767

**Funded Status and Funding Progress – OPEB Plans**

As of May 1, 2008, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$71.0 million and the unfunded actuarial accrued liability (UAAL) was \$71.0 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

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

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

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**NOTE 11 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS  
(OPEB) (continued)**

**Actuarial Methods and Assumptions (continued)**

Additional information as of the latest actuarial valuation follows:

Valuation Date	5/1/2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	30 Years
Actuarial Assumptions:	
Discount Rate	5.0%
Inflation Rate	3.0%
Long-term Healthcare Cost Trend Rate	4.0%

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011**

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**NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS (continued)**

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

**A. CalSTRS**

**Plan Description**

The District contributes to the California 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 and disability benefits and survivor benefits to 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 CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

**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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011 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 last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2010-11	\$ 10,151,998	100%
2009-10	\$ 10,412,753	100%
2008-09	\$ 10,954,293	100%

**On-Behalf Payments**

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$5,250,736 to CalSTRS (4.267% of salaries subject to CalSTRS in 2010-11).

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011**

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**NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS (continued)**

**B. 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 Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, 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 was 10.707% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2010-11	\$ 4,389,951	100%
2009-10	\$ 4,359,337	100%
2008-09	\$ 4,386,622	100%

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

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**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

**B. Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2011.

**C. Construction Commitments**

As of June 30, 2011, the District had commitments with respect to the unfinished capital projects of approximately \$3,778,903.

**D. IRS Audit**

The District is currently involved in an IRS audit relating to payroll. The District's management plan is to reconcile the discrepancies with the IRS. On November 28, 2011, the District received a closing agreement on final determination covering specific matters regarding worker classification. The District paid \$752 in penalties and the District is awaiting final resolution of the audit.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011**

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**NOTE 14 – PARTICIPATION IN JOINT POWERS AUTHORITIES**

The Mount Diablo Unified School District participates in three joint powers agreement (JPA) entities, the Contra Costa County Schools Insurance Group (CCCSIG), Schools Excess Liability Fund, (SELF) and the Schools' Self Insurance of Contra Costa County (SSICCC).

Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the Mount Diablo Unified School District beyond the District's representation on the governing boards.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA.

The relationship between the Mount Diablo Unified School District and the JPAs are such that none of the three JPAs is a component unit of the District for financial reporting purposes. Current financial information for CCCSIG, SELF, and SSICCC can be obtained by contacting each JPA's management. The most currently available condensed financial information for the JPAs can be found on their website.

**NOTE 15 – SELF-INSURANCE**

The District is self-insured for property and liability claims up to \$100,000 per property loss and \$100,000 per liability claim. Liability claims in excess of \$100,000 and up to \$900,000 are covered by a commercial insurance policy. The District liability claims in excess of \$1,000,000 are covered by SELF (See Note 14). Property claims in excess of \$100,000 are covered by a commercial insurance policy up to \$149,000,000. All activity for the District's Self-Insurance Account is included in the General Fund.

**NOTE 16 – SUBSEQUENT EVENT**

Subsequent to June 30, 2011, the District issued General Obligation Refunding Bonds, Election of 2002, Series B to refund a portion of the District's outstanding General Obligation Bonds, Election of 2002, Series 2004. The bonds were issued for \$43,700,000 with stated interest rates of 2% - 5% and mature on July 1, 2023.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Positive / (Negative) Final to Actual
<b>REVENUES</b>				
Revenue limit sources				
State aid	\$ 67,838,343	\$ 79,984,070	\$ 78,868,670	\$ (1,115,400)
Local sources	95,675,712	92,056,676	93,130,798	1,074,122
Transfers	(255,944)	(233,177)	(494,369)	(261,192)
Federal sources	20,508,626	38,197,421	33,588,624	(4,608,797)
Other state sources	67,729,805	69,270,527	79,147,484	9,876,957
Other local sources	8,304,326	12,716,200	13,360,030	643,830
<b>Total Revenues</b>	<b>259,800,868</b>	<b>291,991,717</b>	<b>297,601,237</b>	<b>5,609,520</b>
<b>EXPENDITURES</b>				
Certificated salaries	124,469,721	128,998,841	126,094,904	2,903,937
Classified salaries	39,295,380	39,543,200	41,645,241	(2,102,041)
Employee benefits	55,621,204	54,605,372	57,840,507	(3,235,135)
Books and supplies	12,326,800	27,956,945	9,259,030	18,697,915
Services and other operating expenditures	34,654,790	42,342,741	35,843,235	6,499,506
Capital outlay	302,707	1,751,834	1,623,364	128,470
Other outgo				
Excluding transfers of indirect costs	2,487,065	1,571,036	1,677,654	(106,618)
Transfers of indirect costs	(740,508)	(731,620)	(687,701)	(43,919)
<b>Total Expenditures</b>	<b>268,417,159</b>	<b>296,038,349</b>	<b>273,296,234</b>	<b>22,742,115</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>(8,616,291)</b>	<b>(4,046,632)</b>	<b>24,305,003</b>	<b>28,351,635</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	1,572,413	1,572,413	-
Other sources	-	1,326,000	1,326,000	-
Transfers out	(3,486,037)	(3,065,432)	(3,614,453)	(549,021)
<b>Net Financing Sources (Uses)</b>	<b>(3,486,037)</b>	<b>(167,019)</b>	<b>(716,040)</b>	<b>(549,021)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(12,102,328)</b>	<b>(4,213,651)</b>	<b>23,588,963</b>	<b>27,802,614</b>
<b>Fund Balance - Beginning</b>	<b>35,135,018</b>	<b>35,135,018</b>	<b>35,135,018</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 23,032,690</b>	<b>\$ 30,921,367</b>	<b>\$ 58,723,981</b>	<b>\$ 27,802,614</b>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
 SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT (OPEB) FUNDING PROGRESS AND  
 EMPLOYER CONTRIBUTION  
 FOR THE YEAR ENDED JUNE 30, 2011**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Valuation of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
5/1/2008	\$ -	\$ 71,018,299	\$ 71,018,299	0%	\$ 191,822,548	37%

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**SUPPLEMENTARY  
INFORMATION**

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**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A Cluster			
Title I, Part A, School Improvement SAIT	84.010	14417	\$ 1,525
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	4,658,080
ARRA - Title I - Part A	84.389	15005	3,477,376
Subtotal Title I, Part A Cluster			8,136,981
Educational Technology State Grants Cluster			
Title II, Part D Enhancing Education Through Technology (EETT)	84.318	14334	19,957
ARRA - Title II, Part D Enhancing Education Through Technology (EETT)	84.386	15019	120,203
Education Technology State Grants Cluster			140,160
Title I, School Improvement Grant Cluster			
Title I, School Improvement Grant for QEIA Schools	84.377	14971	993,118
ARRA - Title I, School Improvement Grant for QEIA Schools	84.388	15004	2,322,557
Subtotal Title I, School Improvement Grant Cluster			3,315,675
Pell Grants	84.063	N/A	238,076
Adult Education: Adult Basic Education & ESL	84.002A	14508	465,188
Adult Education: Adult Secondary Education	84.002A	13978	26,923
Adult Education: English Literacy and Civics Education	84.002A	14109	191,930
Title I, Part B, Reading First Special Education Teacher Professional Development Pilot	84.357	14911	143,786
Title II, Part A, Administrator Training	84.367	14344	4,835
Title II, Part A, Teacher Quality	84.367A	14341	1,417,592
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	713,584
Title IV, Part A, Drug-Free Schools	84.186	14347	16,039
Title IV, 21st Century Community Learning Centers Technical Assistance	84.287	14350	29,993
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14681	788,479
Department of Rehab: Workability II, Transition Partnership	84.158	10006	10,106
Advanced Placement Feed Reimbursement Program	84.330	14504	10,960
Special Education Cluster			
Special Ed: Alternative Dispute Resolution	84.027	13007	15,000
IDEA State Improvement Grant, Improving Special Ed Systems	84.323	14577	16,199
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	6,491,640
Part B, Preschool Grants	84.173	13430	233,503
ARRA - Basic Local Assistance Entitlement, Part B	84.391	15003	1,230,277
ARRA - Preschool Local Entitlement, Part B	84.391	15002	94,659
ARRA - Part B, Preschool Grants	84.392	15000	145,171
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	332,846
Preschool Staff Development	84.173A	13431	3,488
Basic Local Assistance Entitlement, Part B, Private Schools ISPs	84.027	10015	52,483
ARRA - Basic Local Assistance Entitlement, Part B, Private Schools ISPs	84.391	10123	11,821
Subtotal Special Education Cluster			8,627,087
IDEA Early Intervention Grants	84.181	23761	161,463
Vocational Programs: Adult	84.048	13923	95,149
Vocational Programs: Voc & Applied Tech Secondary II	84.048	13924	211,831
Vocational Programs: Career Tech Ed Prep Admin Title II	84.243	14899	30,929
Title X, McKinney-Vento Homeless Assistance	84.196	14332	28,105
ARRA - Title X, McKinney-Vento Homeless Assistance	84.387	15007	7,377
ARRA - State Fiscal Stabilization Fund	84.394	25008	1,565,330
Education Jobs & Medicaid Assistance Act	84.410	25152	6,368,216
Teaching American History	84.215X	N/A	319,534
<b>Total U. S. Department of Education</b>			<b>33,065,328</b>

*continued on next page*

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, continued**  
**FOR THE YEAR ENDED JUNE 30, 2011**

U. S. DEPARTMENT OF AGRICULTURE:

*Passed through California Department of Education:*

Child Nutrition Cluster

School Breakfast Program	10.553	23668	68,751
Especially Needy Breakfast	10.553	13526	1,397,012
National School Lunch Program	10.555	13391	5,095,634
Special Milk Program for Children	10.556	13392	285,700
Summer Food Service Program for Children	10.559	13004	209,613

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Subtotal Child Nutrition Cluster 7,056,710

USDA Commodities	10.558	13389	523,630
Nutrition Network	10.574	N/A	273,430

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**Total U. S. Department of Agriculture** 7,853,770

U. S. DEPARTMENT OF DEFENSE:

J.R.O.T.C.	12.UNKNOWN	N/A	123,665
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**Total U. S. Department of Defense** 123,665

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:

*Passed through California Department of Education:*

Child Development: Quality Improvement Activities	93.575	13979	1,353
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*Passed through California Department of Health Services:*

Medicaid Cluster

Medi-Cal Billing Option	93.778	10013	641,005
Med-Cal Administrative Activities (MAA)	93.778	10060	447,798

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Subtotal Medicaid Cluster 1,088,803

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**Total U. S. Department of Health & Human Services** 1,090,156

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**Total Federal Expenditures** \$ 42,132,919

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)  
FOR THE YEAR ENDED JUNE 30, 2011**

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	<b>Second Period Report</b>	<b>Annual Report</b>
<b>ELEMENTARY</b>		
Kindergarten	2,454	2,453
First through third	7,267	7,264
Fourth through sixth	7,199	7,196
Seventh through eighth	4,655	4,655
Home and hospital	30	32
Special day class	832	839
Community day school	6	7
Extended year program - nonpublic, nonsectarian schools	13	13
Total Elementary	22,456	22,459
<b>SECONDARY</b>		
Regular classes	8,976	8,885
Continuation education	454	446
Opportunity schools	22	22
Home and hospital	53	59
Special day class	509	500
Community day school	19	17
Extended year program - nonpublic, nonsectarian schools	12	12
Total Secondary	10,045	9,941
Average Daily Attendance Total	32,501	32,400

See accompanying note to supplementary information.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2011**

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Grade Level	1982 - 83	1982 - 83	1986 - 87	1986 - 87	2010-11	Number of Days	Status
	Actual Minutes	Actual Minutes Reduced	Minutes Requirement	Minutes Requirement Reduced	Actual Minutes		
Kindergarten	31,680	30,800	36,000	35,000	35,400	177	Complied
Grade 1	48,840	47,483	50,400	49,000	52,816	177	Complied
Grade 2	48,840	47,483	50,400	49,000	52,816	177	Complied
Grade 3	48,840	47,483	50,400	49,000	52,816	177	Complied
Grade 4	52,120	50,672	54,000	52,500	54,745	177	Complied
Grade 5	52,120	50,672	54,000	52,500	54,745	177	Complied
Grade 6	52,120	50,672	54,000	52,500	58,395	177	Complied
Grade 7	56,700	55,125	54,000	52,500	58,395	177	Complied
Grade 8	56,700	55,125	54,000	52,500	58,395	177	Complied
Grade 9	56,060	54,503	64,800	63,000	64,314	177	Complied
Grade 10	56,060	54,503	64,800	63,000	64,314	177	Complied
Grade 11	56,060	54,503	64,800	63,000	64,314	177	Complied
Grade 12	56,060	54,503	64,800	63,000	64,314	177	Complied

See accompanying note to supplementary information.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

	2012 (Budget)	2011	2010	2009
<b>GENERAL FUND:</b>				
Revenues	\$ 270,395,432	\$ 297,601,237	\$ 268,320,261	\$ 300,086,210
Other sources and transfers in	-	2,898,413	2,169,387	1,758,835
Total	270,395,432	300,499,650	270,489,648	301,845,045
Expenditures	269,096,169	273,296,234	275,394,953	287,063,698
Other uses and transfers out	3,904,687	3,614,453	7,176,802	1,294,106
Total	\$ 273,000,856	\$ 276,910,687	\$ 282,571,755	\$ 288,357,804
<b>INCREASE/(DECREASE)</b>				
IN FUND BALANCE	\$ (2,605,424)	\$ 23,588,963	\$ (12,082,107)	\$ 13,487,241
<b>ENDING FUND BALANCE</b>				
	\$ 56,118,557	\$ 58,723,981	\$ 35,135,018	\$ 47,217,125
<b>AVAILABLE RESERVES *</b>				
	\$ 23,862,111	\$ 36,814,732	\$ 16,751,459	\$ 15,759,922
<b>AVAILABLE RESERVES AS A PERCENTAGE OF OUTGO</b>				
	8.7%	13.3%	5.9%	5.5%
<b>LONG-TERM DEBT</b>				
	\$ 400,791,255	\$ 414,162,186	\$ 306,749,792	\$ 312,862,296
<b>AVERAGE DAILY</b>				
ATTENDANCE AT P-2	32,346	32,501	32,609	33,155

The General Fund balance has increased by \$11,506,856 over the past two years. The fiscal year 2011-2012 budget projects a decrease of \$2,605,424 (4 percent). For a district this size, the state recommends available reserves of at least 2% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years and anticipates incurring an operating deficit during the 2011-2012 fiscal year. Total long term obligations have increased by \$101,299,890 over the past two years.

Average daily attendance has decreased by 654 ADA over the past two years. The District anticipates a decrease of 155 ADA during the 2011-2012 fiscal year.

\* Available reserves consist of all unassigned fund balance within the General Fund and the Reserve for Economic Uncertainty.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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*There were no differences between the annual financial and budget report and the audited financial statements.*

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2011**

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<b>Charter School</b>	<b>Included in Audit Report</b>
Eagle Peak Montessori Charter School	Not included

See accompanying note to supplementary information.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
JUNE 30, 2011**

	Adult Education		Deferred	Capital Facilities	County School	Capital Project for		Non-Major
	Fund	Cafeteria Fund	Maintenance	Fund	Facilities Fund	Blended	Bond Interest &	Governmental
			Fund			Component Unit	Redemption Fund	Funds
<b>ASSETS</b>								
Cash and cash equivalents	\$ 1,927,439	\$ 1,109,918	\$ 330,395	\$ 2,146,120	\$ 10,786,753	\$ 2,563,486	\$ 12,226,084	\$ 31,090,195
Accounts receivable	624,604	987,360	293	1,430	9,680	2,576	-	1,625,943
Due from other funds	286,726	1,152,941	114,866	311	677	2,085	-	1,557,606
Stores inventory	-	55,194	-	-	-	-	-	55,194
<b>Total Assets</b>	<b>\$ 2,838,769</b>	<b>\$ 3,305,413</b>	<b>\$ 445,554</b>	<b>\$ 2,147,861</b>	<b>\$ 10,797,110</b>	<b>\$ 2,568,147</b>	<b>\$ 12,226,084</b>	<b>\$ 34,328,938</b>
<b>LIABILITIES</b>								
Accrued liabilities	\$ 68,692	\$ 229,648	\$ -	\$ 4,060	\$ 218,372	\$ 37,363	\$ -	\$ 558,135
Due to other funds	1,521,428	952,364	-	-	-	-	-	2,473,792
<b>Total Liabilities</b>	<b>1,590,120</b>	<b>1,182,012</b>	<b>-</b>	<b>4,060</b>	<b>218,372</b>	<b>37,363</b>	<b>-</b>	<b>3,031,927</b>
<b>FUND BALANCES</b>								
Non-spendable	-	55,193	-	-	-	-	-	55,193
Spendable								
Restricted	-	2,068,208	-	2,143,801	10,578,738	2,530,784	12,226,084	29,547,615
Committed	1,248,649	-	445,554	-	-	-	-	1,694,203
<b>Total Fund Balances</b>	<b>1,248,649</b>	<b>2,123,401</b>	<b>445,554</b>	<b>2,143,801</b>	<b>10,578,738</b>	<b>2,530,784</b>	<b>12,226,084</b>	<b>31,297,011</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 2,838,769</b>	<b>\$ 3,305,413</b>	<b>\$ 445,554</b>	<b>\$ 2,147,861</b>	<b>\$ 10,797,110</b>	<b>\$ 2,568,147</b>	<b>\$ 12,226,084</b>	<b>\$ 34,328,938</b>

See accompanying note to supplementary information.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 FOR THE YEAR ENDED JUNE 30, 2011**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project for Blended Component Unit Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds
<b>REVENUES</b>								
Revenue limit sources								
Transfers	\$ -	\$ 600,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 600,000
Federal sources	1,026,238	7,056,710	-	-	-	-	301,107	8,384,055
Other State sources	364,292	589,645	-	-	-	-	218,484	1,172,421
Other local sources	1,538,849	4,009,703	5,304	564,224	51,857	12,366	18,460,676	24,642,979
<b>Total Revenues</b>	<b>2,929,379</b>	<b>12,256,058</b>	<b>5,304</b>	<b>564,224</b>	<b>51,857</b>	<b>12,366</b>	<b>18,980,267</b>	<b>34,799,455</b>
<b>EXPENDITURES</b>								
Current								
Instruction	3,269,125	-	-	-	-	-	-	3,269,125
Instruction-related services								
Instructional supervision and administration	497,841	-	-	-	-	-	-	497,841
Instructional library, media, and technology	85,616	-	-	-	-	-	-	85,616
School site administration	1,508,361	-	-	-	-	-	-	1,508,361
Pupil services								
Food services	-	10,791,609	-	-	-	-	-	10,791,609
All other pupil services	6,731	-	-	-	-	-	-	6,731
General administration								
All other general administration	178,951	508,751	-	136,532	-	-	-	824,234
Plant services	1,077,723	809,664	33	-	-	669,429	-	2,556,849
Facilities acquisition and maintenance	5,486	-	238,370	1,282,811	1,977,114	2,796	-	3,506,577
Community services	690	-	-	-	-	-	-	690
Debt service								
Principal	-	-	-	99,472	-	-	10,969,405	11,068,877
Interest and other	-	-	-	-	-	-	11,012,010	11,012,010
<b>Total Expenditures</b>	<b>6,630,524</b>	<b>12,110,024</b>	<b>238,403</b>	<b>1,518,815</b>	<b>1,977,114</b>	<b>672,225</b>	<b>21,981,415</b>	<b>45,128,520</b>
<b>Excess (Deficiency) of Revenues</b>								
<b>Over Expenditures</b>	<b>(3,701,145)</b>	<b>146,034</b>	<b>(233,099)</b>	<b>(954,591)</b>	<b>(1,925,257)</b>	<b>(659,859)</b>	<b>(3,001,148)</b>	<b>(10,329,065)</b>
<b>Other Financing Sources (Uses)</b>								
Transfers In	3,499,587	-	114,866	-	-	810,000	5,042,690	9,467,143
Other Sources	-	-	-	-	-	-	3,081,945	3,081,945
Transfers Out	-	-	(1,572,413)	-	-	-	(1,781,511)	(3,353,924)
<b>Net Financing Sources (Uses)</b>	<b>3,499,587</b>	<b>-</b>	<b>(1,457,547)</b>	<b>-</b>	<b>-</b>	<b>810,000</b>	<b>6,343,124</b>	<b>9,195,164</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(201,558)</b>	<b>146,034</b>	<b>(1,690,646)</b>	<b>(954,591)</b>	<b>(1,925,257)</b>	<b>150,141</b>	<b>3,341,976</b>	<b>(1,133,901)</b>
<b>Fund Balance - Beginning</b>	<b>1,450,207</b>	<b>1,977,367</b>	<b>2,136,200</b>	<b>3,098,392</b>	<b>12,503,995</b>	<b>2,380,643</b>	<b>8,884,108</b>	<b>32,430,912</b>
<b>Fund Balance - Ending</b>	<b>\$ 1,248,649</b>	<b>\$ 2,123,401</b>	<b>\$ 445,554</b>	<b>\$ 2,143,801</b>	<b>\$ 10,578,738</b>	<b>\$ 2,530,784</b>	<b>\$ 12,226,084</b>	<b>\$ 31,297,011</b>

See accompanying note to supplementary information.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2011

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NOTE 1 – PURPOSE OF SCHEDULES

**A. Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity 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 the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**B. Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) 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.

**C. Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives 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.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201.

**D. 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.

**E. Schedule of Annual Financial and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

**F. Schedule of Charter Schools**

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

**G. Combining Statements – Non-Major Governmental Funds**

These statements provide information on the District's non-major funds.

**H. Local Education Agency Organization Structure**

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration. (Located in the front of the audit report)

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**OTHER INDEPENDENT  
AUDITORS' REPORTS**

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**INDEPENDENT AUDITORS' 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 Trustees  
Mount Diablo Unified School District  
Concord, California

We have audited the financial statements of Mount Diablo Unified School District as of and for the year ended June 30, 2011, and have issued our report thereon dated November 30, 2011. 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 Mount Diablo Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Mount Diablo Unified School 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as finding #2011-1 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mount Diablo Unified School 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as finding #2011-2.

Mount Diablo Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questions costs. We did not audit the District's responses and, according, we express no opinion on them.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the California State Controller's Office, the California Department of Finance, 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.

*Christle White Accountancy Corporation*

San Diego, California

November 30, 2011

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

Board of Trustees  
Mount Diablo Unified School District  
Concord, California

**Compliance**

We have audited Mount Diablo Unified 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 its major federal programs for the year ended June 30, 2011. Mount Diablo Unified School 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 Mount Diablo Unified School District's management. Our responsibility is to express an opinion on Mount Diablo Unified 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 Mount Diablo Unified 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 Mount Diablo Unified School District's compliance with those requirements.

As described in item #2011-2 in the accompanying schedule of findings and questioned costs, Mount Diablo Unified School District did not comply with requirements regarding time certification documents under OMB Circular A-87, *Cost Principles for Local, State and Indian Tribe Governments* that are applicable to Title I, Part A Cluster; Title I, School Improvement Grants for QEIA Schools Cluster; and Title II, Part D Enhancing Education through Technology Cluster. Compliance with such requirements is necessary, in our opinion, for Mount Diablo Unified School District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Mount Diablo Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## Internal Control over Compliance

Management of Mount Diablo Unified 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 Mount Diablo Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our 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 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as finding #2011-2. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Mount Diablo Unified School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the California State Controller's Office, the California Department of Finance, 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.

*Chint White Accountancy Corporation*

San Diego, California  
November 30, 2011

## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees  
 Mount Diablo Unified School District  
 Concord, California

We have audited Mount Diablo Unified 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 2010-11*, issued by the California Education Audit Appeals Panel as regulations for the year ended June 30, 2011. Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Mount Diablo Unified School District's management. Our responsibility is to express an opinion on Mount Diablo Unified School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental 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 2010-11*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Mount Diablo Unified 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 on Mount Diablo Unified School District's compliance with the state laws and regulations referred to above.

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

<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time for:		
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

<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
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
Class Size Reduction (including in charter schools):		
General requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts or charter schools with only one school serving K - 3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Contemporaneous Records of Attendance; for charter schools	1	Not Applicable
Mode of Instruction; for charter schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	3	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	3	Not Applicable

In our opinion, Mount Diablo Unified School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010-11* and which are reported in the accompanying schedule of findings and questioned costs as findings #2011-3 through #2011-4.

Mount Diablo Unified School 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 District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the California State Controller's Office, the California Department of Finance, 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.

*Chintalate Accountancy Corporation*

San Diego, California  
November 30, 2011

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**SCHEDULE OF FINDINGS  
AND QUESTIONED COSTS**

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**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Non-compliance material to financial statements noted?	Yes

**FEDERAL AWARDS**

Internal control over major program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditors' report issued:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	Yes
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
84.318	Title II, Part D Enhancing Education Through Technology
84.386	ARRA - Title II, Part D Enhancing Education Through Technology
84.394	ARRA - State Fiscal Stabilization Fund, Recovery Act
84.410	Education Jobs & Medicaid Assistance Act
84.010	Title I, Part A Cluster
84.389	ARRA - Title I, Part A
93.778	Medicaid Cluster
84.377	Title I, School Improvement Grant for QEIA
84.388	ARRA - Title I, School Improvement Grant for QEIA

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 1,263,988
Auditee qualified as low-risk auditee?	Yes

**STATE AWARDS**

Internal control over state programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for state programs:	Unqualified

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
 FINANCIAL STATEMENT FINDINGS  
 FOR THE YEAR ENDED JUNE 30, 2011**

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This section identifies the deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
20000	Inventory of Equipment
30000	Internal Control
60000	Miscellaneous

**Finding #2011-1: Associated Student Body Internal Controls (30000)**

**Criteria:** Internal controls should be implemented to minimize the possibility for waste or abuse of Associated Student Body (ASB) resources.

**Condition:** We found the following internal control deficiencies during the audit of the ASB organizations:

- Lack of adequate backup on cash receipts found, e.g., tally sheets, sales analysis/worksheet, receipts.
- Expenditures are lacking proper approval and/or not allowable. Check was written to CASH rather than to a specific payee.

**Cause:** Inadequate support for cash receipts and improper approval or unallowable disbursement.

**Effect or Potential Effect:** Potential abuse within the District's ASB organizations.

**Perspective:** A sample of cash receipts and disbursements selected at six of the District's ASB organizations.

**Recommendations:** We recommend that staff handling student funds be reminded of the importance of good internal controls and documentation. Training of staff is recommended to take place at least annually. The required use of standardized procedures is recommended. Lastly, the District's internal audit function might assist in periodic monitoring of compliance with standardized District procedures.

**District Response:** The District has participated in the annual training on Associated Student Body funds provided by the Contra Costa County Office of Education. The District is not in a fiscal position to bring the position of Internal Auditor back at this time.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

**FIVE DIGIT CODE**

50000

**AB 3627 FINDING TYPE**

Federal Compliance

**Finding #2011-2: Federal Payroll Documentation (50000)**

**Federal Program Information:**

- Title I, Part A, Basic Grants (CFDA 84.010)
- ARRA - Title I, Part A, Basic Grants (CFDA 84.389)
- Title I, School Improvement Grant for QEIA Schools (CFDA 84.337)
- ARRA - Title I, School Improvement Grant for QEIA Schools (CFDA 84.338)
- Title II, Part D Enhancing Education through Technology (EETT) (CFDA 84.318)
- ARRA - Title II, Part D Enhancing Education through Technology (EETT) (CFDA 84.386)

**Criteria:** LEA's are required to document their salary and wage charges to all federal programs in accordance with the standards specified in OMB Circular A-87, Attachment B, Section 11(h).

**Condition:** In 2010-11, the District did not prepare semi-annual time certifications for employees whose time was charged to Title I, Part A, Basic Grants, ARRA-Title I, Part A, Basic Grants, Title School Improvement Grant for QEIA Schools, ARRA - Title I, School Improvement Grant for QEIA, Title II, Part D Enhancing Education through Technology (EETT), ARRA - Title II, Part D Enhancing Education through Technology (EETT). However, we did not find any employees whose salaries or wages were charged to the programs tested above in the 2010-11 year that did not appear to be allowable.

**Context:** Semi-annual time certifications were not prepared in the 2010-11 fiscal year, therefore questioned costs represent all salaries and wages for employees whose time was charged to the programs tested above.

**Questioned Costs:** Total questioned employee salaries and wages charged to the programs identified above are as follows:

- \$3,186,132 for Title I, Part A, Basic Grants (CFDA 84.389)
- \$1,844,745 for ARRA - Title I, Part A, Basic Grants (CFDA 84.389)
- \$263,066 for Title I, School Improvement Grant for QEIA Schools (CFDA 84.337)
- \$1,362,776 for ARRA - Title I, School Improvement Grant for QEIA Schools (CFDA 84.338)
- \$12,269 for Title II, Part D Enhancing Education through Technology (EETT) (CFDA 84.318)
- \$45,754 for ARRA - Title II, Part D Enhancing Education through Technology (EETT) (CFDA 84.386)

**Cause:** The District did not have the adequate staffing to oversee the efforts over the collection of documentation for employee time and effort.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Finding #2011-2: Federal Payroll Documentation (50000) (continued)**

**Effect:** The District is not in full compliance with the federal regulations as they pertain to the federal programs listed above.

**Recommendation:** We recommend the District document semi-annual certifications for the employees charged to the federal program in the 2010-11 year. Per guidance outlined at OMB Circular A-87, Attachment B, Section 11(h), the semi-annual time certifications may be prepared by the employee or supervisory official having first-hand knowledge of the work performed by the employee. An example of a semi-annual time certification may be found at Procedure 905, *Documenting Salaries and Wages*, in the March 2008 edition of the California School Accounting Manual.

**District Response:** The District concurs with the finding. The required documentation for the 2010-11 school year has been distributed to the school sites with a due date of December 16, 2011, for returning documentation to the District Office. Additionally, the forms for the first half of the 2011-12 school year have been distributed and a new schedule utilized to track completion in a more timely manner.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

**Finding #2011-3: School Accountability Report Card (72000)**

**Criteria:** School facilities conditions assessments as indicated in a school’s annual School Accountability Report Card should match the information indicated in the facility inspection tool (FIT) form developed by the Office of Public School Construction and approved by the State Allocation Board, or local evaluation instruments that meet the same criteria, as per Education Code Sections 33126(b)(8) and 17002.

**Condition:** The facility inspection tool (FIT) forms for selected schools were inconsistent with the School Accountability Report Card (SARC) that was published in the fiscal year 2010-11.

**Context:** 4 of 9 school sites tested

**Cause:** School Accountability Report Cards were not filled out correctly based on the most recent FIT forms.

**Effect:** The 2009-10 School Accountability Report Cards as tested in the 2010-11 fiscal year were not in compliance with Education Code.

**Questioned Costs:** Not applicable

**Recommendation:** We recommend that the District updates the SARC and ensure it agrees to the FIT forms. In addition, we recommend the District makes certain that future SARC’s posted to the District’s website are complete and in compliance with Education Code.

**District Response:** The District will establish new procedures under which the facilities office will forward copies of the completed facilities inspection tool forms to the research and evaluation office for inclusion in the school accountability report cards.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Finding 2011-4: After School Education and Safety Program Attendance (40000)**

**Criteria:** The District is required to record and semi-annually report the actual pupil attendance for the After School Education and Safety (ASES) program as defined in Education Code Section 8482.3 – 8484. Education Code Section 8484(a)(1)(B) requires the semi-annual attendance reports to reconcile to the underlying records of attendance.

**Condition:** ASES program attendance summary reports which is used to report to the CDE does not reconcile to the ASES attendance information per sign-in and sign-out sheets. This resulted in discrepancies of 47 student days overstated out of 1,236 student days tested.

**Context:** We tested the ASES program at Bel Air Elementary, El Dorado Middle School, and Riverview Middle School, which noted overstatements of 7, 1, and 39 student days, respectively.

**Cause:** There was a moderate lack on controls over the sign-in and sign-out process at Riverview Middle School.

**Effect:** The internal control weakness over attendance recordkeeping allows for inaccurate amounts of program attendance to be reported.

**Questioned Costs:** None. The ASES program funding is not affected as long as the pupil participation level is 85% of the projected attendance or greater. Since the finding noted a net over-reporting of 47 student days of attendance, or 3.8% based on the sample audited, the program attendance when corrected does not appear to fall below 85% of the projected attendance; therefore there are no questioned costs.

**Recommendation:** We recommend that the District should ensure that all source documents for ASES attendance match the reports being submitted for funding. In addition, the District should revise the semi-annual reports to correct for all discrepancies between the report and the sign in/out sheets.

**District Response:** The district has recently taken this program over from the former contracted service provider and the administrator over the program has instituted new attendance reporting processes that include weekly cross checking of the manually reported attendance with the computerized attendance system to ensure that any errors are corrected immediately.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Finding #2010-1: Internal Audit and Audit Committee (30000)**

**Finding:** The internal audit function in the District does not appear to have been effectively organized in the past and was eliminated during the fiscal year ended June 30, 2009. However, in a large district, these functions are an important part of the internal control structure, if properly organized and staffed appropriately. The internal auditor should report to a Board approved committee and/or the Superintendent thus providing independence from the business functions. Areas of internal audit focus would typically include: compliance monitoring, audits of high fraud risks, special financial audits and performance audits.

**Recommendation:** We recommend that the District consider reviving and restructuring the internal audit function to effectively monitor compliance and internal controls.

**Current Status:** The District has elected to not fill the internal audit position at this time due to severe fiscal constraints.

**Finding #2010-2: Associated Student Body Internal Controls (30000)**

**Finding:** We audited a sampling of eleven student body funds at District school sites to test internal control procedures over: cash disbursements, cash receipts, inventory, and minutes of meetings. A detailed list of the findings by school site was provided to the District. We did not find any improprieties, but lack of sound internal controls provides an opportunity for irregularities that might go undetected. A summary of the most common internal control deficiencies we observed is listed below:

- Lack of segregation of duties, e.g., bookkeeper is also the signer on the bank account
- Lack of adequate backup on cash receipts found, e.g., ticket reconciliations, receipts, evidence of timely deposit
- Expenditures are lacking proper approval and/or invoice

**Recommendation:** We recommend that staff handling student funds be reminded of the importance of good internal controls and documentation. Training of staff is recommended to take place at least annually. The required use of standardized procedures is recommended. Lastly, the District's internal audit function might assist in periodic monitoring of compliance with standardized District procedures.

**Current Status:** Partially implemented. See finding #2011-1.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Finding #2010-3: After School Education and Safety Program Attendance (40000)**

**State Program:** After School Education and Safety Program (ASES)

**Criteria:** Section 19846 of the Standards and Procedures for the Audits of California LEAs requires the auditor to: "Determine whether the reported number of students served, as that term is used in the report, for each selected school is supported by written records that document pupil participation, by tracing the reported numbers through any documentation used to summarize the numbers of students served, to written data origination documentation." (Education Code Sections 8482.3 and 8484)

**Condition:** ASES program attendance reported to CDE does not reconcile to the attendance summary reports and ASES attendance information per sign-in sheets does not reconcile to attendance information per sign-out sheets. This resulted in discrepancies of 23 student days overstated and 28 student days understated, resulting in a net understatement of 5 student days of attendance out of 1,561 student days tested.

**Cause:** There was a moderate lack of control over the sign-in and sign-out processes.

**Fiscal Impact:** None. The ASES program funding is not affected as long as the pupil participation level is 85% of the projected attendance or greater. Since the finding noted a net underreporting of 5 student days of attendance, program attendance did not fall below 85% of the projected attendance; therefore there is no questioned cost.

**Effect:** The internal control weakness over attendance recordkeeping allows for inaccurate amounts of program attendance to be reported.

**Recommendation:** The District should ensure that all source documents for ASES attendance match the reports being submitted for funding.

**Current Status:** Not implemented. See Finding #2011-4.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Finding #2010-4: Short-Term Independent Study (40000)**

**Criteria:** Section 51747 of the Education Code requires Independent Study contracts to be supported by proper documentation as a condition for apportionment attendance.

**Condition:** In testing short-term independent study we found two instances out of eleven sites tested in which there was no indication of the date the master agreement was signed, as required by Education Code Section 51747(c)(8).

**Cause:** The preparers of the agreements did not indicate the date the master contract was signed.

**Fiscal Impact:** The District should revise its 2009-10 P-2 and Annual attendance reports to remove the ADA for the non-compliant contracts. Additionally, since the ADA pertaining to the two non-compliant contracts amounted to 0.12 ADA overstated, the 2009-10 fiscal impact is \$735.

**Effect:** The District claimed ADA for non-compliant short term independent study contracts.

**Recommendation:** The District needs to revise its 2009-10 P-2 and Annual attendance reports to exclude the attendance days inappropriately claimed.

We also recommend that training be provided on an annual basis to staff involved in the completion of short-term independent study master agreements, to better ensure that the contracts are properly completed in conformity with state law.

**Current Status:** Implemented

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Finding #2010-5: School Accountability Report Card (72000)**

**State Program: Compliance with Williams Act Requirements.**

**Criteria:** School facilities conditions assessments as indicated in a school's annual School Accountability Report Card should match the information indicated in facility inspection tool (FIT) forms developed by the Office of Public School Construction and approved by the State Allocation Board, or local evaluation instruments that meet the same criteria, as per Education Code Sections 33126(b)(8) and 17002. Auditors are required to verify compliance in Section 19837.1 of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies*.

**Condition:** Two out of 13 schools tested (Cambridge Elementary and Fair Oaks Elementary) had complaints on facilities that were not reported in the schools' 2008-09 School Accountability Report Cards, which were audited in 2009-10. Fully reporting complaints is a requirement of the Williams Act.

**Cause:** School Accountability Report Cards were not filled out correctly based on the most recent FIT forms. Cause unknown.

**Fiscal Impact:** None.

**Effect:** The 2008-09 School Accountability Report Cards as tested in the 2009-10 audit did not contain all required elements.

**Recommendation:** We recommend that a process be put into place to ensure that all school site complaints are reported in the SARC.

**Current Status:** Not implemented. See finding #2011-3