

**MOUNT DIABLO  
UNIFIED SCHOOL DISTRICT**

**AUDIT REPORT**

**For the Fiscal Year Ended  
June 30, 2010**

*christy* **WHITE** *A Professional Accountancy Corporation*

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT  
AUDIT REPORT  
For the Fiscal Year Ended June 30, 2010  
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Board of Trustees  
Mount Diablo Unified School District  
Concord, California

## INDEPENDENT AUDITOR'S REPORT

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 fiscal year ended June 30, 2010, 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. 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 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, 2010, and the respective changes in financial position thereof for the fiscal 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 24, 2010 on our consideration of the Mount Diablo Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12, the budgetary comparison schedule on page 53, and the schedule of funding progress on page 54 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 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the combining and individual non-major fund financial statements, and the schedule of financial trends and analysis are presented for purposes of additional analysis and are 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 24, 2010

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*Management's Discussion and Analysis*

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**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2010**

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This discussion and analysis of Mount Diablo Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- Overall government-wide revenues were \$306.4 million, \$21.3 million less than expenses of \$327.7 million.
- The District decreased its outstanding long-term debt \$6.1 million or 2% over the prior year.
- Average daily attendance (ADA) in grades K-12 decreased by 546, or less than 2%.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

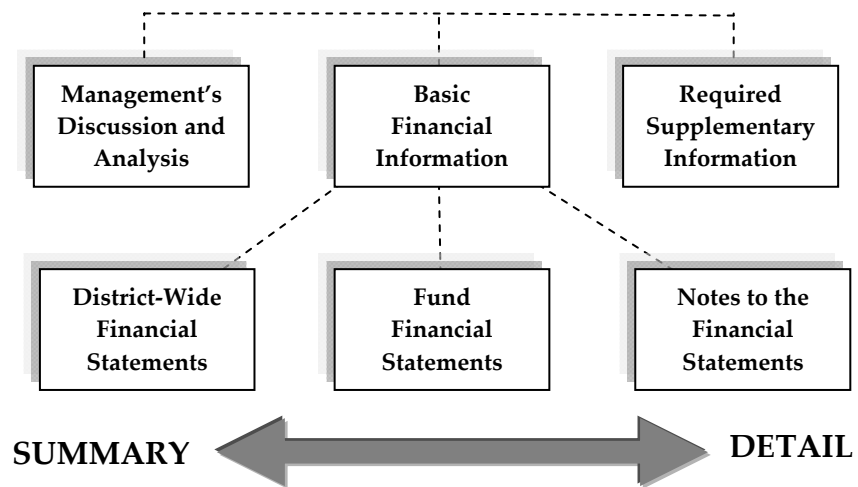
- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2010**

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The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1. Organization of Mount Diablo Unified School District's Annual Financial Report**



**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2010**

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Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2. Major Features of the District-Wide and Fund Financial Statements**

<b>Type of Statements</b>	<b>District-Wide</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures &amp; Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Assets</li> <li>• Statement of Changes in Fiduciary Net Assets</li> </ul>
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain non-financial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2010**

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The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**District-wide Statements**

The district-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 District'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 district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like Federal grants).

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2010**

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The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements 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. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

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

**Net Assets:** The District's combined net assets as of June 30, 2010 were \$193.0 million for governmental activities (See Table A-1).

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

	<b>Governmental Activities</b>		<b>Total</b>
	<b>2009</b>	<b>2010</b>	<b>Percentage</b>
			<b>Change</b>
			<b>2009-10</b>
Current assets	\$ 156,197,037	\$ 133,528,242	-15%
Noncurrent assets	409,431,560	401,669,810	-2%
Total assets	565,628,597	535,198,052	-5%
Current liabilities	48,422,345	45,996,893	-5%
Noncurrent liabilities	302,978,853	296,228,089	-2%
Total liabilities	351,401,198	342,224,982	-3%
<b>Total net assets</b>	<b>\$ 214,227,399</b>	<b>\$ 192,973,070</b>	<b>-10%</b>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2010**

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

**Changes in net assets, governmental activities.** The District's total revenues were \$306.4 million (See Table A-2).

The total cost of all programs and services was \$327.7 million. The District's expenses are predominantly related to educating and caring for students, 77%. The purely administrative activities of the District accounted for just 4% of total costs. The total costs decreased by 4%, primarily due to cuts in books and supplies purchases.

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

	<b>Governmental Activities</b>		<b>Total</b>
	<b>2009</b>	<b>2010</b>	<b>Percentage Change 2009-10</b>
Revenues:			
<i>Program revenues</i>			
Charges for services	\$ 5,604,850	\$ 5,447,641	-3%
Operating grants and contributions	96,287,930	78,430,335	-19%
Capital grants and contributions	12,530,814	105,363	-99%
<i>General revenues</i>			
Property taxes	124,740,913	116,884,473	-6%
Other revenues	118,270,304	105,563,457	-11%
Total revenues	<u>357,434,811</u>	<u>306,431,269</u>	-14%
Expenses:			
Instructional services	231,178,261	221,760,445	-4%
Pupil support services	27,730,295	31,429,841	13%
Maintenance and operations	33,066,499	29,056,529	-12%
Administration	15,035,815	12,495,979	-17%
Other expenses	34,212,138	32,942,804	-4%
Total expenses	<u>341,223,008</u>	<u>327,685,598</u>	-4%
<b>Change in net assets</b>	<u>\$ 16,211,803</u>	<u>\$ (21,254,329)</u>	-231%

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2010**

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

Table A-3 presents the cost of five major District activities: instructional services; pupil support services; maintenance and operations; administration; and other expenses. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided by specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

- The cost of all governmental activities this year was \$327.7 million.
- The federal and state governments subsidized programs with grants and contributions of \$78.6 million, and those who benefited from the programs paid \$5.4 million.
- Most of the District's costs (\$243.7 million) for governmental activities were paid for by District taxpayers and the taxpayers of California. This portion of governmental activities and business-type activities was paid for with property taxes, unrestricted state aid based on the statewide education aid formula, and with investment earnings.

**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	\$ 221,760,445	\$ 164,024,112
Pupil support services	31,429,841	12,632,325
Maintenance and operations	29,056,529	27,148,605
Administration	12,495,979	9,467,132
Other expenses	32,942,804	30,430,085
<b>Total expenses</b>	<b>\$ 327,685,598</b>	<b>\$ 243,702,259</b>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Management’s Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2010**

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**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 \$100.4 million, which is less than last year’s ending fund balance of \$120.0 million.

**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget several times. While the District’s final budget for the General Fund anticipated expenditures would exceed revenues by \$28.8 million, the actual results for the year show that expenditures exceeded revenues by \$7.1 million. Actual revenues were \$15.4 million less than anticipated, and expenditures were \$37.1 million less than budgeted. That amount consists primarily of savings in services and other operating expenditures and books and supplies dollars that were not spent as of June 30, 2010 that will be carried over into the 2010-11 budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2009-10 the District had invested over \$563.8 million in capital assets – as shown in the table below. (More detailed information about capital assets can be found in Note 6 to the financial statements.)

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

	<b>Governmental Activities</b>		<b>Total</b>
	<b>2009</b>	<b>2010</b>	<b>Percentage</b>
			<b>Change</b>
			<b>2009-10</b>
Land	\$ 14,436,462	\$ 14,436,462	0%
Site improvements	19,917,304	22,066,045	11%
Buildings	501,265,608	509,231,931	2%
Furniture and equipment	15,323,361	15,613,539	2%
Construction in progress	4,184,964	2,414,952	-42%
<b>Total capital assets</b>	<b>\$ 555,127,699</b>	<b>\$ 563,762,929</b>	<b>2%</b>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2010**

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

**Long-Term Debt**

At year-end the District had \$306.7 million in general obligation bonds, capital leases, and compensated absences – a decrease of 2% from last year – as shown in the table below. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.)

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

	<b>Governmental Activities</b>		<b>Total</b>
	<b>2009</b>	<b>2010</b>	<b>Percentage</b>
			<b>Change</b>
			<b>2009-10</b>
General obligation bonds	\$ 212,965,000	\$ 211,005,700	-1%
Mello-Roos bonds	63,600,000	60,058,079	-6%
Capitalized lease obligations	9,139,182	8,628,693	-6%
Certificates of participation	5,670,000	5,469,001	-4%
Compensated absences	3,558,522	3,359,989	-6%
Other post-employment benefits	8,622,710	12,689,288	47%
Other general long-term debt	9,306,882	5,539,042	-40%
<b>Total long-term debt</b>	<b>\$ 312,862,296</b>	<b>\$ 306,749,792</b>	<b>-2%</b>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2010**

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**FACTORS BEARING ON THE DISTRICT'S FUTURE**

The state's budget situation continues to reflect challenging economic conditions. The 2010 State Budget was balanced on optimistic state and federal revenue projections, the sale of state properties, additional borrowings, and the suspension of the Proposition 98 minimum guarantee. While the state's economy continues to gradually recover along with the nation's, a relatively slow pace of job growth in California presents a headwind for a more rapid rate of economic recovery.

The state's budget challenges have adversely impacted the K-12 education budget. As a result, the average unified school district in the state of California in 2010-11 is expected to lose approximately \$25 per unit of average daily attendance over 2009-10 in revenue limit state funding, to an average funded revenue limit of approximately \$6,386 per unit of average daily attendance. However, a corresponding decrease in the deficit factor offsets the loss keeping funding levels in 2010-11 the same as 2009-10, and without the \$253 per ADA one-time funding reduction experienced in 2009-10.

Federal funding for categorical programs was given another one-time funding boost in 2010-11 with the Education Jobs Act funding. In addition, the final 10% of the State Fiscal Stabilization funds, part of the American Recovery and Reinvestment Act (ARRA), are to be paid in 2010-11. ARRA funds must be spent prior to the September 30, 2011.

State categorical program flexibility continues for 2009-10 and 2010-11 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 for two more years and school agencies maintain the flexibility to shorten the school year until 2012-13. Reserve requirements for economic uncertainties, if reduced by school agencies, must be fully restored by 2011-12.

**Other Factors**

**Enrollment**

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. 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 Mount Diablo Unified School District budget for the 2010-11 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.

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*Financial Section*

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**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Statement of Net Assets**  
**June 30, 2010**

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	<b>Total Governmental Activities</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 37,849,199
Investments	55,877,228
Accounts receivable	36,507,304
Inventories	587,039
Prepaid expenses	2,707,472
Total current assets	<u>133,528,242</u>
Noncurrent assets:	
Capital assets:	
Land	14,436,462
Site improvements	22,066,045
Buildings	509,231,931
Furniture and equipment	15,613,539
Construction in progress	2,414,952
Less accumulated depreciation	<u>(162,093,119)</u>
Total capital assets, net of depreciation	<u>401,669,810</u>
Total assets	<u>535,198,052</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	21,099,310
Current loans	12,000,000
Deferred revenue	2,375,880
Current portion of long-term debt	10,521,703
Total current liabilities	<u>45,996,893</u>
Noncurrent liabilities	<u>296,228,089</u>
Total liabilities	<u>342,224,982</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	152,519,771
Restricted for:	
Capital projects	3,147,804
Debt service	14,991,754
Educational programs	10,343,950
Other purposes (expendable)	8,271,249
Other purposes (nonexpendable)	56,696
Unrestricted	<u>3,641,846</u>
Total net assets	<u>\$ 192,973,070</u>

The notes to financial statements are an integral part of this statement.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government:</b>					
<b>Governmental activities:</b>					
Instructional services:					
Instruction	\$ 185,499,865	\$ 282,129	\$ 49,976,692	\$ 105,363	\$ (135,135,681)
Instruction-related services:					
Supervision of instruction	11,633,733	20,302	5,584,729	-	(6,028,702)
Instructional library, media and technology	3,416,460	16,482	336,075	-	(3,063,903)
School site administration	21,210,387	9,196	1,405,365	-	(19,795,826)
Pupil support services:					
Home-to-school transportation	7,357,718	351,597	2,278,163	-	(4,727,958)
Food services	10,967,690	3,767,449	6,436,618	-	(763,623)
All other pupil services	13,104,433	270,504	5,693,185	-	(7,140,744)
General administration services:					
Data processing services	2,584,791	-	48,581	-	(2,536,210)
Other general administration	9,911,188	183,095	2,797,171	-	(6,930,922)
Plant services	29,056,529	358,817	1,549,107	-	(27,148,605)
Ancillary services	1,483,298	135,031	1,166,913	-	(181,354)
Community services	612,719	1,842	356,247	-	(254,630)
Enterprise activities	43,972	213	1,833	-	(41,926)
Interest on long-term debt	13,190,750	-	-	-	(13,190,750)
Other outgo	1,215,085	50,984	799,656	-	(364,445)
Depreciation (unallocated)	16,396,980	-	-	-	(16,396,980)
Total governmental activities	<u>\$ 327,685,598</u>	<u>\$ 5,447,641</u>	<u>\$ 78,430,335</u>	<u>\$ 105,363</u>	<u>(243,702,259)</u>
<b>General revenues:</b>					
Taxes:					
Property taxes, levied for general purposes					93,953,354
Property taxes, levied for debt service					22,243,585
Property taxes, levied for other specific purposes					687,534
Federal and state aid not restricted to specific purpose					100,022,407
Interest and investment earnings					413,209
Miscellaneous					5,127,841
					<u>222,447,930</u>
					(21,254,329)
Net assets - July 1, 2009					<u>214,227,399</u>
Net assets - June 30, 2010					<u>\$ 192,973,070</u>

The notes to financial statements are an integral part of this statement.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Balance Sheet – Governmental Funds**  
**June 30, 2010**

	General Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 14,105,514	\$ 3,186,254	\$ 20,557,431	\$ 37,849,199
Investments	13,534,506	24,337,624	18,005,098	55,877,228
Accounts receivable	35,092,430	-	1,414,874	36,507,304
Due from other funds	3,574,329	-	1,883,555	5,457,884
Inventories	447,156	-	139,883	587,039
Total assets	<u>\$ 66,753,935</u>	<u>\$ 27,523,878</u>	<u>\$ 42,000,841</u>	<u>\$ 136,278,654</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 15,405,275	\$ 134	\$ 651,054	\$ 16,056,463
Due to other funds	1,883,555	-	3,574,329	5,457,884
Deferred revenue	2,330,087	-	45,793	2,375,880
Current loans	12,000,000	-	-	12,000,000
Total liabilities	<u>31,618,917</u>	<u>134</u>	<u>4,271,176</u>	<u>35,890,227</u>
<b>FUND BALANCES</b>				
Reserved for:				
Inventories	447,156	-	139,883	587,039
Revolving cash	300,000	-	-	300,000
Debt service	-	27,523,744	8,884,108	36,407,852
Categorical programs	10,343,950	-	-	10,343,950
Unreserved; reported in:				
General fund	24,043,912	-	-	24,043,912
Special revenue funds	-	-	5,423,891	5,423,891
Capital project funds	-	-	23,281,783	23,281,783
Total fund balances	<u>35,135,018</u>	<u>27,523,744</u>	<u>37,729,665</u>	<u>100,388,427</u>
Total liabilities and fund balances	<u>\$ 66,753,935</u>	<u>\$ 27,523,878</u>	<u>\$ 42,000,841</u>	<u>\$ 136,278,654</u>

The notes to financial statements are an integral part of this statement.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**  
**June 30, 2010**

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**Total fund balances - governmental funds** \$ 100,388,427

Amounts reported for governmental *activities* in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the capital assets is \$563,762,929 and the accumulated depreciation is (\$162,093,119). 401,669,810

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 unmatured interest owing at the end of the period was: (5,042,847)

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in assets on the government-wide statement of net assets are: 2,707,472

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:

Capital leases payable	\$	8,628,693	
Certificates of participation payable		5,469,001	
Compensated absences payable		3,359,989	
General obligation bonds payable		211,005,700	
Mello-Roos payable		60,058,079	
Net OPEB obligation		12,689,288	
Other general long-term debt		5,539,042	(306,749,792)
			<u>(306,749,792)</u>

**Total net assets - governmental activities** \$ 192,973,070

The notes to financial statements are an integral part of this statement.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds**  
**For the Fiscal Year Ended June 30, 2010**

REVENUES	General Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
General revenues:				
Property taxes	\$ 94,640,888	\$ 6,654,419	\$ 15,589,165	\$ 116,884,472
Federal and state aid not restricted to specific purpose	99,238,378	-	784,032	100,022,410
Interest and investment earnings	266,124	67,740	79,343	413,207
Miscellaneous	3,022,059	-	2,105,785	5,127,844
Program revenues:				
Charges for services	1,201,244	-	4,246,397	5,447,641
Operating grants and contributions	69,951,568	-	8,478,769	78,430,337
Capital grants and contributions	-	-	105,363	105,363
Total revenues	<u>268,320,261</u>	<u>6,722,159</u>	<u>31,388,854</u>	<u>306,431,274</u>
<b>EXPENDITURES</b>				
Instructional services:				
Instruction	179,134,640	-	3,712,207	182,846,847
Instruction-related services:				
Supervision of instruction	10,909,736	-	523,048	11,432,784
Instructional library, media and technology	3,271,856	-	85,071	3,356,927
School site administration	19,139,010	-	1,773,630	20,912,640
Pupil support services:				
Home-to-school transportation	7,389,257	-	-	7,389,257
Food services	-	-	10,873,046	10,873,046
All other pupil services	12,812,202	-	34,924	12,847,126
General administration services:				
Data processing services	2,605,492	-	-	2,605,492
Other general administration	9,287,506	-	774,297	10,061,803
Plant services	25,689,713	-	2,757,926	28,447,639
Facility acquisition and construction	639,487	-	8,109,664	8,749,151
Ancillary services	1,485,522	-	-	1,485,522
Community services	527,657	-	70,110	597,767
Enterprise activities	43,972	-	-	43,972
Other outgo:				
Transfers between agencies	1,026,476	-	-	1,026,476
Debt service - principal	740,489	3,520,000	5,537,106	9,797,595
Debt service - interest	689,943	2,537,661	10,339,043	13,566,647
Debt service - issuance costs and discounts	1,995	-	18,132	20,127
Total expenditures	<u>275,394,953</u>	<u>6,057,661</u>	<u>44,608,204</u>	<u>326,060,818</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,074,692)</u>	<u>664,498</u>	<u>(13,219,350)</u>	<u>(19,629,544)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in	-	-	7,986,744	7,986,744
Interfund transfers out	(7,176,802)	(809,942)	-	(7,986,744)
All other financing sources	2,169,387	-	(2,169,387)	-
Total other financing sources and uses	<u>(5,007,415)</u>	<u>(809,942)</u>	<u>5,817,357</u>	<u>-</u>
Net change in fund balances	(12,082,107)	(145,444)	(7,401,993)	(19,629,544)
Fund balances, July 1, 2009	<u>47,217,125</u>	<u>27,669,188</u>	<u>45,131,658</u>	<u>120,017,971</u>
Fund balances, June 30, 2010	<u>\$ 35,135,018</u>	<u>\$ 27,523,744</u>	<u>\$ 37,729,665</u>	<u>\$ 100,388,427</u>

The notes to financial statements are an integral part of this statement.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2010**

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Total net change in fund balances - governmental funds \$ (19,629,544)

Amounts reported for governmental *activities* in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	\$ 8,635,230	
Depreciation expense	<u>(16,396,980)</u>	(7,761,750)

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 a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 9,797,595

Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or 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: 182,954

In governmental funds, postretirement benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postretirement benefits costs are recognized in the period that they are incurred. This year, the difference between OPEB costs and actual employer contributions was: (4,066,577)

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 was: (168,482)

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 192,942

In the statement of activities, compensated absences are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*). 198,533

Change in net assets of governmental activities \$ (21,254,329)

The notes to financial statements are an integral part of this statement.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Statement of Fiduciary Net Assets – Fiduciary Funds**  
**June 30, 2010**

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	Trust Fund	Agency Funds	
	Scholarship Fund	Student Body Funds	Total
<b>ASSETS</b>			
Cash in county treasury	\$ 1,587	\$ -	\$ 1,587
Cash on hand and in banks	-	1,530,295	1,530,295
Investments	55,102	-	55,102
Accounts receivable	7	-	7
<b>Total assets</b>	<b>\$ 56,696</b>	<b>\$ 1,530,295</b>	<b>\$ 1,586,991</b>
<b>LIABILITIES</b>			
Due to student groups	-	1,530,295	1,530,295
<b>Total liabilities</b>	<b>-</b>	<b>1,530,295</b>	<b>1,530,295</b>
<b>NET ASSETS</b>	<b>\$ 56,696</b>	<b>\$ -</b>	<b>\$ 56,696</b>

The notes to financial statements are an integral part of this statement.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Statement of Changes in Fiduciary Net Assets – Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2010**

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	Trust Fund
	<u>Scholarship Fund</u>
<b>ADDITIONS</b>	
Interest	\$ 1,480
<b>Total additions</b>	<u>1,480</u>
<b>DEDUCTIONS</b>	
Operating expenditures	<u>3,068</u>
<b>Total deductions</b>	<u>3,068</u>
<b>Change in net assets</b>	(1,588)
<b>Net assets held in trust - July 1, 2009</b>	<u>58,284</u>
<b>Net assets held in trust - June 30, 2010</b>	<u>\$ 56,696</u>

The notes to financial statements are an integral part of this statement.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

A. Accounting Policies

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).

B. Reporting Entity

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.

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 which meet 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**  
**June 30, 2010**

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

C. Basis of Presentation

*Government-wide Financial Statements:*

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared.

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

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

*Fund Financial Statements:*

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

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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

C. Basis of Presentation (continued)

*Fund Financial Statements (continued):*

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

*Revenues – exchange and non-exchange transactions:*

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after year-end.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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

D. Basis of Accounting (continued)

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized

*Deferred revenue:*

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

*Expenses/expenditures:*

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, and fiduciary funds, as follows:

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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

E. Fund Accounting (continued)

**Major Governmental Funds:**

- The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
- The *Debt Service Fund for Blended Component Units* 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.

**Non-major Governmental Funds:**

- **Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains three non-major special revenue funds:
  1. The *Adult Education Fund* is used to account for resources committed to adult education programs maintained by the District.
  2. The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.
  3. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.
- **Capital Projects Funds** are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains four non-major capital project funds:
  1. The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.
  2. The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
  3. The *County School Facilities Fund* is used to account for state apportionments provided for modernization of school facilities under SB50.
  4. The *Capital Projects Fund for Blended Component Units* 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.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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

E. Fund Accounting (continued)

**Non-major Governmental Funds:** (continued)

- *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains one non-major debt service fund:
  1. *The Bond Interest and Redemption Fund* is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

**Fiduciary Funds:**

- *Agency Funds* are used to account for assets of others for which the District acts as an agent. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District.
- The *Foundation Private-Purpose Trust 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.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and the final revised budgets are presented for the General Fund in the supplementary information.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value.

2. Inventories

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."

3. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District does not own any infrastructure as defined in GASB No. 34. 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 capitalized.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets (continued)

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	30 years
Furniture and Equipment	5-20 years
Vehicles	8 years

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, and recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 5-30 years depending on asset types.

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

5. Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability on the government-wide statement of net assets as the benefits are earned. For governmental funds, unpaid compensated absences are recognized as a fund liability only upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are recorded as accounts payable in the fund from which the employees who have accumulated leave are paid.

Compensated absences benefits in the amount of \$3,359,989 are recorded as a liability of the District.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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

H. Assets, Liabilities, and Equity (continued)

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued and any premiums or discounts are reported as other financing sources and uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. 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 improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

9. Restricted Net Assets.

Restrictions of the ending net assets indicate the portions of net assets not appropriable for expenditure or amounts legally segregated for a specific future use. The restrictions for revolving cash fund, prepaid expenses and inventory reflect the portion of net assets represented by revolving fund cash, prepaid expenses and inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date. The restriction of debt service represents that portion of net assets

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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

I. Revenue Limit/Property Tax

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

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31. Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District. The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment. The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

K. New GASB Pronouncement

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* was issued in February 2009. 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. This statement is required to be implemented in the 2010-11 fiscal year.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 2 – CASH AND INVESTMENTS**

Summary of Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

	Governmental Funds	Fiduciary Funds
Cash in county treasury	\$ 36,972,589	\$ 1,587
Cash on hand and in banks	42,990	1,530,295
Cash in revolving fund	300,000	-
Cash with fiscal agent	512,447	-
Cash collections awaiting deposit	1,861	-
California Asset Management Program (CAMP)	24,356,936	-
Local Agency Investment Fund (LAIF)	31,539,604	55,102
Total cash and investments	\$ 93,726,427	\$ 1,586,984

Policies and Practices

Governmental agencies in the state of California are 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 or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of the applicable agreements rather than the general provisions of the California Government Code.

*Cash 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 its County Treasurer (Education Code Section 41001). The fair value of the District’s investment in the pool is disclosed in the notes to the 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 recorded on the amortized cost basis and is based on the accounting records maintained by the County Treasurer.

*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.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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

*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.

**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:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term 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

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

**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 Treasury. The District maintains an investment with the Contra Costa County Investment Pool with a fair value of approximately \$37,160,000 and an amortized book value of \$36,974,176. The average weighted maturity for this pool is 122 days. In addition, the District maintains cash with fiscal agent through Wells Fargo money market mutual funds with an amortized book value of \$512,447. Investments consist of amounts on deposit with the State's Local Agency Investment Fund with an amortized book value of \$31,594,706 and a fair market value of approximately \$31,672,000, which approximates cost.

**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.

**Custodial Credit Risk – Deposits**

Custodial credit risk 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, 2010, the District's Governmental Funds bank balances were not exposed to custodial credit risk because they fell within the \$250,000 FDIC insurance limit. However, within the District's Fiduciary Funds, there are three ASB bank balances which exceed the FDIC insurance limit by an aggregate amount of \$255,056, as of June 30, 2010.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2010 consist of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal	\$ 7,574,720	\$ 1,301,184	\$ 8,875,904
State categorical	4,271,304	21,017	4,292,321
Other	23,246,406	92,673	23,339,079
Total accounts receivable	\$ 35,092,430	\$ 1,414,874	\$ 36,507,304

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 4 – INTERFUND TRANSACTIONS**

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

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2010 are as follows:

	Due To Other Funds		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 3,574,329	\$ 3,574,329
Non-Major Governmental Funds	1,883,555	-	1,883,555
Total	\$ 1,883,555	\$ 3,574,329	\$ 5,457,884

General Fund due to Adult Education Fund for Tier 3 adult education funds, PERS Revenue Limit buyback adjustment and equivalent share of lottery revenue	\$ 706,356
General Fund due to Cafeteria Fund for the 08-09 balance forward adjustment and needy meals	1,152,941
General Fund due to Building Fund 08-09 balance forward adjustment	22,528
General Fund due to Capital Facilities Fund for PERS Revenue Limit buyback adjustment	161
General Fund due to County School Facilities Fund for PERS Revenue Limit buyback	505
General Fund due to Capital Projects Fund for Blended Component Units for PERS Revenue Limit buyback adjustment	1,064
Adult Education Fund due to General Fund for classroom units, post retirement benefits and indirect costs	1,159,433
Cafeteria Fund due to General Fund for allocated classroom units and PERS Revenue Limit buyback adjustment	959,772
Deferred Maintenance Fund due to General Fund for Tier 3 deferred maintenance funds	1,455,000
Capital Project Fund for Blended Component Units to General Fund for PERS Revenue Limit buyback	124
Total	\$ 5,457,884

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 4 – INTERFUND TRANSACTIONS (continued)**

B. Interfund Transfers

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

Interfund transfers for the 2009-10 fiscal year are as follows:

	<u>Transfers to Other Funds</u>		
	<u>General Fund</u>	<u>Debt Service Fund for Blended Component Units</u>	<u>Total</u>
All Non-Major Funds	\$ 7,176,802	\$ 809,942	\$ 7,986,744
Transfer from General Fund to Adult Education Fund for adult education's share of lottery revenue and Tier 3 adult education funds			\$ 4,645,650
Transfer from General Fund to Deferred Maintenance Fund for Tier 3 deferred maintenance funds			2,531,152
Transfer from Debt Service Fund for Blended Component Units to Capital Project Fund for Blended Component Units for Measure A furniture and equipment.			809,942
Total			<u>\$ 7,986,744</u>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 5 – FUND BALANCES**

The following fund balance amounts were designated by the District’s governing board as of June 30, 2010, as follows

	<u>General Fund</u>
Economic Uncertainties	\$ 5,438,064
Tier 3 Categorical Programs:	
Cal Safe Academic	305,762
Cal Safe Child Care	362,099
CBET	40,972
PAR	39,293
CAHSEE Intensive	254,428
Supplemental Counseling	307,635
GATE	119,559
Instructional Materials	136,684
School Safety	981
Staff Development	402,127
Principal Training	118,996
Pupil Retention Block Grant	24,862
Teacher Credential BTSA Block Grant	117,071
Target Instructional Improvement Block Grant	1,193,227
School & Library Improvement Block Grant	1,027,866
SBX34 Sweeps	1,044,507
Site Based Carryovers	1,262,883
IRS Assessment	533,500
Total designations	<u>\$ 12,730,516</u>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2010 is shown below:

	Beginning Balance July 1, 2009	Transfers and Additions	Transfers and Deletions	Ending Balance June 30, 2010
Land	\$ 14,436,462	\$ -	\$ -	\$ 14,436,462
Site improvements	19,917,304	2,148,741	-	22,066,045
Buildings	501,265,608	7,966,323	-	509,231,931
Furniture and equipment	15,323,361	290,178	-	15,613,539
Construction in progress	4,184,964	8,345,052	10,115,064	2,414,952
Totals, at cost	<u>555,127,699</u>	<u>18,750,294</u>	<u>10,115,064</u>	<u>563,762,929</u>
Less accumulated depreciation:				
Site improvements	(1,181,979)	(737,461)	-	(1,919,440)
Buildings	(130,674,327)	(15,370,181)	-	(146,044,508)
Equipment	(13,839,833)	(289,338)	-	(14,129,171)
Total accumulated depreciation	<u>(145,696,139)</u>	<u>(16,396,980)</u>	<u>-</u>	<u>(162,093,119)</u>
Capital assets, net	<u>\$ 409,431,560</u>	<u>\$ 2,353,314</u>	<u>\$ 10,115,064</u>	<u>\$ 401,669,810</u>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 7 – GENERAL LONG-TERM DEBT**

A schedule of changes in long-term debt for the year ended June 30, 2010 is shown below:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Amounts Due Within One Year
Mello-Roos Bonds:					
Series 2002	\$ 22,620,000	\$ -	\$ 1,205,000	\$ 21,415,000	\$ 1,255,000
Series 2005	14,245,000	-	550,000	13,695,000	565,000
Series 2006	26,735,000	-	1,765,000	24,970,000	1,815,000
Net issuance discount	(23,505)	-	(1,584)	(21,921)	(1,584)
General Obligation Bonds:					
Series 2002	44,430,000	-	1,655,000	42,775,000	1,720,000
Series 2004	109,155,000	-	3,285,000	105,870,000	3,420,000
Series 2006	59,380,000	-	500,000	58,880,000	790,000
Net issuance premium	3,663,357	-	182,657	3,480,700	182,657
Certificates of Participation	5,670,000	-	230,000	5,440,000	240,000
Net issuance premium	30,882	-	1,881	29,001	1,881
Construction loan	5,636,148	-	97,106	5,539,042	-
Capitalized lease obligations	9,139,182	-	510,489	8,628,693	533,749
Post-employment healthcare benefits	8,622,710	4,066,578	-	12,689,288	-
Compensated absences	3,558,522	-	198,533	3,359,989	-
Totals	<u>\$ 312,862,296</u>	<u>\$ 4,066,578</u>	<u>\$ 10,179,082</u>	<u>\$ 306,749,792</u>	<u>\$ 10,521,703</u>

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.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 7 – GENERAL LONG-TERM DEBT (continued)**

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 invested 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, 2010 was \$21,415,000.

On June 30, 2005, the District issued Series 2005 Measure “A” Bonds totaling \$15,760,000. A portion of the bond proceeds were invested 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, 2010 was \$13,695,000.

On June 14, 2006, the District issued Series 2006 Special Tax Refunding Bonds totaling \$29,995,000. A portion of the bond proceeds were invested 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, 2010 was \$24,970,000.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 7 – GENERAL LONG-TERM DEBT (continued)**

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010-11	\$ 3,635,000	\$ 2,406,430	\$ 6,041,430
2011-12	3,770,000	2,270,530	6,040,530
2012-13	3,905,000	2,127,877	6,032,877
2013-14	4,055,000	1,977,763	6,032,763
2014-15	4,220,000	1,819,125	6,039,125
2016-2020	23,840,000	6,316,902	30,156,902
2021-2025	16,265,000	1,490,550	17,755,550
2026-2029	390,000	17,775	407,775
Total	<u>\$ 60,080,000</u>	<u>\$ 18,426,952</u>	<u>\$ 78,506,952</u>

B. General Obligation Measure “C” Bonds

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, 2010 is \$42,775,000.

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, 2010 is \$105,870,000.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 7 – GENERAL LONG-TERM DEBT (continued)**

**B. General Obligation Measure “C” Bonds (continued)**

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, 2010 is \$58,880,000.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010-11	\$ 5,930,000	\$ 10,057,774	\$ 15,987,774
2011-12	6,435,000	9,763,892	16,198,892
2012-13	7,010,000	9,422,549	16,432,549
2013-14	7,270,000	9,061,930	16,331,930
2014-15	7,030,000	8,717,421	15,747,421
2016-2020	40,155,000	38,273,979	78,428,979
2021-2025	49,230,000	27,459,306	76,689,306
2026-2030	71,135,000	13,772,900	84,907,900
2031	13,330,000	666,500	13,996,500
Total	<u>\$ 207,525,000</u>	<u>\$ 127,196,251</u>	<u>\$ 334,721,251</u>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 7 – GENERAL LONG-TERM DEBT (continued)**

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% maturing through December 2019 for the Mount Diablo Unified School District Education Facilities Project.

The District's future obligations on the Certificates are as follows:

Fiscal Year	Payment
2010-11	\$ 502,958
2011-12	506,445
2012-13	504,159
2013-14	501,266
2014-15	497,683
2016-2020	2,467,475
2021-2025	2,402,375
2026	471,500
Total	<u>7,853,861</u>
Less amount representing interest	<u>(2,413,861)</u>
Net present value of minimum payments	<u><u>\$ 5,440,000</u></u>

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, 2010 is \$5,539,042.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 7 – GENERAL 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:

Fiscal Year	Payment
2010-11	\$ 926,781
2011-12	926,780
2012-13	926,779
2013-14	926,780
2014-15	926,780
2016-2020	4,633,900
2021-2023	<u>2,217,203</u>
Total	<u>11,485,003</u>
Less amount representing interest	<u>(2,856,310)</u>
Net present value of minimum payments	<u>\$ 8,628,693</u>

F. Other Leases

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

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 8 – JOINT VENTURES**

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 is shown below:

	CCCSIG June 30, 2010	SELF June 30, 2009	SSICCC June 30, 2009
Assets	\$ 97,277,482	\$ 209,217,000	\$ 6,518,526
Liabilities	\$ 72,699,996	\$ 161,555,000	\$ 1,008,968
Net assets	\$ 24,577,486	\$ 47,662,000	\$ 5,509,558
Revenues	\$ 41,747,625	\$ 18,330,000	\$ 15,155,408
Expenses	44,207,706	27,701,000	14,438,881
Operating income	(2,460,081)	(9,371,000)	716,527
Non-operating income	2,378,286	8,315,000	100,028
Change in net assets	\$ (81,795)	\$ (1,056,000)	\$ 816,555

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

A. State and Federal Allowances, Awards, and Grants

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

B. Litigation

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

In 2008-09, the District received a judgment of approximately \$2.7 million to \$3.0 million to be awarded to Heathorn, Inc. The District is vigorously defending itself in the litigation. The judgment is currently being litigated in appellate court. If the appellate court upholds the judgment, the District will pay any resulting award in installments over a 10 year period. The appeal process may take several years to resolve. Accordingly, no provision has been made in the District's financial statements as of June 30, 2010.

C. IRS Audit

The District is currently involved in two IRS audits, one involving payroll and the other involving the issuance of bonded debt. The District has reserved the general fund balance in the amount of \$533,500 to cover potential liabilities of the IRS audits. The District's management plan is to reconcile the discrepancies with the IRS. In response, the IRS had reduced one set of penalties from \$322,488 to \$342 in 2008-09.

D. Construction Commitments

As of June 30, 2010, the District had commitments with respect to unfinished capital projects of approximately \$3,979,961.

**NOTE 10 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District participates in a public entity risk pool, as described in Note 9, for claims in excess of insured amounts for workers' compensation and liability protection. The District purchases commercial insurance coverage for other types of risk. There have been no significant reductions in insurance coverage from the prior year.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 11 – EMPLOYEE RETIREMENT PLANS**

Qualified employees are covered under multiple-employer defined benefit pension 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).

Plan Description and Provisions

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

Plan Description

The District contributes to the School Employer Pool under the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended within the Public Employees’ Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street; Sacramento, California 95814.

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 for fiscal year 2009-10 was 9.709%. 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>
2009-10	\$ 4,359,337	100%
2008-09	\$ 4,386,622	100%
2007-08	\$ 5,499,056	100%

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)**

**California State Teachers’ Retirement System (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, disability 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, 7667 Folsom Boulevard; Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2009-10 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>
2009-10	\$ 10,412,753	100%
2008-09	\$ 10,954,293	100%
2007-08	\$ 10,972,015	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 \$5,385,602 to CalSTRS (4.267% of salaries subject to CalSTRS in 2009-10).

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 12 – 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 8). 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 13 – OTHER POSTEMPLOYMENT BENEFITS**

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
Total	<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 2009-10, the District contributed \$3,837,135.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)**

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:

	<u>Amount</u>
Annual required contribution (ARC)	\$ 8,043,769
Interest on net OPEB obligation	421,726
Adjustment to ARC	<u>(373,591)</u>
Annual OPEB cost	<u>8,091,904</u>
Contributions made:	
Pay-as-you-go amount	<u>3,837,135</u>
Total contributions made	<u>3,837,135</u>
Increase in net OPEB obligation	4,254,769
Net OPEB obligation - July 1, 2009, as previously stated	8,622,710
Decrease for prior year adjustment to ARC	<u>(188,191)</u>
Net OPEB obligation - July 1, 2009, as adjusted	<u>8,434,519</u>
Net OPEB obligation - June 30, 2010	<u><u>\$ 12,689,288</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009-10 are as follows:

Year Ended	Annual	Percentage	Net OPEB
<u>June 30,</u>	<u>OPEB</u>	<u>Contributed</u>	<u>Obligation</u>
2010	Cost	47%	\$ 12,689,288
	\$ 8,091,904		\$

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)**

Funded Status and Funding Progress – OPEB Plans

As of June 3, 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.

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	28 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**  
**June 30, 2010**

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**NOTE 14 – EXPENDITURES IN EXCESS OF APPROPRIATIONS**

Expenditures in excess of appropriations in the general fund for the fiscal year 2009-10 were as follows:

General Fund:		
	Classified salaries	\$ 940,371

**NOTE 15 – CURRENT LOAN**

On March 4, 2010, the District issued Tax and Revenue Anticipation Notes (TRANs) totaling \$12,000,000 which mature on October 30, 2010 with a coupon rate of 2.00% and a yield of 0.46%. The TRANs were issued to provide for anticipated cash flow needs. The TRANs are a general obligation of the District, and are payable from revenues and cash receipts generated by the District.

**NOTE 16 – SUBSEQUENT EVENTS**

**General Obligation Bond Issuance**

On September 22, 2010, two Election 2010 general obligation bonds were issued. The Series A general obligation refunding 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.

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*Required Supplementary Information*

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**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Budgetary Comparison Schedule – General Fund**  
**For the Fiscal Year Ended June 30, 2010**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget -
	Original	Final		Pos (Neg)
<b>REVENUES</b>				
Revenue limit sources	\$ 174,716,743	\$ 165,841,569	\$ 165,118,381	\$ (723,188)
Federal	22,746,451	37,865,380	27,932,051	(9,933,329)
Other state	60,890,740	67,725,882	62,989,934	(4,735,948)
Other local	8,454,135	12,250,022	12,279,895	29,873
Total revenues	<u>266,808,069</u>	<u>283,682,853</u>	<u>268,320,261</u>	<u>(15,362,592)</u>
<b>EXPENDITURES</b>				
Certificated salaries	123,663,118	130,074,406	127,856,813	2,217,593
Classified salaries	40,242,768	43,262,111	44,202,482	(940,371)
Employee benefits	53,707,432	55,328,687	53,003,053	2,325,634
Books and supplies	12,773,291	37,384,499	12,110,363	25,274,136
Services and other operating expenditures	33,963,449	41,448,032	35,546,947	5,901,085
Capital outlay	192,720	2,760,724	934,095	1,826,629
Transfers of indirect costs	(764,223)	(797,418)	(715,708)	(81,710)
Other outgo	3,434,397	3,026,350	2,456,908	569,442
Total expenditures	<u>267,212,952</u>	<u>312,487,391</u>	<u>275,394,953</u>	<u>37,092,438</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(404,883)</u>	<u>(28,804,538)</u>	<u>(7,074,692)</u>	<u>21,729,846</u>
<b>OTHER FINANCING SOURCES AND USES</b>				
Interfund transfers in	-	2,147,036	-	(2,147,036)
Interfund transfers out	(6,409,846)	(7,777,164)	(7,176,802)	600,362
All other financing sources	-	-	2,169,387	2,169,387
Total other financing sources and uses	<u>(6,409,846)</u>	<u>(5,630,128)</u>	<u>(5,007,415)</u>	<u>622,713</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(6,814,729)</u>	<u>(34,434,666)</u>	<u>(12,082,107)</u>	<u>22,352,559</u>
Fund balances, July 1, 2009	<u>47,217,125</u>	<u>47,217,125</u>	<u>47,217,125</u>	<u>-</u>
Fund balances, June 30, 2010	<u>\$ 40,402,396</u>	<u>\$ 12,782,459</u>	<u>\$ 35,135,018</u>	<u>\$ 22,352,559</u>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2010**

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

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*Supplementary Information Section*

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**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Combining Balance Sheet – All Non-Major Funds**  
**June 30, 2010**

	Adult Education Fund	Cafeteria Special Revenue Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
<b>ASSETS</b>									
Cash and cash equivalents	\$ 1,060,248	\$ 213,860	\$ 2,724,823	\$ 5,283,032	\$ 952,995	\$ 1,099,956	\$ 338,409	\$ 8,884,108	\$ 20,557,431
Investments	612,239	699,267	867,338	-	2,193,856	11,591,602	2,040,796	-	18,005,098
Accounts receivable	270,863	1,114,327	1,202	-	3,042	22,469	2,971	-	1,414,874
Due from other funds	706,356	1,152,941	-	22,528	161	505	1,064	-	1,883,555
Inventories	-	139,883	-	-	-	-	-	-	139,883
Total assets	<u>\$ 2,649,706</u>	<u>\$ 3,320,278</u>	<u>\$ 3,593,363</u>	<u>\$ 5,305,560</u>	<u>\$ 3,150,054</u>	<u>\$ 12,714,532</u>	<u>\$ 2,383,240</u>	<u>\$ 8,884,108</u>	<u>\$ 42,000,841</u>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>LIABILITIES</b>									
Accounts payable	\$ 40,066	\$ 337,346	\$ 2,163	\$ 6,807	\$ 51,662	\$ 210,537	\$ 2,473	\$ -	\$ 651,054
Due to other funds	1,159,433	959,772	1,455,000	-	-	-	124	-	3,574,329
Deferred revenue	-	45,793	-	-	-	-	-	-	45,793
Total liabilities	<u>1,199,499</u>	<u>1,342,911</u>	<u>1,457,163</u>	<u>6,807</u>	<u>51,662</u>	<u>210,537</u>	<u>2,597</u>	<u>-</u>	<u>4,271,176</u>
<b>FUND BALANCES</b>									
Reserved for:									
Inventories	-	139,883	-	-	-	-	-	-	139,883
Debt service	-	-	-	-	-	-	-	8,884,108	8,884,108
Unreserved:									
Special revenue funds	1,450,207	1,837,484	2,136,200	-	-	-	-	-	5,423,891
Capital project funds	-	-	-	5,298,753	3,098,392	12,503,995	2,380,643	-	23,281,783
Total fund balances	<u>1,450,207</u>	<u>1,977,367</u>	<u>2,136,200</u>	<u>5,298,753</u>	<u>3,098,392</u>	<u>12,503,995</u>	<u>2,380,643</u>	<u>8,884,108</u>	<u>37,729,665</u>
Total liabilities and fund balances	<u>\$ 2,649,706</u>	<u>\$ 3,320,278</u>	<u>\$ 3,593,363</u>	<u>\$ 5,305,560</u>	<u>\$ 3,150,054</u>	<u>\$ 12,714,532</u>	<u>\$ 2,383,240</u>	<u>\$ 8,884,108</u>	<u>\$ 42,000,841</u>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Revenues, Expenditures and Change in Fund Balance – All Non-Major Funds**  
**For the Fiscal Year Ended June 30, 2010**

	Adult Education Fund	Cafeteria Special Revenue Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
<b>REVENUES</b>									
General revenues:									
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,589,165	\$ 15,589,165
Federal and state aid not restricted to specific purpose	184,032	600,000	-	-	-	-	-	-	784,032
Interest and investment earnings	5,438	-	9,058	17,650	17,339	-	14,661	15,197	79,343
Miscellaneous	1,460,242	-	-	1,284	643,632	-	627	-	2,105,785
Program revenues:									
Charges for services	-	4,246,397	-	-	-	-	-	-	4,246,397
Operating grants and contributions	1,063,312	7,380,083	-	-	-	35,374	-	-	8,478,769
Capital grants and contributions	-	-	-	-	-	105,363	-	-	105,363
<b>Total revenues</b>	<b>2,713,024</b>	<b>12,226,480</b>	<b>9,058</b>	<b>18,934</b>	<b>660,971</b>	<b>140,737</b>	<b>15,288</b>	<b>15,604,362</b>	<b>31,388,854</b>
<b>EXPENDITURES</b>									
Instructional services:									
Instruction	3,712,207	-	-	-	-	-	-	-	3,712,207
Instruction-related services:									
Supervision of instruction	523,048	-	-	-	-	-	-	-	523,048
Instructional library, media and technology	85,071	-	-	-	-	-	-	-	85,071
School site administration	1,773,630	-	-	-	-	-	-	-	1,773,630
Pupil support services:									
Food services	-	10,873,046	-	-	-	-	-	-	10,873,046
All other pupil services	34,924	-	-	-	-	-	-	-	34,924
General administration services:									
Other general administration	225,240	488,797	-	-	60,260	-	-	-	774,297
Plant services	1,214,390	906,436	38,070	-	-	-	599,030	-	2,757,926
Facility acquisition and construction	-	112,226	365,940	207,256	158,678	7,257,397	8,167	-	8,109,664
Community services	70,110	-	-	-	-	-	-	-	70,110
Other outgo:									
Debt service - principal	-	-	-	-	97,106	-	-	5,440,000	5,537,106
Debt service - interest	-	-	-	-	-	-	-	10,339,043	10,339,043
Debt service - issuance costs and discounts	-	-	-	585	-	-	17,547	-	18,132
<b>Total expenditures</b>	<b>7,638,620</b>	<b>12,380,505</b>	<b>404,010</b>	<b>207,841</b>	<b>316,044</b>	<b>7,257,397</b>	<b>624,744</b>	<b>15,779,043</b>	<b>44,608,204</b>
Excess (deficiency) of revenues over (under) expenditures	(4,925,596)	(154,025)	(394,952)	(188,907)	344,927	(7,116,660)	(609,456)	(174,681)	(13,219,350)
<b>OTHER FINANCING SOURCES (USES)</b>									
Interfund transfers in	4,645,650	-	2,531,152	-	-	-	809,942	-	7,986,744
All other financing sources	-	-	(2,169,387)	-	-	-	-	-	(2,169,387)
<b>Total other financing sources and uses</b>	<b>4,645,650</b>	<b>-</b>	<b>361,765</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>809,942</b>	<b>-</b>	<b>5,817,357</b>
Net change in fund balances	(279,946)	(154,025)	(33,187)	(188,907)	344,927	(7,116,660)	200,486	(174,681)	(7,401,993)
Fund balances, July 1, 2009	1,730,153	2,131,392	2,169,387	5,487,660	2,753,465	19,620,655	2,180,157	9,058,789	45,131,658
Fund balances, June 30, 2010	\$ 1,450,207	\$ 1,977,367	\$ 2,136,200	\$ 5,298,753	\$ 3,098,392	\$ 12,503,995	\$ 2,380,643	\$ 8,884,108	\$ 37,729,665

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Assets and Liabilities – All Agency Funds**  
**June 30, 2010**

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	<u>OTHER SCHOOLS</u>				
	Diablo Community Day School	Adult Education	Shadelands Preschool	Gateway NS High School	TOTAL OTHER SCHOOLS
<b>ASSETS</b>					
Cash on hand and in banks	\$ 1,071	\$ 10,597	\$ 2,346	\$ 15	\$ 14,029
Total Assets	<u>\$ 1,071</u>	<u>\$ 10,597</u>	<u>\$ 2,346</u>	<u>\$ 15</u>	<u>\$ 14,029</u>
<b>LIABILITIES</b>					
Due to student groups	\$ 1,071	\$ 10,597	\$ 2,346	\$ 15	\$ 14,029
Total Liabilities	<u>\$ 1,071</u>	<u>\$ 10,597</u>	<u>\$ 2,346</u>	<u>\$ 15</u>	<u>\$ 14,029</u>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Assets and Liabilities - All Agency Funds (continued)**  
**June 30, 2010**

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	ELEMENTARY SCHOOLS					
	Sunrise Elementary School	Bel Air Elementary School	Delta View Elementary School	Fair Oaks Elementary School	Gregory Gardens Elementary School	Hidden Valley Elementary School
<b>ASSETS</b>						
Cash on hand and in banks	\$ 1,983	\$ 3,402	\$ 2,481	\$ 1,399	\$ 1,221	\$ 2,335
Total Assets	<u>\$ 1,983</u>	<u>\$ 3,402</u>	<u>\$ 2,481</u>	<u>\$ 1,399</u>	<u>\$ 1,221</u>	<u>\$ 2,335</u>
<b>LIABILITIES</b>						
Due to student groups	\$ 1,983	\$ 3,402	\$ 2,481	\$ 1,399	\$ 1,221	\$ 2,335
Total Liabilities	<u>\$ 1,983</u>	<u>\$ 3,402</u>	<u>\$ 2,481</u>	<u>\$ 1,399</u>	<u>\$ 1,221</u>	<u>\$ 2,335</u>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Assets and Liabilities - All Agency Funds (continued)**  
**June 30, 2010**

	ELEMENTARY SCHOOLS (continued)						
	Meadow Homes Elementary School	Pleasant Hill Elementary School	Sequoia Elementary School	Strandwood Elementary School	Sun Terrace Elementary School	Walnut Acres Elementary School	TOTAL ELEMENTARY SCHOOLS
<b>ASSETS</b>							
Cash on hand and in banks	\$ 1,783	\$ 2,629	\$ 4,535	\$ 3,361	\$ 800	\$ 5,501	\$ 31,430
Total Assets	<u>\$ 1,783</u>	<u>\$ 2,629</u>	<u>\$ 4,535</u>	<u>\$ 3,361</u>	<u>\$ 800</u>	<u>\$ 5,501</u>	<u>\$ 31,430</u>
<b>LIABILITIES</b>							
Due to student groups	\$ 1,783	\$ 2,629	\$ 4,535	\$ 3,361	\$ 800	\$ 5,501	\$ 31,430
Total Liabilities	<u>\$ 1,783</u>	<u>\$ 2,629</u>	<u>\$ 4,535</u>	<u>\$ 3,361</u>	<u>\$ 800</u>	<u>\$ 5,501</u>	<u>\$ 31,430</u>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Assets and Liabilities - All Agency Funds (continued)**  
**June 30, 2010**

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	MIDDLE SCHOOLS									
	Diablo View Middle School	El Dorado Middle School	Foothill Middle School	Glenbrook Middle School	Oak Grove Middle School	Pine Hollow Middle School	Pleasant Hill Middle School	Sequoia Middle School	Valley View Middle School	TOTAL MIDDLE SCHOOLS
<b>ASSETS</b>										
Cash on hand and in banks	\$ 50,164	\$ 10,984	\$ 26,975	\$ 17,885	\$ 3,231	\$ 9,342	\$ 17,152	\$ 13,267	\$ 26,747	\$ 175,747
Total Assets	<u>\$ 50,164</u>	<u>\$ 10,984</u>	<u>\$ 26,975</u>	<u>\$ 17,885</u>	<u>\$ 3,231</u>	<u>\$ 9,342</u>	<u>\$ 17,152</u>	<u>\$ 13,267</u>	<u>\$ 26,747</u>	<u>\$ 175,747</u>
<b>LIABILITIES</b>										
Due to student groups	\$ 50,164	\$ 10,984	\$ 26,975	\$ 17,885	\$ 3,231	\$ 9,342	\$ 17,152	\$ 13,267	\$ 26,747	\$ 175,747
Total Liabilities	<u>\$ 50,164</u>	<u>\$ 10,984</u>	<u>\$ 26,975</u>	<u>\$ 17,885</u>	<u>\$ 3,231</u>	<u>\$ 9,342</u>	<u>\$ 17,152</u>	<u>\$ 13,267</u>	<u>\$ 26,747</u>	<u>\$ 175,747</u>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Assets and Liabilities – All Agency Funds (continued)**  
**June 30, 2010**

	HIGH SCHOOLS							
	Clayton Valley High School	College Park High School	Concord High School	Crossroads High School	Mount Diablo High School	Northgate High School	Olympic High School	Ygnacio Valley High School
<b>ASSETS</b>								
Cash on hand and in banks	\$ 330,646	\$ 379,760	\$ 69,188	\$ 1,934	\$ 127,100	\$ 294,650	\$ 5,428	\$ 100,383
Total Assets	<u>\$ 330,646</u>	<u>\$ 379,760</u>	<u>\$ 69,188</u>	<u>\$ 1,934</u>	<u>\$ 127,100</u>	<u>\$ 294,650</u>	<u>\$ 5,428</u>	<u>\$ 100,383</u>
<b>LIABILITIES</b>								
Due to student groups	\$ 330,646	\$ 379,760	\$ 69,188	\$ 1,934	\$ 127,100	\$ 294,650	\$ 5,428	\$ 100,383
Total Liabilities	<u>\$ 330,646</u>	<u>\$ 379,760</u>	<u>\$ 69,188</u>	<u>\$ 1,934</u>	<u>\$ 127,100</u>	<u>\$ 294,650</u>	<u>\$ 5,428</u>	<u>\$ 100,383</u>

	ALL SCHOOLS				
	Other Schools	Elementary Schools	Middle Schools	High Schools	TOTAL ALL SCHOOLS
<b>ASSETS</b>					
Cash on hand and in banks	\$ 14,029	\$ 31,430	\$ 175,747	\$ 1,309,089	\$ 1,530,295
Total Assets	<u>\$ 14,029</u>	<u>\$ 31,430</u>	<u>\$ 175,747</u>	<u>\$ 1,309,089</u>	<u>\$ 1,530,295</u>
<b>LIABILITIES</b>					
Due to student groups	\$ 14,029	\$ 31,430	\$ 175,747	\$ 1,309,089	\$ 1,530,295
Total Liabilities	<u>\$ 14,029</u>	<u>\$ 31,430</u>	<u>\$ 175,747</u>	<u>\$ 1,309,089</u>	<u>\$ 1,530,295</u>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Local Educational Agency Organization Structure**  
**June 30, 2010**

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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-eight elementary schools, ten middle schools, and six high schools. This District also maintains four special education schools, one continuation education high school, six necessary small continuation education high schools and an adult education program.

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>
Paul Strange	President	December 2010
Gary Eberhart	Vice-President	December 2012
Richard Allen	Member	December 2010
Linda Mayo	Member	December 2010
Sherry Whitmarsh	Member	December 2012

**DISTRICT ADMINISTRATORS**

Steven Lawrence, Ph.D.  
*Superintendent*

Gail Isserman  
*Assistant Superintendent-Personnel Services*

Alan E. Young, Ed.D.  
*Associate Superintendent-Educational Services*

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

Pete Pedersen  
*Assistant Superintendent-Administrative Services*

Bryan Richards  
*Chief Financial Officer*

Rose Lock  
*Assistant Superintendent-Elementary Services*

Gregory J. Rolen, Esq.  
*General Counsel*

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Schedule of Average Daily Attendance**  
**For the Fiscal Year Ended June 30, 2010**

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	Second Period Report	Second Period Report After Audit Finding Adjustments*	Annual Report	Annual Report After Audit Finding Adjustments*
<b>Elementary:</b>				
Kindergarten	2,391	2,391	2,399	2,399
Grades 1 through 3, regular classes	7,285	7,285	7,280	7,280
Grades 4 through 6, regular classes	7,179	7,179	7,170	7,170
Grades 7 and 8, regular classes	4,778	4,778	4,760	4,760
Home and hospital	25	25	29	29
Special education	794	794	803	803
Community day school	5	5	6	6
Extended year program - nonpublic, nonsectarian schools	12	12	12	12
Total Elementary	<u>22,469</u>	<u>22,469</u>	<u>22,459</u>	<u>22,459</u>
<b>Secondary:</b>				
Grades 9 through 12, regular classes	9,010	9,010	8,898	8,898
Continuation education	467	467	463	463
Opportunity schools	38	38	34	34
Home and hospital	58	58	62	62
Special education	531	531	519	519
Community day school	24	24	25	25
Extended year program - nonpublic, nonsectarian schools	12	12	12	12
Total Secondary	<u>10,140</u>	<u>10,140</u>	<u>10,013</u>	<u>10,013</u>
Total Average Daily Attendance	<u>32,609</u>	<u>32,609</u>	<u>32,472</u>	<u>32,472</u>

\* Adjustments related to audit findings were not made to P-2 or Annual attendance reports. See finding #2010-5.

See accompanying note to supplementary information.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Schedule of Instructional Time**  
**For the Fiscal Year Ended June 30, 2010**

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Grade Level	1982-83 Actual Minutes	1982-83 Reduced Minutes	1986-87 Minutes Requirement	1986-87 Reduced Minutes	2009-10 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	31,680	30,800	36,000	35,000	35,090	180	Complied
Grade 1	48,840	47,483	50,400	49,000	50,720	180	Complied
Grade 2	48,840	47,483	50,400	49,000	50,720	180	Complied
Grade 3	48,840	47,483	50,400	49,000	50,860	180	Complied
Grade 4	52,120	50,672	54,000	52,500	54,080	180	Complied
Grade 5	52,120	50,672	54,000	52,500	54,080	180	Complied
Grade 6	52,120	50,672	54,000	52,500	56,820	180	Complied
Grade 7	56,700	55,125	54,000	52,500	56,820	180	Complied
Grade 8	56,700	55,125	54,000	52,500	56,820	180	Complied
Grade 9	56,060	54,503	64,800	63,000	65,412	180	Complied
Grade 10	56,060	54,503	64,800	63,000	65,412	180	Complied
Grade 11	56,060	54,503	64,800	63,000	65,412	180	Complied
Grade 12	56,060	54,503	64,800	63,000	65,412	180	Complied

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Schedule of Financial Trends and Analysis**  
**For the Fiscal Year Ended June 30, 2010**

General Fund	(Budget) 2011**	2010	2009	2008
Revenues and other financing sources	\$ 259,800,868	\$ 270,489,648	\$ 301,845,045	\$ 300,635,903
Expenditures	268,417,158	275,394,953	287,063,698	298,596,706
Other uses and transfers out	3,486,037	7,176,802	1,294,106	2,105,819
Total outgo	271,903,195	282,571,755	288,357,804	300,702,525
Change in fund balance (deficit)	(12,102,327)	(12,082,107)	13,487,241	(66,622)
Ending fund balance	\$ 23,032,691	\$ 35,135,018	\$ 47,217,125	\$ 33,729,884
Available reserves*	\$ 5,900,081	\$ 16,751,459	\$ 15,759,922	\$ 13,283,094
Designated for economic uncertainties	\$ 5,438,064	\$ 5,438,064	\$ 5,472,456	\$ 5,992,757
Undesignated fund balances	\$ 462,017	\$ 11,313,395	\$ 10,287,466	\$ 7,290,337
Available reserves as a percentage of total outgo	2.2%	5.9%	5.5%	4.4%
Total long-term debt	\$ 296,228,089	\$ 306,749,792	\$ 312,862,296	\$ 315,295,084
Average daily attendance at P-2	32,344	32,609	33,155	33,357

The General Fund balance has increased by \$1.4 million over the past two years. The fiscal year 2010-11 adopted budget projects a decrease in ending fund balance of \$12.1 million. For a district of this size, the state recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses (total outgo). ABX4 2 reduced the 2% reserve requirement by one-third for the 2009-10 year. Long-term debt has decreased by \$8.5 million over the past two years.

\* Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund or Special Reserve Fund (Other than Capital Outlay).

\*\* Revised Final Budget, September 2010.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 2010**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
National School Lunch	10.555	13391	\$ 4,943,301
National School Breakfast	10.553	13390	73,213
Especially Needy Breakfast	10.553	13526	1,363,191
Meal Supplements	10.556	13392	271,120
ARRA - Equipment Assistance Grant	10.579	15006	125,190
Nutrition Network	10.561	N/A	339,059
USDA Commodities (non-cash assistance)	10.565	13389	287,849
Total U.S. Department of Agriculture			7,402,923
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I, Part A, Basic Grants	84.010	14329	5,770,678
ARRA - Title I, Part A, Basic Grants	84.389	15005	439,204
Title I, Part A, School Improvement SAIT	84.010	14417	1,905
Title I, Part B, Reading First Special Education Teacher Professional Development Pilot	84.357	14911	364,039
Title I, School Improvement Grant for QEIA Schools	84.377	14971	903,377
ARRA - Title I, School Improvement Grant for QEIA Schools	84.389	15004	275,559
Title II, Part D Enhancing Education Through Technology (EETT)	84.318	14334	35,233
Title II, Part A Improving Teacher Quality	84.367	14341	962,843
Title III, Limited English Proficiency	84.365	10084	463,347
Title IV, Safe and Drug Free Schools	84.186	14347	94,426
Title IV, 21st Century Community Learning Centers Technical Assistance	84.287	14350	53,814
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14681	802,689
Title V, Innovative Education	84.298A	14354	1,673
Title X, McKinney Vento Homeless Children Assistance Grant	84.196	14332	46,011
ARRA - Title X, McKinney Vento Homeless Children Assistance Grant	84.387	15007	17,122
Pell Grants	84.063	N/A	191,063
Adult Education: Adult Basic Education & ESL	84.002A	14508	353,359
Adult Education: Adult Secondary Education	84.002	13978	36,562
Adult Education: English Literacy & Civics Education	84.002A	14109	146,131
Vocational Programs: Adult	84.048	13923	71,067
Vocational Programs: Voc & Applied Tech Secondary II	84.048	13924	219,480
Teaching American History	84.215X	N/A	250,150
ARRA - State Fiscal Stabilization Fund, Recovery Act	84.394	25008	15,974,261
Individuals with Disabilities Education Act (IDEA):			
IDEA Quality Assurance & Focused Monitoring, Part B	84.027	13693	85,032
Special Ed: Alternative Dispute Resolution	84.027	13007	15,000
IDEA State Improvement Grant, Improving Special Ed Systems	84.323	14577	8,400
Preschool Grants	84.173	13430	233,904
ARRA - Preschool Grants	84.392	15000	86,888
Preschool Staff Development	84.173A	13431	3,399
Early Intervention Grants	84.181	23761	161,463
Preschool Local Entitlements, Part B	84.027A	13682	333,598
ARRA - Preschool Local Entitlements, Part B	84.391	15002	237,334
Basic Local Assistance Entitlement, Part B	84.027	13379	6,549,196
ARRA - Basic Local Assistance Entitlement, Part B	84.391	15003	5,292,807
Basic Local Assistance Entitlement, Part B, Private Schools ISPs	84.027	10015	51,050
ARRA - Basic Local Assistance Entitlement, Part B, Private Schools ISPs	84.391	10123	13,040
Total U.S. Department of Education			40,545,104
U.S. Department of Defense:			
J.R.O.T.C.	12.UNKNOWN	N/A	109,539
Total U.S. Department of Defense			109,539
U.S. Department of Health & Human Services:			
Passed through California Dept of Health Services:			
Medi-Cal Billing Option	93.778	10013	408,639
Med-Cal Administrative Activities (MAA)	93.778	10060	105,027
Total U.S. Department of Health & Human Services			513,666
Total Expenditures of Federal Awards			\$ 48,571,232

See accompanying note to supplementary information.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**  
**For the Fiscal Year Ended June 30, 2010**

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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 Fiscal Year Ended June 30, 2010**

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<u>Charter School</u>	<u>Inclusion in Financial Statements</u>
Eagle Peak Montessori Charter School	Not included

See accompanying note to supplementary information.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Note to the Supplementary Information**  
**June 30, 2010**

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**NOTE 1 – PURPOSE OF SCHEDULES**

**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.

**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 requirement, whichever is greater, as required by Education Code section 46201. For 2009-10 through 2012-13, the instructional day and minute requirements have been reduced pursuant to Education Code Section 46201.2.

**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.

**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.

**Sub recipients**

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to sub recipients.

**Reconciliation 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 Unaudited Actual Financial Report to the audited financial statements.

**Schedule of Charter Schools**

This schedule lists all charter schools chartered by the school district and displays information for each charter school on whether or not the charter school is included in the school district audit.

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*Other Independent Auditor's Reports*

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Board of Trustees  
Mount Diablo Unified School District  
Concord, California

**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**

Independent Auditor's Report

We have audited the basic financial statements of Mount Diablo Unified School District as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 24, 2010. 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

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 Mount Diablo Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mount Diablo Unified School 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 a 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 Audit Findings and Questioned Costs as Findings #2010-1 and #2010-2 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.

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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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the Board, management, others within the entity, the California Department of Education, the California State Controller's Office, and 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.

*Chintle White Accountancy Corporation*

San Diego, California  
November 24, 2010

Board of Trustees  
Mount Diablo Unified School District  
Concord, California

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

Independent Auditor's Report

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 Mount Diablo Unified School District's major federal programs for the year ended June 30, 2010. 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. 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.

In our opinion, Mount Diablo Unified School District's 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, 2010.

## Internal Control Over Compliance

Management of Mount Diablo Unified School District's 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mount Diablo Unified School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

*Chint White Accountancy Corporation*

San Diego, California  
November 24, 2010

Board of Trustees  
 Mount Diablo Unified School District  
 Concord, California

**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

We have audited the basic financial statements of the Mount Diablo Unified School District (the District), as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 24, 2010. Our audit was made 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable

Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement – Receipt of Funds	1	Yes
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts 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
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Not applicable

Based on our audit, we found that, for the items tested, the Mount Diablo Unified School District complied with the state laws and regulations referred to above, except as noted in the accompanying schedule of findings and questioned costs as items #2010-3 through #2010-5. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Mount Diablo Unified School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board, management, others within the entity, the California Department of Education, the California Department of Finance, the California State Controller’s Office, and 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.

*Christy White Accountancy Corporation*

San Diego, California  
November 24, 2010

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*Findings and Questioned Costs Section*

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**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2010**

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**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

*Federal Awards*

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.394	ARRA-State Fiscal Stabilization Fund, Recovery Act
84.010, 84.389	No Child Left Behind Act (NCLB)
84.027, 84.173, 84.391, 84.392	Title I, Part A, Basic Grants - including ARRA Special Education Cluster (IDEA)

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,457,137</u>
Auditee qualified as low-risk auditee?	<u>No</u>

*State Awards*

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditor's report issued on compliance for state programs:	<u>Qualified</u>

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2010**

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**Section II – Financial Statement Findings**

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 Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

**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.

**District’s Corrective Action Plan:** Due to the severe fiscal constraints imposed on the District by the State budget, it is not feasible to bring back the position of Internal Auditor at this time.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2010**

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**Section II – Financial Statement Findings (continued)**

**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.

**District's Corrective Action Plan:** 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**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2010**

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

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).

*There were no federal award findings and questioned costs in 2009-10.*

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2010**

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

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

**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.

**District’s Corrective Action Plan:** The District concurs with the finding. The affected sites have been reminded about the importance of proper sign in/sign out procedures for students.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2010**

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**Section IV – State Award Findings and Questioned Costs (continued)**

**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.

**District's Corrective Action Plan:** The District concurs with the finding. The attendance staff has been reminded that dates are required on all signatures on the short-term independent study contracts.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2010**

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

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

**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.

**District’s Corrective Action Plan:** The District concurs with the finding. The District will have the maintenance department review the appropriate sections of the School Accountability Report Card and make any necessary adjustments before they are published.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**For the Fiscal Year Ended June 30, 2010**

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding #2009-1: Associated Student Body Internal Controls</i>	<p>We audited a sampling of nine 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:</p> <ul style="list-style-type: none"> <li>• Lack of segregation of duties, e.g., bookkeeper is also the signer on the bank account.</li> <li>• Budgets and revenue potentials are not used.</li> <li>• Lack of adequate backup on cash receipts found, e.g., ticket reconciliations, receipts, evidence of timely deposit.</li> <li>• Expenditures are lacking proper approval and/or invoice.</li> </ul>	30000	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.	Not implemented, see finding #2010-2

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**For the Fiscal Year Ended June 30, 2010**

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding #2009-2: Internal Audit and Audit Committee</i>	The internal audit function in the District does not appear to have been effectively organized in the past and is being eliminated as of June 30, 2010. 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.	30000	We recommend that the District consider restructuring the internal audit function to effectively monitor compliance and internal controls.	Not implemented, see finding #2010-1
<i>Finding #2009-3: Cash Clearing Accounts (30000)</i>	<p><b>Criteria:</b> Internal controls and safeguarding of assets require proper accountability for District cash accounts.</p> <p><b>Conditions:</b> The District has approximately 50 cash clearing banks accounts at various school sites that are not recorded in the District’s General Ledger as of June 30, 2010. In some instances, these accounts are used to handle non-District funds such as student body and parent-teacher organization receipts.</p> <p><b>Effect:</b> It is unknown the amount the District is understating the cash balance because no bank statements or bank reconciliations were provided.</p> <p><b>Cause:</b> Each school site has a clearing account that they use to deposit money received for a variety of reasons. The balances should be remitted to the District at the end of each month so the balances are zero at year end. However, the school sites are not always clearing the accounts in a timely manner and there are no controls to ensure proper reconciliation and recording of the account balances at year end.</p>	30000	The district should record all accounts as of the end of the school year. The June 30 bank statements and reconciliation should also be forwarded to the District at year end to ensure that any remaining balances are recorded on the District’s General Ledger. These accounts should never be used for non-district funds. The Board should adopt policies related to the handling of these accounts.	Implemented

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**For the Fiscal Year Ended June 30, 2010**

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<i>Original Finding No.</i>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding #2009-4: Short-Term Independent Study</i>	<p><b>Criteria:</b> Section 51747 of the Education Code requires Independent Study contracts to be supported by proper documentation in conformity with State law.</p> <p><b>Condition:</b> In testing short-term independent study (i.e., used for pupils temporarily availing themselves of the program while returning to a seat in their classroom), we found a streamlined master agreement is used for short term study independent study which does not include a place to indicate the date the contract was signed as required by EC Section 51747(c)(8). Note: no omissions were found in the master agreement for long-term independent study.</p> <p><b>Cause:</b> The agreement lacks a date line.</p> <p><b>Effect:</b> The District claimed ADA for non-compliant contracts.</p> <p><b>Questioned Costs:</b> There is no questioned cost as the District revised the P-2 and annual attendance reports and removed the amounts of 14.19 ADA from the P-2 attendance report and 12.20 ADA from the annual attendance report for the inappropriate ADA claimed.</p>	40000	<p>The District needs to revise 2008-09 P-2 and Annual attendance reports to exclude the days inappropriately claimed for ADA.</p> <p>We also recommend the master agreement for short-term independent study be revised and more training be provided in the proper completion of the contracts. The main error was not signing and dating the contract prior to the commencement of the work. But, we also found instances where the work sample was not attached to the contract, as required by law, and yet apportionment was claimed.</p>	Not implemented, see finding #2010-4

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**For the Fiscal Year Ended June 30, 2010**

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<i>Original Finding No.</i>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding #2009-5: School Accountability Report Card</i>	<p><b>State Program:</b> Compliance with Williams Act requirements.</p> <p><b>Criteria:</b> School facilities conditions assessments as indicated in a school’s annual School Accountability Report Card should match the information indicated in facility conditions evaluation instruments 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 <i>Standards and Procedures for Audits of California K-12 Local Educational Agencies</i>.</p> <p><b>Condition:</b> Five out of 18 School Accountability Report Cards (SARC) had complaints on facilities and teacher misassignments that did not get reported as a result. Five schools did not have sufficient textbooks per the board resolution in 2007-08 and it was not reported in the school’s SARCs. Updating annually and fully reporting complaints is a requirement of the Williams Act.</p> <p><b>Cause:</b> A School Accountability Report Card was not published in 2008-09 to reflect the data for 2007-08. Cause unknown.</p> <p><b>Effect:</b> The 2007-08 School Accountability Report Cards did not contain all required elements.</p>	72000	We recommend that a process be put into place to ensure that all school site complaints be reported in the SARC.	Not implemented, see finding #2010-5