

**CHICO UNIFIED SCHOOL DISTRICT**

County of Butte  
Chico, California

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION WITH  
INDEPENDENT AUDITORS' REPORTS**

Year Ended June 30, 2016

**CHICO UNIFIED SCHOOL DISTRICT**  
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## FINANCIAL SECTION

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TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Chico Unified School District  
Chico, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Chico Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Chico Unified School District, as of June 30, 2016, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

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

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chico Unified School District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The supplementary information listed in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2016, on our consideration of Chico Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chico Unified School District's internal control over financial reporting and compliance.

*Tittle & Company, LLP*

Chico, California  
December 12, 2016

# CHICO UNIFIED SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

This section of the Chico Unified School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the Independent Auditors' Report presented on pages 1 through 3, and the District's financial statements, which immediately follow this section.

## **Using This Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

## **Financial Highlights**

- Total net position was \$19,810,361 at June 30, 2016. This was an increase of \$13,002,872.
- Overall revenues were \$147,974,615 and were higher than expenditures of \$134,971,743 by \$13,002,872.
- Capital assets, net of depreciation, increased by \$17,948,047 primarily due to the completion of current year projects netted against depreciation expense.
- Long-term debt increased by \$11,418,764, which is attributed to the increase in the District's proportionate share of the unfunded pension obligation in the State Teachers' and Public Employees' retirement systems offset by scheduled payments on debt obligations, including the general obligation bonds, certificates of participation, and early retirement incentives.
- The District maintains sufficient reserves for a district of its size. It meets the state required minimum reserve for economic uncertainty of 3% of General Fund expenditures, transfer out, and other uses (total outgo). During the fiscal year, General Fund expenditures and other financing uses totaled \$120,208,656. At June 30, 2016, the District had available reserves of \$7,849,684 in the General Fund, which represents a reserve of 6.5%.

## **The Financial Report**

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

- District-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- 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. They are comprised of the remaining statements.



# CHICO UNIFIED SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

- Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
- Proprietary funds statements offer short- and long-term financial information about the activities the District operates like a business.
- Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds statements.

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

## Reporting the District as a Whole

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

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

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

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

### Governmental Activities

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

### Business-Type Activities

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

## Reporting the District's Most Significant Funds

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

# CHICO UNIFIED SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

## Governmental Funds

The major governmental funds of the Chico Unified School District are the General Fund, the Capital Facilities Fund and the Bond Interest & Redemption Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

## Proprietary Funds

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

## Fiduciary Funds

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

## **Financial Analysis of the District as a Whole**

### Net Position

The District's net position was \$19,810,361 for the fiscal year ended June 30, 2016. Of this amount, (\$78,187,701) was unrestricted. The restricted net position is reported separately if it is not available for day-to-day operations or its use is constrained to a particular purpose by statutes, rules or other entities with authority over the district.

The District's net position increased by \$13,002,872 during the fiscal year 2015-16.

**CHICO UNIFIED SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2016

Table 1: Statement of Net Position – Governmental Activities

	Governmental Activities		Total Percentage Change
	2015	2016	
<b>ASSETS</b>			
Cash and Investments	\$ 51,299,241	\$ 44,040,567	-14.1%
Receivables	4,456,927	4,771,902	7.1%
Inventories	209,107	218,393	4.4%
Prepaid Expenditures	1,258,336	1,794,587	42.6%
Net OPEB Asset	1,434,143	1,172,957	-18.2%
Capital Assets, Net	122,172,514	140,120,561	14.7%
Total Assets	<u>180,830,268</u>	<u>192,118,967</u>	<u>6.2%</u>
Deferred Outflows of Resources	<u>6,484,569</u>	<u>9,100,091</u>	<u>40.3%</u>
<b>LIABILITIES</b>			
Overdraft in County Treasury	739,248	-	-100.0%
Accounts Payable and Other Liabilities	10,566,890	9,435,739	-10.7%
Unearned Revenue	501,103	1,784,609	256.1%
Long-term Debt Outstanding	146,465,954	157,884,718	7.8%
Total Liabilities	<u>158,273,195</u>	<u>169,105,066</u>	<u>6.8%</u>
Deferred Inflows of Resources	<u>22,234,153</u>	<u>12,303,631</u>	<u>-44.7%</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	66,899,185	80,143,570	19.8%
Restricted	29,126,198	17,854,492	-38.7%
Unrestricted	(89,217,894)	(78,187,701)	-12.4%
Total Net Position	<u>\$ 6,807,489</u>	<u>\$ 19,810,361</u>	<u>191.0%</u>

**CHICO UNIFIED SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2016

Table 2: Changes in Net Position from Operating Results-Governmental Activities

	Governmental Activities		Total Percentage Change
	2015	2016	
<b>REVENUES</b>			
Program and General Revenues:			
Program Revenues			
Charges for Services	\$ 1,887,260	\$ 2,624,484	39.1%
Operating Grants and Contributions	26,488,782	28,716,384	8.4%
General Revenues			
Unrestricted Federal & State Sources	57,180,528	70,203,086	22.8%
Property Taxes	37,682,138	44,479,166	18.0%
Other	4,789,732	1,951,495	-59.3%
Total Revenues	128,028,440	147,974,615	15.6%
<b>EXPENSES</b>			
Instruction	77,630,885	82,584,920	6.4%
Instruction-related Services	12,905,396	12,551,755	-2.7%
Pupil Services	15,487,031	16,380,347	5.8%
General Administration	7,053,259	7,932,890	12.5%
Plant Services	10,264,228	11,451,871	11.6%
Ancillary Services	503,098	598,148	18.9%
Community Services	25,246	25,155	-0.4%
Enterprise Activities	44,374	57,266	29.1%
Other Outgo	3,153,855	3,389,391	7.5%
Total Expenses	127,067,372	134,971,743	6.2%
Change in Net Position	\$ 961,068	\$ 13,002,872	1253.0%

**CHICO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended June 30, 2016

Governmental Activities

- The cost of the District's governmental activities for the year was \$134,971,743.
- Some of the cost was financed by the users of the District's programs (\$2,624,484).
- The federal and state governments subsidized certain programs with grants and contributions (\$28,716,384).
- Interest and investment income totaled \$667,146.
- Most of the District's costs were financed by District (\$44,479,166) and Federal and State (\$70,203,086) taxpayers, and other local and miscellaneous earnings (\$1,951,495).

Table 3 presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that is placed on the District's general revenues.

Table 3: Net Cost of Governmental Activities

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2015	2016		2015	2016	
Instruction	\$ 77,630,885	\$ 82,584,920	6.4%	\$ 60,163,965	\$ 64,064,542	6.5%
Instruction-related Services	12,905,396	12,551,755	-2.7%	11,067,103	8,726,261	-21.2%
Pupil Services	15,487,031	16,380,347	5.8%	8,964,654	9,526,451	6.3%
General Administration	7,053,259	7,932,890	12.5%	5,654,105	6,663,517	17.9%
Plant Services	10,264,228	11,451,871	11.6%	9,420,090	10,922,905	16.0%
Ancillary Services	503,098	598,148	18.9%	454,584	531,375	16.9%
Community Services	25,246	25,155	-0.4%	25,246	25,155	-0.4%
Enterprise Activities	44,374	57,266	29.1%	44,118	57,508	30.4%
Other Outgo	3,153,855	3,389,391	7.5%	2,897,465	3,113,161	7.4%
Totals	\$ 127,067,372	\$ 134,971,743	6.2%	\$ 98,691,330	\$ 103,630,875	5.0%

**CHICO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended June 30, 2016

Governmental Funds

As the District completed the year, its governmental funds report combined fund balances of \$40,629,391; a 13% decrease over last year's ending fund balances of \$46,470,743.

Table 4: Governmental Fund Balances

	2015	2016	Increase (Decrease)
General	\$ 12,877,217	\$ 23,176,986	\$ 10,299,769
Charter Schools	884,429	1,303,582	419,153
Building	7,564,606	2,716,987	(4,847,619)
Cafeteria	67,274	163,972	96,698
Capital Facilities	14,493,235	5,671,379	(8,821,856)
Child Development	-	76	76
County School Facilities	3,912,816	20,613	(3,892,203)
Special Reserve Capital Projects	946,973	1,215,660	268,687
Bond Interest and Redemption	5,474,841	6,358,537	883,696
Debt Service	249,352	1,599	(247,753)
<b>Total</b>	<b>\$ 46,470,743</b>	<b>\$ 40,629,391</b>	<b>\$ (5,841,352)</b>

The increase in the General Fund was due to current year revenues exceeding current year expenditures.

The increase in the Charter Schools Fund was due to current year revenues exceeding current year expenditures.

The decrease in the Building Fund was due to the spending down of Series A of Measure E on facility projects, which included information technology infrastructure and work at several junior high schools.

The increase in the Cafeteria Fund was due to supper program revenues exceeding supper program expenditures.

The decrease in the Capital Facilities Fund was due to facility projects at several junior high schools.

The decrease in the County School Facilities Fund was due to the construction of a Multi-Purpose Room at Marsh Junior High School.

The increase in the Special Reserve Capital Projects Fund was due to increased revenues from redevelopment agency.

The increase in the Bond Interest and Redemption Fund was due to current year tax collections exceeding the scheduled bond debt payments.

The decrease in the Debt Service Fund was due to the elimination of the outstanding debt liability.

# CHICO UNIFIED SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

## General Fund Budgetary Highlights

Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on the Governor's May Revise. Not later than 45 days after the State Budget is adopted, school districts are required to make available for public review any revisions in revenues and expenditures that it makes to its budget to reflect the funding made available by the State Budget. In addition, the District revises its budget at the First and Second Interim reporting periods. The budget amendments for the year typically fell into the following categories:

- Adjustment of beginning fund balances.
- Adjustment of revenue to actual enrollment and ADA values.
- Actual state and federal revenues varied from budgeted amounts as a result of prior-year adjustments.
- Restricted programs are fully budgeted to be spent even if they end up having carryover.

The District's original and final budgets compared with actual operations are provided in the budgetary comparison schedule for the General Fund.

The District's final budget for the General Fund anticipated that revenues and other financing sources would exceed expenditures by \$7,994,008. The actual results for the year show an increase in fund balance of \$10,299,769.

This increase is a result of:

- Average daily attendance funding was greater than anticipated.
- Site allocations were not fully spent by June 30.
- Some state and federal allocations were not fully spent by June 30.
- 2015-16 one-time mandate money was not fully spent by June 30.
- Transfer Out to the Cafeteria Fund was less than anticipated.
- Transfer In from Special Reserve Capital Projects Funds was greater than anticipated.

## Capital Asset and Debt Administration

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information regarding capital assets and long-term debt.

### Capital Assets

By June 30, 2016, the District had invested \$140,120,561 in a broad range of capital assets including land, buildings and improvements, and equipment and vehicles (See Table 5). This amount represents an increase of \$17,948,047, or 14.7%, from last year. This increase is due primarily to depreciation expense netted against capital asset additions of \$20,092,033, which consists of various building projects, site improvements, site renovations, and vehicle and equipment purchases. On June 30, work was still in progress on a number of projects.

**CHICO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended June 30, 2016

Table 5: Capital Assets – Governmental Funds

	Governmental Activities		Total
	2015	2016	Percentage Change
Land	\$ 11,979,446	\$ 11,979,446	0.0%
Site Improvements	9,746,216	9,764,066	0.2%
Buildings	165,061,031	169,813,578	2.9%
Equipment and Vehicles	7,119,110	7,770,554	9.2%
Work in Progress	7,451,117	24,585,300	230.0%
Subtotal	201,356,920	223,912,944	11.2%
Less: Accumulated Depreciation	(79,184,406)	(83,792,383)	5.8%
Total	\$ 122,172,514	\$ 140,120,561	14.7%

Long-Term Debt

General obligation bonds were issued to fund voter-approved facilities projects. This liability has been affected by scheduled debt service payments, which are netted with the accrued interest due on the capital appreciation bond portion of the debt.

The net pension liability represents the District's prorated share of the unfunded pension liability that exists within the CalSTRS and CalPERS retirement plans.

The Net OPEB Obligation is the difference between the annual required contribution that the district needs to make to fund future retiree health benefits for current employees and what is actually paid for health premiums for the retiree group. The annual required contribution, as determined by the actuary, was \$3,009,846. The district paid \$2,774,231 for retiree health premiums.

The District made normally scheduled payments on the previously issued general obligation bonds, capital leases, certificates of participation, and early retirement incentives.



**CHICO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended June 30, 2016

Table 6: Long-Term Debt – Governmental Funds

	Governmental Activities		Total
	2015	2016	Percentage Change
Compensated Absences	\$ 445,386	\$ 473,290	6.3%
General Obligation Bonds	59,600,000	57,285,000	-3.9%
Bond Issue Premiums	2,235,372	2,143,967	-4.1%
Capital Leases	390,647	361,473	-7.5%
Notes Payable	-	2,588,712	100.0%
Certificates of Participation	650,000	350,000	-46.2%
Early Retirement Incentives	223,151	-	-100.0%
Net Pension Liability	82,921,398	94,682,276	14.2%
<b>Total</b>	<b>\$ 146,465,954</b>	<b>\$ 157,884,718</b>	<b>7.8%</b>

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- Employer rates for PERS and STRS continue to increase each year.
- Health benefits, workers' compensation rates, and fuel and energy costs continue to escalate.
- Special education, special education transportation, home-to-school transportation, and nutrition services continue to experience costs far in excess of program revenues, which negatively impact the District's ability to fund other instructional programs.
- The percentage of students eligible for free and/or reduced priced meals is decreasing, which impacts the dollars received by the district via the Local Control Funding Formula (LCFF).

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayer, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. For questions regarding this report or for additional financial information, contact:

Kevin Bultema  
Assistant Superintendent, Business Services  
Chico Unified School District  
1163 East 7<sup>th</sup> Street  
Chico, California 95928  
(530) 891-3000 x112

**CHICO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
June 30, 2016

	<b>Governmental Activities</b>
<hr/>	
<b>ASSETS</b>	
Cash and investments	\$ 44,040,567
Accounts receivable	4,771,902
Inventories	218,393
Prepaid expenses	1,794,587
Net OPEB asset	1,172,957
Capital assets, not depreciated	36,564,746
Capital assets, net of accumulated depreciation	103,555,815
<b>Total Assets</b>	<hr/> 192,118,967 <hr/>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions	9,064,918
Deferred loss on refunding	35,173
<b>Total Deferred Outflows of Resources</b>	<hr/> 9,100,091 <hr/>
<b>LIABILITIES</b>	
Accounts payable and other current liabilities	9,435,739
Unearned revenue	1,784,609
Long-term liabilities:	
Due within one year	3,238,585
Due in more than one year	154,646,133
<b>Total Liabilities</b>	<hr/> 169,105,066 <hr/>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	<hr/> 12,303,631 <hr/>
<b>NET POSITION</b>	
Net investment in capital assets	80,143,570
Restricted for:	
Capital projects	5,691,992
Debt service	6,360,134
Educational programs	5,802,366
Unrestricted	<hr/> (78,187,701) <hr/>
<b>Total Net Position</b>	<hr/> \$ 19,810,361 <hr/>

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

**CHICO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2016

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>Governmental Activities</b>				
Instruction	\$ 82,584,920	\$ 1,415,550	\$ 17,104,828	\$ (64,064,542)
Instruction-related services:				
Instructional supervision and administration	3,714,425	214,531	2,915,498	(584,396)
Instructional library, media and technology	1,157,767	3,353	33,037	(1,121,377)
School site administration	7,679,563	38,746	620,329	(7,020,488)
Pupil services:				
Home-to-school transportation	2,255,141	-	(8,632)	(2,263,773)
Food services	4,808,634	644,751	3,850,414	(313,469)
All other pupil services	9,316,572	157,704	2,209,659	(6,949,209)
General administration:				
Centralized data processing services	1,975,174	-	(5,714)	(1,980,888)
All other general administration	5,957,716	91,146	1,183,941	(4,682,629)
Plant services	11,451,871	2,275	526,691	(10,922,905)
Ancillary services	598,148	21,704	45,069	(531,375)
Community services	25,155	-	-	(25,155)
Enterprise activities	57,266	-	(242)	(57,508)
Interest on long-term debt	2,424,157	-	-	(2,424,157)
Other outgo	965,234	34,724	241,506	(689,004)
<b>Total Governmental Activities</b>	<b>\$ 134,971,743</b>	<b>\$ 2,624,484</b>	<b>\$ 28,716,384</b>	<b>(103,630,875)</b>
<b>General Revenues</b>				
Property taxes, levied for general purposes				35,690,187
Property taxes, levied for debt service				5,614,507
Property taxes, levied for other specific purposes				3,174,472
Federal and state aid not restricted to specific purposes				70,203,086
Interest and investment earnings				667,146
Interagency revenues				212,201
Miscellaneous				3,661,000
Special and extraordinary items				(2,588,712)
Internal transfers				(140)
<b>Total General Revenues</b>				<b>116,633,747</b>
<b>Change in Net Position</b>				<b>13,002,872</b>
<b>Net Position - Beginning</b>				<b>6,807,489</b>
<b>Net Position - Ending</b>				<b>\$ 19,810,361</b>

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

**CHICO UNIFIED SCHOOL DISTRICT**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**

June 30, 2016

	General Fund	Capital Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 25,459,325	\$ 6,369,698	\$ 6,346,429	\$ 5,865,115	\$ 44,040,567
Accounts receivable	4,023,466	15,593	12,108	720,735	4,771,902
Due from other funds	1,068,868	494	-	127,472	1,196,834
Inventories	152,834	-	-	65,559	218,393
Prepaid expenditures	1,784,489	-	-	10,098	1,794,587
<b>Total Assets</b>	<b>\$ 32,488,982</b>	<b>\$ 6,385,785</b>	<b>\$ 6,358,537</b>	<b>\$ 6,788,979</b>	<b>\$ 52,022,283</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 7,203,120	\$ 640,402	\$ -	\$ 567,927	\$ 8,411,449
Due to other funds	324,267	74,004	-	798,563	1,196,834
Unearned revenue	1,784,609	-	-	-	1,784,609
<b>Total Liabilities</b>	<b>9,311,996</b>	<b>714,406</b>	<b>-</b>	<b>1,366,490</b>	<b>11,392,892</b>
<b>FUND BALANCES</b>					
Nonspendable	1,962,523	-	-	75,657	2,038,180
Restricted	4,334,813	5,671,379	6,358,537	3,098,786	19,463,515
Assigned	9,029,966	-	-	2,248,046	11,278,012
Unassigned	7,849,684	-	-	-	7,849,684
<b>Total Fund Balances</b>	<b>23,176,986</b>	<b>5,671,379</b>	<b>6,358,537</b>	<b>5,422,489</b>	<b>40,629,391</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 32,488,982</b>	<b>\$ 6,385,785</b>	<b>\$ 6,358,537</b>	<b>\$ 6,788,979</b>	<b>\$ 52,022,283</b>

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

**CHICO UNIFIED SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
June 30, 2016

<b>Total Fund Balance - Governmental Funds</b>		\$ 40,629,391
<p>Amounts reported for assets, deferred outflows of resources, liabilities, and deferred inflows of resources for governmental activities in the statement of net position are different from amounts reported in governmental funds because:</p>		
<p>Capital assets:</p> <p>In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:</p>		
Capital assets	\$ 223,912,944	
Accumulated depreciation	<u>(83,792,383)</u>	140,120,561
<p>Unmatured interest on long-term debt:</p> <p>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 unmaturred interest owing at the end of the period was:</p>		
		(1,024,290)
<p>Long-term liabilities:</p> <p>In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:</p>		
General obligation bonds	59,428,967	
Capital leases	361,473	
Deferred loss on refunding	(35,173)	
Certificates of participation	350,000	
Compensated absences	473,290	
Net OPEB obligation (asset)	(1,172,957)	
Net pension liability	94,682,276	
Notes payable	<u>2,588,712</u>	(156,676,588)
<p>Deferred outflows and inflows of resources relating to pensions:</p> <p>In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.</p>		
Deferred outflows of resources related to pensions	9,064,918	
Deferred inflows of resources related to pensions	<u>(12,303,631)</u>	(3,238,713)
<b>Total Net Position - Governmental Activities</b>		<u>\$ 19,810,361</u>

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

**CHICO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES – GOVERNMENTAL FUNDS**  
Year Ended June 30, 2016

	General Fund	Capital Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
LCFF sources	\$ 91,211,104	\$ -	\$ -	\$ 3,517,405	\$ 94,728,509
Federal revenue	8,535,711	-	-	3,712,687	12,248,398
Other state revenue	20,154,816	-	54,912	1,018,901	21,228,629
Other local revenue	7,668,205	2,634,628	5,638,348	4,430,984	20,372,165
<b>Total Revenues</b>	<b>127,569,836</b>	<b>2,634,628</b>	<b>5,693,260</b>	<b>12,679,977</b>	<b>148,577,701</b>
<b>EXPENDITURES</b>					
Current:					
Instruction	77,374,559	-	-	2,324,873	79,699,432
Instruction-related services	11,636,805	-	-	850,710	12,487,515
Pupil services	11,593,479	-	-	4,688,574	16,282,053
Ancillary services	603,918	-	-	-	603,918
Community services	25,104	-	-	-	25,104
Enterprise	-	-	-	56,276	56,276
General administration	6,837,811	541,821	-	496,883	7,876,515
Plant services	8,472,696	296,584	-	2,237,774	11,007,054
Other outgo	649,213	-	-	316,020	965,233
Capital outlay	2,121,655	10,544,075	-	9,928,736	22,594,466
Debt service:					
Principal	552,325	-	2,315,000	-	2,867,325
Interest	48,310	-	2,494,564	-	2,542,874
<b>Total Expenditures</b>	<b>119,915,875</b>	<b>11,382,480</b>	<b>4,809,564</b>	<b>20,899,846</b>	<b>157,007,765</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>7,653,961</b>	<b>(8,747,852)</b>	<b>883,696</b>	<b>(8,219,869)</b>	<b>(8,430,064)</b>
<b>Other Financing Sources (Uses)</b>					
Interfund transfers in	2,938,589	-	-	292,781	3,231,370
Interfund transfers out	(292,781)	(74,004)	-	(2,864,585)	(3,231,370)
Other sources	-	-	-	2,588,712	2,588,712
<b>Total Other Financing Sources (Uses)</b>	<b>2,645,808</b>	<b>(74,004)</b>	<b>-</b>	<b>16,908</b>	<b>2,588,712</b>
<b>Net Change in Fund Balance</b>	<b>10,299,769</b>	<b>(8,821,856)</b>	<b>883,696</b>	<b>(8,202,961)</b>	<b>(5,841,352)</b>
<b>Fund Balance - Beginning</b>	<b>12,877,217</b>	<b>14,493,235</b>	<b>5,474,841</b>	<b>13,625,450</b>	<b>46,470,743</b>
<b>Fund Balance - Ending</b>	<b>\$ 23,176,986</b>	<b>\$ 5,671,379</b>	<b>\$ 6,358,537</b>	<b>\$ 5,422,489</b>	<b>\$ 40,629,391</b>

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

**CHICO UNIFIED SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2016

<hr/>			
<b>Net Change in Fund Balances - Governmental Funds</b>		\$	(5,841,352)
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:			
Capital outlay:			
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:			
Expenditures for capital outlay	\$	22,594,466	
Depreciation expense		(4,636,080)	17,958,386
		<hr/>	
Debt service:			
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:			
			2,644,174
Debt proceeds:			
In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:			
			(2,588,712)
Gain of loss from disposal of capital assets:			
In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:			
			(10,339)
Unmatured interest on long-term debt:			
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:			
			30,223
Compensated absences:			
In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned was:			
			(27,904)
Pensions:			
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was:			
	\$		788,077
<hr/>			

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

**CHICO UNIFIED SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE**  
**STATEMENT OF ACTIVITIES (Continued)**  
Year Ended June 30, 2016

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Postemployment benefits other than pensions (OPEB):	
In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:	\$ (261,186)
Other liabilities not normally liquidated with current financial resources:	
In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year expenses incurred for such obligations were:	220,240
Amortization of debt issue premium or discount or deferred gain or loss from debt refunding:	
In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount, plus any deferred gain or loss from debt refunding, is amortized as interest over the life of the debt. Amortization of debt issue premium or discount, or deferred gain or loss from debt refunding, for the period is:	91,405
Internal Service Funds:	
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:	(140)
<b>Change in Net Position - Governmental Activities</b>	<hr/> \$ 13,002,872 <hr/>

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



**CHICO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET POSITION – PROPRIETARY FUND**  
 June 30, 2016

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
<hr/>	
<b>NONOPERATING REVENUES</b>	
Other local income	\$ (140)
<b>Change in Net Position</b>	(140)
<b>Net Position - Beginning of Year</b>	140
<b>Net Position - End of Year</b>	\$ -
<hr/>	

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

**CHICO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUND**  
June 30, 2016

	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<hr/>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Net decrease in the fair value of investments	(140)
<b>Net Decrease in Cash</b>	(140)
<b>Cash - Beginning of Year</b>	140
<b>Cash - End of Year</b>	\$ -

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

**CHICO UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUND**  
June 30, 2016

	<u>Agency Fund</u> <u>Student Body Funds</u>
<hr/>	
<b>ASSETS</b>	
Cash and investments	\$ 941,674
Accounts receivable	228
Inventories	60,395
	<hr/>
<b>Total Assets</b>	<b>\$ 1,002,297</b>
	<hr/>
<b>LIABILITIES</b>	
Accounts payable	\$ 10,219
Due to student groups	992,078
	<hr/>
<b>Total Liabilities</b>	<b>\$ 1,002,297</b>
	<hr/>

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

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2016

**1. SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

The District is governed by an elected five member board. The District operates twelve elementary schools, three junior high schools, two high schools, one continuation school, one community day school, one opportunity school, and one charter school in Chico, California. The District is the sponsoring local educational agency for seven charter schools.

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 accounting principles generally accepted in the United States of America (GAAP) as presented by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

**Component Units**

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.

The Chico Unified School Financing Corporation's (the Corporation) financial activity is presented in the financial statements as the Debt Service Fund and the Special Reserve Fund for Capital Outlay Projects. Certificates of participation issued by the Corporation are included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not available for the Corporation.

**Basis of Presentation**

**Government-wide Financial Statements:** The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Government activities are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by recipients of goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2016

**Fund Financial Statements:** The Fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

**Major Governmental Funds**

*General Fund* is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

*Capital Facilities Fund* is used to account for resources received from developer impact fees assessed.

*Bond Interest and Redemption Fund* is used to account for general obligation bond interest and redemption of bond principal.

**Non-Major Governmental Funds**

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service or capital outlay, and that compose a substantial portion of the fund's resources. The District maintains the following special revenue funds:

1. Charter Schools Fund is used to account for revenue received and expenditures made to operate Inspire School of Arts Charter School.
2. Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service program.
3. Child Development Fund is used to account for resources committed to child development programs maintained by the District.
4. Deferred Maintenance Fund is used to account for separately for state apportionments and the District's contributions for deferred maintenance purpose.

*Debt Service Funds* are used to account for the accumulation of resources for the payment of the principal and interest on general long-term debt. The District maintains the following debt service fund:

1. Debt Service Fund is used to account for the accumulation of resources for the retirement of principal and interest on general long-term debt.

*Capital Projects Funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital outlay acquisitions. The District maintains the following capital project funds:

1. Building Fund is used to account for the construction and acquisition of major capital improvements.

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2016

2. County School Facilities Fund is used primarily to account separately for state apportionments as provided in Education Code sections 17009.5 and 17070.10-17076.10.
3. Special Reserve Fund for Capital Outlay Projects is used to account for resources designated for capital outlay projects.

**Proprietary Funds**

*Internal Service Funds* are used to account for services rendered on a cost-reimbursement basis within the District. The District maintained one internal service fund, the Self-Insurance Fund, which was closed during the fiscal year ending June 30, 2016.

**Fiduciary Funds**

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

**Basis of Accounting/Measurement Focus**

**Government-wide and Fiduciary Fund Financial Statements:** These financial statements are reported using the economic resources measurement focus. The government-wide, proprietary fund and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the released cash flows take place.

Non-exchange transactions, in which the District's gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Agency Funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

**Governmental Fund Financial Statements:** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become available and measurable. The District considers revenues as available if they are collected within 60 days after year end. Revenues susceptible to accrual are property taxes, fiscal year state funding, and interest revenues. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2016

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources. When an expenditure is incurred for which committed, assigned, or unassigned fund balance are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Deferred inflows of resources are reported in the governmental funds when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria is met, or when the government has a legal claim to the resources, the revenue is recognized.

**Cash and Investments**

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

**Accounts Receivable**

Accounts receivable represent amounts due from private persons, firms, or corporations based on contractual agreements or amounts billed but not received as of June 30, 2016, and amounts due from other governments including entitlements and grants from federal, state, and local governments that the District has earned or been allocated but has not received as of June 30, 2016. At June 30, 2016, no allowance for doubtful accounts was deemed necessary.

**Interfund Transactions**

Interfund transactions result from loans, services provided, reimbursements, or transfers between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position. Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

**Inventories**

Inventories are valued at average cost for purchased supplies and materials. Expenses are recorded as the supplies and materials are consumed. Donated commodities inventories are valued at its fair value at the time of donation.

**Capital Assets**

Capital assets, which include property, buildings, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2016

materially extend the assets' life is not capitalized. A capitalization threshold of \$10,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Depreciable Lives of Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20-50
Vehicles	8
Equipment	5-20
Portable classrooms	25

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**Deferred Outflows of Resources and Deferred Inflows of Resources**

Certain defined transactions that do not qualify for treatment as either assets or liabilities are required to be accounted for and reported as either deferred outflows of resources (a separate subheading following assets but before liabilities) or deferred inflows of resources (a separate subheading following liabilities but before equity).

Deferred outflows of resources—a consumption of net assets by the government that is applicable to a future reporting period. It has a positive effect on net position, similar to assets.

Deferred inflows of resources—an acquisition of net assets by the government that is applicable to a future reporting period. It has a negative effect on net position, similar to liabilities.

**Deferred Outflows of Resources:** In the government-wide financial statements, insurance costs arising from the issuance of debt are reported as deferred outflows and amortized over the term of the related debt. Deferred amounts from a refunding of debt (debits) are reported as deferred outflows of resources and are amortized over the lesser life of the refunded bonds or refunding debt.

Deferred outflows of resources for pensions are reported in the government-wide financial statements of net position. Deferred outflows result from pension plan contributions made after the measurement date of the net pension liability. Deferred outflows also include the District's proportionate share of the deferred outflows of resources of the CalSTRS and CalPERS pension plans. These deferred outflows include the differences between expected and actual economic experience and changes in actuarial assumptions. The deferred outflows of resources related to the District's contributions which are subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.



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**Deferred Inflows of Resources:** Deferred amounts from refunding debt (credits) are reported as deferred inflows of resources and are amortized over the lesser life of the refunded bonds or refunding debt.

Deferred inflows of resources for pensions are reported in the government-wide financial statement of net position and result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

**Compensated Absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized 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 in the fund from which the employees who have accumulated leave are paid.

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.

**Long-Term Obligations**

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

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

**Bond Premiums, Discounts, and Issuance Costs**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and uses respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the CalPERS Schools Pool Cost-Sharing Multiple-Employer Plan (CalPERS Plan) and CalSTRS Schools Pool Cost-Sharing Multiple Employer Plan (CalSTRS Plan) and additions to/deductions from the CalPERS Plan and CalSTRS Plan's fiduciary net positions have been determined on the same basis as they are reported by the CalPERS Financial Office and CalSTRS Financial Office. For this purpose, benefit payments (including

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refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Government-Wide Net Position**

Net position represents the difference between assets and liabilities. The District's net position is composed of the following:

*Net investment in capital assets* consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, leases, notes, or other borrowings attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* consists of net assets with constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws or regulations of other governments, or law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consists of all other net assets that do not meet the definition of "restricted" or "net investment in capital assets".

**Fund Balance**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. There are two major categories of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted fund balance* reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance* can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the board of trustees-the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board of trustees removes the specified use by taking some type of action imposing the commitment.

*Assigned fund balance* reflects the amounts constrained by the District's own "intent" to be used for specific purposes, but are neither restricted nor committed. The board of trustees and designee of the board of trustees have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

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*Unassigned fund balance* is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, and then unrestricted resources-committed, assigned, and unassigned-in order as needed.

**Estimates**

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

**Budgets and Budgetary Accounting**

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

The original and final revised budgets are presented for the General Fund and each major special revenue fund as required supplementary information. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

**Property Taxes**

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**2. CASH AND INVESTMENTS**

Cash and investments at June 30, 2016, consisted of the following:

	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
Cash in county treasury investment pool	\$ 43,904,340	\$ -
Cash on hand and in banks	111,027	941,674
Cash in revolving fund	25,200	-
<b>Total Cash and Investments</b>	<b>\$ 44,040,567</b>	<b>\$ 941,674</b>

**Policies and Practices**

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

In accordance with *California Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury as part of the common investment pool. The fair value of the District's investment in the pool is based upon the District's pro rata share of the fair value provided by the County Treasurer for the entire portfolio (in related to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**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 deposit policy for custodial credit risk. As of June 30, 2016 \$771,350 of the District's bank balance of \$1,271,350 was exposed to custodial credit risk as the deposits are uninsured and the collateral is held by the pledging bank.

**Credit Risk - Investments**

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. *California Government Code* Section 53601 limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. The District has no investment policy that would further limit its investment choices. The District's investment in the county investment pool is unrated.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**Interest Rate Risk - Investments**

Interest rate risk 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. *California Government Code* Section 53601 limits the District's investments to maturities of five years. The County Treasurer's investment pool has an average maturity of two years.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2016, consisted of the following:

	General Fund	Capital Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government					
Categorical programs	\$ 1,109,215	\$ -	\$ -	\$ 435,337	\$ 1,544,552
State Government					
LCFF sources	1,354,131	-	-	46,795	1,400,926
Categorical programs	417,917	-	-	201,655	619,572
Lottery	479,792	-	-	18,154	497,946
Local Sources	662,411	15,593	12,108	18,794	708,906
<b>Total</b>	<b>\$ 4,023,466</b>	<b>\$ 15,593</b>	<b>\$ 12,108</b>	<b>\$ 720,735</b>	<b>\$ 4,771,902</b>

**4. INTERFUND TRANSACTIONS**

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

Interfund receivable and payable balances at June 30, 2016, were as follows:

	Due From Other Funds	Due to Other Funds
General Fund	\$ 1,068,868	\$ 324,267
Capital Facilities Fund	494	74,004
Non-Major Governmental Funds	127,472	798,563
<b>Total</b>	<b>\$ 1,196,834</b>	<b>\$ 1,196,834</b>

Balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund Transfers**

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

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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Interfund transfers for the year ended June 30, 2016, were as follows:

	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	\$ 292,781	\$ 2,938,589
Capital Facilities Fund	74,004	-
Non-Major Governmental Funds	2,864,585	292,781
<b>Total</b>	<b>\$ 3,231,370</b>	<b>\$ 3,231,370</b>

The specific purposes of significant interfund transfers that do not occur on a routine basis are as follows:

The Debt Service Fund transferred \$251,947 to the General Fund to close out the balance in the fund.

**5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016, was as follows:

	<b>Balance July 1, 2015</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2016</b>
Capital assets not being depreciated:				
Land	\$ 11,979,446	\$ -	\$ -	\$ 11,979,446
Construction in progress	7,451,117	19,267,830	2,133,647	24,585,300
Total capital assets not being depreciated	19,430,563	19,267,830	2,133,647	36,564,746
Capital assets being depreciated:				
Buildings	165,061,031	4,752,547	-	169,813,578
Improvements of sites	9,746,216	17,850	-	9,764,066
Equipment and vehicles	7,119,110	689,886	38,442	7,770,554
Total capital assets being depreciated	181,926,357	5,460,283	38,442	187,348,198
Less accumulated depreciation for:				
Buildings	67,969,957	3,843,469	-	71,813,426
Improvements of sites	6,059,510	319,736	-	6,379,246
Equipment and vehicles	5,154,939	472,875	28,103	5,599,711
Total accumulated depreciation	79,184,406	4,636,080	28,103	83,792,383
Total capital assets being depreciated, net	102,741,951	824,203	10,339	103,555,815
<b>Governmental activities capital assets, net</b>	<b>\$ 122,172,514</b>	<b>\$ 20,092,033</b>	<b>\$ 2,143,986</b>	<b>\$ 140,120,561</b>

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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Depreciation expense was charged to governmental activities as follows:

<b>Governmental Activities</b>	
Instruction	\$ 3,654,291
Instruction-related services	151,832
Pupil services	264,828
General administration	81,476
Plant services	483,653
<b>Total Depreciation Expense</b>	<b>\$ 4,636,080</b>

**6. ACCOUNTS PAYABLE**

Accounts payable at June 30, 2016, consisted of the following:

	<b>General Fund</b>	<b>Capital Facilities Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Activities</b>
Vendor payables	\$ 2,275,808	\$ 640,402	\$ 524,135	\$ 3,440,345
Payroll and benefits	4,565,803	-	29,233	4,595,036
Due to other governments	361,509	-	14,559	376,068
<b>Total</b>	<b>\$ 7,203,120</b>	<b>\$ 640,402</b>	<b>\$ 567,927</b>	<b>\$ 8,411,449</b>

**7. LONG-TERM OBLIGATIONS**

Long-term obligations include debt and other long-term liabilities. A schedule of changes in long-term obligations for the year ended June 30, 2016, is shown below:

	<b>Balance July 1, 2015</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2016</b>	<b>Due Within One Year</b>
Compensated absences	\$ 445,386	\$ 27,904	\$ -	\$ 473,290	\$ -
General obligation bonds	59,600,000	-	2,315,000	57,285,000	2,555,000
Bond issue premiums	2,235,372	-	91,405	2,143,967	91,405
Capital leases	390,647	-	29,174	361,473	30,636
Notes payable	-	2,588,712	-	2,588,712	246,544
Certificates of participation	650,000	-	300,000	350,000	315,000
Early retirement incentives	223,151	-	223,151	-	-
Net pension liability	82,921,398	11,760,878	-	94,682,276	-
<b>Total</b>	<b>\$ 146,465,954</b>	<b>\$ 14,377,494</b>	<b>\$ 2,958,730</b>	<b>\$ 157,884,718</b>	<b>\$ 3,238,585</b>

The compensated absences will be paid by the fund for which the employee worked.

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**8. GENERAL OBLIGATION BONDS**

The outstanding general obligation bond debt of the District is:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2015</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2016</u>
2008	4 - 5.75%	2033	\$ 30,725,000	\$ 29,945,000	\$ 570,000	\$ 29,375,000
2012	2.85%	2029	18,665,000	14,655,000	1,745,000	12,910,000
2013	5.00%	2044	15,000,000	15,000,000	-	15,000,000
<b>Total</b>			<b>\$ 64,390,000</b>	<b>\$ 59,600,000</b>	<b>\$ 2,315,000</b>	<b>\$ 57,285,000</b>

The annual requirements to amortize the general obligation bonds payable are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,555,000	\$ 2,417,076	\$ 4,972,076
2018	2,175,000	2,338,175	4,513,175
2019	1,950,000	2,260,131	4,210,131
2020	2,215,000	2,180,066	4,395,066
2021	2,490,000	2,095,281	4,585,281
2022-2026	17,540,000	8,688,956	26,228,956
2027-2031	11,235,000	5,128,101	16,363,101
2032-2036	5,725,000	3,435,066	9,160,066
2037-2041	6,185,000	2,133,375	8,318,375
2042-2044	5,215,000	406,125	5,621,125
<b>Totals</b>	<b>\$ 57,285,000</b>	<b>\$ 31,082,352</b>	<b>\$ 88,367,352</b>



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**9. CAPITAL LEASES**

The District leases solar equipment under an agreement which provides for title to pass upon expiration of the lease period. The cost of the solar equipment is included in buildings on the statement of net position as depreciated capital assets and was \$622,136 at June 30, 2016. Accumulated depreciation on the leased equipment at June 30, 2016 was \$209,107. Depreciation on the asset under capital leases is included in depreciation expense and amount to \$20,738 for the year ended June 30, 2016. The amount of interest cost incurred during the year ended June 30, 2016, was \$18,492, all of which was charged to expense.

<u>Year Ending June 30</u>	<u>Lease Payments</u>
2017	\$ 47,667
2018	47,667
2019	47,667
2020	47,667
2021	47,667
2022-2026	214,498
<b>Total</b>	452,833
Less amount representing interest	91,360
<b>Present Value of Net Minimum Lease Payments</b>	<b>\$ 361,473</b>

**10. NOTE PAYABLE**

During the year ended June 30, 2016, the District borrowed \$2,588,712 from the California Energy Resources Conservation and Development Commission at 0% interest. On June 30, 2016, the principal balance outstanding was \$2,588,712.

The principal and interest payments of the loan are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 246,544	\$ -	\$ 246,544
2018	246,544	-	246,544
2019	246,544	-	246,544
2020	246,544	-	246,544
2021	246,544	-	246,544
2022-2026	1,232,720	-	1,232,720
2027-2031	123,272	-	123,272
<b>Total</b>	<b>\$ 2,588,712</b>	<b>\$ -</b>	<b>\$ 2,588,712</b>

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**11. CERTIFICATES OF PARTICIPATION**

In 2004, the District issued certificates of participation in the amount of \$2,705,000, with interest rates ranging from 2% to 4%. As of June 30, 2016, the principal balance outstanding was \$350,000.

The certificates mature through 2018 as follows:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 315,000	\$ 7,306	\$ 322,306
2018	35,000	700	35,700
<b>Total</b>	<b>\$ 350,000</b>	<b>\$ 8,006</b>	<b>\$ 358,006</b>

**12. FUND BALANCES**

Fund balances were categorized as follows at June 30, 2016:

	<b>General Fund</b>	<b>Capital Facilities Fund</b>	<b>Bond Interest &amp; Redemption Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
Nonspendable:					
Revolving cash	\$ 25,200	\$ -	\$ -	\$ -	\$ 25,200
Stores inventories	152,834	-	-	65,559	218,393
Prepaid expenditures	1,784,489	-	-	10,098	1,794,587
Total Nonspendable	1,962,523	-	-	75,657	2,038,180
Restricted:					
Educational programs	4,334,813	-	-	272,894	4,607,707
Food services	-	-	-	86,694	86,694
Debt service	-	-	6,358,537	2,718,585	9,077,122
Capital projects	-	5,671,379	-	20,613	5,691,992
Total Restricted	4,334,813	5,671,379	6,358,537	3,098,786	19,463,515
Assigned:					
Capital projects	-	-	-	1,215,661	1,215,661
Board reserved	2,404,161	-	-	-	2,404,161
Compensation increase	2,700,000	-	-	-	2,700,000
Other assigned	3,925,805	-	-	1,032,385	4,958,190
Total Assigned	9,029,966	-	-	2,248,046	11,278,012
Unassigned:					
Economic uncertainties	3,606,241	-	-	-	3,606,241
Other unassigned	4,243,443	-	-	-	4,243,443
Total Unassigned	7,849,684	-	-	-	7,849,684
<b>Total</b>	<b>\$ 23,176,986</b>	<b>\$ 5,671,379</b>	<b>\$ 6,358,537</b>	<b>\$ 5,422,489</b>	<b>\$ 40,629,391</b>

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**13. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)**

**Plan Description**

The District provides postemployment health care benefits to qualifying employees through the Butte Schools Self-Funded Program (BSSP) JPA. Four medical/prescription drug options are available to active employees: the Alder, Birch, Cedar and Dogwood plans. The District pays composite rates on behalf of active employees. Only the Birch plan is available to District retirees. A two-tiered rate schedule applies to all retirees under age 65 (a composite rate for the retiree plus spouse, with or without Medicare A and B, and a second rate for the retiree only without Medicare).

Employees from certificated, classified, and management units may retire with District-paid health care benefits after the later of age 55 and 5 years of service (10 years for certificated employees hired on or after October 1, 2009). Employees may retire between the ages of 50 and 55 and preserve their right to District-paid benefits beginning at age 55 by paying the medical premium between retirement and age 55.

District-paid benefits end at age 65 for all retirees with two exceptions: (a) a group of CUTA employees, who were hired prior to April 1, 1986, and who opted out of Medicare Part A; and (b) a retired district superintendent receiving lifetime benefits.

Certificated employees hired prior to April 1, 1986, who do not have Medicare Part A or Part B, or both, after reaching age 65 and retiring from the District, are eligible for a District reimbursement of up to 50% of retiree premiums for the purchase of Parts A and/or B, with the total District reimbursement not to exceed \$2,400 in any one-year period.

At June 30, 2016, 244 retirees met these eligibility requirements.

**Funding Policy**

Certificated retirees are subject to monthly District caps of \$858 for retiree only and \$1,225 for retiree plus spouse for 2015-16. Classified retirees are charged for a pro-rata share of premiums based on their full-time equivalency as of separation. Management retirees are not subject to a District cap.

**Annual OPEB Cost and Net OPEB Obligation**

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (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 the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation:

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Annual required contribution	\$ 3,009,846
Interest on net OPEB obligation	(57,366)
Adjustment to annual required contribution	82,937
Annual OPEB cost (expense)	3,035,417
Contributions made	(2,774,231)
Increase in net OPEB obligation	261,186
Net OPEB obligation (asset), beginning of the year	(1,434,143)
Net OPEB obligation (asset), end of the year	\$ (1,172,957)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for the year ended June 30, 2016, and the preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
6/30/14	\$ 2,583,222	\$ 2,813,806	108.93%	\$ (1,004,850)
6/30/15	\$ 2,587,333	\$ 2,786,042	107.68%	\$ (1,434,143)
6/30/16	\$ 3,035,417	\$ 2,774,231	91.40%	\$ (1,172,957)

**Funding Status and Funding Progress**

The funded status of the plan as of July 1, 2015, the date of the most recent actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	\$ 25,610,133
Actuarial value of assets	-
Unfunded AAL (UAAL)	\$ 25,610,133
Funded ratio	0%
Covered payroll	\$ 73,316,073
UAAL as % of covered payroll	35%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic

**CHICO UNIFIED SCHOOL DISTRICT**  
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financial statements, will present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

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

In the July 1, 2015 actuarial valuation, the projected unit credit using full accrual at full eligibility age actuarial method was used. The actuarial assumptions included a four percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of eight percent initially, reduced by decrements to an ultimate rate of five percent after five years. The actuarial method used for valuing assets is market. The plan's unfunded actuarial accrued liability is being amortized over 30 years in level dollar amounts on a closed basis. Demographic and other assumptions include (1) mortality rates; (2) public education retirement rates; (3) termination rates by age, gender, and years of service; and (4) district salary schedules.

**14. PENSION PLANS**

**Plan Descriptions**

Qualified employees are covered under cost-sharing 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 School Employer Pool California Public Employees' Retirement System (CalPERS). Benefit provisions are established by state statute, as legislatively amended, within the State Teachers' Retirement Law and the Public Employees' Retirement Law. Support by the state for the CalSTRS plan is such that the plan has a special funding situation as defined by GASB Statement No 68. CalSTRS and CalPERS issue publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on their respective websites at [www.calstrs.com](http://www.calstrs.com) and [www.calpers.ca.gov](http://www.calpers.ca.gov).

**Benefits Provided**

The plans provide retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 62 for normal benefits or at age 55 with statutorily reduced benefits. Employees hired prior to January 1, 2013 are eligible to retire with five years of total service at age 60, or with 30 years of total service at age 50, for normal benefits or at age 55 with

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2016

statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. All members are eligible for death benefits after one year of total service.

The plans' provisions and benefits in effect at June 30, 2016 are summarized as follows:

	CalSTRS		CalPERS	
	Before Jan. 1, 2013	On or After Jan. 1, 2013	Before Jan. 1, 2013	On or After Jan. 1, 2013
Hire Date				
Benefit Formula	2% at 60	2% at 62	2% at 55	2% at 62
Benefit Vesting Schedule	5 Years	5 Years	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life
Retirement Age	50-62	55-67	50-62	52-67
Monthly benefits, as a % of eligible compensation	1.1-2.4%	1.0-2.4%	1.1-2.5%	1.0-2.5%

**Contributions – CalPERS**

Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contributions to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2016 was 11.847% of annual payroll. Contributions to the plan from the District were \$5,523,405 for the year ended June 30, 2016.

**Contributions – CalSTRS**

Active plan members are required to contribute either 9.20% (2% at 60) or 8.56% (2% at 62) of their salary for fiscal year 2016 and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$2,208,807 for the year ended June 30, 2016.

**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 \$3,526,855 to CalSTRS (7.12589% of 2013-14 creditable compensation subject to CalSTRS).

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2016

**Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of each plan as follows:

	CalSTRS	CalPERS
District's proportionate share of the net pension liability	\$ 71,363,440	\$ 23,318,836
State's proportionate share of the net pension liability	37,743,292	-
<b>Total</b>	<b>\$ 109,106,732</b>	<b>\$ 23,318,836</b>

The net pension liability of each of the plans was measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for each plan was as follows:

	CalSTRS	CalPERS
Proportion - June 30, 2014	0.1100%	0.1642%
Proportion - June 30, 2015	0.1060%	0.1582%
Change - Increase (Decrease)	-0.0040%	-0.0060%

For the year ended June 30, 2016, the District recognized pension expense of \$9,867,778. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 7,732,212	\$ -
Differences between actual and expected experience	1,332,706	1,192,500
Differences between projected and actual earnings on plan investments		6,615,737
Changes in assumptions	-	1,432,774
Changes in employer's proportion and differences between employer's contributions and employer's proportionate share of contributions	-	3,062,620
<b>Total</b>	<b>\$ 9,064,918</b>	<b>\$ 12,303,631</b>

\$7,732,212 reported as deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year Ended June 30, 2016

	<b>Year Ending June 30</b>	
2017	\$ 459,554	\$ 4,451,431
2018	459,554	4,451,431
2019	413,598	4,402,024
2020	-	(1,398,755)
2021	-	198,750
2022	-	198,750
<b>Total</b>	<b>\$ 1,332,706</b>	<b>\$ 12,303,631</b>

**Actuarial Assumptions**

The total pension liabilities in the June 30, 2014, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<b>CalSTRS</b>	<b>CalPERS</b>
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions		
Inflation	3.00%	2.75%
Wage Growth	3.75%	3.00%
Investment Rate of Return	7.50% (1)	7.50% (1)
Interest on Member Accounts	4.50%	

(1) Net of pension plan investment and administrative expenses

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series table adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries.

The actuarial assumptions used in the CalSTRS June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2006, through June 30, 2010.

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the CalPERS June 30, 2014 valuation were based on the January 2014 CalPERS Experience Study.

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



**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2016

for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest quarter of one percent.

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

Asset Class	Strategic Allocation	Real Return Years 1-10*	Real Return Years 11+**
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	12%	4.50%	5.13%
Liquidity	2%	-0.55%	-1.05%

\* An expected inflation of 2.5% used for this period.

\*\* An expected inflation of 3.0% used for this period.

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

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year Ended June 30, 2016

Asset Class	Assumed Asset Allocation	Long-Term * Expected Real Rate of Return
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash/Liquidity	1%	0.00%

\*10-year geometric average

**Discount Rate**

The discount rate used to measure the total pension liability was 7.60% for CalSTRS and 7.65% for CalPERS. To determine whether the District bond rate should be used in the calculation of a discount rate for each plan, CalSTRS and CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rates are adequate and the use of the District bond rate calculation is not necessary for either plan. The stress test results are presented in a detailed report that can be obtained from the CalPERS and CalSTRS websites.

**Sensitivity to the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the District's proportionate share of the net pension liability for each plan, calculated using the discount rate for each plan, as well as the District's proportionate share of the net pension liability if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	CalSTRS	CalPERS
1% Decrease	6.60%	6.65%
Net Pension Liability	\$ 107,753,099	\$ 37,953,348
Current Discount Rate	7.60%	7.65%
Net Pension Liability	\$ 71,363,440	\$ 23,318,836
1% Increase	8.60%	8.65%
Net Pension Liability	\$ 41,120,526	\$ 11,149,261

**Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2016

**15. PARTICIPATION IN JOINT POWERS AUTHORITIES**

The District participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): Butte Schools Self-Funded Programs (BSSP), North Valley Schools Insurance Group (NVSIG), Northern California Schools Insurance Group (NCSIG), and Schools Excess Liabilities Fund (SELF). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and provide property and liability, workers' compensation, health care, and excess liability coverage for their members. Each JPA is governed by a board consisting of a representative from each member district. The Boards control the operations of the JPAs including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPAs. Separately issued financial statements can be requested from each JPA.

**16. RISK MANAGEMENT**

The District is exposed to various risks including loss or damage to property, general liability, and injuries to employees. Settled claims resulting from these risks have not exceeded insurance coverage in the past three years. No significant reductions in insurance coverage from the prior year have been made. As described above, the District participates in risk pools under JPAs for property and liability, health care, and workers' compensation coverage.

**17. COMMITMENTS AND CONTINGENCIES**

**Federal and State Grants**

The District receives financial assistance from federal and state government agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual funds or the overall financial position of the District at June 30, 2016.

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year Ended June 30, 2016

**Construction Project Commitments**

Construction project commitments as of June 30, 2016 are as follows:

<b>Construction Project</b>	<b>Contract Amount</b>	<b>Less Disbursement as of June 30, 2016</b>	<b>Equals Remaining Construction Commitment</b>
MJHS Multi-Purpose Room	\$ 6,790,000	\$ 5,973,755	\$ 816,245
MJHS Science Building	3,804,746	3,617,062	187,684
CJHS Modernization	6,859,268	5,223,000	1,636,268
Chico High School Overhang Beam Repair Phase II	178,726	-	178,726
CHS Athletic Field Improvements	1,592,000	83,151	1,508,849
PVHS Athletic Field Improvements	1,532,500	-	1,532,500
<b>Total</b>	<b>\$ 20,757,240</b>	<b>\$ 14,896,968</b>	<b>\$ 5,860,272</b>

**18. SUBSEQUENT EVENTS**

**Bond Refunding**

During October 2016, the District issued \$24,835,000 of General Obligation Refunding Bonds at a net premium of \$3,931,683. The underwriter's discount and costs of issuance were \$229,654. The bonds bear interest ranging from 2.00% to 4.00% and are payable beginning August 2017 through August 2032. These bonds were issued to refund the 1998 Series B General Obligation Bonds which bear interest at 4.00% to 5.00%.

**General Obligation Bond**

In November 2016, the District's voters approved, by more than the required 55% favorable vote, Measure K, authorizing the issuance and sale of general obligation bonds not to exceed \$152,000,000. The bond funds are to be expended for the following purposes: to improve the quality of local public education by preventing overcrowding at elementary schools and providing safe schools through repairing or replacing leaky roofs and outdated electrical and plumbing systems, upgrading, modernizing and constructing classrooms and science labs, improving student access to technology and improving access for students with disabilities. Measure K is a Proposition 39 bond which requires the District to conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

**19. NEW ACCOUNTING PRONOUNCEMENTS**

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This standard establishes requirements for defined benefit pensions that are not within the scope of GASB Statement 68 and amends certain

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2016

provisions of GASB Statement 67 and 68. The Statement is effective for periods beginning after June 15, 2016. The District has not yet determined the impact on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The statement is effective for periods beginning after June 15, 2017. The District has not yet determined the impact on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This standard's primary objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for periods beginning after June 15, 2016. The District has not yet determined the impact on the financial statements.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**CHICO UNIFIED SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget
				Positive
				(Negative)
<b>REVENUES</b>				
LCFF sources	\$ 90,200,306	\$ 90,714,315	\$ 91,211,104	\$ 496,789
Federal revenue	8,155,312	9,711,321	8,535,711	(1,175,610)
Other state revenue	14,349,396	19,184,639	20,154,816	970,177
Other local revenue	6,097,286	7,327,528	7,668,205	340,677
<b>Total Revenues</b>	<b>118,802,300</b>	<b>126,937,803</b>	<b>127,569,836</b>	<b>632,033</b>
<b>EXPENDITURES</b>				
Certificated salaries	51,183,451	52,003,385	51,725,095	278,290
Classified salaries	18,575,833	17,940,806	17,669,813	270,993
Employee benefits	29,412,327	31,239,830	31,941,693	(701,863)
Books and supplies	5,099,366	6,448,779	5,403,951	1,044,828
Services and other operating	9,422,395	10,994,083	10,223,923	770,160
Other outgo	574,154	627,731	647,213	(19,482)
Direct support/indirect costs	(427,684)	(443,121)	(418,103)	(25,018)
Capital outlay	1,347,889	2,042,846	2,121,655	(78,809)
Debt service:				
Principal	562,284	552,325	552,325	-
Interest	57,142	48,310	48,310	-
<b>Total Expenditures</b>	<b>115,807,157</b>	<b>121,454,974</b>	<b>119,915,875</b>	<b>1,539,099</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>2,995,143</b>	<b>5,482,829</b>	<b>7,653,961</b>	<b>2,171,132</b>
<b>Other Financing Sources (Uses)</b>				
Interfund transfers in	2,563,000	2,814,852	2,938,589	123,737
Interfund transfers out	(267,264)	(303,673)	(292,781)	10,892
<b>Total Other Financing Sources (Uses)</b>	<b>2,295,736</b>	<b>2,511,179</b>	<b>2,645,808</b>	<b>134,629</b>
<b>Net Change in Fund Balance</b>	<b>5,290,879</b>	<b>7,994,008</b>	<b>10,299,769</b>	<b>2,305,761</b>
<b>Fund Balance - Beginning</b>	<b>12,877,217</b>	<b>12,877,217</b>	<b>12,877,217</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 18,168,096</b>	<b>\$ 20,871,225</b>	<b>\$ 23,176,986</b>	<b>\$ 2,305,761</b>

See the accompanying notes to the required supplementary information.

**CHICO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FUNDING PROGRESS FOR OTHER**  
**POSTEMPLOYMENT BENEFITS**  
Year Ended June 30, 2016

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
July 1, 2015	\$ -	\$ 25,610,133	\$ 25,610,133	0%	\$ 73,316,073	34.9%
July 1, 2013	\$ -	\$ 23,064,290	\$ 23,064,290	0%	\$ 62,394,618	37.0%
July 1, 2011	\$ -	\$ 20,809,318	\$ 20,809,318	0%	\$ 67,324,776	30.9%

*See the accompanying notes to the required supplementary information.*



**CHICO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE**  
**SHARE OF THE NET PENSION LIABILITY -**  
**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**  
Last Two Fiscal Years \*

	Year Ended June 30	
	2016	2015
District's proportion of the net pension liability	0.106%	0.110%
District's proportionate share of the net pension liability	\$ 71,363,440	\$ 64,280,700
State's proportionate share of the net pension liability	37,743,292	38,815,852
Total	\$ 109,106,732	\$ 103,096,552
District's covered-employee payroll	\$ 53,330,658	\$ 51,076,235
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	133.81%	125.85%
Plan fiduciary net position as a percentage of total pension liability	74.02%	76.52%

\*This schedule will eventually present 10 years of information. However, it currently only provides the information for those years in which the information is available.

*See the accompanying notes to the required supplementary information.*

**CHICO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS -**  
**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**  
Last Two Fiscal Years\*

	Year Ended June 30	
	2016	2015
Contractually required contribution	\$ 5,523,405	\$ 4,449,316
Contributions in relation to the contractually required contribution	(5,523,405)	(4,449,316)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 53,330,658	\$ 51,076,235
Contributions as a percentage of covered employee payroll	10.36%	8.71%

\*This schedule will eventually present 10 years of information. However, it currently only provides the information for those years in which the information is available.

*See the accompanying notes to the required supplementary information.*

**CHICO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE**  
**SHARE OF THE NET PENSION LIABILITY -**  
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
Last Two Fiscal Years\*

	Year Ended June 30	
	2016	2015
District's proportion of the net pension liability	0.158%	0.164%
District's proportionate share of the net pension liability	\$ 23,318,836	\$ 18,640,698
District's covered-employee payroll	\$ 19,985,416	\$ 19,321,498
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	116.68%	96.48%
Plan fiduciary net position as a percentage of total pension liability	79.43%	83.38%

\*This schedule will eventually present 10 years of information. However, it currently only provides the information for those years in which the information is available.

*See the accompanying notes to the required supplementary information.*

**CHICO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS -**  
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
Last Two Fiscal Years\*

	Year Ended June 30	
	2016	2015
Contractually required contribution	\$ 2,208,807	\$ 2,065,219
Contributions in relation to the contractually required contribution	(2,208,807)	(2,065,219)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 19,985,416	\$ 19,321,498
Contributions as a percentage of covered employee payroll	11.05%	10.69%

\*This schedule will eventually present 10 years of information. However, it currently only provides the information for those years in which the information is available.

*See the accompanying notes to the required supplementary information.*

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
Year Ended June 30, 2016

**1. BUDGETS**

The District's Governing Board annually adopts a budget for the General Fund and each major Special Revenue Fund of the District. The budget is presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budget as amended. Unexpended appropriations on the annual budget lapse at the end of each fiscal year.

**2. PENSION – CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**

**Benefit Changes**

There were no changes in benefits terms that affected measurement of the total pension liability during the measurement period.

**Changes in Assumptions**

There were no changes in major assumptions from the June 30, 2014, actuarial valuation.

**3. PENSION – CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Benefit Changes**

There were no changes in benefits terms that affected measurement of the total pension liability during the measurement period.

**Changes in Assumptions**

The discount rate was changed from 7.50% (net of administrative expenses) to 7.65% to correct for an adjustment to exclude administrative expense.

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## **SUPPLEMENTARY INFORMATION**

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**CHICO UNIFIED SCHOOL DISTRICT  
LOCAL EDUCATIONAL AGENCY ORGANIZATION**

June 30, 2016

The Chico Unified School District (the District) is located in Butte County and was established in 1965. There were no changes in the boundaries of the District during the current year. The District is currently operating twelve elementary, three junior high schools, two high schools, one continuation school, one community day school, one opportunity school, and sponsors seven charter schools.

**GOVERNING BOARD**

<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
Eileen Robinson	President	2018
Kathleen Kaiser	Vice President	2018
Gary Loustale	Clerk	2018
Elizabeth Griffin	Member	2016
Linda Hovey	Member	2016

**ADMINISTRATION**

Kelly Staley, Superintendent  
Jim Hanlon, Assistant Superintendent, Human Resources  
Joanne Parsley, Assistant Superintendent, Educational Services  
Kevin Bultema, Assistant Superintendent, Business Services

**CHICO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**

Year Ended June 30, 2016

	Originally Reported		Revised	
	Second Period Report	Annual Report	Second Period Report	Annual Report
TK/K through grade 3				
Regular ADA	3,437.96	3,427.10	3,437.96	3,427.10
Extended Year Special Education	8.55	8.55	8.55	8.55
Special Education - Nonpublic, Nonsectarian Schools	-	0.22	-	0.22
Extended Year Special Education - Nonpublic, Nonsectarian Schools	-	-	-	-
Community Day School	-	-	-	-
Total TK/K through grade 3	<u>3,446.51</u>	<u>3,435.87</u>	<u>3,446.51</u>	<u>3,435.87</u>
Grades 4 through 6				
Regular ADA	2,440.35	2,430.87	2,439.90	2,430.50
Extended Year Special Education	5.07	5.07	5.07	5.07
Special Education - Nonpublic, Nonsectarian Schools	0.42	0.51	0.42	0.51
Extended Year Special Education - Nonpublic, Nonsectarian Schools	-	-	-	-
Community Day School	-	-	-	-
Total grades 4 through 6	<u>2,445.84</u>	<u>2,436.45</u>	<u>2,445.39</u>	<u>2,436.08</u>
Grades 7 and 8				
Regular ADA	1,744.44	1,736.83	1,744.44	1,736.83
Extended Year Special Education	2.74	2.74	2.74	2.74
Special Education - Nonpublic, Nonsectarian Schools	2.44	2.23	2.44	2.23
Extended Year Special Education - Nonpublic, Nonsectarian Schools	0.17	0.17	0.17	0.17
Community Day School	5.44	4.49	5.44	4.49
Total grades 7 and 8	<u>1,755.23</u>	<u>1,746.46</u>	<u>1,755.23</u>	<u>1,746.46</u>
Grades 9 through 12				
Regular ADA	3,690.45	3,643.63	3,690.45	3,643.63
Extended Year Special Education	7.27	7.27	7.27	7.27
Special Education - Nonpublic, Nonsectarian Schools	1.00	0.74	1.00	0.74
Extended Year Special Education - Nonpublic, Nonsectarian Schools	0.22	0.22	0.22	0.22
Community Day School	6.88	5.95	6.88	5.95
Total grades 9 through 12	<u>3,705.82</u>	<u>3,657.81</u>	<u>3,705.82</u>	<u>3,657.81</u>
<b>ADA Totals</b>	<u>11,353.40</u>	<u>11,276.59</u>	<u>11,352.95</u>	<u>11,276.22</u>

See the accompanying notes to the supplementary information.



**CHICO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
Year Ended June 30, 2016

**INSPIRE SCHOOL OF ARTS AND SCIENCES**

	<b>Second Period Report</b>	<b>Annual Report</b>
Grades 9 through 12		
Regular ADA	410.33	408.15
Charter School ADA Totals	410.33	408.15
Grades 9 through 12		
Classroom-Based ADA	400.74	398.95
Classroom-based Charter School ADA Totals	400.74	398.95

*See the accompanying notes to the supplementary information.*

**CHICO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME**

Year Ended June 30, 2016

**TRADITIONAL SCHOOLS**

<b>Grade Level</b>	<b>Minutes Requirement</b>	<b>2015-16 Actual Minutes</b>	<b>Number of Days</b>	<b>Status</b>
Kindergarten	36,000	36,000	180	Complied
Grade 1	50,400	50,400	180	Complied
Grade 2	50,400	50,400	180	Complied
Grade 3	50,400	50,400	180	Complied
Grade 4	54,000	54,000	180	Complied
Grade 5	54,000	54,000	180	Complied
Grade 6	54,000	54,000	180	Complied
Grade 7	54,000	61,062	180	Complied
Grade 8	54,000	61,062	180	Complied
Grade 9	64,800	64,920	180	Complied
Grade 10	64,800	64,920	180	Complied
Grade 11	64,800	64,920	180	Complied
Grade 12	64,800	64,920	180	Complied

*See the accompanying notes to the supplementary information.*

**CHICO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME**

Year Ended June 30, 2016

**CHARTER SCHOOL**

	<b>Minutes Requirement</b>	<b>2015-16 Actual Minutes</b>	<b>Number of Days</b>	<b>Status</b>
<b>INSPIRE SCHOOL OF ARTS AND SCIENCES</b>				
Grade 9	64,800	65,525	180	Complied
Grade 10	64,800	65,525	180	Complied
Grade 11	64,800	65,525	180	Complied
Grade 12	64,800	65,525	180	Complied

*See the accompanying notes to the supplementary information.*

**CHICO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>Direct Program</i>			
Project Physical Activity for Chico Kids	84.215F	Not applicable	\$ 18,653
Elementary Counseling Services	84.215E	Not applicable	459,846
Total Fund for the Improvement of Education			478,499
<i>Passed Through California Department of Education</i>			
NCLB - Title I, Part A, Basic Grants	84.010	14329	3,146,137
Vocational Programs - Secondary, Carl D. Perkins Act	84.048	14894	90,308
NCLB - Title IV 21st Century Learning Centers	84.287	Various	751,582
NCLB - Title V, Part B, Public Charter School	84.282	15225	99,860
NCLB - Advanced Placement (AP) and International Baccalaureate (IB) Test Fee Reimbursement	84.330B	14831	8,873
NCLB - Title III Immigrant Education	84.365	15146	17,385
NCLB - Title III Limited English Proficient	84.365	14346	102,677
Total NCLB - Title III			120,062
NCLB - Title II Teacher Quality	84.367	14341	712,394
NCLB - Title II California Math and Science Partnership	84.366	14512	794,865
<i>Passed Through Butte County Office of Education</i>			
Special Ed - Basic Local Assistance Entitlement	84.027	13379	1,430,563
Special Ed - Preschool Local Entitlement	84.027	13682	92,871
Special Ed - Preschool Grant	84.173	13430	139,483
Total Special Education Cluster			1,662,917
<b>Total U.S. Department of Education</b>			7,865,497
U.S. DEPARTMENT OF AGRICULTURE			
<i>Direct Program</i>			
Farm to School Program	10.575	Not applicable	78,130
<i>Passed Through California Department of Education</i>			
Child Nutrition Cluster			
School Breakfast	10.553	13390	629,224
National School Lunch	10.555	13391	2,254,959
USDA Commodities	10.550	Not applicable	348,544
Summer Food Service	10.559	13004	111,719
Total Child Nutrition Cluster			3,344,446
NSLP Equipment Assistance	10.579	14906	15,744
Centers & Family Day Care Homes	10.558	13393	251,939
<i>Passed Through Butte County Office of Education</i>			
Forest Reserve	10.665	Not applicable	58,985
<b>Total U.S. Department of Agriculture</b>			3,749,244
U.S. DEPARTMENT OF LABOR			
<i>Direct Program</i>			
Youthbuild	17.274	Not applicable	126,705
<b>Total U.S. Department of Labor</b>			126,705
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through Glenn County Office of Education</i>			
Medi-Cal Administrative Activities	93.778	10060	70,324
<b>Total U.S. Department of Health and Human Services</b>			70,324
<b>Total Expenditures of Federal Awards</b>			\$ 11,811,770

See the accompanying notes to the supplementary information.

**CHICO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**

Year Ended June 30, 2016

Year Ended June 30	(Budget) 2017	2016	2015	2014
<b>General Fund</b>				
Revenues and Other Financing Sources	\$ 124,007,258	\$ 130,508,425	\$ 111,227,774	\$ 102,111,918
Expenditures and Other Financing Uses	130,194,651	120,208,656	110,562,116	104,902,479
Net Change in Fund Balance	\$ (6,187,393)	\$ 10,299,769	\$ 665,658	\$ (2,790,561)
Ending Fund Balance	\$ 16,989,593	\$ 23,176,986	\$ 12,877,217	\$ 14,076,674
Available Reserves	\$ 9,404,390	\$ 7,849,684	\$ 4,619,032	\$ 5,667,309
Available Reserves as a Percentage of Total Outgo	7.22%	6.53%	4.18%	5.40%
Total Long-Term Debt	\$ 154,646,133	\$ 157,884,718	\$ 146,465,954	\$ 66,528,577
Average Daily Attendance at P-2	11,296	11,353	11,277	11,383

The General Fund ending fund balance has increased by \$9,100,312 over the past two years. The fiscal year 2016-17 budget projects a decrease of \$6,187,393 (26.7%). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in one of the past three years, and anticipates incurring an operating deficit during the 2016-17 fiscal year. Total long-term debt has increased by \$91,356,141 over the past two years.

Average daily attendance has decreased by 30 over the past two years. A decrease of 57 ADA is anticipated during fiscal year 2016-17.

\*Available reserves consists of all unassigned fund balance within the General Fund.

*See the accompanying notes to the supplementary information.*

**CHICO UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS**

Year Ended June 30, 2016

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The fund balances of all funds as reported on the annual financial and budget report equal the corresponding balances in the audited financial statements.

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*See the accompanying notes to the supplementary information.*

**CHICO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF CHARTER SCHOOLS**

Year Ended June 30, 2016

Charter schools sponsored by the District that are included in the audit of the District:

Inspire School of Arts and Sciences

Charter schools sponsored by the District that are excluded from the audit of the District:

Chico Country Day School

Nord Country School

Blue Oak Charter School

Forest Ranch Charter School

Sherwood Montessori

Wildflower Open Classroom

*See the accompanying notes to the supplementary information.*

**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2016

**1. PURPOSE OF SCHEDULES**

**Schedule of Average Daily Attendance**

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

**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 46201 through 46206. The District did not meet or exceed its local control funding formula target.

**Schedule of Expenditures of Federal Awards**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10 percent de minimum indirect cost rate allowed under the Uniform Guidance.

**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.

**Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of each fund, as reported in the annual financial and budget report, to the audited financial statements.



**CHICO UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE SUPPLEMENTARY INFORMATION**  
Year Ended June 30, 2016

**Schedule of Charter Schools**

This schedule lists all charter schools sponsored by the District and indicates whether or not the charter school is included in the audit of the District.

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**OTHER INDEPENDENT AUDITORS' REPORTS**

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TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees  
Chico Unified School District  
Chico, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Chico Unified School District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 12, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Chico Unified School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Tittle & Company, LLP*

Chico, California  
December 12, 2016



TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees  
Chico Unified School District  
Chico, California

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

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

#### *Management's Responsibility*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

#### *Opinion on Each Major Federal Program*

In our opinion, Chico Unified School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Tittle & Company, LLP*

Chico, California  
December 12, 2016



TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA

## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Trustees  
Chico Unified School District  
Chico, California

### **Report on State Compliance**

We have audited the District's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of the District's state programs for the fiscal year ended June 30, 2016, as identified below.

#### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

Program Name	Procedures Performed
<b>LOCAL EDUCATION AGENCIES</b>	
<b>OTHER THAN CHARTER SCHOOLS:</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	No
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not applicable
Middle or Early College High Schools	Not applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS:</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not applicable
Immunizations	Yes
<b>CHARTER SCHOOLS:</b>	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	Not applicable
Annual Instructional Minutes - Classroom Based	Yes
Charter School Facility Grant Program	Not applicable

### Continuation Education

Continuation Education steps (6)(a) and (6)(b) were not performed because students do not receive apportionment attendance for work experience.



Continuation Education step (6)(c) was not performed because students do not engage in independent study.

*Opinion on State Compliance*

In our opinion, Chico Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs listed in the schedule above for the year ended June 30, 2016.

*Other Matters*

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, 2016-003 and 2016-004. Our opinion on state compliance is not modified with respect to these matters.

*Chico Unified School District's Response to Findings*

Chico Unified School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Chico Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

*Tittle & Company, LLP*

Chico, California  
December 12, 2016

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## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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**CHICO UNIFIED SCHOOL DISTRICT  
SUMMARY OF AUDITORS' RESULTS**

Year Ended June 30, 2016

**FINANCIAL STATEMENTS**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10555, 10.556, 10.559	Child Nutrition Cluster
84.027, 84.173	Special Education Cluster
84.366	Mathematics and Science Partnership

Dollar threshold used to distinguish between type A and B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

**STATE AWARDS**

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

**CHICO UNIFIED SCHOOL DISTRICT**  
**FINANCIAL STATEMENTS FINDINGS**  
Year Ended June 30, 2016

None.

**CHICO UNIFIED SCHOOL DISTRICT**  
**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2016

None.

**CHICO UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2016

**AFTER SCHOOL EDUCATION AND SAFETY PROGRAM**

40000 (2016-001)

**Significant Deficiency**

**Condition**

During our testing of attendance for the before school program, we noted eight days in the month selected for testing where the students were signed in but were not marked as being present in the attendance system resulting in an understatement of eight days reported on the 1st Half: Before School Base Attendance Report.

**Criteria**

Education Code Section 8484 requires submission of program attendance data. Attendance reported on the semi-annual attendance reports should be compared to supporting documentation and reviewed for accuracy prior to filing.

**Effect**

The number of students served on the 1st Half: Before School Base Attendance Report was understated by 8 days. The amount originally reported was 31,235 students served. The correct amount should have been 31,243 students served. There is no financial impact as the program is not funded based on attendance.

***Recommendation***

We recommend that sign/out sheets be thoroughly completed and that attendance reports be reviewed for accuracy. In addition, we recommend that the attendance report be amended for the errors noted above.

***District Response***

The attendance report will be amended and the District will implement procedures during 2016-17 to comply with the recommendation.

**CHICO UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2016

**SCHOOL ACCOUNTABILITY REPORT CARD**

72000 (2016-002)

**Significant Deficiency**

**Condition**

The District could not provide a Facility Inspection Tool or a local evaluation instrument that meets the criteria noted in Education Code Section 17002 for the information reported on the 2014-15 SARC that was published during the 2015-16 school year for the following school sites: Emma Wilson Elementary, Shasta Elementary, Chico Junior High and Chico Senior High School.

**Criteria**

Education Code Section 33126 (b) (8) requires that information on the safety, cleanliness, and adequacy of school facilities be reported in the Schools Accountability Report Card. Pursuant to the provisions of subdivision (d) of Education Code Section 17002, school districts must complete a "Facility Inspection Tool (FIT), School Facility Conditions Evaluation" developed by the Office of Public School Construction or a local evaluation instrument that meets the same criteria.

**Effect**

The District is not in compliance with Education Code Section 33126 (b) (8) or Education Code Section 17002 (d) for accurate reporting on school facilities information for the school site or use of an evaluation instrument that meets the criteria, respectively.

**Recommendation**

We recommend that the District utilize the Facilities Inspection Tool developed by the Office of Public School Construction and report the results of this tool in the SARC.

**District Response**

The District's management will implement procedures during the 2016-17 fiscal year to comply with the recommendation.

**CHICO UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2016

**INDEPENDENT STUDY PROGRAM**

10000 (2016-003)

**Significant Deficiency**

**Condition**

During our tests over the independent study program we noted that apportionment was claimed before the independent study agreement date in some student files.

**Criteria**

Pursuant to Education Code Section 51747, the District must maintain a current written agreement for each independent study pupil in order to be eligible to receive apportionment. Each written agreement shall be signed, prior to the commencement of independent study, by the pupil, the pupil's parent, legal guardian, or caregiver, if the pupil is less than 18 years of age, the certificated employee who has been designated as having responsibility for the general supervision of independent study, and all persons who have direct responsibility for providing assistance to the pupil.

**Effect**

Independent study average daily attendance (ADA) is overstated by .45 on the second report of attendance and .37 on the annual report of attendance for grades 4-6. The District is not eligible to claim apportionment for any independent study student unless a signed written agreement is completed prior to commencement of independent study. LCFF funding is overstated by \$3,204.

***Recommendation***

The District should not claim apportionment for any independent study pupil until the signature date on the master agreement. All master agreements should be signed on or before the pupil's first day of participation in the independent study program.

***District Response***

Procedures will be implemented to require contract signatures prior to participation in the independent study program during the 2016-17 fiscal year.



**CHICO UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2016

**ATTENDANCE**

10000 (2016-004)

**Significant Deficiency**

**Condition**

The District's procedures require teachers to sign attendance reports on a weekly basis. We noted at the following site that teachers were not signing the weekly attendance reports on a timely basis: Hooker Oak Elementary, Shasta Elementary, Chico Junior High School and Chico High School.

**Criteria**

Pursuant to California Education Code, Section 44809 and California Code of Regulations, Title 5, Sections 400-401, schools must maintain records of pupil attendance. These written attendance records should be prepared daily and signed weekly by the teacher who instructed the students.

**Effect**

Without strengthening internal controls over attendance reporting, average daily attendance may not be accurately reported to the California Department of Education.

***Recommendation***

We recommend that the District follow their approved attendance procedures which require that the teachers maintain records of attendance that are prepared daily and signed weekly by the teacher who instructed the students.

***District Response***

The District's administration will adopt procedures to implement the recommendation during the fiscal year 2016-17.

**CHICO UNIFIED SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year Ended June 30, 2016

**AFTER SCHOOL EDUCATION AND SAFETY PROGRAM**

40000 (2015-001)

**Significant Deficiency**

**Condition**

During our testing of attendance for the before school program, we noted five days in the month selected for testing where students did not sign in but were marked as being present in the attendance system resulting in an overstatement of days reported on the 1st Half: Before School Base Attendance Report. We also noted eight days where the students were signed in but were not marked as being present in the attendance system resulting in an understatement of days reported on the 1st Half: Before School Base Attendance Report.

**Criteria**

Education Code Section 8484 requires submission of program attendance data. Attendance reported on the semi-annual attendance reports should be compared to supporting documentation and reviewed for accuracy prior to filing.

**Effect**

The number of students served on the 1st Half: Before School Base Attendance Report was understated by three days. The amount originally reported was 39,869 students served. The correct amount should have been 39,872 students served. There is no financial impact as the program is not funded based on attendance.

**Recommendation**

We recommend that sign in/out sheets be thoroughly completed and that attendance reports be reviewed for accuracy. In addition, we recommend that the attendance report be amended for the errors noted above.

**Current Status**

See current year finding at 2016-001.

**CHICO UNIFIED SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year Ended June 30, 2016

**ATTENDANCE**

10000 (2015-002)

**Significant Deficiency**

**Condition**

The District's procedures require teachers to sign attendance reports on a weekly basis. We noted at the following sites that teachers were not signing the weekly attendance reports on a timely basis: Little Chico Creek Elementary School, Rosedale Elementary School, and Pleasant Valley High School. In addition, the weekly attendance reports for the second half of the school year could not be located by staff at Rosedale Elementary School. We were able to perform other procedures to determine that attendance was properly reported.

**Criteria**

Pursuant to California Education Code, Section 44809 and California Code of Regulations, Title 5, Sections 400-401, schools must maintain records of pupil attendance. These written attendance records should be prepared daily and signed weekly by the teacher who instructed the students. The attendance records should be properly stored to ensure that the records are available to support attendance days claimed.

**Effect**

Without strengthening internal controls over attendance reporting, average daily attendance may not be accurately reported to the California Department of Education.

***Recommendation***

We recommend that the District follow their approved attendance procedures which require that the teachers maintain records of attendance that are prepared daily and signed weekly by the teacher who instructed the students. The records should be properly stored to ensure that records are available to support attendance days claimed.

***Current Status***

See current year finding at 2016-004.