



MATSON
& ISOM

CHICO UNIFIED SCHOOL DISTRICT

**County of Butte
Chico, California**

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITORS' REPORTS

June 30, 2013

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*Chico Unified
School District*

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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 Chico Unified School District (the District) as of and for the year ended June 30, 2013, 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

The District's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 auditors' 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 District'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 District'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 District as of June 30, 2013; the respective changes in financial position; and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

Continued

Other Matters

Required Supplementary Information

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

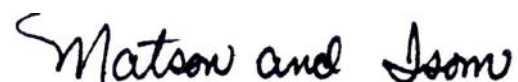
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed as other supplementary information in the table of contents and the schedule of expenditures of federal awards, as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information listed as other supplementary information 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 accompanying other 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 January 28, 2014, on our consideration of the 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 the District's internal control over financial reporting and compliance.



January 28, 2014
Chico, California

FINANCIAL SECTION

Required Supplementary Information

INTRODUCTION

This section of the Chico Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the independent auditors' report presented 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 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 financial statements by providing information about the District's most significant funds.

FINANCIAL HIGHLIGHTS

- Total net position was \$99,563,422 at June 30, 2013. This was a decrease of \$2,184,924 over the prior year.
- Overall revenues were \$113,699,153, total current-year expenses exceeded revenues by \$2,184,924 primarily due to multiple years of underfunding to education by the State of California.
- Capital assets, net of depreciation, increased by \$10,412,893 primarily due to construction of classroom space on the Chico High and Pleasant Valley High campuses.
- Long-term debt increased by \$14,496,970 primarily due to the issuance of general obligation bonds authorized by Measure E.
- The District maintains sufficient reserves for a district its size. It meets the State required minimum reserve for economic uncertainty of 3% of General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2012-13, General Fund expenditures and other financing uses totaled \$101,141,845. At June 30, 2013, the District has available reserves of \$11,165,015 in the General Fund, which represents a reserve of 11%.

THE FINANCIAL REPORT

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and management's discussion and analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

Government-Wide Financial Statements: Comprise the first two statements; both provide short-term and long-term information about the District's overall financial position.

Fund Financial Statements: Focus on reporting the individual parts of the District's operations in more detail.

- Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
- 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 financial statements, 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.

OVERVIEW OF THE FINANCIAL STATEMENTS**Government-Wide Financial Statements**

The District as a whole is reported in the government-wide financial 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 (net position) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net position 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, administration, and transportation are included here, and are primarily financed by property taxes and state formula aid. Non-basic services, such as child nutrition and child development are also included here, but are financed by a combination of state and federal contracts and grants, and 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.

Governmental Funds

The General, Building, Capital Facilities, County School Facilities, and Bond Interest and Redemption Fund represent the major governmental funds of the District. Governmental fund reporting focuses on how money flows into and out of the funds and 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 financial 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.

Fiduciary Funds

For assets that belong to others, such as the student activities funds, the District acts as the trustee, or fiduciary. 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 their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

*Chico Unified
School District***FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE****Net Position**

The District's net position was \$99,563,422 for the fiscal year ended June 30, 2013. Restricted net position is reported separately if they are not available for day-to-day operations or their use is constrained to a particular purpose by statutes, rules or other entities with authority over the District.

| | Governmental Activities | | Percentage Change 2012-13 |
|--|--------------------------------|----------------------|--|
| | 2012 | 2013 | |
| ASSETS | | | |
| Cash and investments | \$ 43,398,783 | \$ 51,969,190 | 19.7% |
| Accounts receivable | 23,423,098 * | 18,729,342 | -20.0% |
| Inventories and other assets | 1,518,723 | 1,310,311 | -13.7% |
| Capital assets - net of accumulated depreciation | 94,382,771 | 104,795,664 | 11.0% |
| Total Assets | 162,723,375 | 176,804,507 | 8.7% |
| Deferred loss on refunding | - | 43,906 | |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | 6,084,327 * | 7,897,319 | 29.8% |
| Long-term debt | 54,890,702 | 69,387,672 | 26.4% |
| Total Liabilities | 60,975,029 | 77,284,991 | 26.7% |
| NET POSITION | | | |
| Net investment in capital assets | 57,229,615 | 52,640,588 | -8.0% |
| Restricted | 43,291,312 | 47,676,121 | 10.1% |
| Unrestricted | 1,227,419 * | (753,287) | -161.4% |
| Total Net Position | \$ 101,748,346 | \$ 99,563,422 | -2.1% |

* Restated for prior-period adjustments as of June 30, 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

*Chico Unified
School District*

Change in Net Position

The following table summarizes the change in net position for the District. Expenses exceeded the District's revenues for the year by \$2,184,924. The District's expenses are primarily related to educating and caring for students and make up 84% of all expenses. Administrative activities of the District account for 6% of the total costs. The increase in expenses is related to statutory increases to salaries and benefits per collective bargaining agreements, increases to health and welfare insurance premiums, and increases in property and liability insurance premiums.

| | Governmental Activities | | Percentage |
|--------------------------------------|--------------------------------|-----------------------|---------------------------|
| | 2012 | 2013 | Change 2012-13 |
| REVENUES | | | |
| PROGRAM REVENUES | | | |
| Charges for services | \$ 672,527 | \$ 532,790 | -20.8% |
| Operating grants and contributions | 30,799,100 | 27,766,800 | -9.8% |
| Capital grants and contributions | 96,002 | 108,658 | 13.2% |
| GENERAL REVENUES | | | |
| Property taxes | 30,242,646 | 31,633,199 | 4.6% |
| Federal and state aid not restricted | 48,838,514 * | 51,027,843 | 4.5% |
| Interest and investment earnings | 432,341 | (346,870) | -180.2% |
| Miscellaneous | 2,124,969 | 2,976,733 | 40.1% |
| Total Revenues | 113,206,099 | 113,699,153 | 0.4% |
| EXPENSES | | | |
| Instruction | 74,733,216 * | 72,987,645 | -2.3% |
| Instruction - related services | 9,259,704 | 9,622,837 | 3.9% |
| Pupil services | 12,289,085 | 14,537,135 | 18.3% |
| General administration | 6,743,928 | 7,040,545 | 4.4% |
| Plant services | 8,276,871 | 7,705,280 | -6.9% |
| Ancillary services | 577,755 | 410,206 | -29.0% |
| Community services | 13,660 | 15,059 | 10.2% |
| Enterprise activities | - | 34,609 | 100.0% |
| Other outgo | 3,031,617 | 3,530,761 | 16.5% |
| Total Expenses | 114,925,836 | 115,884,077 | 0.8% |
| Change in Net Position | \$ (1,719,737) * | \$ (2,184,924) | -27.0% |

* Restated for prior-period adjustments as of June 30, 2012.

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2013

*Chico Unified
School District*

The table below represents 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 was placed on the District’s general revenues.

| | Total Cost of Services | | Percentage 2012-13 | Net Cost of Services | | Percentage 2012-13 |
|--------------------------------|------------------------|-----------------------|-----------------------|----------------------|----------------------|-----------------------|
| | 2012 | 2013 | | 2012 | 2013 | |
| Instruction | \$ 74,733,216 * | \$ 72,987,645 | -2.7% | \$ 52,582,103 * | \$ 54,673,316 | 0.3% |
| Instruction - related services | 9,259,704 | 9,622,837 | 0.2% | 8,171,892 | 8,607,807 | 2.0% |
| Pupil services | 12,289,085 | 14,537,135 | 1.2% | 5,838,312 | 7,045,252 | 59.1% |
| General administration | 6,743,928 | 7,040,545 | -6.9% | 5,834,908 | 5,722,798 | -7.2% |
| Plant services | 8,276,871 | 7,705,280 | 0.9% | 8,269,120 | 7,682,558 | 1.1% |
| Ancillary services | 577,755 | 410,206 | 7.4% | (153,451) | 379,341 | 6.6% |
| Community services | 13,660 | 15,059 | -39.1% | 13,660 | 15,059 | 39.3% |
| Enterprise activities | - | 34,609 | -25.4% | - | 34,609 | -25.4% |
| Other outgo | 3,031,617 | 3,530,761 | 43.2% | 2,801,663 | 3,315,089 | 98.4% |
| Total | \$ 114,925,836 | \$ 115,884,077 | -2.5% | \$ 83,358,207 | \$ 87,475,829 | 1.7% |

* Restated for prior-period adjustments as of June 30, 2012.

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

Governmental Funds

The District’s governmental funds reported a combined fund balance of \$63,918,822, an increase of \$1,828,071 from the previous year. Following is a summary of the District’s fund balances.

| | Fund Balance | | Increase (Decrease) |
|----------------------------------|----------------------|----------------------|------------------------|
| | 2012 | 2013 | |
| General | \$ 20,404,177 * | \$ 17,496,938 | \$ (2,907,239) |
| Charter Schools | 905,496 * | 946,803 | 41,307 |
| Cafeteria Special Revenue | 10,577 | - | (10,577) |
| Building | 15,371,122 | 15,752,939 | 381,817 |
| Capital Facilities | 11,343,474 | 12,225,681 | 882,207 |
| County School Facilities | 8,125,089 | 11,088,378 | 2,963,289 |
| Special Reserve Capital Projects | 1,308,352 | 1,876,376 | 568,024 |
| Bond Interest and Redemption | 4,372,908 | 4,287,829 | (85,079) |
| Debt Service | 249,556 | 243,878 | (5,678) |
| Total | \$ 62,090,751 | \$ 63,918,822 | \$ 1,828,071 |

* Restated for prior-period adjustments as of June 30, 2012.

The General Fund decrease is due primarily to current-year expenditures exceeding revenues.

The Building Fund increase is due to final expenditures of 1998 Measure A general obligation bonds and receipt of proceeds from the first issuance of 2012 Measure E general obligation bonds.

The Capital Facilities Fund increase is due to collection of developer fees to be expended in future years.

The County School Facilities Fund increase is due to reimbursement from the State of California related to construction projects completed in prior fiscal years.

The Special Reserve Capital Projects Fund increase is due to the collections received from the local redevelopment agency.

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. When comparing actual values to budgeted values, actual revenues were less than budget by \$527,105 and actual expenditures were less than budget by \$2,268,200. The budget amendments for the year typically fell into the following categories:

- Final revenue limit calculation resulted in less funding than anticipated.
- 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 though they continue to have carryover and deferred revenue.

CAPITAL ASSETS AND LONG-TERM 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

The District has invested \$104,795,664 in capital assets including land, buildings and improvements, and equipment and vehicles. The District purchased six vehicles and enhanced technology infrastructure. In addition, the District continued construction on the Chico High School dining commons, the Pleasant Valley High School classroom buildings, and the Inspire School of the Arts and Sciences relocatable classrooms.

| | Governmental Activities | | Percentage |
|--------------------------------|--------------------------------|-----------------------|---------------------------|
| | 2012 | 2013 | Change 2012-13 |
| Land | \$ 11,825,696 | \$ 11,825,696 | 0.0% |
| Construction in progress | 3,039,185 | 16,192,656 | 432.8% |
| Site improvements | 8,083,937 | 8,116,602 | 0.4% |
| Buildings | 134,174,482 | 135,061,219 | 0.7% |
| Equipment and vehicles | 5,339,821 | 5,512,758 | 3.2% |
| Subtotal | 162,463,121 | 176,708,931 | 8.8% |
| Less: Accumulated depreciation | 68,080,350 | 71,913,267 | 5.6% |
| Total | \$ 94,382,771 | \$ 104,795,664 | 11.0% |

Long-Term Debt

The District has \$69,387,672 in long-term debt as of June 30, 2013. The District issued its first series of general obligation bonds authorized by Measure E and made normally scheduled payments on the previously issued general obligation bonds, capital leases, certificates of participation, and early retirement incentives.

| | Governmental Activities | | Percentage |
|-------------------------------|--------------------------------|----------------------|---------------------------|
| | 2012 | 2013 | Change 2012-13 |
| Compensated absences | \$ 604,210 | \$ 542,631 | -10.2% |
| General obligations bonds | 50,510,000 | 63,885,000 | 26.5% |
| Bond issuance premiums | 692,047 | 2,418,182 | 249.4% |
| Capital lease | 468,933 | 443,739 | -5.4% |
| Certificates of participation | 1,445,824 | 1,205,000 | -16.7% |
| Early retirement incentives | 1,169,688 | 893,120 | -23.6% |
| Total | \$ 54,890,702 | \$ 69,387,672 | 26.4% |

ECONOMIC 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:

- The District continues to experience declining enrollment as well as enrollment loss to charter schools. The District will continue to monitor enrollment carefully for trending and accuracy.
- Health benefits, workers’ compensation rates, and fuel and energy costs continue to escalate.
- Special education, special education transportation, and home to school transportation continue to experience costs far in excess of program revenues, which negatively impact the District’s ability to fund other instructional programs.
- The passage of the 2013-14 State budget included a new funding formula for school districts. This Local Control Funding Formula (LCFF) provides a majority of the revenue received by the District. Due to this new funding model, the District continues to monitor the impact of its implementation.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

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

Kevin Bultema
 Assistant Superintendent, Business Services
 Chico Unified School District
 1163 East 7th Street
 Chico, California 95928
 (530) 891-3000 x.112

Basic Financial Statements

STATEMENT OF NET POSITION*Chico Unified
School District*

| June 30, 2013 | Governmental Activities |
|--|------------------------------------|
| ASSETS | |
| Cash and investments | \$ 51,969,190 |
| Accounts receivable | 2,199,350 |
| Due from other governments | 16,529,992 |
| Inventories - supplies and materials | 305,461 |
| Net OPEB asset | 1,004,850 |
| Nondepreciated capital assets | 28,018,352 |
| Depreciated capital assets | 148,690,579 |
| Accumulated depreciation | <u>(71,913,267)</u> |
| Total Assets | <u>176,804,507</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred loss on refunding | <u>43,906</u> |
| LIABILITIES | |
| Overdraft in county treasury | 506,862 |
| Accounts payable and other current liabilities | 4,162,967 |
| Due to other governments | 3,139,731 |
| Advances from grantors | 87,759 |
| Long-term obligations: | |
| Due within one year | 2,822,485 |
| Due beyond one year | <u>66,565,187</u> |
| Total Liabilities | <u>77,284,991</u> |
| NET POSITION | |
| Net investment in capital assets | 52,640,588 |
| Restricted for capital projects | 39,066,998 |
| Restricted for debt service | 4,531,707 |
| Restricted for educational programs | 4,077,416 |
| Unrestricted | <u>(753,287)</u> |
| Total Net Position | <u>\$ 99,563,422</u> |

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

STATEMENT OF ACTIVITIES

*Chico Unified
School District*

| Year Ended June 30, 2013 | Expenses | Charges for Services | Operating Grants and Contributions | Program Revenues Capital Grants and Contributions | Net (Expense) Revenue and Change in Net Position Governmental Activities |
|---|-----------------------|-------------------------|--|--|--|
| FUNCTIONS/PROGRAMS | | | | | |
| PRIMARY GOVERNMENT | | | | | |
| Governmental activities: | | | | | |
| Instruction | \$ 72,987,645 | \$ 400,180 | \$ 17,805,491 | \$ 108,658 | \$ (54,673,316) |
| Instruction - related services | 9,622,837 | 9,419 | 1,005,611 | - | (8,607,807) |
| Pupil services | 14,537,135 | 83,000 | 7,408,883 | - | (7,045,252) |
| Ancillary services | 410,206 | 23 | 30,842 | - | (379,341) |
| Community services | 15,059 | - | - | - | (15,059) |
| Enterprise activities | 34,609 | - | - | - | (34,609) |
| General administration | 7,040,545 | 26,961 | 1,290,786 | - | (5,722,798) |
| Plant services | 7,705,280 | 146 | 22,576 | - | (7,682,558) |
| Other outgo | 431,584 | 13,061 | 202,611 | - | (215,912) |
| Interest on long-term debt | 3,099,177 | - | - | - | (3,099,177) |
| Total Governmental Activities | \$ 115,884,077 | \$ 532,790 | \$ 27,766,800 | \$ 108,658 | (87,475,829) |
| GENERAL REVENUES | | | | | |
| Property taxes - levied for general purposes | | | | | 26,299,899 |
| Property taxes - levied for debt service | | | | | 2,171,413 |
| Property taxes - levied for other specific purposes | | | | | 3,161,887 |
| Federal and state aid not restricted to specific purposes | | | | | 51,027,843 |
| Unrestricted investment earnings | | | | | (346,870) |
| Miscellaneous | | | | | 2,976,733 |
| Total General Revenues and Transfers | | | | | 85,290,905 |
| Change in Net Position | | | | | (2,184,924) |
| Net Position - as Previously Reported | | | | | 101,595,617 |
| Prior-Period Adjustments | | | | | 152,729 |
| Net Position - as Restated | | | | | 101,748,346 |
| Net Position - End of Year | | | | | \$ 99,563,422 |

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

**BALANCE SHEET –
GOVERNMENTAL FUNDS**

*Chico Unified
School District*

| June 30, 2013 | <u>General Fund</u> | <u>Building Fund</u> | <u>Capital Facilities Fund</u> | <u>County School Facilities Fund</u> | <u>Bond Interest and Redemption Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|----------------------|------------------------------------|--|--|---|---|
| ASSETS | | | | | | | |
| Cash and investments | \$ 8,374,662 | \$ 17,605,805 | \$ 6,591,811 | \$ 11,070,227 | \$ 5,327,118 | \$ 2,999,427 | \$ 51,969,050 |
| Accounts receivable | 149,712 | 4,884 | 17,285 | 21,762 | 5,711 | 16,863 | 216,217 |
| Due from other governments | 15,439,531 | - | - | - | - | 1,090,461 | 16,529,992 |
| Due from other funds | 2,594,823 | 31,853 | 5,755,009 | - | - | 303,600 | 8,685,285 |
| Inventories - supplies and materials | 239,964 | - | - | - | - | 65,497 | 305,461 |
| Total Assets | <u>\$ 26,798,692</u> | <u>\$ 17,642,542</u> | <u>\$ 12,364,105</u> | <u>\$ 11,091,989</u> | <u>\$ 5,332,829</u> | <u>\$ 4,475,848</u> | <u>\$ 77,706,005</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| LIABILITIES | | | | | | | |
| Overdraft in county treasury | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 506,862 | \$ 506,862 |
| Accounts payable and other current liabilities | 1,056,050 | 1,889,544 | 67,118 | 3,611 | - | 294,468 | 3,310,791 |
| Due to other governments | 2,059,500 | 8 | - | - | 1,015,000 | 65,223 | 3,139,731 |
| Due to other funds | 6,098,445 | 51 | 71,306 | - | 30,000 | 542,238 | 6,742,040 |
| Advances from grantors | 87,759 | - | - | - | - | - | 87,759 |
| Total Liabilities | <u>9,301,754</u> | <u>1,889,603</u> | <u>138,424</u> | <u>3,611</u> | <u>1,045,000</u> | <u>1,408,791</u> | <u>13,787,183</u> |
| FUND BALANCES | | | | | | | |
| Nonspendable | 264,964 | - | - | - | - | 65,497 | 330,461 |
| Restricted | 4,049,403 | 15,752,939 | 12,225,681 | 11,088,378 | 4,287,829 | 271,891 | 47,676,121 |
| Assigned | 2,017,556 | - | - | - | - | 2,795,166 | 4,812,722 |
| Unassigned | 11,165,015 | - | - | - | - | (65,497) | 11,099,518 |
| Total Fund Balances | <u>17,496,938</u> | <u>15,752,939</u> | <u>12,225,681</u> | <u>11,088,378</u> | <u>4,287,829</u> | <u>3,067,057</u> | <u>63,918,822</u> |
| Total Liabilities and Fund Balances | <u>\$ 26,798,692</u> | <u>\$ 17,642,542</u> | <u>\$ 12,364,105</u> | <u>\$ 11,091,989</u> | <u>\$ 5,332,829</u> | <u>\$ 4,475,848</u> | <u>\$ 77,706,005</u> |

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

**RECONCILIATION OF GOVERNMENTAL
FUND BALANCES TO GOVERNMENT-WIDE
NET POSITION**

*Chico Unified
School District*

June 30, 2013

| | | |
|---|---------------------|----------------------|
| Total Fund Balances - Governmental Funds | | \$ 63,918,822 |
| <p>Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:</p> | | |
| <p>Capital assets: 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 at historical cost | \$ 176,708,931 | |
| Accumulated depreciation | <u>(71,913,267)</u> | 104,795,664 |
| <p>Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatrued interest owing at the end of the period was:</p> | | |
| | | (812,288) |
| <p>Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:</p> | | |
| General obligation bonds | 66,259,276 | |
| Net OPEB asset | (1,004,850) | |
| Compensated absences | 542,631 | |
| Certificates of participation | 1,205,000 | |
| Capital leases | 443,739 | |
| Early retirement incentives | <u>893,120</u> | (68,338,916) |
| <p>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 operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds are:</p> | | |
| | | <u>140</u> |
| Total Net Position - Governmental Activities | | \$ 99,563,422 |

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

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**

*Chico Unified
School District*

| Year Ended June 30, 2013 | <u>General Fund</u> | <u>Building Fund</u> | <u>Capital Facilities Fund</u> | <u>County School Facilities Fund</u> | <u>Bond Interest and Redemption Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|----------------------|------------------------------------|--|--|---|---|
| REVENUES | | | | | | | |
| Property taxes | \$ 26,299,899 | \$ - | \$ - | \$ - | \$ 2,171,413 | \$ 3,161,887 | \$ 31,633,199 |
| Revenue limit sources | 34,942,180 | - | - | - | - | 2,475,452 | 37,417,632 |
| Other state revenue | 18,109,908 | - | - | 3,011,100 | - | 677,323 | 21,798,331 |
| Federal revenue | 9,690,442 | - | - | - | - | 3,730,744 | 13,421,186 |
| Other local revenue | 6,885,101 | (165,121) | 1,928,444 | (21,898) | (42,044) | 900,562 | 9,485,044 |
| Total Revenues | <u>95,927,530</u> | <u>(165,121)</u> | <u>1,928,444</u> | <u>2,989,202</u> | <u>2,129,369</u> | <u>10,945,968</u> | <u>113,755,392</u> |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| Instruction | 68,513,077 | - | - | - | - | 1,699,606 | 70,212,683 |
| Instruction - related services | 8,619,567 | - | - | - | - | 929,766 | 9,549,333 |
| Pupil services | 9,634,385 | - | - | - | - | 4,983,423 | 14,617,808 |
| Ancillary services | 410,206 | - | - | - | - | - | 410,206 |
| Community services | 15,059 | - | - | - | - | - | 15,059 |
| Enterprise activities | - | - | - | - | - | 34,609 | 34,609 |
| General administration | 5,667,461 | - | 522,232 | - | - | 323,710 | 6,513,403 |
| Plant services | 6,963,179 | 362,754 | (4,132) | - | - | 92,699 | 7,414,500 |
| Transfers between agencies | 431,584 | - | - | - | - | - | 431,584 |
| Debt service: | | | | | | | |
| Principal | 483,360 | - | - | - | 20,290,000 | - | 20,773,360 |
| Interest and other charges | 143,125 | - | - | - | 2,210,788 | - | 2,353,913 |
| Issuance costs and discounts | 1,900 | 271,583 | - | - | 144,000 | - | 417,483 |
| Capital outlay | 42,900 | 13,818,725 | 470,414 | 25,913 | - | 255,768 | 14,613,720 |
| Total Expenditures | <u>100,925,803</u> | <u>14,453,062</u> | <u>988,514</u> | <u>25,913</u> | <u>22,644,788</u> | <u>8,319,581</u> | <u>147,357,661</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(4,998,273)</u> | <u>(14,618,183)</u> | <u>939,930</u> | <u>2,963,289</u> | <u>(20,515,419)</u> | <u>2,626,387</u> | <u>(33,602,269)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Interfund transfers in | 2,307,076 | - | - | - | - | 216,042 | 2,523,118 |
| Interfund transfers out | (216,042) | - | (57,723) | - | - | (2,249,353) | (2,523,118) |
| Proceeds from long-term debt | - | 15,000,000 | - | - | 18,665,000 | - | 33,665,000 |
| Other sources | - | - | - | - | 1,765,340 | - | 1,765,340 |
| Total Other Financing Sources (Uses) | <u>2,091,034</u> | <u>15,000,000</u> | <u>(57,723)</u> | <u>-</u> | <u>20,430,340</u> | <u>(2,033,311)</u> | <u>35,430,340</u> |
| Net Change in Fund Balances | <u>(2,907,239)</u> | <u>381,817</u> | <u>882,207</u> | <u>2,963,289</u> | <u>(85,079)</u> | <u>593,076</u> | <u>1,828,071</u> |
| Fund Balances - as Previously Reported | 20,716,095 | 15,371,122 | 11,343,474 | 8,125,089 | 4,372,908 | 2,009,334 | 61,938,022 |
| Prior-Period Adjustments | (311,918) | - | - | - | - | 464,647 | 152,729 |
| Fund Balances - as Restated | <u>20,404,177</u> | <u>15,371,122</u> | <u>11,343,474</u> | <u>8,125,089</u> | <u>4,372,908</u> | <u>2,473,981</u> | <u>62,090,751</u> |
| Fund Balances - End of Year | <u>\$ 17,496,938</u> | <u>\$ 15,752,939</u> | <u>\$ 12,225,681</u> | <u>\$ 11,088,378</u> | <u>\$ 4,287,829</u> | <u>\$ 3,067,057</u> | <u>\$ 63,918,822</u> |

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

**RECONCILIATION OF NET CHANGE
IN FUND BALANCES TO
CHANGE IN NET POSITION**

June 30, 2013

*Chico Unified
School District*

Page 1 of 2

| | |
|---|-----------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ 1,828,071 |
| <p>Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:</p> | |
| <p>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:</p> | |
| Expenditures for capital outlay | \$ 14,850,853 |
| Depreciation expense | <u>(3,902,779)</u> |
| | 10,948,074 |
| <p>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:</p> | |
| | 20,846,762 |
| <p>Debt proceeds: In governmental funds, proceeds from long-term debt are recognized as other financing sources. In the government-wide statements, proceeds from long-term debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from long-term debt, net of issue premium or discount, were:</p> | |
| | (35,430,340) |
| <p>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 that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:</p> | |
| | 196,760 |
| <p>Gain or 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:</p> | |
| | <u>(56,240)</u> |
| Balance Forward | \$ (1,666,913) |

**RECONCILIATION OF NET CHANGE
IN FUND BALANCES TO
CHANGE IN NET POSITION**

June 30, 2013

*Chico Unified
School District*

Page 2 of 2

| | |
|--|-----------------------|
| Balance Brought Forward | \$ (1,666,913) |
| 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 amounts earned. The difference between compensated absences paid and compensated absences earned was: | 61,579 |
| 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: | 423,892 |
| Cost write-off for canceled capital projects: If a planned capital project is canceled and will not be completed, costs previously capitalized as construction in progress must be written off to expense. Costs written off for canceled projects were: | (478,941) |
| Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. Debt issue costs amortized for the period were: | (593,475) |
| Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is: | 68,934 |
| Change in Net Position of Governmental Activities | \$ (2,184,924) |

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

**STATEMENT OF NET POSITION –
PROPRIETARY FUND**

*Chico Unified
School District*

| <u>June 30, 2013</u> | <u>Self-Insurance Internal Service</u> |
|----------------------|--|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and investments | \$ 140 |
| NET POSITION | |
| Unrestricted | \$ 140 |

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

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUND**

*Chico Unified
School District*

| <u>Year Ended June 30, 2013</u> | <u>Self-Insurance Internal Service</u> |
|---|--|
| Change in Net Position | \$ - |
| Net Position - Beginning of Year | <u>140</u> |
| Net Position - End of Year | <u>\$ 140</u> |

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

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUND**

*Chico Unified
School District*

| <u>Year Ended June 30, 2013</u> | <u>Self-Insurance Internal Service</u> |
|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash paid for services and other operating expenses | \$ - |
| Net Decrease in Cash | - |
| Cash - Beginning of Year | 140 |
| Cash - End of Year | \$ 140 |

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

**STATEMENT OF FIDUCIARY NET POSITION –
FIDUCIARY FUNDS**

*Chico Unified
School District*

| June 30, 2013 | <u>Agency</u> |
|--------------------------------------|---------------------|
| ASSETS | |
| Cash and investments | \$ 6,167,365 |
| Accounts receivable | 215,964 |
| Due from other funds | 39,888 |
| Inventories - supplies and materials | 37,605 |
| Prepaid expenses | 134,142 |
| Total Assets | <u>\$ 6,594,964</u> |
| LIABILITIES | |
| Accounts payable | \$ 3,656,847 |
| Due to other funds | 1,983,133 |
| Due to student groups | 954,984 |
| Total Liabilities | <u>\$ 6,594,964</u> |

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

1. SIGNIFICANT ACCOUNTING POLICIES**Accounting Policies**

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, an independent study program, and one special services program 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 District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP and used by the District are discussed below.

Implementation of New Accounting Standards**Governmental Accounting Standards Board Statement No. 63**

The District adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District has implemented this reporting for the year ended June 30, 2013. The components of net position were renamed to reflect the requirements of this statement.

Governmental Accounting Standards Board Statement No. 65

The District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2013. This statement improves financial reporting by clarifying the appropriate use of the financial elements deferred outflows of resources and deferred inflows of financial resources to ensure consistency in financial reporting. As a result, prior-year deferred charges of \$593,475 have been expensed as amortization of debt issue costs in 2012-13, as the amount was not material. In addition, \$46,906, representing the difference between the reacquisition price and the net carrying amount of the old general obligation bonds on the current year's refunding, has been reported as "deferred loss on refunding" and will be recognized as a component of interest expense over the remaining life of the new debt issued, which is shorter than the life of the refunded debt.

Financial Reporting Entity

The District's financial reporting entity comprises the following:

Primary government:

Chico Unified School District

Blended component units:

Chico Educators Health and Welfare Benefits Trust

Chico Unified Schools Financing Corporation

Criteria for determining if other entities are potential component units which should be reported within the District's basic financial statements are identified and described in the GASB Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the District is financially accountable and other organizations that the nature and significance of their relationship with the District is such that exclusion would cause the District's basic financial statements to be misleading or incomplete.

Blended Component Units Separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the District's governing board or the component unit provides services entirely to the District. These component units' funds are blended into those of the District by appropriate activity type to compose the primary government presentation.

Discretely Presented Component Units Separate legal entities that meet the component unit criteria described above, but do not meet the criteria for blending. Currently, the District has no discretely presented component units.

Blended Component Units

The component units that are blended into the reporting activity of the District's report are as follows:

Chico Educators Health and Welfare Benefits Trust (the Trust) is reported as an internal service fund. The Trust was formed for the sole purpose of providing health and welfare benefits for members of school bargaining units and is a tax-exempt entity under Internal Revenue Code Section 501(c)(9). The Trust currently funds a fixed number of retirees' Medicare supplement insurance.

Chico Unified Schools Financing Corporation (the Corporation) is reported as a capital projects fund. The Corporation was formed for the sole purpose of financially assisting the District. The District has assumed a "moral obligation" and a potential legal obligation for any debt incurred by the Corporation.

Basis of Presentation**Government-Wide Financial Statements**

The statement of net position and statement of activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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: (a) fees, fines, and charges paid by recipients of goods or services offered by the major programs; and (b) 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 and unrestricted grants and contributions, are presented as general revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized by funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type; and

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is on determination of operating income, financial position, changes in net position, and cash flows. Operating revenues include charges for services. Operating expenses include costs of services, as well as materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The funds of the financial reporting entity are described below:

Governmental Funds

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

Special Revenue Funds Funds that are established to account for the proceeds from specific resources that are restricted to the financing of particular activities.

1. Charter Schools Fund is used to report separately the activities of Inspire School of Arts and Sciences.
2. Cafeteria Special Revenue Fund is used to account separately for federal, state, and local resources received to operate the District's food service program (*California Education Code*, Sections 38090-38093).

Capital Projects Funds Funds that are established to account for financial resources to be used for the acquisition or construction of major capital facilities.

1. Building Fund exists primarily to account separately for proceeds from the sale of bonds (*California Education Code*, Section 15146).
2. Capital Facilities Fund is used primarily to account for funds received from fees levied on developers or others as a condition for approving development (*California Education Code*, Sections 17620-17626).
3. County School Facilities Fund is used to receive apportionments from the State School Facilities Fund authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*California Education Code*, Section 17070).
4. Special Reserve Fund is used to account for resources designated for capital outlay projects (*California Education Code*, Section 42840).

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

1. Bond Interest and Redemption Fund is used to account for the repayment of bonds (*California Education Code*, Sections 15125-15262).
2. Debt Service Fund is used for the accumulation of resources for the retirement of principal and interest on long-term debt.

Proprietary Funds

Internal Service Funds Funds that are used to account for services rendered on a cost-reimbursement basis. The District maintains one internal service fund, the Self-Insurance Fund, which is used to provide dental and vision benefits to its employees. This internal service fund is included in governmental activities for government-wide reporting purposes. The effect of interfund activity has been eliminated from the government-wide financial statements. The excess revenue or expenses for the fund are allocated to the appropriate functional activity.

Fiduciary Funds

Agency Funds Funds that are used to account for assets of others for whom the District acts as an agent.

1. Warrant/Pass-Through Fund is used to account for amounts collected from employees for federal taxes, state taxes, credit unions, and other contributions.
2. Student Body Fund is used to account for the transactions of the associated student body in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*California Education Code*, Sections 48930-48938).

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Major Governmental Funds:

- General Fund
- Building Fund
- Capital Facilities Fund
- County School Facilities Fund
- Bond Interest and Redemption Fund

Nonmajor Governmental Funds:

- Charter Schools Fund
- Cafeteria Special Revenue Fund
- Special Reserve Capital Projects Fund
- Debt Service Fund

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide statement of net position and the statement of activities, both governmental and business-like activities are presented using the “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net position.

In the fund financial statements, governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

In the fund financial statements, proprietary funds utilize an “economic resources” measurement focus.

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide statement of net position and statement of activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Budgets and Budgetary Accounting

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

These budgets are revised by the District's Governing Board and District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund as required supplementary information.

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

Estimates

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

Cash, Cash Equivalents, and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with *California Education Code*, Section 41001, the District maintains substantially all of its cash in the Butte County Treasury as part of the common investment pool. The County is restricted by *California Government Code*, Section 53635 pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes, or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Investments in the County pool are valued using the amortized cost method (which approximates fair value) and include accrued interest. The pool has deposits and investments with a weighted-average maturity of more than one year. As of June 30, 2013, the fair value of the County pool is 99.39% of the carrying value and is deemed to represent a material difference. Information regarding the amount of dollars invested in derivatives with the County was not available. The County investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code*, Section 27130. The District is considered to be an involuntary participant in the external investment pool.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net decrease in the fair value of investments during the year ended June 30, 2013, was \$692,452. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized loss on investments held at June 30, 2013, was \$347,608.

Accounts Receivable and Due From Other Governments

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, 2013. Amounts due from other governments include 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, 2013. At June 30, 2013, no allowance for doubtful accounts was deemed necessary.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

Inventories and Prepaid Expenses

Inventories consist of supplies and materials. Expenses are recorded as the supplies and materials are consumed. Inventories are valued on the average cost method for purchased supplies and materials. Donated commodities' inventory is valued at its fair value at the time of donation. Prepaid expenses consist of operating expenses for which payment is due in advance and are expensed when the benefit is received.

Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bond using the effective-interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the District as assets with an initial, individual cost of \$10,000 or more and an estimated useful life in excess of one year. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2003.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives in years by type of asset is as follows:

| | |
|---------------------|-------|
| School buildings | 50 |
| Portable classrooms | 25 |
| Site improvements | 20-50 |
| Equipment | 5-20 |
| Vehicles | 8 |

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Advances From Grantors

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Advances from grantors are recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources, and payments of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The liability for earned but unused vacation leave is recorded as long-term debt for compensated absences in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. The District only has one item that qualifies for reporting in this category, which is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have this type of item.

Equity Classifications

Government-Wide Statements

Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, leases, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position: Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted Net Position: Consists of any other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified and displayed in five components:

Nonspendable Fund Balance: Consists of amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted Fund Balance: Consists of amounts that can be spent only for specific purposes because of constraints that are externally imposed by groups such as creditors, grantors, contributors, or the laws or regulations of other governments, or because of laws through constitutional provisions or enabling legislation.

Committed Fund Balance: Consists of amounts that can be used only for specific purposes determined by a formal action of the District's Board of Trustees. The District's Board of Trustees is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or budget adoption approved by the District's Board of Trustees.

Assigned Fund Balance: Consists of amounts that the District intends to use for specific purposes. Assignments may be established either by the District's Board of Trustees or a designee of the District's Board of Trustees.

Unassigned Fund Balance: Consists of the residual balance in the General Fund that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

Proprietary fund equity is classified the same as in the government-wide statements.

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts of 5% of General Fund expenditures and other financing uses, which is 2% more than the State's required minimum of 3%. If the unassigned fund balance falls below this level due to an emergency situation, unexpected expenditures, or revenue shortfalls, the Board of Trustees shall develop a plan to recover the fund balance which may include dedicating new unrestricted revenues, reducing expenditures, and/or increasing revenues or pursuing other funding sources.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District's Board of Trustees has provided otherwise in its commitment or assignment actions.

Revenue Limit and Property Tax

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

Butte County is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the County. Secured property taxes attach as an enforceable lien on property as of March 1. Property taxes on the secured roll are due on December 10 and April 10 and become delinquent after December 10 and April 10, respectively.

Secured property taxes are recorded as revenue when apportioned in the fiscal year of the levy. The County apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the *California Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October 1 of each year.

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

Revenue – Nonexchange Transactions

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

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

Expenditures and Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental funds – by character

Current (further classified by function)

Debt service

Capital outlay

Proprietary funds – by operating and nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

2. CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 2013:

| | Maturities | Fair Value |
|---|-------------------|----------------------|
| DEPOSITS (1) | | \$ 1,188,588 |
| INVESTMENTS THAT ARE NOT SECURITIES (2) | | |
| County treasurer's investment pool (net of overdraft) | 2.5 years average | 56,441,105 |
| Total Cash and Investments | | 57,629,693 |
| Less: Agency fund cash and investments | | 6,167,365 |
| Total Cash and Investments Per Government-Wide Statement of Net Position (Net of Overdraft in County Treasury) | | \$ 51,462,328 |

((1) *Deposits* The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions, if any.

((2) *Investments That are Not Securities* A “security” is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

Custodial Credit Risk – Deposits

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the District’s deposits may not be returned. The District does not have a deposit policy for custodial credit risk. As of June 30, 2013, \$2,340,015 of the District’s bank balance of \$2,633,129 was exposed to custodial credit risk as follows:

| | Bank Balance |
|--------------------------------|---------------------|
| Uninsured and uncollateralized | \$ 2,340,015 |

Credit Risk – Investments

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.

Concentration of Credit Risk – Investments

California Government Code, Section 53635, places the following concentration limits on the County investment pool:

No more than 40% may be invested in eligible commercial paper; no more than 10% may be invested in the outstanding commercial paper of any single issuer; and no more than 10% of the outstanding commercial paper of any single issuer may be purchased.

California Government Code, Section 53601, places the following concentration limits on the District’s investments:

No more than 5% may be invested in the securities of any one issuer, except the obligations of the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 10% of the outstanding commercial paper of any single issuer may be purchased; no more than 30% may be invested in bankers’ acceptances of any one commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% may be invested in reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013, consisted of the following:

| | General Fund | Building Fund | Capital Facilities Fund | County School Facilities Fund | Bond Interest and Redemption Fund | Other Governmental Funds |
|----------------------------------|---------------------|----------------------|------------------------------------|--|--|---|
| Interest | \$ 9,182 | \$ 4,884 | \$ 17,285 | \$ 21,762 | \$ 5,711 | \$ 9,412 |
| Other | 140,530 | - | - | - | - | 7,451 |
| Total Accounts Receivable | \$ 149,712 | \$ 4,884 | \$ 17,285 | \$ 21,762 | \$ 5,711 | \$ 16,863 |

4. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2013, consisted of the following:

| | General Fund | Other Governmental Funds |
|---|----------------------|---|
| Due from federal government | \$ 2,318,459 | \$ 500,463 |
| Due from state government | 12,227,625 | 589,998 |
| Due from local governments | 893,447 | - |
| Total Due From Other Governments | \$ 15,439,531 | \$ 1,090,461 |

5. INTERFUND TRANSACTIONS AND BALANCES

Interfund Receivables/Payables

Interfund receivable and payable balances in the fund financial statements are as follows:

| Interfund Receivable | Interfund Payable | Amounts |
|-----------------------------|----------------------------------|---------------------|
| General | Cafeteria Special Revenue | \$ 261,637 |
| General | Charter Schools | 265,047 |
| General | Capital Facilities | 71,306 |
| General | Warrant/Pass-Through | 1,983,133 |
| General | Special Reserve Capital Projects | 13,701 |
| Capital Facilities | General | 5,755,009 |
| Building | Special Reserve Capital Projects | 1,739 |
| Building | Cafeteria Special Revenue | 114 |
| Building | Bond Interest and Redemption | 30,000 |
| Charter Schools | General | 65,304 |
| Cafeteria Special Revenue | General | 238,245 |
| Cafeteria Special Revenue | Building | 51 |
| Warrant/Pass-Through | General | 39,888 |
| Total | | \$ 8,725,174 |

The specific purposes of the interfund balances are as follows:

General Fund interfund receivable from the Cafeteria Special Revenue Fund, Charter Schools Fund, and Capital Facilities Fund to reimburse the General Fund for expenditures incurred and disbursed from the General Fund and indirect costs charges;

General Fund interfund receivable from the Warrant/Pass-Through Fund for payroll liabilities corrections;

General Fund interfund receivable from the Special Reserve Capital Projects Fund for a 2011-12 audit adjustment;

Capital Facilities Fund interfund receivable from the General Fund for a short-term interfund loan and related interest;

NOTES TO THE FINANCIAL STATEMENTS

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Building Fund interfund receivable from the Special Reserve Capital Projects Fund, Cafeteria Special Revenue Fund, and Bond Interest and Redemption Fund for invoice coding corrections and refunds;

Charter Schools Fund interfund receivable from the General Fund for in-lieu property taxes and other funding;

Cafeteria Special Revenue Fund interfund receivable from the General Fund for an operating contribution and CalPERS reduction;

Cafeteria Special Revenue Fund interfund receivable from the Building Fund for invoice coding corrections; and

Warrant/Pass-Through Fund interfund receivable from the General Fund for payroll liabilities corrections.

Interfund Transfers

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

Interfund transfers are as follows:

| <u>Transfer Out</u> | <u>Transfer In</u> | <u>Amounts</u> |
|----------------------------------|---------------------------|---------------------|
| General | Cafeteria Special Revenue | \$ 216,042 |
| Capital Facilities | General | 57,723 |
| Special Reserve Capital Projects | General | 2,249,353 |
| Total | | \$ 2,523,118 |

Transfers are used for the following:

To move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; and

To use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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

Interfund transfer out of the Capital Facilities Fund to the General Fund for developer fees administration; and

Interfund transfer out of the Special Reserve Capital Projects Fund to the General Fund to provide maintenance support.

No transfers are inconsistent with the activities of the funds making the transfer.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

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6. CAPITAL ASSETS

Capital assets activity is as follows:

| | Balance July 1, 2012 | Additions | Deductions | Balance June 30, 2013 |
|---|---------------------------------|----------------------|---------------------|----------------------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| NONDEPRECIATED CAPITAL ASSETS | | | | |
| Land | \$ 11,825,696 | \$ - | \$ - | \$ 11,825,696 |
| Construction in progress | 3,039,185 | 14,575,305 | 1,421,834 | 16,192,656 |
| Total Nondepreciated Capital Assets | 14,864,881 | 14,575,305 | 1,421,834 | 28,018,352 |
| DEPRECIATED CAPITAL ASSETS | | | | |
| Buildings | 134,174,482 | 968,032 | 81,295 | 135,061,219 |
| Site improvements | 8,083,937 | 44,029 | 11,364 | 8,116,602 |
| Equipment and vehicles | 5,339,821 | 228,781 | 55,844 | 5,512,758 |
| Total Depreciated Capital Assets | 147,598,240 | 1,240,842 | 148,503 | 148,690,579 |
| Total at Historical Cost | 162,463,121 | 15,816,147 | 1,570,337 | 176,708,931 |
| LESS: ACCUMULATED DEPRECIATION | | | | |
| Buildings | 58,710,520 | 3,382,775 | 37,396 | 62,055,899 |
| Site improvements | 5,294,594 | 236,823 | 11,364 | 5,520,053 |
| Equipment and vehicles | 4,075,236 | 283,181 | 21,102 | 4,337,315 |
| Total Accumulated Depreciation | 68,080,350 | 3,902,779 | 69,862 | 71,913,267 |
| Total Depreciated Capital Assets - Net | 79,517,890 | (2,661,937) | 78,641 | 76,777,312 |
| Governmental Activities Capital Assets - Net | \$ 94,382,771 | \$ 11,913,368 | \$ 1,500,475 | \$ 104,795,664 |

Depreciation expense was charged to governmental activities as follows:

| | |
|---|---------------------|
| GOVERNMENTAL ACTIVITIES | |
| Instruction | \$ 3,179,720 |
| Instruction - related services | 213,766 |
| Pupil services | 81,562 |
| General administration | 95,087 |
| Plant services | 332,644 |
| Total Depreciation Expense - Governmental Activities | \$ 3,902,779 |

7. ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

| | General Fund | Building Fund | Capital Facilities Fund | County School Facilities Fund | Other Governmental Funds |
|-------------------------------|---------------------|----------------------|------------------------------------|--|---|
| Vendors | \$ 778,079 | \$ 1,885,329 | \$ 67,118 | \$ 3,611 | \$ 248,927 |
| Salaries and benefits | 251,046 | - | - | - | 35,579 |
| Other | 26,925 | 4,215 | - | - | 9,962 |
| Total Accounts Payable | \$ 1,056,050 | \$ 1,889,544 | \$ 67,118 | \$ 3,611 | \$ 294,468 |

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

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8. DUE TO OTHER GOVERNMENTS

Due to other governments at June 30, 2013, consisted of the following:

| | <u>General Fund</u> | <u>Building Fund</u> | <u>Bond Interest and Redemption Fund</u> | <u>Other Governmental Funds</u> |
|---------------------------------------|---------------------|----------------------|--|---|
| Due to state government | \$ 1,912,986 | \$ - | \$ - | \$ 64,266 |
| Due to local governments | 146,514 | 8 | 1,015,000 | 957 |
| Total Due To Other Governments | \$ 2,059,500 | \$ 8 | \$ 1,015,000 | \$ 65,223 |

9. BONDED DEBT

In July 2012, the District refunded \$5,095,000 of 1998 general obligation refunding bonds and \$12,925,000 of the 1998 Series A general obligation bonds with the Series 2012 general obligation refunding bonds. Resources totaling \$18,516,524 were placed in an irrevocable trust for the purpose of generating resources for all future debt services payments of the refunded general obligation bonds. The refunded general obligation bonds were paid in full on August 20, 2012, and have been removed from long-term debt.

This refunding was undertaken to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding general obligation bonds) of \$2,310,308. As a result of the refunding, total debt service payments over the next 17 years will decrease by \$2,766,841.

In November 2012, voters approved Measure E, a \$78,000,000 general obligation bond authorization for the District. The proceeds will be used to acquire, construct, repair, and modernize restrooms, classrooms, school facilities sites, files, and equipment to improve student access to computers and modern technology, repair or replace leaky roofs and plumbing systems, and upgrade heating, ventilation, and cooling systems. In May 2013, Series A of these bonds were issued for \$15,000,000.

The outstanding general obligation bonded debt is as follows:

| <u>Issue Date</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Amount of Original Issue</u> | <u>Outstanding July 1, 2012</u> | <u>Redeemed or Refunded Current Year</u> | <u>Outstanding June 30, 2013</u> |
|-------------------|--------------------------|--------------------------|---|-------------------------------------|--|--------------------------------------|
| 1998 | 5.00% to 9.00% | 2018 | \$ 16,965,000 | \$ 6,335,000 | \$ 6,335,000 | \$ - |
| 1998 | 5.00% to 8.25% | 2029 | 18,000,000 | 13,450,000 | 13,450,000 | - |
| 2008 | 4.00% to 5.75% | 2033 | 30,725,000 | 30,725,000 | 120,000 | 30,605,000 |
| 2012 | 2.85% | 2029 | 18,665,000 | - | 385,000 | 18,280,000 |
| 2013 | 5.00% | 2044 | 15,000,000 | - | - | 15,000,000 |
| Totals | | | \$ 99,355,000 | \$ 50,510,000 | \$ 20,290,000 | \$ 63,885,000 |

The amount of interest cost incurred during the year ended June 30, 2013, was \$1,972,459, all of which was charged to expenses.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

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

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|----------------------|----------------------|-----------------------|
| 2014 | \$ 2,190,000 | \$ 1,880,100 | \$ 4,070,100 |
| 2015 | 2,095,000 | 2,690,095 | 4,785,095 |
| 2016 | 2,315,000 | 2,494,564 | 4,809,564 |
| 2017 | 2,555,000 | 2,417,076 | 4,972,076 |
| 2018 | 2,175,000 | 2,338,175 | 4,513,175 |
| 2019-2023 | 12,570,000 | 10,423,947 | 22,993,947 |
| 2024-2028 | 18,365,000 | 7,096,754 | 25,461,754 |
| 2029-2033 | 7,885,000 | 4,401,150 | 12,286,150 |
| 2034-2038 | 4,445,000 | 3,045,750 | 7,490,750 |
| 2039-2043 | 7,400,000 | 1,640,000 | 9,040,000 |
| 2044 | 1,890,000 | 94,500 | 1,984,500 |
| Totals | \$ 63,885,000 | \$ 38,522,111 | \$ 102,407,111 |

10. CAPITAL LEASE

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, 2013. Accumulated depreciation on the leased equipment at June 30, 2013, was \$146,893. Depreciation on the assets under capital lease is included in depreciation expense and amount to \$20,738 for the year ended June 30, 2013. The amount of interest cost incurred during the year ended June 30, 2013, was \$22,473, all of which was charged to expenses. Future minimum lease payments are as follows:

| Year Ending June 30 | Lease Payments |
|--|-------------------|
| 2014 | \$ 47,666 |
| 2015 | 47,667 |
| 2016 | 47,666 |
| 2017 | 47,666 |
| 2018 | 47,667 |
| 2019-2023 | 238,333 |
| 2024-2026 | 118,022 |
| Total | 594,687 |
| Less: Amount representing interest | 150,948 |
| Present Value of Net Minimum Lease Payments | \$ 443,739 |

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

*Chico Unified
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11. CERTIFICATES OF PARTICIPATION

In 2004, the District issued certificates of participation (COP) in the amount of \$2,705,000 with interest rates ranging from 2% to 4%. As of June 30, 2013, the principal balance outstanding was \$1,205,000. The amount of interest cost incurred during the year ended June 30, 2013, was \$44,489, all of which was charged to expenses.

The certificates mature through 2018 as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|---------------------|------------------|---------------------|
| 2014 | \$ 270,000 | \$ 38,585 | \$ 308,585 |
| 2015 | 285,000 | 29,075 | 314,075 |
| 2016 | 300,000 | 18,650 | 318,650 |
| 2017 | 315,000 | 7,306 | 322,306 |
| 2018 | 35,000 | 700 | 35,700 |
| Totals | \$ 1,205,000 | \$ 94,316 | \$ 1,299,316 |

12. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt:

| | Balance July 1, 2012 | Additions | Deductions | Balance June 30, 2013 | Amounts Due Within One Year |
|--------------------------------|-------------------------|----------------------|----------------------|--------------------------|-----------------------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Compensated absences | \$ 604,210 | \$ - | \$ 61,579 | \$ 542,631 | \$ - |
| General obligation bonds | 50,510,000 | 33,665,000 | 20,290,000 | 63,885,000 | 2,190,000 |
| Bond issuance premiums | 692,047 | 1,765,340 | 39,205 | 2,418,182 | 91,405 |
| Capital lease | 468,933 | - | 25,194 | 443,739 | 26,456 |
| Certificates of participation | 1,460,000 | - | 255,000 | 1,205,000 | 270,000 |
| COP issuance premiums | (14,176) | 14,176 | - | - | - |
| Early retirement incentives | 1,169,688 | - | 276,568 | 893,120 | 244,624 |
| Totals | \$ 54,890,702 | \$ 35,444,516 | \$ 20,947,546 | \$ 69,387,672 | \$ 2,822,485 |

13. FUND BALANCES COMPONENTS

Fund balances as of June 30, 2013, are composed of the following:

| | General Fund | Building Fund | Capital Facilities Fund | County School Facilities Fund | Bond Interest and Redemption Fund | Other Governmental Funds |
|---|----------------------|----------------------|-------------------------|-------------------------------|-----------------------------------|--------------------------|
| NONSPENDABLE | | | | | | |
| Reserved for revolving cash | \$ 25,000 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Reserved for stores inventories | 239,964 | - | - | - | - | 65,497 |
| Total Nonspendable | \$ 264,964 | \$ - | \$ - | \$ - | \$ - | \$ 65,497 |
| RESTRICTED | | | | | | |
| Restricted for capital projects | \$ - | \$ 15,752,939 | \$ 12,225,681 | \$ 11,088,378 | \$ - | \$ - |
| Restricted for debt service | - | - | - | - | 4,287,829 | 243,878 |
| Restricted for federal and state categoricals | 4,049,403 | - | - | - | - | 28,013 |
| Total Restricted | \$ 4,049,403 | \$ 15,752,939 | \$ 12,225,681 | \$ 11,088,378 | \$ 4,287,829 | \$ 271,891 |
| ASSIGNED | | | | | | |
| Assigned for board reserve | \$ 2,016,916 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Assigned for charter schools | - | - | - | - | - | 918,790 |
| Assigned for capital projects | - | - | - | - | - | 1,876,376 |
| Assigned for deferred maintenance | 640 | - | - | - | - | - |
| Total Assigned | \$ 2,017,556 | \$ - | \$ - | \$ - | \$ - | \$ 2,795,166 |
| UNASSIGNED | | | | | | |
| Designated for economic uncertainties | \$ 3,025,374 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Unassigned | 8,139,641 | - | - | - | - | (65,497) |
| Total Unassigned | \$ 11,165,015 | \$ - | \$ - | \$ - | \$ - | \$ (65,497) |

14. JOINT POWERS AUTHORITIES

The District participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): Butte Schools Self-Funded Program (BSSP), Northern California Schools Insurance Group (NCSIG), North Valley Schools Insurance Group (NVSIG), and Northern California ReLIEF (ReLIEF). 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, liability, workers' compensation, health care, and excess liability coverage for their members. Each JPA is governed by a board consisting of representatives from the members. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its 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.

15. COMMITMENTS AND CONTINGENCIES

Federal and State Allowances, Awards, and Grants

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

Construction Project Commitments

Construction project commitments as of June 30, 2013, are as follows:

| Construction Project | Remaining Construction Commitment |
|---|--|
| Reconstruction of Lincoln Hall | \$ 4,797,893 |
| Fitness lab - Chico High School | 1,258,897 |
| New classrooms - Pleasant Valley High School | 6,578,359 |
| Relocatables refurbishment and replacement | 778,646 |
| Sports field restroom building | 298,200 |
| Site work for portables | 169,573 |
| Relocation of portables to Shasta Elementary School and Loma Vista School | 72,138 |
| Relocatable restroom - Loma Vista School | 101,565 |
| New gymnasium floor | 17,415 |
| Bleacher replacement | 129,100 |
| Reroof covered walkways - Chico Junior High School and Rosedale School | 239,200 |
| Replace HVAC units | 244,585 |
| Total | \$ 14,685,571 |

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 joint powers agreements for property, liability, workers' compensation, health care, and excess liability coverage.

17. EMPLOYEE RETIREMENT SYSTEMS

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

California State Teachers' Retirement System

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.00% of their salary. The required employer contribution rate for fiscal year 2012-13 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$4,023,048, \$4,021,188, and \$3,902,574, respectively, and equaled 100% of the required contributions for each year.

California Public Employees' Retirement System**Plan Description**

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

Funding Policy

Active plan members are required to contribute 7.00% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the 2012-13 fiscal year was 11.417%. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$1,918,125, \$1,751,413, and \$1,710,757, respectively, and equaled 100% of the required contributions for each year.

18. EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2012-13, pursuant to *California Education Code*, Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

19. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**Plan Description**

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

Effective July 1, 2011, the District contributes to the Blue plan rate (subject to proration for part-time service) based on the applicable tier for each retiree. District bargaining language currently indicates that for years beginning with 2012-13, the District cap will be based on the Red plan rates in effect as of the 2011-12 plan year plus 50% of any subsequent premium increases. Because the Red plan is no longer offered to retirees, this language will have to be clarified in future negotiations.

Employees from certificated, classified, and management units may retire with District-paid healthcare 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 either 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, 2013, 228 retirees met these eligibility requirements and an estimated 1,097 participants will be eligible in future years.

Funding Policy

The District's agreement with employees is for monthly contributions for members who meet the eligibility criteria of their collective bargaining agreement and who retire during the term of the contract. The contribution requirements of plan members and the District are established and may be amended by the District's Board of Trustees through the collective bargaining process. The members receiving benefit contributions vary depending on the level of coverage selected.

Annual Other Postemployment Benefit (OPEB) Cost and Net Asset

For the year ended June 30, 2013, the District’s annual OPEB cost is calculated based on the annual required contribution for the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District’s net OPEB asset:

| | |
|--|-----------------------|
| Annual required contribution | \$ 2,389,128 |
| Interest on net OPEB obligation | (29,048) |
| Adjustment to annual required contribution | 37,792 |
| Annual OPEB Cost | 2,397,872 |
| Contributions | 2,821,764 |
| Change in Net OPEB Asset | (423,892) |
| Net OPEB Asset - Beginning of Year | (580,958) |
| Net OPEB Asset - End of Year | \$ (1,004,850) |

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for the year ended June 30, 2013, and the preceding two years were as follows:

| Year Ended | Annual OPEB Cost | Actual Employer Contributions | Percentage Contributed | Net Ending OPEB Asset |
|-------------------|---------------------------------|--|-----------------------------------|--------------------------------------|
| June 30, 2011 | \$ 2,421,460 | \$ 2,976,834 | 122.94% | \$ (397,265) |
| June 30, 2012 | \$ 2,395,108 | \$ 2,578,801 | 107.67% | \$ (580,958) |
| June 30, 2013 | \$ 2,397,872 | \$ 2,821,764 | 117.68% | \$ (1,004,850) |

Funded Status and Funding Progress

The funded status of the plan as of the actuarial valuation dates below was as follows:

| | July 1, 2009 | July 1, 2011 |
|--|----------------------|----------------------|
| Actuarial accrued liability (AAL) | \$ 21,053,366 | \$ 20,809,318 |
| Actuarial value of plan assets | - | - |
| Unfunded Actuarial Accrued Liability (UAAL) | \$ 21,053,366 | \$ 20,809,318 |
| Funded ratio (actuarial value of plan assets/AAL) | 0.00% | 0.00% |
| Covered payroll (active members) | \$ 64,950,487 | \$ 67,324,776 |
| UAAL as a Percentage of Covered Payroll | 32.41% | 30.91% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the health care 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.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by District 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 District and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce 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, 2011, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 5.00% investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 8.00% initially, reduced by decrements to an ultimate rate of 5.00% after three years. Both rates include a 5.00% inflation assumption. The District’s unfunded actuarial accrued liability is amortized over an open period of 30 years. The remaining amortization period at June 30, 2013, was 28 years.

20. PRIOR-PERIOD ADJUSTMENTS

The fund balance in the General Fund and net position in the statement of net position as of July 1, 2012, has been decreased by \$311,918 as a result of an understatement of due to other governments as of June 30, 2012. This adjustment had no effect on revenue or expense during the 2012-13 fiscal year.

The fund balance in other governmental funds and net position in the statement of net position as of July 1, 2012, has been increased by \$464,647 as a result of an understatement due from other governments as of June 30, 2012. This adjustment had no effect on revenue or expense during the 2012-13 fiscal year.

21. FUTURE GASB IMPLEMENTATION

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. This statement will improve accounting and financial reporting by state and local governments for defined benefit pensions and defined contribution pensions. The statement will also improve information provided by state and local governmental employers about financial support for pensions that are provided by other entities. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2014, will have on the District's financial statements, if any.

Required Supplementary Information

**BUDGETARY COMPARISON SCHEDULE –
GENERAL FUND**

*Chico Unified
School District*

| Year Ended June 30, 2013 | Budgeted Amounts | | Actual Amounts | Variance With Final Budget - Positive (Negative) |
|--|----------------------|----------------------|----------------------|---|
| | Original | Final | GAAP Basis | |
| REVENUES | | | | |
| Property taxes | \$ 20,945,488 | \$ 22,754,429 | \$ 26,299,899 | \$ 3,545,470 |
| Revenue limit sources | 39,615,586 | 38,773,944 | 34,942,180 | (3,831,764) |
| Other state revenue | 16,641,548 | 17,522,149 | 18,109,908 | 587,759 |
| Federal revenue | 9,346,288 | 11,006,725 | 9,690,442 | (1,316,283) |
| Other local revenue | 5,293,717 | 6,397,388 | 6,885,101 | 487,713 |
| Total Revenues | 91,842,627 | 96,454,635 | 95,927,530 | (527,105) |
| EXPENDITURES | | | | |
| Certificated salaries | 46,393,589 | 48,248,299 | 48,137,945 | 110,354 |
| Classified salaries | 16,227,280 | 16,238,044 | 16,282,069 | (44,025) |
| Employee benefits | 25,624,252 | 24,279,629 | 24,718,614 | (438,985) |
| Books and supplies | 4,224,283 | 6,993,062 | 3,700,188 | 3,292,874 |
| Services and other operating | 6,760,638 | 6,808,605 | 7,077,913 | (269,308) |
| Capital outlay | - | 311,008 | 274,715 | 36,293 |
| Other outgo | (257,269) | (325,724) | 107,874 | (433,598) |
| Debt service: | | | | |
| Principal | 480,646 | 451,292 | 483,360 | (32,068) |
| Interest and other charges | 142,145 | 189,788 | 143,125 | 46,663 |
| Total Expenditures | 99,595,564 | 103,194,003 | 100,925,803 | 2,268,200 |
| Excess (Deficiency) of Revenues Over Expenditures | (7,752,937) | (6,739,368) | (4,998,273) | 1,741,095 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund transfers in | 2,085,111 | 2,085,111 | 2,307,076 | 221,965 |
| Interfund transfers out | - | - | (216,042) | (216,042) |
| Total Other Financing Sources (Uses) | 2,085,111 | 2,085,111 | 2,091,034 | 5,923 |
| Net Change in Fund Balances | (5,667,826) | (4,654,257) | (2,907,239) | 1,747,018 |
| Fund Balances - as Previously Reported | 20,716,095 | 20,716,095 | 20,716,095 | - |
| Prior-Period Adjustment | (311,918) | (311,918) | (311,918) | - |
| Fund Balances - as Restated | 20,404,177 | 20,404,177 | 20,404,177 | - |
| Fund Balances - End of Year | \$ 14,736,351 | \$ 15,749,920 | \$ 17,496,938 | \$ 1,747,018 |

See the accompanying notes to this budgetary comparison schedule.

**NOTES TO THE BUDGETARY
COMPARISON SCHEDULE**

June 30, 2013

*Chico Unified
School District*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's Governing Board annually adopts a budget for the General Fund of the District. The budget is presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule of the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States of America 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. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2013, expenditures exceeded appropriations by the following amounts:

| | General Fund |
|------------------------------|---------------------|
| Classified salaries | \$ 44,025 |
| Employee benefits | \$ 438,985 |
| Services and other operating | \$ 269,308 |
| Other outgo | \$ 433,598 |
| Debt service - principal | \$ 32,068 |

These excess expenditures were offset by unexpended appropriations in other categories.

OTHER SUPPLEMENTARY INFORMATION SECTION

**LOCAL EDUCATIONAL AGENCY ORGANIZATION
STRUCTURE**

June 30, 2013

*Chico Unified
School District*

The Chico Unified School 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 schools, three junior high schools, two high schools, one continuation school, one community day school, one opportunity school, an independent study program, a special services school, and sponsors seven charter schools.

GOVERNING BOARD

| Name | Office | Term Expires |
|----------------------------|----------------|---------------------|
| Elizabeth Griffin | President | 2016 |
| Dr. Kathleen Kaiser | Vice President | 2014 |
| Linda Hovey | Clerk | 2016 |
| Dr. Andrea Lerner Thompson | Member | 2014 |
| Eileen Robinson | Member | 2014 |

ADMINISTRATION

Kelly Staley
Superintendent

Bob Feaster
Assistant Superintendent, Human Resources

Kevin Bultema
Assistant Superintendent, Business Services

Dave Scott
Assistant Superintendent, Educational Services

SCHEDULE OF AVERAGE DAILY ATTENDANCE

June 30, 2013

*Chico Unified
School District*

| | Originally Reported | | Final | |
|--|----------------------|---------------|----------------------|---------------|
| | Second Period Report | Annual Report | Second Period Report | Annual Report |
| ELEMENTARY | | | | |
| Kindergarten | 836 | 833 | 835 | 833 |
| Grades 1 through 3 | 2,404 | 2,388 | 2,399 | 2,388 |
| Grades 4 through 6 | 2,388 | 2,383 | 2,388 | 2,383 |
| Grades 7 and 8 | 1,689 | 1,674 | 1,682 | 1,674 |
| Opportunity classes | 31 | 32 | 31 | 32 |
| Home and hospital | 5 | 6 | 5 | 6 |
| Special education - special day class | 288 | 296 | 296 | 296 |
| Special education - nonpublic | 2 | 2 | 2 | 2 |
| Community day school - all other pupils | 8 | 9 | 8 | 9 |
| Special education - extended year | 15 | 15 | 15 | 15 |
| Elementary Totals | 7,666 | 7,638 | 7,661 | 7,638 |
| HIGH SCHOOL | | | | |
| Grades 9 through 12 | 3,378 | 3,359 | 3,386 | 3,359 |
| Continuation education | 197 | 170 | 197 | 170 |
| Opportunity classes | 27 | 27 | 27 | 27 |
| Home and hospital | 19 | 21 | 18 | 21 |
| Special education - special day class | 169 | 167 | 168 | 167 |
| Special education - nonpublic | 2 | 2 | 2 | 2 |
| Community day school - mandatory expelled pupils | 1 | 1 | 1 | 1 |
| Community day school - all other pupils | 13 | 15 | 13 | 15 |
| Special education - extended year | 5 | 5 | 5 | 5 |
| Special education -nonpublic extended year | - | 1 | - | 1 |
| High School Totals | 3,811 | 3,768 | 3,817 | 3,768 |
| ADA Totals | 11,477 | 11,406 | 11,478 | 11,406 |

| | Originally Reported | | Final | |
|--|----------------------|---------------|----------------------|---------------|
| | Second Period Report | Annual Report | Second Period Report | Annual Report |
| Funded Through Block Grant | | | | |
| INSPIRE SCHOOL OF ARTS AND SCIENCES | | | | |
| RESIDENT | | | | |
| Grades 9 through 12 | 316 | 313 | 310 | 308 |
| NONRESIDENT | | | | |
| Grades 9 through 12 | 85 | 83 | 85 | 83 |
| ADA Totals | 401 | 396 | 395 | 391 |
| RESIDENT | | | | |
| Grades 9 through 12 | 316 | 313 | 310 | 308 |
| NONRESIDENT | | | | |
| Grades 9 through 12 | 85 | 83 | 85 | 83 |
| Classroom-Based ADA Totals | 401 | 396 | 395 | 391 |

See the accompanying note to the other supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME

Year Ended June 30, 2013

*Chico Unified
School District*

| Traditional Schools | 1986-87 Minutes Requirement | 1986-87 Minutes As Reduced | 1982-83 Actual Minutes | 1982-83 Minutes As Reduced | 2012-13 Actual Minutes | Traditional Calendar Days | Multitrack Calendar Days | Status |
|----------------------------|--|---|---------------------------------------|--|---------------------------------------|--|---|---------------|
| Kindergarten | 36,000 | 35,000 | 31,680 | 30,800 | 36,000 | 180 | N/A | Complied |
| Grade 1 | 50,400 | 49,000 | 42,240 | 41,067 | 50,400 | 180 | N/A | Complied |
| Grade 2 | 50,400 | 49,000 | 42,240 | 41,067 | 50,400 | 180 | N/A | Complied |
| Grade 3 | 50,400 | 49,000 | 42,240 | 41,067 | 50,400 | 180 | N/A | Complied |
| Grade 4 | 54,000 | 52,500 | 47,250 | 45,938 | 53,900 | 180 | N/A | Complied |
| Grade 5 | 54,000 | 52,500 | 47,250 | 45,938 | 53,900 | 180 | N/A | Complied |
| Grade 6 | 54,000 | 52,500 | 47,250 | 45,938 | 53,900 | 180 | N/A | Complied |
| Grade 7 | 54,000 | 52,500 | 47,250 | 45,938 | 60,846 | 180 | N/A | Complied |
| Grade 8 | 54,000 | 52,500 | 47,250 | 45,938 | 60,846 | 180 | N/A | Complied |
| Grade 9 | 64,800 | 63,000 | 60,025 | 58,358 | 64,838 | 180 | N/A | Complied |
| Grade 10 | 64,800 | 63,000 | 60,025 | 58,358 | 64,838 | 180 | N/A | Complied |
| Grade 11 | 64,800 | 63,000 | 60,025 | 58,358 | 64,838 | 180 | N/A | Complied |
| Grade 12 | 64,800 | 63,000 | 60,025 | 58,358 | 64,838 | 180 | N/A | Complied |
| Charter Schools | | | | 1986-87 Minutes Requirement | 2012-13 Actual Minutes | Traditional Calendar Days | Multitrack Calendar Days | Status |
| Grade 9 | | | | 64,800 | 66,097 | 180 | N/A | Complied |
| Grade 10 | | | | 64,800 | 66,097 | 180 | N/A | Complied |
| Grade 11 | | | | 64,800 | 66,097 | 180 | N/A | Complied |
| Grade 12 | | | | 64,800 | 66,097 | 180 | N/A | Complied |

See the accompanying note to the other supplementary information.

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

*Chico Unified
School District*

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---------------------------|--|-------------------------|
| FEDERAL PROGRAMS | | | |
| U.S. DEPARTMENT OF EDUCATION | | | |
| Passed Through California Department of Education | | | |
| Special Education Cluster | | | |
| Special Education - IDEA Basic Local Assistance | 84.027 | 13379 | \$ 1,467,679 |
| Special Education - IDEA Preschool | 84.173 | 13430 | 98,275 |
| Special Education - IDEA Preschool Local Entitlement | 84.027 | 13682 | 145,313 |
| Total Special Education Cluster | | | 1,711,267 |
| Improving Teacher Quality State Grants | | | |
| NCLB - Title II, Part A, Administrator Training | 84.367 | 14344 | 20,627 |
| NCLB - Title II, Part A, Improving Teacher Quality | 84.367 | 14341 | 1,101,748 |
| Total Improving Teacher Quality State Grants | | | 1,122,375 |
| NCLB - Title I, Part A, Basic Grants | | | |
| Special Education - State Improvement Grant | 84.010 | 14329 | 3,290,773 |
| Vocational Programs - Vocational and Applied Technical Secondary IC, Section 131 | 84.323 | 14920 | 70 |
| NCLB - Advanced Placement (AP) and International Baccalaureate (IB) Test Fee Reimbursement | 84.048 | 14894 | 94,830 |
| NCLB - Title III, Immigrant Education | 84.330B | 14831 | 6,303 |
| NCLB - Title III, Limited English Proficiency Student Program | 84.365 | 15146 | 24,807 |
| NCLB - Title V, Part B, Public Charter Schools | 84.365 | 14346 | 138,137 |
| NCLB - Title IV, 21st Century Community Learning Centers | 84.282 | 14941 | (44,572) |
| | 84.287C | Various | 1,806,292 |
| Direct Program | | | |
| Fund for Improvement of Education | | | |
| Elementary and Secondary School Counseling | 84.215E | | 496,733 |
| Carol M. White Physical Education Program | 84.215F | | 408,561 |
| Total Fund for Improvement of Education | | | 905,294 |
| Readiness and Emergency Management for Schools | 84.184E | | 215,425 |
| Total U.S. Department of Education | | | 9,271,001 |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed Through California Department of Education | | | |
| Child Nutrition Cluster | | | |
| School Breakfast | 10.553 | 13390 | 641,700 |
| National School Lunch | 10.555 | 13391 | 2,399,389 |
| Summer Food Service Program Operations | 10.559 | 13004 | 31,802 |
| Total Child Nutrition Cluster | | | 3,072,891 |
| Child and Adult Care Food | 10.558 | 13393 | 472,344 |
| Pass Through Butte County Office of Education | | | |
| Schools and Roads - Grants to Counties | 10.666 | 10044 | 41,288 |
| Direct Program | | | |
| Farm to School Program | 10.575 | | 21,707 |
| Total U.S. Department of Agriculture | | | 3,608,230 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Passed Through State of California | | | |
| Medical Assistance Program (Medi-Cal) | 93.778 | 10013 | 311,874 |
| Total Federal Programs | | | 13,191,105 |
| NONMONETARY ASSISTANCE | | | |
| Food Donation | 10.550 | | 230,081 |
| Total Expenditures of Federal Awards | | | \$ 13,421,186 |

See the accompanying note to the other supplementary information.

**SCHEDULE OF FINANCIAL TRENDS
AND ANALYSIS**

*Chico Unified
School District*

| <u>Year Ended June 30</u> | <u>(Budget) 2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|-----------------------|-----------------------|-------------------------|---------------------|
| GENERAL FUND | | | | |
| Revenues and Other Financial Sources | \$ 97,557,261 | \$ 98,234,606 | \$100,055,138 | \$104,007,719 |
| Expenditures | 98,664,623 | 100,925,803 | 102,588,320 * | 100,391,525 |
| Other uses and transfers out | - | 216,042 | 172,952 | 85,493 |
| Total Outgo | <u>98,664,623</u> | <u>101,141,845</u> | <u>102,761,272 *</u> | <u>100,477,018</u> |
| Change in Fund Balance | <u>\$ (1,107,362)</u> | <u>\$ (2,907,239)</u> | <u>\$ (2,706,134) *</u> | <u>\$ 3,530,701</u> |
| Ending Fund Balance | <u>16,389,576</u> | <u>17,496,938</u> | <u>20,404,177 *</u> | <u>23,110,311</u> |
| Available Reserves | <u>10,381,234</u> | <u>11,165,015</u> | <u>13,736,553 *</u> | <u>19,659,972</u> |
| Designated for Economic Uncertainties | <u>2,959,489</u> | <u>3,025,374</u> | <u>3,047,780</u> | <u>2,989,131</u> |
| Undesignated Fund Balance | <u>7,421,745</u> | <u>8,139,641</u> | <u>10,688,773 *</u> | <u>15,956,973</u> |
| Available Reserves as a Percentage of Total Outgo | <u>11%</u> | <u>11%</u> | <u>13%</u> | <u>20%</u> |
| Total Long-Term Debt | <u>66,565,187</u> | <u>69,387,672</u> | <u>54,890,702</u> | <u>57,411,472</u> |
| Average Daily Attendance at P-2 | <u>11,558</u> | <u>11,477</u> | <u>11,365</u> | <u>11,402</u> |

* Restated for prior-period adjustment as of June 30, 2012.

The General Fund balance has decreased by \$5,613,373 over the past two years. The fiscal year 2013-14 budget projects a decrease of \$1,107,362 (6.3%). For a district this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in two of the past three years and anticipates incurring an operating deficit during the 2013-14 fiscal year. Total long-term debt has increased by \$11,976,200 over the past two years.

Average daily attendance has increased by 75 over the past two years. Additional growth in ADA of 81 is anticipated during fiscal year 2013-14.

See the accompanying note to the other supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL
AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS**
Year Ended June 30, 2013

*Chico Unified
School District*

| | General Fund | Cafeteria Special Revenue Fund |
|---|---------------------|---|
| June 30, 2013 - Annual Financial and Budget Report Fund Balances | \$ 16,578,232 | \$ - |
| ADJUSTMENTS INCREASING (DECREASING) THE FUND BALANCES | | |
| Overstatement of accounts payable | - | 157,823 |
| Overstatement of due from other funds | - | (157,823) |
| Understatement of due from other funds | 760,883 | - |
| Overstatement of due to other funds | 157,823 | - |
| Net Adjustments | 918,706 | - |
| June 30, 2013 - Audited Financial Statement Fund Balances | \$ 17,496,938 | \$ - |

See the accompanying note to the other supplementary information.

SCHEDULE OF CHARTER SCHOOLS

Year Ended June 30, 2013

*Chico Unified
School District*

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

Blue Oak Charter School

Forest Ranch Charter School

Nord Country School

Sherwood Montessori

Wildflower Open Classroom

See the accompanying note to the other supplementary information.

**NOTE TO THE OTHER SUPPLEMENTARY
INFORMATION**

June 30, 2013

*Chico Unified
School District*

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 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 *California Education Code*, Sections 46201 through 46206.

Schedule of Expenditures of Federal Awards

This schedule is prepared on the modified accrual basis of accounting. Nonmonetary assistance is reported in the schedule at the fair market value of the food commodities received and disbursed. OMB Circular A-133 requires disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with OMB Circular A-133 requirements.

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.

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.

OTHER REPORTS SECTION



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

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

We have audited, 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, 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, 2013; and the related notes to the financial statements, which collectively comprise the District's basic financial statements; and have issued our report thereon dated January 28, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies; and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (see item 13-2).

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency (see item 13-1).

**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**

Continued

Compliance and Other Matters

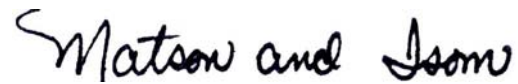
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

The District's Response to Findings

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

Purpose of This Report

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



January 28, 2014
Chico, California



MATSON
& ISOM

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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 U.S. Office of Management and Budget (OMB) Circular A-133 *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, 2013. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Continued

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 as a basis for designing 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Purpose of This Report

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Matson and Isom

January 28, 2014
Chico, California



MATSON
& ISOM

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

Compliance

We have audited the Chico Unified School District's (the District) compliance with the types of State compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*, published by the Education Audit Appeals Panel, for the year ended June 30, 2013. The applicable State compliance requirements are identified in the table below.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the District's management.

Auditors' Responsibility

Our responsibility is to express an opinion on the District's compliance with the State laws and regulations based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*, published by the Education Audit Appeals Panel. Those standards and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*, 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 material effect on compliance with the state laws and regulations described in the schedule below occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe 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.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

| | Procedures in Audit Guide | Procedures Performed |
|---|--------------------------------------|---------------------------------|
| Attendance reporting | 6 | Yes |
| Teacher certification and misassignments | 3 | Yes |
| Kindergarten continuance | 3 | Yes |
| Independent study | 23 | Yes |
| Continuation education | 10 | No |
| Instructional time: | | |
| School districts | 6 | Yes |
| County offices of education | 3 | Not applicable |
| Instructional materials: | | |
| General requirements | 8 | Yes |
| Ratios of administrative employees to teachers | 1 | Yes |
| Classroom teacher salaries | 1 | Yes |
| Early retirement incentive program | 4 | No |
| Gann limit calculation | 1 | Yes |
| School accountability report card | 3 | Yes |
| Juvenile court schools | 8 | Not applicable |
| Class size reduction (including charter schools): | | |
| General requirements | 7 | Yes |
| Option one classes | 3 | Yes |
| Option two classes | 4 | No |
| Districts or charter schools with only one school serving kindergarten through grade 3 | 4 | Not applicable |
| After school education and safety program: | | |
| General requirements | 4 | Yes |
| After school | 5 | Yes |
| Before school | 6 | Yes |
| Charter schools: | | |
| Contemporaneous records of attendance | 1 | Yes |
| Mode of instruction | 1 | Yes |
| Nonclassroom-based instruction/independent study | 15 | No |
| Determination of funding for nonclassroom-based instruction | 3 | No |
| Annual instructional minutes - classroom based | 4 | Yes |

Continuation education steps (f)(1) and (f)(2) were not performed because students do not receive apportionment attendance for work experience. Continuation education step (f)(3) was not performed because students do not engage in independent study.

Since the District did not participate in the following programs during 2012-13, all steps related to them were not performed:

- Early retirement incentive program
- Class size reduction option two classes

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

Testing was not performed for nonclassroom-based instruction/independent study because the ADA for this program was below the level which requires testing. Since the District did not sponsor any charter schools that generated more than 20% of total ADA through nonclassroom based instruction (independent study), all steps related to the determination of funding for nonclassroom-based instruction were not performed.

Opinion

In our opinion, the District complied, in all material respects, with the State laws and regulations referred to above that are applicable to the District for the year ended June 30, 2013, except as described in the accompanying schedule of findings and questioned costs as items 13-3, 13-4, and 13-5.

The District's Response to Findings

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing over compliance and the results of that testing based on the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*. Accordingly, this report is not suitable for any other purpose.

Matson and Isom

January 28, 2014
Chico, California

FINDINGS AND QUESTIONED COSTS SECTION

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2013

*Chico Unified
School District*

**SECTION I
SUMMARY OF AUDITORS' RESULTS**

FINANCIAL STATEMENTS

| | |
|---|------------|
| Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | Yes |
| Significant deficiencies identified not considered to be material weaknesses? | Yes |
| Noncompliance material to financial statements noted? | No |

FEDERAL AWARDS

| | |
|---|---------------|
| Internal control over major programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified not considered to be material weaknesses? | None reported |
| Type of auditors' report issued on compliance for major program: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | No |

Identification of major programs:

| | |
|------------------|--|
| CFDA No. 10.553 | School Breakfast |
| CFDA No. 10.555 | National School Lunch |
| CFDA No. 10.558 | Child and Adult Care Food Program |
| CFDA No. 10.559 | Summer Food Service Program |
| CFDA No. 84.027 | Special Education – IDEA Basic Local Assistance |
| CFDA No. 84.173 | Special Education – IDEA Preschool |
| CFDA No. 84.367 | NCLB – Title II, Part A, Improving Teacher Quality |
| CFDA No. 84.287C | NCLB – Title IV, 21 st Century Community Learning Centers |
| CFDA NO. 84.215 | Fund for the Improvement of Education |

| | |
|--|-----------|
| Threshold for distinguishing types A and B programs: | \$402,636 |
| Auditee qualified as low-risk auditee? | No |

STATE AWARDS

| | |
|---|-----------|
| Internal control over state programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified not considered to be material weaknesses? | Yes |
| Type of auditors' report issued on compliance for state programs: | Qualified |

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2013

*Chico Unified
School District*

**SECTION II
FINANCIAL STATEMENTS AUDIT**

INTERNAL CONTROL (Cash Receipts - Cash in County Treasury)

30000 (13-1)

Significant Deficiency

Condition

Cash receipts were not deposited in a timely manner into the county treasury.

Criteria

Internal controls should be in place to provide that all cash and checks received are deposited on a monthly basis to the county treasury to maximize interest earnings.

Effect

Without strengthening internal controls over cash receipts, assets may not be properly safeguarded. Additionally, clearing account funds and cash on hand do not accrue their eligible county treasury interest and are not available for necessary cash disbursements.

Recommendation

Procedures should be implemented to strengthen internal controls over cash receipts.

Response

The District's administration will adopt procedures during the 2013-14 fiscal year to comply with the recommendation.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2013

*Chico Unified
School District*

INTERNAL CONTROL (District Bank Accounts)

30000 (13-2)

Material Weakness

Condition

Monthly bank reconciliations were not prepared in a timely manner for the cash in county treasury accounts. Lack of monthly bank reconciliations resulted in a delay of submitting unaudited actual data to Butte County Office of Education and prevented proper cash flow monitoring and projections. The District did not prepare and submit the Unaudited Actuals Financial Report for fiscal year 2012-13 to the Governing Board for approval until November 20, 2013.

Criteria

Internal controls should be in place to provide reasonable assurance that all cash accounts are reconciled on a monthly basis. *California Education Code*, Section 42100(a) requires that on or before September 15, the governing board of each school district shall approve, in a format prescribed by the Superintendent of Public Instruction, an annual statement of all receipts and expenditures (Unaudited Actuals) of the District for the preceding fiscal year and shall file the statement, along with the statement received pursuant to subdivision (b), with the County Superintendent of Schools.

Effect

Without proper internal controls over bank reconciliations, the District did not comply with the requirements of *California Education Code*, Section 42100(a) or provide accurate cash projections in a timely manner.

Recommendation

The District should prepare bank reconciliations each month for all cash in county treasury accounts. These reconciliations should be reviewed for accuracy and approved by management. Year-end closing procedures should be implemented that ensure that the Governing Board of the District will have the Unaudited Actuals Financial Report to approve on or before the September 15 due date.

Response

The District's administration will adopt procedures during the 2013-14 year to comply with the recommendation.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2013

*Chico Unified
School District*

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2013

*Chico Unified
School District*

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

ATTENDANCE (Inspire Charter School)

10000 (13-3)

Significant Deficiency

Condition

Inspire Charter School's (the Charter School) procedures do not require attendance registers to be signed weekly. Numerous teachers did not turn in signed weekly attendance registers on a regular basis. The Charter School was able to provide us with alternative documentation of attendance. Since students attend multiple classes in any given day, we were able to verify student attendance by reviewing a student attendance log by period and confirm attendance or absence by tracing to a period where teachers had turned in signed attendance registers.

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 Charter School maintain written 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.

Response

The District's administration will adopt procedures during the 2013-14 fiscal year to comply with the recommendation.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2013

*Chico Unified
School District*

ATTENDANCE

10000 (13-4)

Significant Deficiency

Condition

Average daily attendance (ADA) reported to the California Department of Education in the Second Period Report of School District Attendance was understated by 1.44 ADA.

Criteria

ADA reported to the California Department of Education in the Report of School District Attendance should be supported by an accurate summary of days of apportionment attendance and should be reviewed for accuracy by someone independent of the preparation of the reports.

Effect

Due to the understatement of 1.44 ADA in the Second Period Report of School District Attendance, the principal apportionment for 2012-13 is understated by \$7,585. This amount is calculated by multiplying the 1.44 ADA at Second Period by \$5,267.33, the deficated base revenue limit per ADA. The District is eligible to receive an additional \$7,585 in principal apportionment funding from the California Department of Education.

Recommendation

We recommend that the attendance worksheets, prepared to summarize the days of apportionment attendance, be reviewed for accuracy prior to the preparation of the Report of School District Attendance. In addition, we recommend that the Second Period Report of School District Attendance be amended for the error noted above.

Response

The District will amend the Second Period Report of School District Attendance and will adopt procedures during the 2013-14 fiscal year to comply with the recommendation.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2013

*Chico Unified
School District*

INSTRUCTIONAL MATERIALS

70000 (13-5)

Significant Deficiency

Condition

The District did not provide a ten-day notice of the public hearing to make a determination whether each pupil in the District would have enough textbooks or other instructional materials as required by *California Education Code*, Section 60119. The notice of the public hearing was posted only nine days before the public hearing.

Criteria

Eligibility to qualify for an allowance from the Instructional Materials Realignment Program includes compliance with the requirements established by *California Education Code*, Section 60119 (as revised by chapter 900, statutes of 2004) and CCR, title 5, Section 9531(c).

Effect

The District is not in compliance with *California Education Code*, Section 60119 (as revised by chapter 900, statutes of 2004) and CCR, title 5, Section 9531(c). The District is required to return to the California Department of Education funding totaling \$717,089 that was received from the Instructional Materials Funding Realignment Program.

Recommendation

Compliance with the provisions of *California Education Code*, Section 60119, is a condition of receiving funds under the Instructional Materials Funding Realignment Program. We recommend that the District return to the California Department of Education funding totaling \$717,089 that was received from the Instructional Materials Funding Realignment Program. In addition, we recommend that the District adopt procedures to ensure that the notice of the public hearing is posted ten days prior to the public hearing.

Response

The District's administration will adopt procedures during the 2013-14 fiscal year so that the District is in compliance with all the requirements of *California Education Code*, Section 60119. In addition, the District will file a waiver with the Butte County Office of Education.

Not applicable: there are no current-year findings related to federal awards.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2013

*Chico Unified
School District*

INTERNAL CONTROL (Student Body – Bidwell Junior High)

30000 (12-1)

Significant Deficiency

Condition

During our tests of internal controls over student body cash receipts, we noted that four out of eight cash receipts tested did not have sufficient documentation and support for the deposited amount.

Criteria

Internal controls should be in place to provide for all student body cash and checks received to have receipts issued and proper documentation maintained.

Effect

Without strengthening internal controls over cash receipts, student body assets may not be properly safeguarded.

Recommendation

Procedures should be implemented to strengthen internal controls over cash receipts.

Current Status

Fully implemented.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2013

*Chico Unified
School District*

INTERNAL CONTROL (Cash Receipts – Cash in County Treasury)

30000 (12-2)

Significant Deficiency

Condition

Cash receipts were not deposited in a timely manner into the county treasury.

Criteria

Internal controls should be in place to provide that all cash and checks received are deposited on a monthly basis to the county treasury to maximize interest earnings.

Effect

Without strengthening internal controls over cash receipts, assets may not be properly safeguarded. Additionally, clearing account funds and cash on hand do not accrue their eligible county treasury interest and are not available for necessary cash disbursements.

Recommendation

Procedures should be implemented to strengthen internal controls over cash receipts.

Current Status

See current-year finding in the schedule of findings and questioned costs (item 13-1).

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2013

*Chico Unified
School District*

INTERNAL CONTROL (District Bank Accounts)

30000 (12-3)

Material Weakness

Condition

Monthly bank reconciliations were not prepared in a timely manner for the cash in county treasury accounts. Lack of monthly bank reconciliations resulted in material misstatements in accounts receivable and accounts payable balances at June 30, 2012, as well as inaccurate Unaudited Actuals being submitted to Butte County Office of Education.

Criteria

Internal controls should be in place to provide reasonable assurance that all cash accounts are reconciled on a monthly basis.

Effect

Without strengthening internal controls over bank reconciliations, cash in county treasury, accounts receivable, and accounts payable may not be accurately stated.

Recommendation

Bank reconciliations should be prepared each month for all cash in county treasury accounts. These reconciliations should be reviewed for accuracy and approved by management. Year-end closing procedures should be implemented that ensure all cash and accrual accounts are reconciled properly prior to submission of the Unaudited Actuals to the Butte County Office of Education.

Current Status

See current-year finding in the schedule of findings and questioned costs (item 13-2).

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2013

*Chico Unified
School District*

STATE COMPLIANCE (Exclusion of Pupils – Pertussis Immunization)

40000 (12-4)

Significant Deficiency

Condition

For one of forty students selected for testing, evidence of a pertussis immunization or an exemption statement was not on file by the thirtieth calendar day after the pupil's first day of attendance during the 2011-12 school year. The student was not excluded from average daily attendance (ADA).

Criteria

Per *California Health and Safety Code*, Section 120335.1(a), all students in grades seven through twelve are required to have evidence on file of a pertussis immunization or an exemption statement by the thirtieth calendar day after the pupil's first day of attendance during the 2011-12 school year when the pupil's first day of attendance occurred on or before the sixth Friday following the first day classes were offered. As provided in Title 17, Section 6070(d), transfer students whose first day of attendance during the 2011-12 school year occurred after the sixth Friday are required to have evidence of a Pertussis immunization or an exemption statement on file by the thirtieth school day after the pupil's first day of attendance. If one of these criteria is not met, the District is to exclude the student from the calculation of ADA until proper evidence is on file.

Effect

ADA reported to the California Department of Education in the Second Period Report of School District Attendance was overstated by .14 ADA. The ADA reported to the California Department of Education in the Annual Report of School District Attendance was overstated by .12 ADA. There is no effect to the District's principal apportionment as current-year revenue is calculated on the greater of prior-year ADA or current-year ADA. The ADA in the prior year was greater than the current-year ADA. Therefore, the District's principal apportionment for 2011-12 was calculated based on prior-year ADA.

Recommendation

We recommend the District obtain evidence of each student's pertussis immunization or an exemption statement prior to the first day of school. In addition, we recommend that the District recalculate ADA per *California Education Code*, Section 46303, and amend the District's Second Period Report of School District Attendance to exclude .14 ADA and amend the District's Annual Report of School District Attendance to exclude .12 ADA.

Current Status

Fully implemented.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2013

*Chico Unified
School District*

TEACHER MISASSIGNMENTS (Teacher Certification and Misassignments)

71000 (12-5)

Significant Deficiency

Condition

During our test work over teacher credentials, it was noted that for 1 of 36 teachers selected for testing, evidence of a valid teaching certification document was not on file for 13 school days of the 2011-12 school year. The teacher's students during this period were not excluded from average daily attendance (ADA).

Criteria

Pursuant to *California Education Code*, Section 19817.2(c)(3) school teachers are required to hold certification documents that authorize his or her assigned position.

Effect

The District is subject to a penalty for the year ended June 30, 2012, as calculated per *California Education Code*, Section 45037(b) which is calculated to be \$4,844.

Recommendation

The District should implement procedures to determine that all school teachers hold valid certification documents. In addition, we recommend that the District pay the calculated penalty of \$4,844 to the California Department of Education.

Current Status

Fully implemented.