

CHICO UNIFIED SCHOOL DISTRICT

**County of Butte
Chico, California**

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

June 30, 2010

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FINANCIAL SECTION



TIMOTHY A. TITTLE, CPA

HEIDI M. COPPIN, CPA

MICHAEL D. LAW, CPA

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Chico Unified School District
Chico, California

We have audited the accompanying financial statements of the governmental activities, the business-type 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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2010, 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* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITORS' REPORT

Continued

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, and schedule of funding progress 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Little + Company, LLP

December 13, 2010

INTRODUCTION

Our discussion and analysis of Chico Unified School District's (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2010. It should be read in conjunction with the District's financial statements, which follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999; and GASB Statement No. 37, *Basic Financial Statement – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued in June 2001.

FINANCIAL HIGHLIGHTS

- Total net assets were \$91,536,416 at June 30, 2010, compared to \$92,000,710 on June 30, 2009. This was a minor decrease of .5% over the prior year.
- Overall revenues (program and general) were \$108,493,678, which were lower than expenditures of \$108,957,972 by \$464,294.
- Long-term debt decreased by \$2,478,597 primarily due to the payment of \$1,545,000 of the 1998 Series A and B general obligation bonds, \$414,918 for the payment of the early retirement programs, and \$342,287 for the reduction of GASB 45 Other Post Employment Benefit obligations.
- Capital assets, net of depreciation, increased from \$78,777,521 to 91,251,462 on June 30, 2010 due largely to total the addition of two major Work In Progress projects: the CUSD Performing Arts Center of \$6.1 million and the addition of several new classrooms at the Chico High campus which added about \$8.1 million. Two CTEFP grants at Chico High (Arts, Media, and Entertainment), and Pleasant Valley (Hospitality and Tourism) contributed \$149,000 and \$373,000 respectively with 18 projects at six additional school sites accounting for the balance of \$15.2 million in the Work In Progress category.
- New Government Accounting Standards Board (GASB) rules have been put in place for California school districts. The specific standard called GASB 45 became effective beginning 08/09 for CUSD. An updated 09/10 actuarial valuation of the District's medical insurance program for both active and retirees was performed in order to calculate the total Annual Required Contribution (ARC) of Other Post Employment Benefits (OPEB) required of the new standard. The district's total ARC of \$2,423,840 represents a reduction of \$500,396 from the previous year ARC of \$2,952,579. The net 09/10 obligation is \$158,109 representing a change decrease of \$342,287 from prior year.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- **Fund financial statements** focus on reporting the individual parts of the District operations in more detail. The fund financial statements comprise the remaining statements.
 - **Governmental funds** statements tell how general government services were financed in the short term as well as what remains for future spending.
 - **Fiduciary fund** statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

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

Government-Wide Statements

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in enrollment, changes in the property tax base, changes in program funding by the Federal and State governments, and condition of facilities.

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

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds-not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by State law and by bond covenants. The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues. The District has two kinds of funds:

- **Governmental Funds** - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for

spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the government funds statements that explains the relationship (or differences) between them.

- **Fiduciary Funds** – the District is the trustee, or fiduciary, for assets that belong to others; for the District, the student body activities funds are agency funds. The District is responsible for ensuring that assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the government-wide financial statements because the District cannot use the assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets were \$91,536,416 at June 30, 2010. See Table 1.

Table 1: Net Assets

	Governmental Activities		Percentage Change
	2009	2010	2009-2010
ASSETS			
Cash and investments	\$ 73,746,266	\$ 53,855,639	-27.0%
Accounts receivable/due from other governments	15,413,784	17,185,663	11.5%
Stores inventories	227,632	286,086	25.7%
Prepaid expenses	1,004,895	736,687	-26.7%
Capital assets - net of accumulated depreciation	78,777,521	91,251,462	15.8%
Total Assets	\$ 169,170,098	\$ 163,315,537	-3.5%
LIABILITIES			
Accounts payable/due to other governments	\$ 12,350,412	\$ 10,090,870	-18.3%
Deferred revenue	2,136,379	1,484,251	-30.5%
Long-term debt	62,682,597	60,204,000	-4.0%
Total Liabilities	\$ 77,169,388	\$ 71,779,121	-7.0%
NET ASSETS			
Invested in capital assets - net of related debt	\$ 58,741,984	\$ 58,192,477	-0.9%
Restricted	21,676,989	22,048,311	1.7%
Unrestricted	11,581,737	11,295,628	-2.5%
Total Net Assets	\$ 92,000,710	\$ 91,536,416	-0.5%

Net Assets

Total assets decreased by 3.5% and liabilities decreased by 7.0% from June 30, 2009 resulting in the change in total net assets of -.5%. Significant changes within the components of the net assets were as follows:

- The District's change decrease in total assets of 3.5% represented a significant decrease in cash of \$19.6 million but was primarily offset by a \$12.5 million dollar increase in Capital Assets due to the addition of the CUSD Performing Arts Center and extensive classroom additions to the Chico High campus.
- Accounts payable reduced by about \$5.4 million mainly as a result of the change in property taxes and long term debt as noted above.
- The District's cash decreased by about \$19.6 million much of it due to the spending down of one time federal stimulus dollars, increased state deferral of about 25% of revenue limit dollars due the district at 6/30/10, and the continued deficit spending by the district as significant revenue limit deficits imposed by the state hamstringing the district's budget.

Net assets related to capital projects are \$58.2 million. Of the total net assets, \$22.0 million are restricted.

The District's total general revenues were \$82.4 million. 58.7% came from federal and State aid not restricted to specific purposes. Another 36.8% came from property taxes, and the remainder from fees charged for services and miscellaneous sources.

The total cost of all programs and services was \$109.0 million. The District's expenses are predominantly related to educating and caring for students (73.6%). The purely administrative activities of the District accounted for 4.6% of total costs. The Statement of Activities lists the expenditures for the fiscal year by major program area.

See Table 2, which summarizes revenues and expenditures by function for the change in net assets.

Table 2: Changes in Net Assets

	Governmental Activities		Percentage
	2009	2010	Change 2009-2010
REVENUES			
Charges for services	\$ 412,236	\$ 269,671	-34.6%
Operating grants and contributions	32,940,558	25,550,644	-22.4%
Capital grants and contributions	10,635	249,800	2248.8%
GENERAL REVENUES			
Property taxes	27,684,853	30,329,520	9.6%
Federal/State aid not restricted	54,377,355	48,379,813	-11.0%
Interest and miscellaneous	5,772,509	3,714,230	-35.7%
Total Revenues	\$ 121,198,146	\$ 108,493,678	-10.5%
EXPENSES			
Instruction	\$ 76,657,603	\$ 71,340,148	-6.9%
Instruction-related services	9,059,850	8,900,322	-1.8%
Pupil services	11,025,631	10,846,726	-1.6%
General administration	5,145,564	4,984,760	-3.1%
Plant services	8,478,929	8,203,985	-3.2%
Ancillary services	539,945	459,359	-14.9%
Community services	28,803	21,698	-24.7%
Enterprise activities	103,960	77,810	-25.2%
Other outgo	3,365,491	4,123,164	22.5%
Total Expenses	\$ 114,405,776	\$ 108,957,972	-4.8%
Excess Before Transfers	6,792,370	(464,294)	-106.8%
Transfers in	-	-	0.0%
Increase in Net Assets	\$ 6,792,370	\$ (464,294)	-106.8%

The District's revenues decreased by 10.5% over the prior year and total expenditures decreased by 4.8%. As a result, the total decrease in net assets (difference between total revenues and total expenditures) was \$464,294.

Governmental Activities

The cost of all governmental activities this year was \$108,957,972.

Table 3 presents the cost of each of the District's functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by charges for services, operating grants and capital grants and contributions.

Table 3: Net Cost of Governmental Activities

As reflected in Table 3, the District's total cost of services decreased by \$5.4 million to \$109.0 million over June 30, 2009. The net cost of services, which incorporates charges for services and grants and contributions, increased \$1.9 million over prior year.

	Total Cost of Services		Percent Change	Net Cost of Services		Percent Change
	2009	2010	2009-2010	2009	2010	2009-2010
Instruction	\$ 76,657,603	\$ 71,340,148	-6.9%	\$ 52,126,667	\$ 52,480,490	0.7%
Instruction-related services	9,059,850	8,900,322	-1.8%	7,402,352	7,902,215	6.8%
Pupil services	11,025,631	10,846,726	-1.6%	5,178,975	5,691,974	9.9%
General administration	5,145,564	4,984,760	-3.1%	4,227,830	4,065,066	-3.8%
Plant services	8,478,929	8,203,985	-3.2%	8,348,423	8,197,746	-1.8%
Ancillary services	539,945	459,359	-14.9%	532,018	453,454	-14.8%
Community services	28,803	21,698	-24.7%	28,803	21,698	-24.7%
Enterprise activities	103,960	77,810	-25.2%	103,960	77,810	-25.2%
Other outgo	446,108	299,727	-32.8%	173,936	173,967	0.0%
Interest on long-term debt	2,919,383	3,823,437	31.0%	2,919,383	3,823,437	31.0%
Total Expenses	\$ 114,405,776	\$ 108,957,972	-4.8%	\$ 81,042,347	\$ 82,887,857	2.3%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's General Fund Ending Balance decreased \$2.1 million over prior year, the cumulative effect of the state fiscal crisis resulted in a 18.36% 2009/2010 deficit applied to the district's revenue limit and decreasing slightly to a 17.96% deficit in 2010/2011. District projections show a structural deficit resulting in deficit spending an average of \$6.4 million over the next three years (estimate prior to 1st interim completed analysis). The district's calculated COLA would have resulted in additional revenue of \$260 for a total of \$6,389.62 per student. However, with the collapse of the economy the state's deficit applied to the district resulted in funding of \$4,963.99 per student.

As the District completed the year, its governmental funds reported a combined fund balance of \$60,745,291 resulting in a \$15.25 million decrease over last year's \$76,003,332 with the General Fund providing for the majority of the decrease.

Fund Description	Fund No(s).	Fund Balance June 30, 2009	Fund Balance June 30, 2010	Increase (Decrease)
General	01	\$ 20,501,734	\$ 18,358,953	\$ (2,142,781)
Child Development	12	17	-	(17)
Cafeteria Special Revenue	13,17	57,081	59,320	2,239
Deferred Maintenance	14	1,560,042	1,220,657	(339,385)
Special Reserve	31-33	258	-	(258)
Building	23,24,27,28,29	38,823,216	23,959,487	(14,863,729)
Capital Facilities	25	9,712,909	10,997,822	1,284,913
County School Facilities	35	48,765	78,727	29,962
Capital Projects Special Reserve	40-42	1,384,169	978,024	(406,145)
Bond Interest and Redemption	51,52	3,674,902	4,848,223	1,173,321
Debt Service	56	240,239	244,078	3,839
Self Insurance	67,68	143,680	66,916	(76,764)
Total Net Assets		\$ 76,147,012	\$ 60,812,207	\$ (15,334,805)

The General Fund had total revenues plus other sources and transfers in of \$98,213,486 and expenditures plus transfers out of \$100,356,267 for a decrease to fund balance of \$2,142,781. The state relaxed the funding provision of K-3 Class Size Reduction of 20:1 students allowing districts to increase class size above 25 but at 70% of full funding. The district chose to implement this flexibility in order to staff at 30:1 resulting in the loss of 58 teachers and associated costs for a budget savings of about \$1.8 million. Rules pertaining to the purchasing of state adopted textbooks have also been relaxed allowing the district to delay funding them and save an anticipated \$434,000 when combined with 08/09 carryover funds.

The District's base funded revenue limit ADA excluding charter schools (prior year ADA plus annual NPS and community day school) reduced 106 from 12,251 to 12,145 resulting in the fiscal year 2009-10 revenue limit being calculated on ADA from the 2008-09 fiscal year. Continued declining enrollment including the impact of local charter school expansion, increased expenditures with the fully implemented employee compensation packages the last of which increased salary schedules effective 1/01/08, and the economic meltdown throughout the national and state economies all were contributing to the District's fiscal problems. The District negotiated with employee groups to reduce health plan coverage from the superior Silver Plan to the Red Plan however the cost of the 09/10 Red Plan was \$766 per employee per month (PEPM) versus the 08/09 Silver Plan cost of \$745 PEPM resulting in an increase to the budget of \$21 PEPM. Natural progression on the salary schedule along

June 30, 2010 (Unaudited)

with increased worker's compensation and unemployment insurance also resulted in increased costs for the 09/10 year.

The District's continued implementation of the 2005/2006 Nutrition Services Reorganization Plan using the Quality Circle (management and staff open dialog discussions) has reaped savings/reductions in staffing, storage costs, and food processing to name a few. The hard work contributed by the department has allowed the Nutrition Service fund to continue being fiscally self supporting.

The 2009/2010 State Budget act also provided numerous changes to 2008/2009 funding. The State gave districts flexibility in allowing Deferred Maintenance funding to be deposited in the general fund (\$1.51 million for 09/10) through the 2012/2013 year as the State significantly reduced General Fund unrestricted funding to districts. In addition, the matching requirement of ½ of one percent is waived through this same time period. The added flexibility resulted in only interest including the fair market value of cash (FMVC) adding to revenue in the fund in the amount of \$25,500. The fund incurred expenditures of \$364,885 for the following projects: HVAC, roofing, and paving at various sites, reroofing of Marigold and Fairview, gas line replacement at Sierra View, water storage tank replacement at Forest Ranch, and the physical education roof overhang repaid at PVHS.

The Capital Projects Funds are used to account for projects supported by bonds and include the Building Fund, Capital Facilities Fund (developer fee revenue), State School Building Fund, County School Facilities Fund, and Capital Projects Special Reserve Fund.

The Building fund balance decreased by \$14,863,729 as the District's planned use of this fund starts to increase significantly. Projects contributing to the \$14.8 million of expenditures include the Performing Arts Center at PVHS for \$6.1 million of the total and new classroom buildings at CSHS of \$8.1 million and the balance going to the CTEFP grant project for the Chico High agriculture department.

The Capital Facilities fund balance increased by \$1,284,914 with total fund balance of \$10,997,822. Developer fee collections accounted for \$1,486,598 of total revenue with the remaining \$262,156 split between interest and FMVC. The \$463,841 in expenditures funded the Loma Vista new classroom building, administration costs of operating the program. The district has continued to temporarily slow expenditure activity in the fund in order to make it available for temporary cash flow purposes within the General Fund if needed. The Board has taken action to allow borrowing up to the legal limit of 75% of the fund's balance during 2010/2011 should the need arise to assist with cash flow as the state defers much of the revenue allocated to the district in the General Fund to aid with their own cash flow problems.

The County School Facilities Fund experienced an increase of \$29,962 in fund balance leaving about \$78,727 in the fund. Expenditures of \$584,838 paid for the CSHS Arts, Media & Entertainment project, the PVHS Bid Trades & Construction and Welding Technology projects, the BJHS Modernization, and the PVHS Hospitality/Tourism project. The money originated in this fund when as a result of past year modernization projects and is funded currently with the two grant projects noted above.

Fund balance in the Capital Projects Special Reserve Fund decreased by \$406,146. \$2.0 million of \$2,222,816 total expenditures were a result of Transfers Out to support the District's maintenance program and Certificates of Participation project payments. The Most of the balance was spent on the district's e-rate Internet Service Provider matching funds. Total RDA revenue for the year was \$1,816,671.

Fund balance of the Bond Interest and Redemption Fund increased by \$1,173,321. Revenue primarily from taxes on the secured tax roll of \$4.96 million increased along with debt payments from the Series B 1998 General Obligation Bond for a total of \$4.12 million in expenditures for the year. Total revenue and expenditures have increased from prior year due to the full annual effect of the recent Series B sale of the 1998 GO bond.

The Self Insurance Fund experienced a decrease in fund balance of \$76,764. This fund is used to fund a fixed number of retirees with Medicare supplement insurance. The dollars remaining in this fund represent previously negotiated dollars for a fixed group of CUTA retirees in the late nineties. The fund was created with the knowledge that it had a one time funding source and as more retirees reach the eligible age to subscribe for the Medicare supplement plan it will eventually exhaust itself of available funds. Until the 06/07 year interest added to the fund was enough to fully fund those retirees of age eligible to enroll in the supplement plan. 06/07 marks the first year premiums paid are exceeding interest earned and will escalate each year forward as more retirees in the fixed pool will be eligible to enroll in the plan. The ending fund balance of \$66,916 will likely be depleted within the 2010-2011 year as the number of eligible recipients reimbursed for the supplemental insurance is increasing. Premium expenditures were \$77,810 for the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revises its annual budget to reflect unexpected changes in revenues and expenditures. The final amendment to the budget was approved on 6/15/10. The budget amendments for the year typically fell into the following categories:

- Adjustment of revenue to actual enrollment and ADA data.
- Inclusion of new grants.
- Addition of grant and entitlement funds from the prior year.
- Negotiated salary increases (-0- during 09/10).
- Reflection of mid-year budget reductions and/or flexibility options if imposed by the State.
- Health and Welfare premium changes (reduction in plan from silver to red resulting in higher out of pocket costs but resulted in \$21 per employee per month higher premium due to continued high annual health care inflationary costs).

Variances Between the Original and Final Budgeted Amounts

The final budgeted revenues and expenditures exceeded the original budgeted revenue and expenditures by \$6.8 million and \$5.2 million respectively primarily due to significant increases in federal and state revenue. The primary accounts reflecting large increases in federal revenue were ARRA Special Education Funds (\$1,040,025), Title I Basic (\$884,395), ARRA Title I (\$1,602,924), Title II-Teacher Quality Training (\$691,902), NCLB – Math (\$560,881), Title IV-CA 21st Century (\$908,051), various State Grants Resource Codes 6XXX-7XXX (\$854,569), and donations which occurred during the year (\$563,274)..

Variances Between Final Budget and Actual Amounts

Final budgeted revenues of \$101.3 million were less than actual revenue received of \$98.2 by \$3.1 million. Expenditures decreased compared to the final budget due to federal, state, and local restricted programs that were not fully expended and earned during the year. Also contributing to the budget surplus were state categorical flexibility dollars federal stimulus dollars of about \$4.5 million which arrived at the end of the 08/09 year which assisted the district with revenue reductions imposed by the state. Planned use of the federal stimulus dollars will occur over a two year period of 2009/10

and 2010/11. Unexpended Board designated reserves besides the stimulus dollars are included in the final 2010/11 budget for Potential Maintenance Needs including RRMA funds, Planned SBCP Carryover, Special Education C/R carryover, Instructional Materials, Medicare Administrative Activities (MAA), and local donation carryovers.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of the fiscal year, the District had invested \$91,251,462 in a broad range of capital assets, including school buildings, land, athletic facilities, furniture, computer equipment, and school buses, to name a few. This amount reflects an increase in net capital assets of \$12,473,941 over the prior year (increase of \$15.77 million less increased depreciation expense of \$3.29 million). The increases to capital assets were primarily due to the following projects:

Improvement to Sites – Loma Vista sewer hookup.

Buildings – Marigold reroof of units A & H, Fairview unit C reroof, PVHS welding tech center with CTEFP grant, and walk in freezer for Nutrition Services at the Corporation Yard.

Machinery and Equipment – Aeries software, I/T servers, Destiny library manager system, mowers, Mobile studio kits, a large oven.

Work In Progress – Additions included PVHS performing arts center, CSHS new classroom building, Loma Vista classroom, reroofs at Marigold and Fairview, various sites CTEFP grant projects, Forest Ranch water storage tank, multi-site solar energy project, PVHS stadium bleacher project, and additional PVHS and CSHS remodel projects. See Table 4.

Table 4: Capital Assets

	Governmental Activities		Percentage
	2009	2010	Change 2009-2010
Land	\$ 11,785,001	\$ 11,785,001	0.0%
Improvement of sites	7,447,523	7,492,658	0.6%
Buildings	107,390,137	108,296,454	0.8%
Machinery and equipment	4,242,622	4,734,970	11.6%
Work in progress	5,395,954	19,716,816	265.4%
Subtotal	\$ 136,261,237	\$ 152,025,899	11.6%
Less Accumulated depreciation	(57,483,716)	(60,774,437)	5.7%
Net Capital Assets	\$ 78,777,521	\$ 91,251,462	15.8%

Long-Term Debt

At year-end, the District had \$60,204,000 in debt, the detail of which is shown in Table 5. The District reduced its net debt by \$2,478,597 during the fiscal year by the combination of GO bond principal payments \$1.55 million, and the remaining \$.43 million by the COP, compensated absences, capital leases, early retirement incentives, bond premium, and OPEB obligation.

Table 5: Long-Term Debt

	Governmental Activities		Percentage
	2009	2010	Change 2009-2010
General obligation bonds	\$ 55,350,000	\$ 53,805,000	-2.8%
Certificates of participation	2,145,824	1,920,824	-10.5%
Compensated absences	408,877	458,622	12.2%
Capital leases	567,505	531,683	-6.3%
Early retirement incentives	2,914,571	2,568,797	-11.9%
Bond premium	795,424	760,965	-4.3%
Net OPEB Obligations	500,396	158,109	100.0%
Total Long-Term Debt	\$ 62,682,597	\$ 60,204,000	-4.0%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time these financial statements were prepared and audited, the District was aware of circumstances that could affect its future financial health. The First Interim Budget as of the date of this document has not been completed.

- Based on the 2010/11 fiscal year adopted budget, the District is projecting total general fund revenues of \$91,096,300 and expenditures of \$99,946,017 for a decrease to fund balance of (\$8,849,717) for both the Restricted and Unrestricted sides of the budget. The ending Unrestricted fund balance as of 6/30/11 is projected to be \$7,313,847 which leaves an Unappropriated amount of \$2,529,543 after amounts designated for 3% Economic Uncertainties, Stores, Revolving Cash, the Fair Market Value of Cash, and Board designated reserves for textbooks and necessary maintenance needs.
- The District's Board continues to face fiscal challenges resulting in a seventh year in a row plus the current year of experiencing severe strains on budget. The state continues to be in an economic crisis which was partially solved on the backs of K-12 education by applying a multiple year cumulative deficit factor of 18.355% to the district's revenue limit. The district continues to take advantage of ABX4 3 providing flexibility of transferring funding of 42 previously restricted categorically funded programs to the unrestricted side of the budget used to partially offset the steep deficits applied by the state. This flexibility is in place from the 2008/2009 year through the 2012/2013 fiscal years. Although the added flexibility was welcome news to districts the state also applied a 15.38% reduction in 2008/09 and an additional 4.46% reduction in 2009/10 to the funding of the 42 programs.
- The 2010/2011 Cost of Living Adjustment (COLA) on the Revenue Limit was -.37% when the budget was adopted. COLA's of 2.1% and 2.4% are included in our multi-year projections in each of the two out years. However, declining Average Daily Attendance, increased costs in the Routine Maintenance Account, increases in Health & Welfare, Step & Column, Workers Compensation, Property & Liability, and ADA losses to Charter Schools have taken up a significant part of any new unrestricted revenues and are a contributing factor in the continuing need to reduce the budget.
- Increases to our revenue stream have not kept up with increases in expenditures and even though the District has been making budget adjustments year in and year out, the differential between the on-going deficit and on-going reductions has not been balanced. Therefore, each year, the District has had to deal with the budget year deficits and prior year deficits which were not off set with on-going budget adjustments. The continued increases in step and column, negotiated salary schedule improvements for all employees, property and liability insurance, workers compensation insurance, health and welfare benefits and the decrease in ADA from year to year out strips new unrestricted revenues the District has been receiving and any retirement savings. Therefore, deficits continue to occur and the need to adjust costs each year is essential to maintain fiscal solvency.
- The results of the unprecedented late state budget adoption in October, 2010 was good news for the district which is estimated to increase state provided revenues by about \$3.1 million. Other positive features of the budget since adoption which will be included in the First Interim are settlement with employee groups for reductions in salary by the taking of furlough days which is anticipated to save the district about \$987,000. Included in this figure is the agreement by CUTA to forego the estimated \$300,000 cost associated with the changing of employee deductibles in the health care coverage "Red Plan". President

Obama's Jobs Bill SB 847 was announced in October providing the district with a one time revenue source of \$2.1 million. Phase II of State Fiscal Stabilization Funds pursuant to AB 185 is anticipated to bring in an additional \$553,840 of one time funds. When the First Interim Budget goes to the Board in December, it is anticipated that these budget improvements will allow the district to change from Negative to Qualified Certification. Since the district is relying on several one time sources of revenue there is still significant concern of how the district will fare in the years to come with the state economy still out of balance by over \$26 billion and district revenue limits deficit at 17.963% for the 2010/2011 fiscal year.

STATEMENT OF NET ASSETS

Chico Unified School District

June 30, 2010	Governmental Activities
ASSETS	
Cash and investments	\$ 53,855,639
Accounts receivable	498,338
Due from other governments	16,687,325
Stores inventory	286,086
Prepaid expenses	736,687
Capital assets:	
Land	11,785,001
Improvement of sites	7,492,658
Buildings	108,296,454
Equipment	4,734,970
Work in progress	19,716,816
Less accumulated depreciation	(60,774,437)
Total Assets	\$ 163,315,537
LIABILITIES	
Accounts payable and other current liabilities	\$ 10,090,870
Deferred revenue	1,484,251
Long-term liabilities:	
Due within one year	2,626,169
Due in more than one year	57,577,831
Total Liabilities	\$ 71,779,121
NET ASSETS	
Invested in capital assets, net of related debt	\$ 58,192,477
Restricted for:	
Capital projects	12,297,206
Debt service	5,092,301
Educational programs	4,658,804
Unrestricted	11,295,628
Total Net Assets	\$ 91,536,416

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

STATEMENT OF ACTIVITIES

Chico Unified School District

Year Ended June 30, 2010	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instruction	\$ 71,340,148	\$ 201,090	\$ 18,408,768	\$ 249,800	\$ (52,480,490)
Instruction-related services:					
Supervision of instruction	693,283	1,334	162,310	-	(529,639)
Instructional library, media and technology	1,176,711	-	163,730	-	(1,012,981)
School site administration	7,030,328	8,024	662,709	-	(6,359,595)
Pupil services:					
Home-to-school transportation	1,816,524	41,565	604,729	-	(1,170,230)
Food services	3,832,231	-	3,508,352	-	(323,879)
All other pupil services	5,197,971	2,694	997,412	-	(4,197,865)
General administration:					
Data processing services	723,644	-	17,537	-	(706,107)
All other general administration	4,261,116	10,803	891,354	-	(3,358,959)
Plant services	8,203,985	1	6,238	-	(8,197,746)
Ancillary services	459,359	-	5,905	-	(453,454)
Community services	21,698	-	-	-	(21,698)
Enterprise activities	77,810	-	-	-	(77,810)
Interest on long-term debt	3,823,437	-	-	-	(3,823,437)
Other outgo	299,727	4,160	121,600	-	(173,967)
Total Governmental Activities	\$ 108,957,972	\$ 269,671	\$ 25,550,644	\$ 249,800	(82,887,857)
General Revenues					
Property taxes - levied for general purposes					23,340,102
Property taxes - levied for debt service					5,208,415
Property taxes - levied for other specific purposes					1,781,003
Federal and state aid not restricted to specific purposes					48,379,813
Interest and investment earnings					361,243
Interagency revenues					4,281
Miscellaneous					3,348,706
Total General Revenues					82,423,563
Change in Net Assets					(464,294)
Net Assets - July 1, 2009					92,000,710
Net Assets - June 30, 2010					\$ 91,536,416

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

**BALANCE SHEET
GOVERNMENTAL FUNDS**

Chico Unified School District

Year Ended June 30, 2010	General	Building	Capital Facilities	Nonmajor Governmental	Total Governmental Funds
ASSETS					
Cash and investments	\$ 10,141,403	\$ 25,221,167	\$ 10,939,145	\$ 7,466,175	\$ 53,767,890
Accounts receivable	282,976	-	60,240	154,608	497,824
Due from other governments	16,687,325	-	-	-	16,687,325
Due from other funds	353,766	-	-	315,950	669,716
Prepaid expenditures	39,211	-	-	-	39,211
Stores inventory	239,602	-	-	46,484	286,086
Total Assets	\$ 27,744,283	\$ 25,221,167	\$ 10,999,385	\$ 7,983,217	\$ 71,948,052
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 7,525,422	\$ 1,261,680	\$ 1,563	\$ 200,422	\$ 8,989,087
Due to other funds	315,950	-	-	353,766	669,716
Deferred revenue	1,543,958	-	-	-	1,543,958
Total Liabilities	9,385,330	1,261,680	1,563	554,188	11,202,761
FUND BALANCES					
Reserved for revolving fund	25,000	-	-	-	25,000
Reserved for stores inventory	239,602	-	-	46,484	286,086
Reserved for prepaid expenditures	39,211	-	-	-	39,211
Reserved for debt service	-	-	-	5,092,301	5,092,301
Reserved for restricted programs	4,599,484	-	-	-	4,599,484
Unreserved					
Designated for economic uncertainties	3,010,688	-	-	-	3,010,688
Designated for special purposes	2,417,754	-	-	-	2,417,754
Undesignated, reported in					
General fund	8,027,214	-	-	-	8,027,214
Capital projects funds	-	23,959,487	10,997,822	1,056,751	36,014,060
Special revenue funds	-	-	-	1,233,493	1,233,493
Total Fund Balances	18,358,953	23,959,487	10,997,822	7,429,029	60,745,291
Total Liabilities and Fund Balances	\$ 27,744,283	\$ 25,221,167	\$ 10,999,385	\$ 7,983,217	\$ 71,948,052

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

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

Chico Unified School District

June 30, 2010

Total Fund Balances - Governmental Funds	\$ 60,745,291
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Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:

Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds. The historical cost of the assets is \$152,025,899 and the accumulated depreciation is \$60,774,437.	91,251,462
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Debt issue costs are recognized as expenditures in the period they are incurred. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:	697,476
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Interest on long-term debt is not recognized until the period in which it matures and is paid in the funds. The additional liability for unmatured interest owing at the end of the year was:	(1,080,436)
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Revenue is recognized only to the extent that is "available", meaning it will be collected soon enough after the end of the period to finance expenditures of that period. Receivables for revenues that are earned but unavailable are deferred until the period in which the revenues become available. The amount of unavailable revenues that were deferred as a liability in governmental funds, but are recognized in the government-wide statements, is:	59,707
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

General obligation bonds payable	\$ 54,565,965	
Net OPEB obligation	158,109	
Compensated absences payable	458,622	
Certificates of participation payable	1,920,824	
Capital leases payable	531,683	
Other general long-term debt	2,568,797	(60,204,000)

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 assets. Net assets for internal service funds are:	66,916
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Total Net Assets - Governmental Activities	\$ 91,536,416
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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, 2010	General	Building	Capital Facilities	Nonmajor Governmental	Total Governmental Funds
REVENUES					
Revenue limit sources					
State apportionments	\$ 38,327,511	\$ -	\$ -	\$ -	\$ 38,327,511
Local sources	22,457,345	-	-	-	22,457,345
Total Revenue Limit	60,784,856	-	-	-	60,784,856
Federal revenue	10,587,627	-	-	2,698,350	13,285,977
Other state revenue	17,539,973	-	-	513,852	18,053,825
Other local revenue	5,746,626	(54,762)	1,748,754	7,876,473	15,317,091
Total Revenues	94,659,082	(54,762)	1,748,754	11,088,675	107,441,749
EXPENDITURES					
Current					
Instruction	68,845,761	-	-	-	68,845,761
Supervision of instruction	692,398	-	-	-	692,398
Instructional library, media and technology	1,169,955	-	-	-	1,169,955
School site administration	7,053,081	-	-	-	7,053,081
Home-to-school transportation	1,826,952	-	-	-	1,826,952
Food services	141,021	-	-	3,716,402	3,857,423
All other pupil services	5,207,105	-	-	-	5,207,105
Data processing services	846,526	-	-	-	846,526
All other general administration	3,717,936	-	369,117	157,525	4,244,578
Plant services	7,576,061	15,014	-	304,933	7,896,008
Facility acquisition and construction	-	14,429,061	49,859	930,873	15,409,793
Ancillary services	459,359	-	-	-	459,359
Community services	21,698	-	-	-	21,698
Transfers between agencies	279,811	-	-	-	279,811
Debt service					
Principal	599,440	-	-	1,545,000	2,144,440
Interest	171,985	-	-	2,571,017	2,743,002
Issuance costs and discounts	1,900	-	-	-	1,900
Total Expenditures	98,610,989	14,444,075	418,976	9,225,750	122,699,790
Excess of Revenues Over (Under) Expenditures	(3,951,907)	(14,498,837)	1,329,778	1,862,925	(15,258,041)
Other Financing Sources (Uses)					
Interfund transfers in	3,554,404	108	-	2,110,278	5,664,790
Interfund transfers out	(1,745,278)	(365,000)	(44,865)	(3,509,647)	(5,664,790)
Total Other Financing Sources (Uses)	1,809,126	(364,892)	(44,865)	(1,399,369)	-
Net Change in Fund Balances	(2,142,781)	(14,863,729)	1,284,913	463,556	(15,258,041)
Fund Balances - July 1, 2009	20,501,734	38,823,216	9,712,909	6,965,473	76,003,332
Fund Balances - June 30, 2010	\$ 18,358,953	\$ 23,959,487	\$ 10,997,822	\$ 7,429,029	\$ 60,745,291

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

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET ASSETS

Chico Unified School District

Year Ended June 30, 2010

Total Net Change in Fund Balances - Governmental Funds	\$ (15,258,041)
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:	
Capital outlays are reported in governmental funds as expenditures in the period when the assets are acquired. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
The difference between capital outlay expenditures (\$15,864,292) and depreciation expense (\$3,390,351) for the period is:	12,473,941
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:	2,220,740
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:	(52,475)
In governmental funds, revenues are recognized only to the extent they are "available", meaning they will be collected soon enough after the end of the period to finance expenditures of the period. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period but related to a prior period, is:	(59,707)
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the year but owing from the prior year, was:	30,155
In governmental funds, compensated absences are measured by the amount paid during the year. In the statement of activities, compensated absences are measured by the amounts earned during the year. The difference between compensated absences paid and earned was:	(49,745)
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. The difference between OPEB costs and actual employer contributions was:	342,287
In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Expenses incurred for such obligations were:	(69,144)
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 the premium or discount for the period is:	34,459
Internal service funds are used to conduct certain activities for which costs are charged to other funds on full-cost recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental on the statement of activities. The net increase or decrease in internal service funds was:	(76,764)
Total Change in Net Assets - Governmental Activities	\$ (464,294)

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

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS**

Chico Unified School District

June 30, 2010	Self-Insurance Internal Service
ASSETS	
CURRENT ASSETS	
Cash and investments	\$ 87,749
Accounts receivable	514
Total Current Assets	\$ 88,263
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ 21,347
Total Liabilities	\$ 21,347
NET ASSETS	
Unrestricted	\$ 66,916

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

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS**

Chico Unified School District

Year Ended June 30, 2010	Self-Insurance Internal Service
OPERATING EXPENSES	
Services and other operating	\$ 77,809
Operating Loss	(77,809)
NONOPERATING REVENUES	
Interest income	1,045
Net Loss	(76,764)
Net Assets - Beginning of Year	143,680
Net Assets - End of Year	\$ 66,916

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

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

Chico Unified School District

<u>Year Ended June 30, 2010</u>	<u>Self-Insurance Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash paid for services and other operating expenses	\$ (74,634)
Net Cash Used by Operating Activities	(74,634)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	1,743
Net Decrease in Cash	(72,891)
Cash - July 1, 2009	160,640
Cash - June 30, 2010	\$ 87,749
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (77,809)
Adjustments to reconcile operating loss to net cash used by operating activities	
Accounts payable	3,175
Total Adjustments	3,175
Net Cash Used by Operating Activities	\$ (74,634)

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

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

Chico Unified School District

June 30, 2010	<u>Agency</u> <u>Student Body</u>
ASSETS	
Cash and investments	\$ 871,711
Accounts receivable	17,932
Inventory	<u>34,980</u>
Total Assets	<u>\$ 924,623</u>
LIABILITIES	
Accounts payable	\$ 64,172
Due to student groups	<u>860,451</u>
Total Liabilities	<u>\$ 924,623</u>

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

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its enterprise funds, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District are discussed below.

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the District and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the District's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government. 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 form members of school bargaining units, and it is a tax-exempt 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 assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Government activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

The statement of activities presents a comparison between direct expenses and program revenues for each major function/program of the District's governmental activities. Direct expenses are those that are specifically associated with a program. 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 into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its 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 that 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.

The funds of the District are described below:

Major Governmental Funds

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

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

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

Non-major Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.

1. Deferred Maintenance Fund is used for the purpose of major repair or replacement of district property.
2. Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service program.
3. Child Development Fund is used to account for resources committed to child development programs maintained by the District.
4. Special Reserve Fund for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of resources designated for general operating purposes.

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

1. Bond Interest and Redemption Fund is used to account for general obligation bond interest and redemption of bond principal.
2. Debt Service Fund is used to account for the accumulation of resources for the retirement of principal and interest on general long-term debt.

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

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

Proprietary Funds

Internal Service Funds are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund, the Self-Insurance Fund, which is used to fund a fixed number of retirees' Medicare supplement insurance.

Fiduciary Funds

Agency Funds are used to account for assets of others for whom the District acts as an agent. The District maintains agency funds for student body accounts, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body.

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 assets and the statement of activities, both governmental and business-like activities are presented using the economic resources measurement as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

All 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.

The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

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

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

Non-exchange 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 non-exchange transactions must also be available before it can be recognized.

Expenses/Expenditures

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

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

Cash and Investments

The District considers demand deposits and all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury (the County) as part of the common investment pool. The District is considered to be an involuntary participant in the external investment pool. The County pools these funds with those of other districts in the county and invests the cash. Interest earned is deposited into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County is restricted by 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. Information regarding the amount of dollars invested in derivatives with the County was not available. The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the County are either secured by federal depository insurance or are collateralized.

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, 2010. 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, 2010.

Interfund Transactions

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

Stores Inventory and Prepaid Expenditures

Inventories are valued at average cost and consist of expendable supplies held for consumption. Expenses are recorded as the supplies and materials are consumed. Prepaid expenses consist of operating expenses for which payment is due in advance and are expensed when the benefit is received. On the government-wide statements, the District reports unamortized debt issuance cost as prepaid expenses.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$10,000 or more and over one year useful life. Depreciation on all capital assets is computed using a straight-line basis over the estimated useful lives of the various classes of depreciable capital assets as follows: buildings, 50 years; portable classrooms, 25; site improvements/infrastructure, 20 to 50 years; equipment, 5 to 15 years; and vehicles, 8.

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

Deferred Revenue

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

Long-Term Debt

The accounting treatment for 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 government and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest 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

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported in the governmental funds only if it has matured, for example, as a result of employee resignations and retirements.

Equity Classifications

Government-Wide Statements

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

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

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

Unrestricted net assets consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Revenue Limit and Property Tax

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

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 known as the state apportionment. The District's base revenue limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

Estimates

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

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2010, consist of the following:

Deposits	
Cash in bank	\$ 1,048,351
Cash in revolving fund	25,000
Cash with fiscal agent	4,716
Collections awaiting deposit	674,266
Investments	
County treasurer's investment pool	52,975,017
Total Cash and Investments	54,727,350
Less agency fund cash and investments	871,711
Total Cash and Investments per Statement of Net Assets	\$ 53,855,639

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2010, \$1,341,901 of the District's bank balance of \$2,019,769 was exposed to custodial credit risk as the deposits are uninsured and the collateral is held by the pledging bank.

Investments**Credit Risk**

The District's investment in the county investment pool is unrated.

Interest Rate Risk

California Government Code Section 53601 limits the District's investments to maturities of five years. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County Treasurer's investment pool has an average maturity of 2 years.

3. DUE FROM OTHER GOVERNMENTS

On the government-wide financial statements, amounts due from other governments include \$59,707 for a special education mandate settlement apportionment which will be collected from the state of California over the next four years.

4. INTERFUND TRANSACTIONS

Interfund Receivables/Payables

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

Fund	Interfund Receivables	Interfund Payables
General	\$ 353,766	\$ 315,950
Nonmajor governmental	315,950	353,766
Total	\$ 669,716	\$ 669,716

Interfund Transfers

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

Interfund transfers for the year ended June 30, 2010, are as follows:

Fund	Transfers In	Transfers Out
General	\$ 3,554,404	\$ 1,745,278
Cafeteria	235,739	-
Deferred maintenance	1,509,539	1,509,539
Building	108	365,000
Capital facilities	-	44,865
County school facilities	365,000	-
Special reserve for non-capital outlay	-	108
Special reserve for capital outlay	-	2,000,000
Total	\$ 5,664,790	\$ 5,664,790

The transfer of \$365,000 from the Building Fund to the County School Facilities Fund was to transfer a portion of the District's match to fund Modernization projects.

The transfer of \$235,739 from the General Fund to the Cafeteria Fund was to cover the costs of preparing meals for the needy.

The transfer of \$1,509,539 from the Deferred Maintenance Fund to the General Fund was to sweep balance to General, as the monies are unrestricted in accordance with SBx4 and ABx4.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Chico Unified School District

The transfer of \$1,509,539 from the General Fund to the Deferred Maintenance Fund was to transfer back the SBx4 and ABx4 flexibility sweep of the Deferred Maintenance Fund 6/30/09 balance.

The transfer of \$44,865 from the Capital Facilities Fund to the General Fund was for the annual 3% administration fee applied to Capital Facilities.

The transfer of \$2,000,000 from the Special Reserve for Capital Outlay Fund to the General Fund was to cover COPS payments and help cover the cost of the maintenance department.

5. CAPITAL ASSETS AND DEPRECIATION

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

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 11,785,001	\$ -	\$ -	\$ 11,785,001
Work in progress	5,395,954	15,203,396	882,534	19,716,816
Total capital assets, not being depreciated	17,180,955	15,203,396	882,534	31,501,817
Capital assets, being depreciated:				
Improvements of sites	7,447,523	45,135		7,492,658
Buildings	107,390,137	906,317		108,296,454
Equipment	4,242,622	591,978	99,630	4,734,970
Total capital assets, being depreciated	119,080,282	1,543,430	99,630	120,524,082
Less accumulated depreciation for:				
Improvements of sites	4,495,815	304,617		4,800,432
Buildings	49,236,707	2,931,197		52,167,904
Equipment	3,751,194	154,537	99,630	3,806,101
Total accumulated depreciation	57,483,716	3,390,351	99,630	60,774,437
Total capital assets, being depreciated, net	61,596,566	(1,846,921)	-	59,749,645
Governmental activities capital assets, net	\$ 78,777,521	\$ 13,356,475	\$ 882,534	\$ 91,251,462

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Instruction	\$ 2,729,221
Instructional library, media and technology	84,496
School site administration	71,437
Home-to-school transportation	28,102
Food services	65,504
All other general administration	26,027
Centralized data processing	24,304
Plant services	361,260
Total Depreciation Expense	\$ 3,390,351

6. ACCOUNTS PAYABLE

Accounts payable at June 30, 2010, consist of the following:

	General	Building	Capital Facilities	Nonmajor Governmental	Internal Service	Total Governmental Activities
Vendors	\$ 490,570	\$ 1,261,680	\$ 1,563	\$ 135,230	\$ 21,347	\$ 1,910,390
Salaries and benefits	2,325,912	-	-	61,168	-	2,387,080
Other	4,708,940	-	-	4,024	-	4,712,964
Accrued interest	1,080,436	-	-	-	-	1,080,436
Total	\$ 8,605,858	\$ 1,261,680	\$ 1,563	\$ 200,422	\$ 21,347	\$ 10,090,870

7. GENERAL OBLIGATION BONDS

In 1998, the District received authorization to issue \$16,965,000 of bonds. The interest rate ranges from 5.00% to 9.00%. The final maturity date is August 1, 2017. The bonds are general obligations of the District, and the county is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds.

In 1998, the District received authorization to issue \$18,000,000 of bonds. The interest rate ranges from 5.00% to 8.25%. The final maturity date is August 1, 2028. The bonds are general obligations of the District, and the county is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds.

In 2008, the District received authorization to issue \$30,725,000 of bonds. The interest rate ranges from 4.00% to 5.75%. The final maturity date is August 1, 2032. The bonds are general obligations of the District, and the county is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds.

The outstanding general obligation bond debt of the District is:

Issue Date	Interest Rate	Maturity Date	Original Issue	Outstanding July 1, 2009	Issued	Redeemed	Outstanding June 30, 2010
1998	5.00% to 9.00%	2017	\$ 16,965,000	\$ 10,170,000	\$ -	\$ 1,085,000	\$ 9,085,000
1998	5.00% to 8.25%	2028	18,000,000	14,455,000	-	460,000	13,995,000
2008	4.00% to 5.75%	2032	30,725,000	30,725,000	-	-	30,725,000
Total			\$ 65,690,000	\$ 55,350,000	\$ -	\$ 1,545,000	\$ 53,805,000

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

Year Ending June 30	Principal	Interest	Total
2011	\$ 1,610,000	\$ 2,502,745	\$ 4,112,745
2012	1,685,000	2,426,525	4,111,525
2013	1,885,000	2,339,663	4,224,663
2014	2,110,000	2,240,769	4,350,769
2015	2,020,000	2,139,138	4,159,138
2016-2020	10,955,000	9,111,191	20,066,191
2021-2025	15,620,000	6,332,675	21,952,675
2026-2030	14,200,000	2,133,806	16,333,806
2031-2035	3,720,000	272,634	3,992,634
Totals	\$ 53,805,000	\$ 29,499,146	\$ 83,304,146

June 30, 2010

8. CAPITAL LEASES

The District leases equipment valued at \$674,108 under agreements which provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2011	\$ 63,171
2012	47,666
2013	47,667
2014	47,666
2015	47,667
2016-2020	238,333
2021-2025	238,333
2026-2030	23,833
Total	754,336
Less amount representing interest	222,653
Present Value of Net Minimum Lease Payments	\$ 531,683

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

9. CERTIFICATES OF PARTICIPATION

In 2004, the District issued certificates of participation in the amount of \$2,705,000, with interest rates ranging from 2.00% to 4.00%. As of June 30, 2010, the principal balance outstanding was \$2,375,000.

The outstanding certificates of participation are as follows:

Issue Date	Interest Rate	Maturity Date	Original Issue	Outstanding July 1, 2009	Redeemed	Outstanding June 30, 2010
2004	2.00% to 4.00%	2017	\$ 2,705,000	\$ 2,160,000	\$ 225,000	\$ 1,935,000

The certificates mature as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 235,000	\$ 62,003	\$ 297,003
2012	240,000	54,995	294,995
2013	255,000	47,251	302,251
2014	270,000	38,585	308,585
2015	285,000	29,075	314,075
2016-2020	650,000	26,656	676,656
Totals	\$ 1,935,000	\$ 258,565	\$ 2,193,565

10. LONG-TERM DEBT - SCHEDULE OF CHANGES

A schedule of changes in general long-term debt is shown below:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2010</u>	<u>Due Within One Year</u>
Compensated absences	\$ 408,877	\$ 49,745	\$ -	\$ 458,622	\$ -
General obligation bonds	55,350,000	-	1,545,000	53,805,000	1,610,000
Capital leases	567,505	-	35,822	531,683	37,614
Certificates of participation	2,160,000	-	225,000	1,935,000	235,000
COP issuance discount	(14,176)	-	-	(14,176)	-
Early retirement incentives	2,914,571	69,144	414,918	2,568,797	709,096
Bond premium	795,424	-	34,459	760,965	34,459
Net OPEB obligation	500,396	-	342,287	158,109	-
Total	\$ 62,682,597	\$ 118,889	\$ 2,597,486	\$ 60,204,000	\$ 2,626,169

Payments on the general obligations bonds are made by the bond interest and redemption fund with local revenues. Payments on the capital leases, certificates of participation, and early retirement incentives are made by the general fund with unrestricted revenue. The accrued vacation will be paid by the fund for which the employee worked.

11. JOINT POWERS AGREEMENTS

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

June 30, 2010

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

	June 30, 2010		June 30, 2009
	BSSP	NVSIG	SELF
Total assets	\$ 13,831,930	\$ 4,173,837	\$ 209,217,000
Total liabilities	6,159,114	2,946,514	161,555,000
Net Assets (Liabilities)	\$ 7,672,816	\$ 1,227,323	\$ 47,662,000
Operating revenues	\$ 47,083,593	\$ 11,577,837	\$ 26,645,000
Operating expenses	51,371,387	11,431,511	27,701,000
Other income (expenses)	411,589	-	-
Excess Revenues (Expenses)	\$ (3,876,205)	\$ 146,326	\$ (1,056,000)

12. COMMITMENTS AND CONTINGENCIES

Federal and State Allowances, Awards, and Grants

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the District may incur a liability to grantor agencies. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

Construction Project Commitments

Construction project commitments as of June 30, 2010, are as follows:

Capital Project	Amount Paid as of June 30, 2010	Remaining Construction Commitment
New HVAC units at Chico Senior High	\$ 45,702	\$ 254,682
New HVAC units at Chico Senior High	38,317	331,752
Performing Arts Center at Pleasant Valley High School	9,889,770	1,035,000
New Classrooms at Chico Senior High	8,966,751	1,261,110
Arts, Media and Entertainment Center at Chico Senior High	223,804	1,702,642
Agriculture and Natural Resources Center at Chico Senior High	96,036	1,567,708
Total	\$ 19,260,380	\$ 6,152,894

13. 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 any of the past three years. No significant reductions in insurance coverage from the prior year have been made. As described above, the District participates in risk pools under JPAs for property and liability, health benefits, and workers' compensation coverage.

14. 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 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-10 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$3,933,060, \$4,206,506, and \$4,266,686, respectively, and equal 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 95814.

June 30, 2010

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-2010 was 9.709%. 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, 2010, 2009, and 2008 were \$1,539,128, \$1,507,767, and \$1,578,041, respectively, and equal 100% of the required contributions for each year.

15. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The District offers retiree medical coverage 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. The Option I - Silver, Red, and Blue plans are available to 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&B, and a second rate for retiree only).

As of July 1, 2009, the District contributed up to the Silver Plan rate for retirees, based on the applicable tier for each retiree. Effective November 1, 2009 for Certificated employees and retirees, and effective July 1, 2010 for all other groups, the District will contribute up to the Red plan rate based on the applicable tier for each retiree. 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 plus 50% of any subsequent premium increases. District-paid benefits end at age 65 for all retirees with two exceptions: (i) a group of CUT A employees, who were hired prior to April 1, 1986 and who opted out of Medicare Part A, and (ii) a retired District Superintendent receiving lifetime benefits. District benefits for the Medicare opt-out group is described in more detail below.

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 self-paying the medical premium between retirement and age 55.

A group of CUTA (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 anyone year period. This \$2,400 dollar amount has never been increased and was assumed to remain level for all future years for purposes of the actuarial valuation.

Funding Policy

As required by GASB 45, an actuary will determine the District's Annual Required Contributions (ARC) at least once every two fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year, and (2) a component for amortization of the total unfunded actuarial accrued liability (UAL) over a period not to exceed 30 years.

GASB 45 does not require pre-funding of OPEB benefits. Therefore, the District's funding policy is to continue to pay healthcare premiums for retirees as they fall due. The District has elected not to establish an irrevocable trust at this time. The District's Board reserves the authority to review and amend this funding policy from time to time, in order to ensure that the funding policy continues to best suit the circumstances of the District.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the District's Annual OPEB Cost for the fiscal years ended June 30, 2010 and June 30, 2009, the amount actually contributed to the plan, and changes in the District's Net OPEB Obligation:

Item	FYE 6/30/10	FYE 6/30/09
Annual Required Contributions	\$ 2,423,840	\$ 2,952,579
Interest on Net OPEB Obligation	25,020	-
Adjustment to Annual Required Contributions	(32,551)	-
Annual OPEB cost	\$ 2,416,309	\$ 2,952,579
Contributions made	(2,758,596)	(2,452,183)
Increase/(Decrease) in Net OPEB Obligation	\$ (342,287)	\$ 500,396
Net OPEB Obligation - beginning of year	500,396	-
Net OPEB Obligation - end of year	\$ 158,109	\$ 500,396

The District's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation for the fiscal years ended June 30, 2010 and June 30, 2009 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 2,416,309	\$ 2,758,596	107.81%	\$ 158,109
6/30/2009	\$ 2,952,579	\$ 2,452,183	81.37%	\$ 500,396

Funding Status and Funding Progress

The funded status of the plan as of the most recent two actuarial valuations was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a) / c]
July 1, 2009	\$ -	\$ 21,053,366	\$ 21,053,366	0%	\$ 69,054,829	30%
July 1, 2006	\$ -	\$ 21,043,544	\$ 21,043,544	0%	\$ 64,072,231	33%

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The 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.

The plan's most recent actuarial valuation was performed as of July 1, 2009. In that valuation, the Projected Unit Credit (PUC) Cost Method was used. The actuarial assumptions included a 5.0% discount rate, and a medical trend assumption of 8.0% graded down by 1.0% per year to an ultimate rate of 5.0% after 3 years. These assumptions reflect an implicit 3.0 percent general inflation assumption. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years. The remaining amortization period as of June 30, 2010 was 30 years.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
GENERAL FUND**

Chico Unified School District

Year Ended June 30, 2010	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Revenue limit sources				
State apportionments	\$ 43,020,747	\$ 41,258,487	\$ 38,327,511	\$ (2,930,976)
Local sources	21,318,337	19,212,791	22,457,345	3,244,554
Total Revenue Limit	64,339,084	60,471,278	60,784,856	313,578
Federal revenue	6,679,637	13,228,568	10,587,627	(2,640,941)
Other state revenue	16,805,990	18,479,336	17,539,973	(939,363)
Other local revenue	4,699,401	5,405,230	5,746,626	341,396
Total Revenues	92,524,112	97,584,412	94,659,082	(2,925,330)
EXPENDITURES				
Certificated salaries	47,816,180	48,301,190	47,890,461	410,729
Classified salaries	15,976,055	15,747,343	15,448,173	299,170
Employee benefits	24,338,347	23,584,777	23,568,559	16,218
Books and supplies	3,672,289	6,732,873	3,606,865	3,126,008
Services and other operating	5,794,588	6,959,522	6,715,729	243,793
Capital outlay	5,116	533,142	487,491	45,651
Other outgo	446,526	289,467	279,811	9,656
Indirect/direct support costs	(157,525)	(157,525)	(157,525)	-
Debt service				
Principal	624,265	617,374	675,740	(58,366)
Interest and other charges	183,224	170,546	95,685	74,861
Total Expenditures	98,699,065	102,778,709	98,610,989	4,167,720
Excess of Revenues Over (Under) Expenditures	(6,174,953)	(5,194,297)	(3,951,907)	1,242,390
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	2,000,265	3,763,912	3,554,404	209,508
Interfund transfers out	(562,510)	(1,706,396)	(1,745,278)	38,882
Total Other Financing Sources (Uses)	1,437,755	2,057,516	1,809,126	248,390
Net Change in Fund Balances	(4,737,198)	(3,136,781)	(2,142,781)	994,000
Fund Balances - July 1, 2009	20,501,734	20,501,734	20,501,734	-
Fund Balances - June 30, 2010	\$ 15,764,536	\$ 17,364,953	\$ 18,358,953	\$ 994,000

See the accompanying notes to the required supplementary information.

**NOTES TO THE BUDGETARY COMPARISON
SCHEDULE**

June 30, 2010

Chico Unified School District

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excesses of expenditures over appropriations in individual funds are for immaterial amounts.

**SCHEDULE OF FUNDING PROGRESS FOR OTHER
POSTEMPLOYMENT BENEFITS PLAN**

Year Ended June 30, 2010

Chico Unified School District

Actuarial Valuation Date	Actuarial		Unfunded AAL (UAAAL) (b - a)	Funded Ratio (a / b)	Covered		UAAAL as a Percentage of Covered Payroll [(b - a) / c]
	Actuarial Value of Assets (a)	Accrued Liability (AAL) (b)			Payroll (c)	Payroll	
July 1, 2009	\$ -	\$ 21,053,366	\$ 21,053,366	0%	\$ 69,054,829		30%
July 1, 2006	\$ -	\$ 21,043,544	\$ 21,043,544	0%	\$ 64,072,231		33%

SUPPLEMENTARY INFORMATION SECTION

The Chico Unified School District (the District) was established in 1965 and is located in Chico, California. 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, a continuation school, a community day school, an independent study school, a special services school, and three charter schools.

GOVERNING BOARD

Name	Office	Term Expires November
Jann Reed	President	2012
Rick Rees	Vice President	2010
Dr. Andrea Lerner Thompson	Clerk	2010
Elizabeth Griffin	Member	2012
Dr. Kathleen Kaiser	Member	2010

ADMINISTRATION

Kelly Staley
Superintendent

Bob Feaster
Assistant Superintendent, Human Resources

Jan Combes
Assistant Superintendent, Business Services

**SCHEDULES OF AVERAGE DAILY
ATTENDANCE**

Year Ended June 30, 2010

Chico Unified School District

	As Filed Second Period Report	Audit Adjustments	Revised Second Period Report
ELEMENTARY			
Kindergarten	779	-	779
Grades 1 through 3	2,385	(3)	2,382
Grades 4 through 6	2,417	(3)	2,414
Grades 7 and 8	1,713	(1)	1,712
Home and hospital	6	-	6
Special education - special day class	267	-	267
Special education - nonpublic	3	-	3
Community day school	23	-	23
Special education - extended year	16	-	16
Elementary Totals	7,609	(7)	7,602
HIGH SCHOOL			
Grades 9 through 12	3,584	(19)	3,565
Continuation education	217	-	217
Opportunity classes	12	-	12
Home and hospital	15	-	15
Special education - special day class	164	-	164
Special education - nonpublic	1	-	1
Community day school	49	-	49
Special education - extended year	6	-	6
Extended year - nonpublic	-	-	-
High School Totals	4,048	(19)	4,029
ADA Totals	11,657	(26)	11,631

See the accompanying notes to the other supplementary information.

**SCHEDULES OF AVERAGE DAILY
ATTENDANCE**

Year Ended June 30, 2010

Chico Unified School District

	As Filed Annual Period Report	Audit Adjustments	Revised Annual Period Report
ELEMENTARY			
Kindergarten	782	-	782
Grades 1 through 3	2,380	(3)	2,377
Grades 4 through 6	2,418	(3)	2,415
Grades 7 and 8	1,707	(2)	1,705
Home and hospital	6	-	6
Special education - special day class	268	-	268
Special education - nonpublic	3	-	3
Community day school	26	-	26
Special education - extended year	16	-	16
Elementary Totals	7,606	(8)	7,598
HIGH SCHOOL			
Grades 9 through 12	3,560	(19)	3,541
Continuation education	213	-	213
Opportunity classes	14	-	14
Home and hospital	19	-	19
Special education - special day class	163	-	163
Special education - nonpublic	1	-	1
Community day school	51	-	51
Special education - extended year	6	-	6
Extended year - nonpublic	1	-	1
High School Totals	4,028	(19)	4,009
ADA Totals	11,634	(27)	11,607

See the accompanying notes to the other supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME

Year Ended June 30, 2010

Chico Unified School District

Grade Level	Reduced		Reduced		2009-10		Traditional		Multitrack	
	1986-87	1986-87	1982-83	1982-83	Actual	Minutes	Calendar	Days	Calendar	Days
	Requirement	Minutes	Requirement	Actual	Minutes	Minutes	Days	Days	Days	Status
Kindergarten	36,000		35,000	31,680	30,800	36,000	180	N/A	180	Complied
Grade 1	50,400		49,000	42,240	41,067	50,400	180	N/A	180	Complied
Grade 2	50,400		49,000	42,240	41,067	50,400	180	N/A	180	Complied
Grade 3	50,400		49,000	42,240	41,067	50,400	180	N/A	180	Complied
Grade 4	54,000		52,500	47,250	45,938	54,000	180	N/A	180	Complied
Grade 5	54,000		52,500	47,250	45,938	54,000	180	N/A	180	Complied
Grade 6	54,000		52,500	47,250	45,938	54,000	180	N/A	180	Complied
Grade 7	54,000		52,500	47,250	45,938	60,944	180	N/A	180	Complied
Grade 8	54,000		52,500	47,250	45,938	60,944	180	N/A	180	Complied
Grade 9	64,800		63,000	60,025	58,358	64,992	180	N/A	180	Complied
Grade 10	64,800		63,000	60,025	58,358	64,992	180	N/A	180	Complied
Grade 11	64,800		63,000	60,025	58,358	64,992	180	N/A	180	Complied
Grade 12	64,800		63,000	60,025	58,358	64,992	180	N/A	180	Complied

The 2009-10 annual minutes for Pleasant Valley High School were 64,992. The waiver for the 2007-08 audit finding regarding shortage of minutes requires Pleasant Valley High School to have an additional 162 minutes in 09-10. The district is in compliance with this requirement.

See the accompanying notes to the other supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2010

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			
NCLB - Title I basic grants	84.010	14329	\$ 2,113,035
ARRA - Title I Part A	84.389A	15005	463,089
NCLB - Title I program improvement	84.010	14957	76,843
ARRA - State fiscal stabilization fund	84.394	24997	2,048,593
Vocational programs - secondary	84.048	14894	97,180
NCLB - Title IV drug-free schools	84.186	14347	58,157
NCLB - Title II teacher quality	84.367	14341	868,068
NCLB - Title II enhancing education through technology	84.318	14368	137,931
NCLB - Title II California math and science partnership	84.366	14512	305,982
NCLB - Title V, Part A: innovative ed strategies	84.298	14354	7,527
NCLB - Title IV 21st century learning centers	84.287	14765	179,459
NCLB - Title IV 21st century learning centers	84.287	14788	56,565
NCLB - Title IV 21st century learning centers	84.287	14535	418,650
NCLB - Title IV 21st century learning centers	84.287	14349	1,307,823
NCLB - Title III immigrant education	84.365	14346	26,652
NCLB - Title III limited english proficiency	84.365	14346	159,703
NCLB - Title V, Part B: public charter school grants	84.282	14959	188,486
Passed Through Butte County Office of Education			
Special ed - basic local assistance entitlement	84.027	13379	1,404,024
ARRA - special ed - basic local assistance entitlement	84.391	15003	1,131,747
Special ed - preschool grant	84.173	13430	97,674
ARRA - special ed - preschool grant	84.392	15000	35,962
Special ed- preschool local entitlement	84.027	13682	146,333
ARRA - special ed - preschool local entitlement	84.391	15002	29,720
Special ed- state improvement grant	84.323	14920	1,102
Direct program			
Smaller learning communities	84.215	No PCA	191,864
Total U.S. Department of Education			11,552,169
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education			
School breakfast	10.553	13525	534,698
National school lunch	10.555	13524	2,052,541
ARRA - equipment assistance	10.579	15006	111,111
Passed Through Butte County Office of Education			
Forest reserve	10.665	10044	62,687
Total U.S. Department of Agriculture			2,761,037
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Glenn County Office of Education			
Medi-cal administrative activities	93.778	10060	32,279
Passed Through State of California			
Medi-cal billing option	93.778	10013	219,629
Total U.S. Department of Health and Human Services			251,908
Total Federal Programs			14,565,114
NONMONETARY ASSISTANCE			
USDA food distribution	10.550	No PCA	170,410
Total Expenditures of Federal Awards			\$ 14,735,524

See the accompanying notes to the other supplementary information.

**SCHEDULE OF FINANCIAL TRENDS
AND ANALYSIS**

Year Ended June 30, 2010

Chico Unified School District

	<u>(Budget) 2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
GENERAL FUND				
Revenues and Other Financial Sources	\$ 91,096,300	\$ 98,213,486	\$ 112,114,821	\$ 110,406,359
Expenditures	99,749,161	98,610,989	104,396,870	107,285,964
Other uses and transfers out	196,856	1,745,278	21,575	1,095,301
Total Outgo	99,946,017	100,356,267	104,418,445	108,381,265
Change in Fund Balance	\$ (8,849,717)	\$ (2,142,781)	\$ 7,696,376	\$ 2,025,094
Ending Fund Balance	9,509,236	18,358,953	20,501,734	12,805,358
Available Reserves	9,272,690	13,455,656	13,666,392	6,956,336
Designated for Economic Uncertainties	2,998,381	3,010,688	3,106,983	3,251,438
Undesignated Fund Balance	3,817,948	8,027,214	5,418,995	2,989,060
Available Reserves as a Percentage of Total Outgo	9%	13%	13%	6%
Total Long-Term Debt	57,419,722	60,204,000	62,682,597	63,751,610
Average Daily Attendance at P-2	11,631	11,631	12,144	12,251

<u>Year Ended June 30</u>	<u>Budget (2011)</u>	<u>2010</u>
General fund carryovers and other designations	\$ 2,456,361	\$ 2,417,754
Economic uncertainties	2,998,381	3,010,688
Undesignated	3,817,948	8,027,214
Total Available Reserves	\$ 9,272,690	\$ 13,455,656

The General Fund balance has increased by \$5,553,595 over the past two years. The fiscal year 2010-11 budget projects a decrease of \$8,849,717 (48.2%). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in one of the past three years, and anticipates an operating deficit during the 2010-11 fiscal year. Total long-term debt has decreased by \$3,547,610 over the past two years.

Average daily attendance has decreased by 620 over the past two years. No additional growth is anticipated during fiscal year 2010-11.

Management's Discussion and Analysis beginning on page 4 includes a more detailed analysis of the financial position of the District and circumstances that could affect its future health.

See the accompanying notes to the other supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL
AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS**

Chico Unified School District

Year Ended June 30, 2010

The fund balances of all funds as reported on the Annual Financial and Budget Report
equal the corresponding balances in the audited financial statements.

See the accompanying notes to the other supplementary information.

SCHEDULE OF CHARTER SCHOOLS

Year Ended June 30, 2010

Chico Unified School District

Charter Schools Chartered by District	Included/Not Included
Chico Country Day School	Not Included
Forest Ranch Charter School	Not Included
Nord Country School	Not Included

See the accompanying notes to the other supplementary information.

1. PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Section 46201 through 46206.

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. Nonmonetary assistance is reported in the schedule at the fair market value of the food commodities received and disbursed. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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.

2. EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2009-10, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

OTHER INDEPENDENT AUDITORS' REPORTS SECTION



TIMOTHY A. TITTLE, CPA

HEIDI M. COPPIN, CPA

MICHAEL D. LAW, CPA

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

Board of Trustees
Chico Unified School District
Chico, California

We have audited the financial statements of the governmental activities, the business-type 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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

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

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

Little + Company, LLP

December 13, 2010



TIMOTHY A. TITTLE, CPA

HEIDI M. COPPIN, CPA

MICHAEL D. LAW, CPA

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Chico Unified School District
Chico, California

COMPLIANCE

We have audited Chico Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above which 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

INTERNAL CONTROL OVER COMPLIANCE

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**
Continued

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

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

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

Little + Company, LLP

December 13, 2010



TIMOTHY A. TITTLE, CPA

HEIDI M. COPPIN, CPA

MICHAEL D. LAW, CPA

REPORT ON STATE COMPLIANCE

Board of Trustees
Chico Unified School District
Chico, California

We have audited the financial statements of the governmental activities, the business-type 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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2009-10*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

REPORT ON STATE COMPLIANCE

Continued

Description	Procedures in Audit Guide	Procedures Performed
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	No
Instructional time		
School districts	6	Yes
County offices of education	3	N/A
Instructional materials general requirements	8	Yes
Ratio 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
Public hearing requirement - receipt of funds	1	Yes
Class size reduction		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	No
Only one school serving K-3	4	No
After school education and safety program		
General requirements	4	Yes
After school program	4	Yes
Before school program	5	Yes
Charter schools		
Contemporaneous records of attendance	1	No
Mode of instruction	1	No
Nonclassroom-based instruction/independent study	15	No
Determination of funding for nonclassroom-based instruction	3	No
Annual instructional minutes - classroom based	3	No

REPORT ON STATE COMPLIANCE

Continued

Continuation Education steps (f)(1) and (f)(2) were not performed because students do not receive apportionment attendance for work experience.

Since the District did not participate in the following programs during 2009-10 all steps related to them were not performed:

- Early Retirement Incentive
- Class Size Reduction Option Two Classes
- Class Size Reduction only one school serving K-3

Since the Charter Schools sponsored by the District are excluded from the audit of the district, all steps related to them were not performed.

Based on our audit, for the items tested, we found the District complied with the State laws and regulations referred to above, except as described in the schedule of findings and questioned costs. Further based on our examination for items not tested, nothing came to our attention to indicate the District had not complied with the State laws and regulations, except as described in the schedule of findings and questioned costs.

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

Little + Company, CP

December 13, 2010

FINDINGS AND QUESTIONED COSTS SECTION

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

June 30, 2010

Chico Unified School District

**SECTION I
SUMMARY OF AUDITORS' RESULTS**

FINANCIAL STATEMENTS

Type of auditors' report issued	Unqualified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
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	Unqualified
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. 84.010	NCLB – Title I basic grants
CFDA No. 84.010	NCLB – Title I program improvement
CFDA No. 84.389A	ARRA – Title I Part A
CFDA No. 84.394	ARRA – State fiscal stabilization fund
CFDA No. 84.027	Special Ed – basic local assistance
CFDA No. 84.391	ARRA – special ed – basic local assistance
CFDA No. 84.173	Special Ed – preschool grant
CFDA No. 84.392	ARRA – special ed – preschool grant
CFDA No. 84.027	Special Ed – preschool local entitlement
CFDA No. 84.391	ARRA – special ed – preschool local entitlement

Threshold for distinguishing types A and B programs	\$442,066
Auditee qualified as low-risk auditee?	Yes

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	Unqualified

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

June 30, 2010

Chico Unified School District

**SECTION II FINDINGS
FINANCIAL STATEMENTS AUDIT**

None.

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

June 30, 2010

Chico Unified School District

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None.

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

June 30, 2010

Chico Unified School District

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

ATTENDANCE (Independent Study)

10000 (10-1)

Significant Deficiency

Condition

The ratio of independent study teachers to full-time independent study ADA exceeded the ratio of other program teachers to other program ADA.

Criteria

The full-time independent study teacher-ADA ratio cannot exceed the comparable ratio for other instructional programs (Education Code Section 51745.6).

Effect

20.40 independent study ADA are disallowed. There is no current year financial impact as the revenue limit is funded on prior year ADA.

Recommendation

We recommend that the District amend the P-2 and Annual attendance reports to exclude the disallowed ADA.

Response

The District will amend the attendance reports as stated.

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

June 30, 2010

Chico Unified School District

ATTENDANCE (Independent Study)

10000 (10-2)

Reportable Condition

Condition

One of the independent study teachers did not obtained signed independent study agreements for any of her students for the spring 2010 semester. An expanded review of independent study files noted no other incidences of missing written agreements. Additionally, there were four students tested where apportionment was claimed prior to the signing of the master agreement by all parties.

Criteria

Pursuant to Education Code Section 51747, the District must maintain a current written agreement for each independent study pupil in order to be eligible to receive apportionment. Compliance with the following statutory and regulatory requirements related to independent study is a condition of apportionment: Education Code Section 51747 and Title 5 of California Code of Regulations Section 11702.

Effect

The District is not eligible to claim apportionment for any independent study students unless a signed written agreement is on file and until after the agreement is signed by all parties. Average daily attendance (ADA) is overstated by the following amounts:

	Second Period	Annual
ELEMENTARY		
Kindergarten	-	-
Grades 1 through 3	1.96	2.16
Grades 4 through 6	2.23	2.84
Grades 7 and 8	0.95	1.06
Elementary Totals	5.14	6.06
HIGH SCHOOL		
Grades 9 through 12	0.42	0.34
Total Overstatement of ADA	5.56	6.40

There is no current year financial impact as the revenue limit is funded on prior year ADA.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Chico Unified School District

June 30, 2010

Recommendation

The District must restate its ADA reports to exclude the 5.56 and 6.40 of ADA reported on the second period and annual attendance reports, respectively. The District should verify that all independent study documents including board policies and administrative regulations meet all legal compliance requirements. In addition, the District should develop procedures to determine that all independent study documents are completed and signed, with all of the required elements properly documented, prior to claiming apportionment.

Response

The second period and annual reports of attendance will be restated to exclude the ineligible independent study ADA. The District's management has adopted procedures during the 2010-11 fiscal year to examine independent study documents and to verify that the documentation is in accordance with all statutory and regulatory requirements.

CORRECTIVE ACTION PLAN

June 30, 2010

Chico Unified School District

There were no current year findings related to major programs.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2010

Chico Unified School District

Attendance

10000 (09-1)

Significant Deficiency

The secondary school sites are not consistently following CDE approved attendance accounting procedures. At some of the sites teachers are signing attendance reports but not on a weekly basis and at one of the sites teachers are not signing any attendance reports. The attendance reported on the P-2 and Annual reports, however, does agree to the attendance software generated monthly attendance summaries.

Condition

Attendance appears to be properly reported but the District is not following CDE approved attendance accounting procedures in accordance with Education Code Section 44809.

Criteria

Apportionment attendance should be supported by signed weekly teachers' attendance registers.

Effect

The District is not in compliance with CDE approved attendance accounting procedures.

Recommendation

We recommend that District's management implement procedures during 2009-10 at all school sites where teachers directly input attendance data to ensure that signed weekly teachers' attendance reports are being maintained.

Current Status

Fully implemented.