

CHICO UNIFIED SCHOOL DISTRICT

**County of Butte
Chico, California**

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

June 30, 2011

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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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, 2011, 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 9, 2011, 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 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 9, 2011

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, 2011. 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 \$103,468,083 at June 30, 2011, compared to \$91,536,416 on June 30, 2010. This is an increase of 13.0% over the prior year with \$5.7 million due to an increase in Instructional Operating Grants and Contributions.
- Overall revenues (program and general) were \$122,307,706 and were higher than expenditures of \$110,376,039 by \$11,931,667.
- Long-term debt decreased by \$2,792,528 primarily due to the payment of \$1,610,000 of the 1998 Series A and B general obligation bonds, \$704,667 for the payment of the early retirement programs, and \$235,000 for the reduction of Certificates of Participation obligations.
- Capital assets, net of depreciation, increased from \$91,251,462 to \$94,760,889 on June 30, 2011 due largely to total the addition of two major Work In Progress projects: the CUSD Performing Arts Center of \$1.3 million and the addition of several new classrooms at the Chico High campus which added about \$3.0 million. Two CTEFP grants at Chico High (Arts, Media, and Entertainment), and Pleasant Valley (Hospitality and Tourism) contributed \$370,591 and \$220,295 respectively with seven projects at four additional school sites accounting for the balance of \$1.47 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 remains at \$2,423,840 since 10/11 is the second year of the biannual GASB 45 actuarial valuation. The net 10/11 obligation is (\$397,265) representing a change of (\$555,374) 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 \$103,468,083 at June 30, 2011. See Table 1.

Table 1: Net Assets

	Governmental Activities		Percentage Change
	2010	2011	2010-2011
ASSETS			
Cash and investments	\$ 53,855,639	\$ 55,165,285	2.4%
Accounts receivable/due from other governments	17,185,663	18,032,636	4.9%
Stores inventories	286,086	330,081	15.4%
Prepaid expenses	736,687	687,732	-6.6%
Capital assets - net of accumulated depreciation	91,251,462	95,158,154	4.3%
Total Assets	\$ 163,315,537	\$ 169,373,888	3.7%
LIABILITIES			
Accounts payable/due to other governments	\$ 10,090,870	\$ 7,984,272	-20.9%
Deferred revenue	1,484,251	510,061	-65.6%
Long-term debt	60,204,000	57,411,472	-4.6%
Total Liabilities	\$ 71,779,121	\$ 65,905,805	-8.2%
NET ASSETS			
Invested in capital assets - net of related debt	\$ 58,192,477	\$ 65,103,069	11.9%
Restricted	22,048,311	19,680,079	-10.7%
Unrestricted	11,295,628	18,684,935	65.4%
Total Net Assets	\$ 91,536,416	\$ 103,468,083	13.0%

Net Assets

Total assets increased by 3.7% and liabilities decreased by 8.2% from June 30, 2010 resulting in the change in total net assets of 13.0%. Significant changes within the components of the net assets were as follows:

- The District's increase in total assets of 3.7% represented a combination of \$1.3 million increase to cash and a \$3.9 million increase to capital assets – net of depreciation.
- Accounts payable reduced by about \$5.9 million mainly as a result of the continued change in property taxes and long term debt as noted above.
- The District's cash stabilized considerably compared to 6/30/10 due to the absence one time ARRA stimulus dollars. Also significant federal, state, and local restricted grant dollars were carried over into the 11/12 fiscal years contributing to the \$1.3 million cash increase. The State continues to defer significant revenue limit dollars due the district to aid in the State's own cash flow deficiencies resulting in about \$9.7 million which absent the deferrals would have been reflected in the district's cash balance as of 6/30/11.

Net assets related to capital projects are \$65.1 million. Of the total net assets, \$19.7 million are restricted.

The District's total general revenues were \$89.6 million. 64.0% came from federal and State aid not restricted to specific purposes. Another 32.8% came from property taxes, and the remainder from fees charged for services and miscellaneous sources.

The total cost of all programs and services was \$110.4 million. The District's expenses are predominantly related to educating and caring for students (73.1%). The purely administrative activities of the District accounted for 4.9% 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
	2010	2011	Change 2010-2011
REVENUES			
Charges for services	\$ 269,671	\$ 350,544	30.0%
Operating grants and contributions	25,550,644	31,387,032	22.8%
Capital grants and contributions	249,800	1,007,878	303.5%
GENERAL REVENUES			
Property taxes	30,329,520	29,433,492	-3.0%
Federal/State aid not restricted	48,379,813	57,254,455	18.3%
Interest and miscellaneous	3,714,230	2,874,305	-22.6%
Total Revenues	\$ 108,493,678	\$ 122,307,706	12.7%
EXPENSES			
Instruction	\$ 71,340,148	\$ 71,631,932	0.4%
Instruction-related services	8,900,322	9,072,562	1.9%
Pupil services	10,846,726	11,202,422	3.3%
General administration	4,984,760	5,354,930	7.4%
Plant services	8,203,985	8,264,898	0.7%
Ancillary services	459,359	524,892	14.3%
Community services	21,698	20,846	-3.9%
Enterprise activities	77,810	78,139	0.4%
Other outgo	4,123,164	4,225,418	2.5%
Total Expenses	\$ 108,957,972	\$ 110,376,039	1.3%
Excess Before Transfers	(464,294)	11,931,667	-2669.9%
Transfers in	-	-	0.0%
Increase in Net Assets	\$ (464,294)	\$ 11,931,667	-2669.9%

District revenue increased by 12.7% over prior year and total expenditures increased by 1.3%. As a result, the total increase in net assets (difference between total revenues and total expenditures) was \$11,931,667.

Governmental Activities

The cost of all governmental activities this year was \$110,376,039.

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 increased by \$1.4 million to \$110.4 million over June 30, 2010. The net cost of services, which incorporates charges for services and grants and contributions, decreased \$5.3 million over prior year.

	Total Cost of Services		Percent Change	Net Cost of Services		Percent Change
	2010	2011	2010-2011	2010	2011	2010-2011
Instruction	\$ 71,340,148	\$ 71,631,932	0.4%	\$ 52,480,490	\$ 46,256,832	-11.9%
Instruction-related services	8,900,322	9,072,562	1.9%	7,902,215	8,112,913	2.7%
Pupil services	10,846,726	11,202,422	3.3%	5,691,974	5,758,628	1.2%
General administration	4,984,760	5,354,930	7.4%	4,065,066	4,629,697	13.9%
Plant services	8,203,985	8,264,898	0.7%	8,197,746	8,260,615	0.8%
Ancillary services	459,359	524,892	14.3%	453,454	518,003	14.2%
Community services	21,698	20,846	-3.9%	21,698	20,846	-3.9%
Enterprise activities	77,810	78,139	0.4%	77,810	78,139	0.4%
Other outgo	299,727	435,367	45.3%	173,967	204,861	17.8%
Interest on long-term debt	3,823,437	3,790,051	-0.9%	3,823,437	3,790,051	-0.9%
Total Expenses	\$ 108,957,972	\$ 110,376,039	1.3%	\$ 82,887,857	\$ 77,630,585	-6.3%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's General Fund Ending Balance increased \$4.8 million over prior year, the cumulative effect of the certificated and classified staffing reductions, reduction in staffing costs due to a significant number of retirees and the influx of a \$2.3 million dollar one-time influx of SB 847 Jobs Bill money. The SB 847 funds were much like the Federal ARRA dollars with the intention of stimulating/retaining jobs and mitigate districts from the effect of the substantial deficit enacted by the state on district revenue limits. District projections show a structural deficit resulting in deficit spending an average of \$4.05 million over the next three years (using 11/12 1st interim data). State funding for 10/11 was relatively flat with the district revenue limit calculated to be \$6,418.77. However, after the deficit factor of .82037 was applied actual funding was \$1,153 lower than our entitlement of \$5,265.77 per Average Daily Attendance.

As the District completed the year, its governmental funds reported a combined fund balance of \$66,124,474 resulting in a \$5.4 million increase over last year's \$60,745,291 with the General Fund providing for the majority of the increase.

Fund Description	Fund No(s).	Fund Balance June 30, 2010	Fund Balance June 30, 2011	Increase (Decrease)
General	01,14	\$ 18,358,953	\$ 23,110,311	\$ 4,751,358
Building	23,24,27,28,29	23,959,487	18,207,781	(5,751,706)
Capital Facilities	25	10,997,822	11,334,545	336,723
Non Major Governmental	13,35,4X,5X	7,429,029	13,471,837	6,042,808
Total Net Assets		\$ 60,745,291	\$ 66,124,474	\$ 5,379,183

The General Fund (Fund No. 01) had total revenues plus other sources and transfers in of \$104,154,965 and expenditures plus transfers out of \$99,637,700 for an increase to fund balance of \$4,517,265. 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 several hundreds of thousands of dollars over the flexibility period.

The District's base funded revenue limit ADA excluding charter schools (prior year ADA plus annual NPS and community day school) reduced 34 from 11,440 to 11,406 resulting in the fiscal year 2010-11 revenue limit being calculated on ADA from the 2009-10 fiscal year. Continued declining enrollment including the impact of local charter school expansion and the economic meltdown throughout the national and state economies have all contributed to the District's fiscal problems. The District is in the middle of a three year negotiated settlement with employee groups pertaining to health insurance. The health plan paid for by the District for all full time employees is called the RED plan, the cost of which was \$839 per active employee per month. The agreement to maintain the RED plan goes through the 2011/2012 year and currently costs \$898 per employee per month for a 7% increase over 10/11.

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. Recent changes to

Nutrition Services have resulted in the hiring of a permanent Director and reinstatement of the Nutrition Specialist position. There is a high degree of district and community interest in exploring and offering the most nutritious and low fat low sugar offerings possible while still delivering tasteful food to all district students.

The 2009/2010 State Budget act has continued to provide flexibility pertaining to Deferred Maintenance funding. The State gave districts flexibility in allowing Deferred Maintenance funding to be deposited in the general fund (\$449,629 million for 10/11) through the 2012/2013 year as the State significantly reduced General Fund unrestricted funding to districts. In addition, the matching requirement of $\frac{1}{2}$ of one percent is waived through this same time period. The added flexibility resulted in only interest of \$11,954 and negative fair market value of cash (FMVC) of (\$23,631) resulting in an overall revenue reduction of (\$11,677) to the fund. The fund incurred expenditures of \$839,322 for the following projects: HVAC, plumbing, and floor covering at various sites, CSHS HVAC replacement at Units 100 and 200, PVHS gym flooring and overhang beam replacement, and the water storage tank replacement at Forest Ranch Charter School.

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 \$5,751,706 as the District's building program continues to utilize bond funds in the myriad of planned projects. Projects contributing to the \$5.8 million of expenditures include the completion of the Performing Arts Center at PVHS for \$1.4 million, new classroom buildings at CSHS of \$2.3 million, and the balance of \$2.1 million going to the CTEFP grant project for the Chico High agriculture department, wireless network projects at CSHS and PVHS, the preliminary design costs at the new Inspire School of Arts and Sciences site, and architect design fees at CSHS Lincoln Hall.

The Capital Facilities fund balance increased by \$336,723 with total fund balance of \$11,334,545. Developer fee collections accounted for \$962,782, a drop of \$523,816 from 09/10 as residential construction continues to struggle with the prolonged weak economy and high foreclosure market. The remaining \$133,944 is split between interest and FMVC. The \$760,003 in expenditures funded the Fairview Continuation High Relocatables and the 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 County School Facilities Fund increased by \$668,207 leaving \$746,934 in the fund. Expenditures of \$7,634,211 paid for the following projects: CSHS Arts, Media & Entertainment project, the PVHS Hospitality/Tourism project, the CSHS agriculture CTEFP grant project, and new classrooms at CSHS.

Fund balance in the Capital Projects Special Reserve Fund decreased by \$357,627. \$2.1 million of \$2,811,623 total expenditures were a result of Transfers Out to support the District's maintenance program and Certificates of Participation project payments. \$525,949 was spent on the Fairview Continuation High and Shasta Elementary sewer construction projects with balance spent on the district's e-rate Internet Service Provider matching funds. Total RDA revenue for the year was \$2,424,222.

Fund balance of the Bond Interest and Redemption Fund reduced by \$302,347. Revenue primarily from taxes on the secured tax roll of \$3.83 million increased along with debt payments from the Series B 1998 General Obligation Bond for a total of \$4.11 million in expenditures for the year.

The Self Insurance Fund has been depleted during 2010/2011. This fund was used to fund a fixed number of retirees with Medicare supplement insurance. The funding mechanism was a result of 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. As expected and planned for the fund has been exhausted and retiree recipients have been notified several months in advance that they would have the option of continuing with the Medicare supplement plan at their expense or they may choose to drop the insurance coverage.

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 6/15/11. 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 10/11).
- Reflection of mid-year budget reductions and/or flexibility options if imposed by the State.
- Health and Welfare premium changes (continuation of the "red plan" through the 2011/2012 fiscal year).

Variances Between the Original and Final Budgeted Amounts

The final budgeted revenues and expenditures exceeded the original budgeted revenue and expenditures by \$17.1 million and \$7.0 million respectively primarily due to significant increases in federal and state revenue and the placing of the 09/10 carryover into 10/11 budget. The primary accounts reflecting large increases in federal revenue were ARRA funding (\$2,611,138), Title I (\$1,767,436), SB 847 Jobs Bill (\$2,304,558), Title II (\$502,292), EETT Competitive Grant (\$250,000), NCLB Mather Grant (\$244,899), Title IV 21st Century (\$709,307), counseling and REMS grants (\$616,216), Medical Administrative Activities (\$1,240,998). Significant increases to State revenue were mandated costs (\$497,299) and one time misc. state programs (\$421,313). Local donations contributed (\$649,903) to budget during the year.

Variances Between Final Budget and Actual Amounts

Final budgeted revenues of \$108.2 million exceeded actual revenue received of \$104.2 by \$4.0 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 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of the fiscal year, the District had invested \$94,760,889 in a broad range of capital assets, including school buildings, land, athletic facilities, furniture, computer equipment, and a broad assortment of school building projects, to name a few. This amount reflects an increase in net capital assets of \$3,509,427 over the prior year (increase of \$25.10 million less increased depreciation expense of \$21.59 million). The increases to capital assets were primarily due to the following projects:

Improvement to Sites – None

Buildings – PVHS Center for the Arts, CSHS Units 100 & 200 HVAC Replacement, CSHS new classroom building, CSHS Ag and Natural Resources CTEFP improvements, PVHS & CSHS wireless Network projects, Arts, Media & Entertainment CTEFP project.

Machinery and Equipment – Play structure, email archive system, generator, piano, school message system, adaptive security appliance, CPU SAN server, gear-head lathe, Spartan ironwork, hydraulic shear, and a power vault.

Work In Progress – Several major projects have been completed resulting in a WIP reduction of \$25.1 million for the year. Additions to WIP included CSHS field house and Lincoln Hall projects, Fairview (Relocatables, shade structure, & sewer connection), Inspire School of Arts & Sciences preliminary new site design work, and Shasta sewer connection work. See Table 4.

Table 4: Capital Assets

	Governmental Activities		Percentage
	2010	2011	Change
			2010-2011
Land	\$ 11,785,001	\$ 11,785,001	0.0%
Improvement of sites	7,492,658	7,492,658	0.0%
Buildings	108,296,454	133,144,182	22.9%
Machinery and equipment	4,734,970	4,989,976	5.4%
Work in progress	19,716,816	1,636,608	-91.7%
Subtotal	\$ 152,025,899	\$ 159,048,425	4.6%
Less Accumulated depreciation	(60,774,437)	(64,287,536)	5.8%
Net Capital Assets	\$ 91,251,462	\$ 94,760,889	3.8%

Long-Term Debt

At year-end, the District had \$57,411,472 in debt, the detail of which is shown in Table 5. The District reduced its net debt by \$2,792,528 during the fiscal year by the combination of GO bond principal payments \$1.69 million, and the remaining \$1.11 million by the COP, compensated absences, capital leases, early retirement incentives, bond premium, and OPEB obligation.

Table 5: Long-Term Debt

	Governmental Activities		Percentage
	2010	2011	Change 2010-2011
General obligation bonds	\$ 53,805,000	\$ 52,195,000	-3.0%
Certificates of participation	1,920,824	1,685,824	-12.2%
Compensated absences	458,622	447,088	-2.5%
Capital leases	531,683	492,924	-7.3%
Early retirement incentives	2,568,797	1,864,130	-27.4%
Bond premium	760,965	726,506	-4.5%
Net OPEB Obligations	158,109	-	100.0%
Total Long-Term Debt	\$ 60,204,000	\$ 57,411,472	-4.6%

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.

- Based on the 2011/12 fiscal year first Interim budget, the District is projecting total general fund revenues/transfers in of \$99,681,408 and expenditures of \$106,408,462 for a decrease to fund balance of (\$6,727,054) for both the Restricted and Unrestricted sides of the budget. The ending Unassigned Unrestricted fund balance as of 6/30/12 is projected to be \$15,946,841 which leaves an Unappropriated amount of \$12,514,492 after amounts designated for 3% Economic Uncertainties, Stores, and Revolving Cash.
- 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 19.754% 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 which continue at this reduced funding level through the 2012/2013 flexibility period.
- The 2011/2012 Cost of Living Adjustment (COLA) on the Revenue Limit was 2.24% however the deficit factor increased to 19.754% essentially negating the increase. COLA's of 3.1% and 2.8% 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.
- With the adoption of the state budget for 2011/2012 came "triggers" which have the effect of potentially reducing K-12 education funding mid-year. By December 15, 2011 the Director of Finance is required to determine whether revenues are coming in as forecasted or are falling short. As of this writing revenues look to be falling short and could impact the district's revenue limit as much as \$190 per ADA and when coupled with reductions to special education and home to school transportation the potential is approximately \$2.5 million reduction.

- As of the First Interim Budget and after many years of controlling costs and incurring program, staffing and salary reductions the district is projected to be solvent through the 2013-2014 years with a projected ending fund balance of \$1,210,364 on 6/30/14 including a 5% Undesignated (Unassigned) reserve. However, if the triggers are imposed due to the shortfall in state revenue, the district could be looking at a projected deficit of \$1,243,473 on 6/30/14, the third year out in the multi-year budget projection.

STATEMENT OF NET ASSETS

Chico Unified School District

June 30, 2011	Governmental Activities
ASSETS	
Cash and investments	\$ 55,165,285
Accounts receivable	590,147
Due from other governments	17,442,489
Stores inventory	330,081
Prepaid expenses	687,732
Capital assets:	
Land	11,785,001
Improvement of sites	7,492,658
Buildings	133,144,182
Equipment	4,989,976
Work in progress	1,636,608
Less accumulated depreciation	(64,287,536)
Net OPEB asset	397,265
Total Assets	\$ 169,373,888
LIABILITIES	
Accounts payable and other current liabilities	\$ 7,984,272
Deferred revenue	510,061
Long-term liabilities:	
Due within one year	2,677,892
Due in more than one year	54,733,580
Total Liabilities	\$ 65,905,805
NET ASSETS	
Invested in capital assets, net of related debt	\$ 65,103,069
Restricted for:	
Capital projects	12,081,480
Debt service	4,822,543
Educational programs	2,776,056
Unrestricted	18,684,935
Total Net Assets	\$ 103,468,083

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

STATEMENT OF ACTIVITIES

Chico Unified School District

Year Ended June 30, 2011	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	\$ 71,631,932	\$ 286,201	\$ 24,081,021	\$ 1,007,878	\$ (46,256,832)
Instruction-related services:					
Supervision of instruction	513,283	1,907	48,793	-	(462,583)
Instructional library, media and technology	1,150,824	-	104,907	-	(1,045,917)
School site administration	7,408,455	11,047	792,995	-	(6,604,413)
Pupil services:					
Home-to-school transportation	1,981,373	25,753	609,485	-	(1,346,135)
Food services	3,785,390	83	3,570,078	-	(215,229)
All other pupil services	5,435,659	3,688	1,234,707	-	(4,197,264)
General administration:					
Data processing services	901,785	-	-	-	(901,785)
All other general administration	4,453,145	12,127	713,106	-	(3,727,912)
Plant services	8,264,898	123	4,160	-	(8,260,615)
Ancillary services	524,892	-	6,889	-	(518,003)
Community services	20,846	-	-	-	(20,846)
Enterprise activities	78,139	-	-	-	(78,139)
Interest on long-term debt	3,790,051	-	-	-	(3,790,051)
Other outgo	435,367	9,615	220,891	-	(204,861)
Total Governmental Activities	\$ 110,376,039	\$ 350,544	\$ 31,387,032	\$ 1,007,878	(77,630,585)
General Revenues					
Property taxes - levied for general purposes					23,182,952
Property taxes - levied for debt service					3,826,318
Property taxes - levied for other specific purposes					2,424,222
Federal and state aid not restricted to specific purposes					57,254,455
Interest and investment earnings					324,737
Interagency revenues					2,911
Miscellaneous					2,546,657
Total General Revenues					89,562,252
Change in Net Assets					11,931,667
Net Assets - July 1, 2010					91,536,416
Net Assets - June 30, 2011					\$ 103,468,083

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

**BALANCE SHEET
GOVERNMENTAL FUNDS**

Chico Unified School District

Year Ended June 30, 2011	General	Building	Capital Facilities	Nonmajor Governmental	Total Governmental Funds
ASSETS					
Cash and investments	\$ 12,228,680	\$ 25,490,622	\$ 11,326,933	\$ 6,109,420	\$ 55,155,655
Accounts receivable	122,940	38,964	52,982	59,499	274,385
Due from other governments	17,442,489	-	-	315,639	17,758,128
Due from other funds	225,911	-	-	7,241,678	7,467,589
Prepaid expenditures	42,731	-	-	-	42,731
Stores inventory	284,204	-	-	45,877	330,081
Total Assets	\$ 30,346,955	\$ 25,529,586	\$ 11,379,915	\$ 13,772,113	\$ 81,028,569
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 6,719,558	\$ 87,152	\$ 45,370	\$ 74,365	\$ 6,926,445
Due to other funds	7,025	7,234,653	-	225,911	7,467,589
Deferred revenue	510,061	-	-	-	510,061
Total Liabilities	7,236,644	7,321,805	45,370	300,276	14,904,095
FUND BALANCES					
Nonspendable	351,935	-	-	45,877	397,812
Spendable:					
Restricted	2,728,746	18,207,781	11,334,545	12,805,564	45,076,636
Assigned	713,868	-	-	620,396	1,334,264
Unassigned	19,315,762	-	-	-	19,315,762
Total Fund Balances	23,110,311	18,207,781	11,334,545	13,471,837	66,124,474
Total Liabilities and Fund Balances	\$ 30,346,955	\$ 25,529,586	\$ 11,379,915	\$ 13,772,113	\$ 81,028,569

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, 2011

Total Fund Balances - Governmental Funds

\$ 66,124,474

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 \$159,048,428 and the accumulated depreciation is \$64,287,536.

94,760,889

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:

645,001

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:

(1,048,337)

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 amount of contributions made in excess of the accrued expense is:

397,265

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	\$ 52,195,000	
Compensated absences payable	447,088	
Certificates of participation payable	1,685,824	
Capital leases payable	492,924	
Lease revenue bonds payable	726,506	
Other general long-term debt	1,864,130	(57,411,472)

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:

263

Total Net Assets - Governmental Activities

\$ 103,468,083

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, 2011	General	Building	Capital Facilities	Nonmajor Governmental	Total Governmental Funds
REVENUES					
Revenue limit sources					
State apportionments	\$ 41,116,526	\$ -	\$ -	\$ -	\$ 41,116,526
Local sources	21,208,375	-	-	-	21,208,375
Total Revenue Limit	62,324,901	-	-	-	62,324,901
Federal revenue	15,808,168	-	-	2,638,318	18,446,486
Other state revenue	17,833,217	-	-	8,363,317	26,196,534
Other local revenue	5,928,477	36,198	1,096,725	7,106,105	14,167,505
Total Revenues	101,894,763	36,198	1,096,725	18,107,740	121,135,426
EXPENDITURES					
Current					
Instruction	69,174,171	-	-	-	69,174,171
Supervision of instruction	513,322	-	-	-	513,322
Instructional library, media and technology	1,047,337	-	-	-	1,047,337
School site administration	6,945,392	-	-	-	6,945,392
Home-to-school transportation	1,983,690	-	-	-	1,983,690
Food services	112,871	-	-	3,639,117	3,751,988
All other pupil services	5,455,729	-	-	-	5,455,729
Data processing services	964,995	-	-	-	964,995
All other general administration	4,031,233	-	310,265	110,126	4,451,624
Plant services	7,539,829	347,847	-	174,526	8,062,202
Facility acquisition and construction	571,939	5,326,601	420,928	922,563	7,242,031
Ancillary services	535,486	-	-	-	535,486
Community services	20,846	-	-	-	20,846
Enterprise activities	12,493	-	-	-	12,493
Transfers between agencies	415,451	-	-	-	415,451
Debt service					
Principal	902,147	-	-	1,610,000	2,512,147
Interest	162,694	-	-	2,502,745	2,665,439
Issuance costs and discounts	1,900	-	-	-	1,900
Total Expenditures	100,391,525	5,674,448	731,193	8,959,077	115,756,243
Excess of Revenues Over (Under) Expenditures	1,503,238	(5,638,250)	365,532	9,148,663	5,379,183
Other Financing Sources (Uses)					
Interfund transfers in	2,112,956	29,943	-	228,892	2,371,791
Interfund transfers out	(85,493)	(143,399)	(28,809)	(2,114,090)	(2,371,791)
Total Other Financing Sources (Uses)	2,027,463	(113,456)	(28,809)	(1,885,198)	-
Net Change in Fund Balances	3,530,701	(5,751,706)	336,723	7,263,465	5,379,183
Fund Balances - July 1, 2010	19,579,610	23,959,487	10,997,822	6,208,372	60,745,291
Fund Balances - June 30, 2011	\$ 23,110,311	\$ 18,207,781	\$ 11,334,545	\$ 13,471,837	\$ 66,124,474

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, 2011

Total Net Change in Fund Balances - Governmental Funds	\$ 5,379,183
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 (\$7,074,379) and depreciation expense (\$3,564,952) for the period is:	3,509,427
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:	2,622,885
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:	32,099
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:	11,534
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:	555,374
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:	(66,653)
Total Change in Net Assets - Governmental Activities	\$ 11,931,667

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

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS**

Chico Unified School District

<u>June 30, 2011</u>	<u>Self-Insurance Internal Service</u>
ASSETS	
CURRENT ASSETS	
Cash and investments	\$ 9,634
Accounts receivable	123
Total Current Assets	\$ 9,757
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ 9,494
Total Liabilities	\$ 9,494
NET ASSETS	
Unrestricted	\$ 263

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, 2011	Self-Insurance Internal Service
OPERATING EXPENSES	
Services and other operating	\$ 65,645
Operating Loss	(65,645)
NONOPERATING REVENUES	
Investment Income (loss)	(1,008)
Net Loss	(66,653)
Net Assets - Beginning of Year	66,916
Net Assets - End of Year	\$ 263

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, 2011</u>	<u>Self-Insurance Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash paid for services and other operating expenses	\$ (77,107)
Net Cash Used by Operating Activities	(77,107)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment (lost)	(1,008)
Net Decrease in Cash	(78,115)
Cash - July 1, 2010	87,749
Cash - June 30, 2011	\$ 9,634
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (65,645)
Adjustments to reconcile operating loss to net cash used by operating activities	
Accounts payable	(11,853)
Accounts receivable	391
Total Adjustments	(11,462)
Net Cash Used by Operating Activities	\$ (77,107)

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

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

Chico Unified School District

June 30, 2011	Agency Student Body
ASSETS	
Cash and investments	\$ 897,967
Accounts receivable	6,858
Inventory	31,719
Total Assets	\$ 936,544
LIABILITIES	
Accounts payable	\$ 26,014
Due to student groups	910,530
Total Liabilities	\$ 936,544

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

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The District is governed by an elected 5 member board. The District operates 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 sponsors six charter schools.

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP). 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. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and program revenues for each 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. Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service program.
2. Child Development Fund is used to account for resources committed to child development programs maintained by the District.

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, 2011. 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, 2011. At June 30, 2011, no allowance for doubtful accounts was deemed necessary.

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

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) effective for reporting periods after June 15, 2010. The statement establishes fund balance classifications, provides for a hierarchy of spending constraints for spendable resources and requires disclosure of nonspendable and spendable resources. Additionally, the definitions of the general fund, special revenue funds type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency. The District has adopted GASB 54 in the fiscal year 2010-11 financial statements.

Governmental fund equity is classified as fund balance. Governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form-prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

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

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

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

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

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

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

Consistent with the Criteria and Standards for fiscal solvency adopted by the State Board of Education, the District maintains a Reserve for Economic Uncertainties to safeguard the District's financial stability. The minimum recommended reserve for a district of this size is a minimum of three percent of budgeted general fund expenditures and other financing uses.

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, 2011, consist of the following:

Deposits	
Cash in bank	\$ 1,081,912
Cash in revolving fund	25,000
Cash with fiscal agent	4,716
Collections awaiting deposit	428,326
Investments	
County treasurer's investment pool	54,523,302
Total Cash and Investments	56,063,256
Less agency fund cash and investments	897,967
Total Cash and Investments per Statement of Net Assets	\$ 55,165,289

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, 2011, \$534,620 of the District's bank balance of \$1,194,573 was exposed to custodial credit risk as the deposits are uninsured and the collateral is held by the pledging bank.

Investments

Credit Risk

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

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 two years.

3. INTERFUND TRANSACTIONS

Interfund Receivables/Payables

Individual fund interfund receivable and payable balances at June 30, 2011, are as follows:

Fund	Interfund Receivables	Interfund Payables
General	\$ 225,911	\$ 7,025
Building	-	7,234,653
Nonmajor governmental	7,241,678	225,911
Total	\$ 7,467,589	\$ 7,467,589

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, 2011, are as follows:

Fund	Transfers In	Transfers Out
General	\$ 2,112,956	\$ 85,493
Cafeteria	85,493	-
Building	29,943	143,399
Capital facilities	-	28,809
County school facilities	143,399	29,943
Special reserve for capital outlay	-	2,084,147
Total	\$ 2,371,791	\$ 2,371,791

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

The transfer of \$2,084,147 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.

4. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2011, is shown below:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 11,785,001	\$ -	\$ -	\$ 11,785,001
Work in progress	19,716,816	7,063,162	25,143,370	1,636,608
Total capital assets, not being depreciated	31,501,817	7,063,162	25,143,370	13,421,609
Capital assets, being depreciated:				
Improvements of sites	7,492,658	-	-	7,492,658
Buildings	108,296,454	24,847,728	-	133,144,182
Equipment	4,734,970	306,859	51,853	4,989,976
Total capital assets, being depreciated	120,524,082	25,154,587	51,853	145,626,816
Less accumulated depreciation for:				
Improvements of sites	4,800,432	232,299	-	5,032,731
Buildings	52,167,904	3,128,145	-	55,296,049
Equipment	3,806,101	204,508	51,853	3,958,756
Total accumulated depreciation	60,774,437	3,564,952	51,853	64,287,536
Total capital assets, being depreciated, net	59,749,645	21,589,635	-	81,339,280
Governmental activities capital assets, net	\$ 91,251,462	\$ 28,652,797	\$ 25,143,370	\$ 94,760,889

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Instruction	\$ 2,914,696
Instructional library, media and technology	109,516
School site administration	103,462
Home-to-school transportation	25,893
Food services	64,990
All other general administration	24,938
Centralized data processing	34,984
Plant services	286,473
Total Depreciation Expense	\$ 3,564,952

5. ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consist of the following:

	General	Building	Capital Facilities	Nonmajor Governmental	Internal Service	Total Governmental Activities
Vendors	\$ 502,412	\$ 84,375	\$ 45,370	\$ 56,315	\$ 9,494	\$ 697,966
Salaries and benefits	2,650,907	-	-	18,050	-	2,668,957
Other	3,566,239	2,777	-	-	-	3,569,016
Accrued interest	1,048,333	-	-	-	-	1,048,333
Total	\$ 7,767,891	\$ 87,152	\$ 45,370	\$ 74,365	\$ 9,494	\$ 7,984,272

6. 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, 2010	Issued	Redeemed	Outstanding June 30, 2011
1998	5.00% to 9.00%	2017	\$ 16,965,000	\$ 8,650,000	\$ -	\$ 1,130,000	\$ 7,520,000
1998	5.00% to 8.25%	2028	18,000,000	14,430,000	-	480,000	13,950,000
2008	4.00% to 5.75%	2032	30,725,000	30,725,000	-	-	30,725,000
Total			\$ 65,690,000	\$ 53,805,000	\$ -	\$ 1,610,000	\$ 52,195,000

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,139,137	4,159,137
2016	2,270,000	2,036,762	4,306,762
2017-2021	11,120,000	8,406,059	19,526,059
2022-2026	17,510,000	5,764,938	23,274,938
2027-2031	10,980,000	1,518,481	12,498,481
2032-2036	2,615,000	124,066	2,739,066
Totals	\$ 52,195,000	\$ 26,996,400	\$ 79,191,400

7. 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:

<u>Year Ending June 30</u>	<u>Lease Payments</u>
2012	47,666
2013	47,667
2014	47,666
2015	47,667
2016	47,666
2017-2021	238,333
2022-2026	214,500
Total	691,165
Less amount representing interest	198,241
Present Value of Net Minimum Lease Payments	\$ 492,924

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

8. 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, 2011, the principal balance outstanding was \$1,700,000.

The outstanding certificates of participation are as follows:

Issue Date	Interest Rate	Maturity Date	Original Issue	Outstanding July 1, 2010	Redeemed	Outstanding June 30, 2011
2004	2.00% to 4.00%	2017	\$ 2,705,000	\$ 1,935,000	\$ 235,000	\$ 1,700,000

The certificates mature as follows:

Year Ending June 30	Principal	Interest	Total
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	300,000	18,650	318,650
2017-2021	350,000	8,006	358,006
Totals	\$ 1,700,000	\$ 196,562	\$ 1,896,562

9. LONG-TERM DEBT - SCHEDULE OF CHANGES

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

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Compensated absences	\$ 458,622	\$ -	\$ 11,534	\$ 447,088	\$ -
General obligation bonds	53,805,000	-	1,610,000	52,195,000	1,685,000
Capital leases	531,683	-	38,759	492,924	23,991
Certificates of participation	1,935,000	-	235,000	1,700,000	240,000
COP issuance discount	(14,176)	-	-	(14,176)	-
Early retirement incentives	2,568,797	-	704,667	1,864,130	694,442
Bond premium	760,965	-	34,459	726,506	34,459
Net OPEB obligation	158,109	-	158,109	-	-
Total	\$ 60,204,000	\$ -	\$ 2,792,528	\$ 57,411,472	\$ 2,677,892

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.

10. FUND BALANCES

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2011, are as follows:

	General	Building	Capital Facilities	Nonmajor Governmental	Total Governmental Funds
Nonspendable:					
Revolving fund	\$ 25,000	\$ -	\$ -	\$ -	\$ 25,000
Stores inventory	284,204	-	-	45,877	330,081
Prepaid expenditures	42,731	-	-	-	42,731
Restricted:					
Educational programs	2,728,746	-	-	-	2,728,746
Food services	-	-	-	1,433	1,433
Debt service	-	-	-	4,822,543	4,822,543
Capital projects	-	18,207,781	11,334,545	7,981,588	37,523,914
Assigned:					
Capital projects	-	-	-	620,396	620,396
Program/site carryovers	713,868	-	-	-	713,868
Unassigned:					
Economic uncertainties	2,989,131	-	-	-	2,989,131
Other unassigned	16,326,631	-	-	-	16,326,631
Total	\$23,110,311	\$18,207,781	\$11,334,545	\$13,471,837	\$66,124,474

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 Bay Area Schools Insurance Cooperative (BASIC). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and provide property and liability, workers' compensation, health 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, 2011		June 30, 2010
	BSSP	NVSIG	BASIC
Total assets	\$ 15,534,166	\$ 3,925,675	\$ 1,532,392
Total liabilities	5,683,776	2,561,727	1,087,721
Net Assets (Liabilities)	\$ 9,850,390	\$ 1,363,948	\$ 444,671
Operating revenues	\$ 48,767,065	\$ 10,506,677	\$ 3,272,763
Operating expenses	46,837,825	10,384,768	3,447,399
Other income (expenses)	248,334	14,716	11,598
Excess Revenues (Expenses)	\$ 2,177,574	\$ 136,625	\$ (163,038)

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, 2011.

Construction Project Commitments

Construction project commitments as of June 30, 2011, are as follows:

Capital Project	Amount Paid as of June 30, 2011	Remaining Construction Commitment
PVHS Beam Replacement	\$ 141,740	\$ 88,017
Forest Ranch Water Tank	28,999	104,901
FVHS Relocatable	425,030	235,097
Total	\$ 595,769	\$ 428,015

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 2010-11 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, 2011, 2010, and 2009 were \$3,902,574, \$3,933,060, and \$4,206,506, 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.

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 2010-2011 was 10,707%. 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, 2011, 2010, and 2009 were \$1,710,757, \$1,539,128, and \$1,507,767, 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 CUTA 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, 2011 and June 30, 2010, the amount actually contributed to the plan, and changes in the District's Net OPEB Obligation:

	2010-11	2009-10
Normal cost	\$ 1,054,288	\$ 1,054,288
Amortization of unfunded actuarial liabilities	1,369,552	1,369,552
Annual required contribution (ARC)	2,423,840	2,423,840
Interest on Net OPEB Obligation	7,905	25,020
Adjustment to Annual Required Contributions	(10,285)	(32,551)
Annual OPEB cost	2,421,460	2,416,309
Contributions made	(2,976,834)	(2,758,596)
Increase (decrease) in net OPEB obligation	(555,374)	(342,287)
Net OPEB obligation (asset) - beginning of year	158,109	500,396
Net OPEB obligation (asset) - end of year	\$ (397,265)	\$ 158,109

The District's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/09	\$ 2,952,579	\$ 2,452,183	83.05%	\$ 500,396
6/30/10	\$ 2,416,309	\$ 2,758,596	114.17%	\$ 158,109
6/30/11	\$ 2,421,460	\$ 2,976,834	122.94%	\$ (397,265)

Funding Status and Funding Progress

The funded status of the plan as July 1, 2009, the date of the most recent actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	\$ 21,053,366
Actuarial value of assets	-
Unfunded AAL (UAAL)	\$ 21,053,366
Funded ratio	0%
Covered payroll	\$ 64,950,487
UAAL as % of covered payroll	32%

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

Actuarial Methods and Assumptions

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

16. EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2010-11, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two 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, 2011	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Revenue limit sources				
State apportionments	\$ 39,652,932	\$ 41,017,250	\$ 41,116,526	\$ 99,276
Local sources	18,963,804	21,547,772	21,208,375	(339,397)
Total Revenue Limit	58,616,736	62,565,022	62,324,901	(240,121)
Federal revenue	8,913,667	19,538,066	15,808,168	(3,729,898)
Other state revenue	16,829,274	18,586,297	17,833,217	(753,080)
Other local revenue	4,561,063	5,454,001	5,928,477	474,476
Total Revenues	88,920,740	106,143,386	101,894,763	(4,248,623)
EXPENDITURES				
Certificated salaries	47,422,764	47,857,269	47,646,893	210,376
Classified salaries	16,513,124	15,429,832	15,766,646	(336,814)
Employee benefits	24,347,862	24,046,897	23,530,147	516,750
Books and supplies	3,515,719	11,167,725	3,947,162	7,220,563
Services and other operating	6,672,829	6,724,640	7,330,621	(605,981)
Capital outlay	779,543	892,044	799,890	92,154
Other outgo	356,108	412,795	415,451	(2,656)
Indirect/direct support costs	(110,126)	(110,252)	(110,126)	(126)
Debt service	-	-	-	-
Principal	890,642	936,642	978,426	(41,784)
Interest and other charges	165,123	165,123	86,415	78,708
Total Expenditures	100,553,588	107,522,715	100,391,525	7,131,190
Excess of Revenues Over (Under) Expenditures	(11,632,848)	(1,379,329)	1,503,238	2,882,567
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	2,199,560	2,100,985	2,112,956	(11,971)
Interfund transfers out	(196,856)	(196,856)	(85,493)	(111,363)
Total Other Financing Sources (Uses)	2,002,704	1,904,129	2,027,463	(123,334)
Net Change in Fund Balances	(9,630,144)	524,800	3,530,701	3,005,901
Fund Balances - July 1, 2010	19,579,610	19,579,610	19,579,610	-
Fund Balances - June 30, 2011	\$ 9,949,466	\$ 20,104,410	\$ 23,110,311	\$ 3,005,901

See the accompanying notes to the required supplementary information.

**NOTES TO THE BUDGETARY COMPARISON
SCHEDULE**

June 30, 2011

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

For the year ended June 30, 2011, expenditures exceeded appropriations by the following amounts:

Appropriations Category	Excess Expenditures
General Fund:	
Classified salaries	\$ 336,814
Services and other operating expenditures	605,981

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

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

Year Ended June 30, 2011

Chico Unified School District

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%

SUPPLEMENTARY INFORMATION SECTION

ORGANIZATION

June 30, 2011

Chico Unified School District

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 sponsors six charter schools.

GOVERNING BOARD

Name	Office	Term Expires November
Dr. Kathleen Kaiser	President	2014
Jann Reed	Vice President	2012
Eileen Robinson	Clerk	2014
Elizabeth Griffin	Member	2012
Dr. Andrea Lerner Thompson	Member	2014

ADMINISTRATION

Kelly Staley
Superintendent

Bob Feaster
Assistant Superintendent, Human Resources

Maureen Fitzgerald
Assistant Superintendent, Business Services

**SCHEDULES OF AVERAGE DAILY
ATTENDANCE**
Year Ended June 30, 2011

Chico Unified School District

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	769	767
Grades 1 through 3	2,370	2,365
Grades 4 through 6	2,403	2,399
Grades 7 and 8	1,692	1,684
Opportunity classes	22	23
Home and hospital	10	10
Special education - special day class	264	264
Special education - nonpublic	2	2
Community day school	16	16
Special education - extended year	15	15
Elementary Totals	7,563	7,545
HIGH SCHOOL		
Grades 9 through 12	3,405	3,363
Continuation education	180	169
Opportunity classes	11	11
Home and hospital	16	14
Special education - special day class	171	176
Special education - nonpublic	1	2
Community day school	50	51
Special education - extended year	5	5
High School Totals	3,839	3,791
ADA Totals	11,402	11,336

See the accompanying notes to the other supplementary information.

**SCHEDULES OF AVERAGE DAILY
ATTENDANCE**

Year Ended June 30, 2011

Chico Unified School District

	As Filed Second Period Report	Audit Adjustments	Revised Second Period Report
CHARTER - INSPIRE SCHOOL OF ARTS AND SCIENCES			
RESIDENT - CLASSROOM BASED			
Ninth through twelfth	225	(1)	224
Resident Totals	225	(1)	224
NONRESIDENT - CLASSROOM BASED			
Ninth through twelfth	32	-	32
Extended year special education	1	-	1
Nonresident Totals	33	-	33
ADA Totals	258	(1)	257

	As Filed Annual Report	Audit Adjustments	Revised Annual Report
CHARTER - INSPIRE SCHOOL OF ARTS AND SCIENCES			
RESIDENT - CLASSROOM BASED			
Ninth through twelfth	221	1	222
Resident Totals	221	1	222
NONRESIDENT - CLASSROOM BASED			
Ninth through twelfth	33	-	33
Extended year special education	1	-	1
Nonresident Totals	34	-	34
ADA Totals	255	1	256

See the accompanying notes to the other supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
Year Ended June 30, 2011

Chico Unified School District

Grade Level	1986-87		Reduced		1982-83		Reduced		2010-11		Traditional		Multitrack		Status
	Requirement	Minutes	Requirement	Minutes	Actual	Minutes	Actual	Minutes	Actual	Minutes	Calendar	Days	Calendar	Days	
Kindergarten	36,000		35,000	31,680	30,800	35,800			179	N/A	Complied				
Grade 1	50,400		49,000	42,240	41,067	50,066			179	N/A	Complied				
Grade 2	50,400		49,000	42,240	41,067	50,066			179	N/A	Complied				
Grade 3	50,400		49,000	42,240	41,067	50,066			179	N/A	Complied				
Grade 4	54,000		52,500	47,250	45,938	53,646			179	N/A	Complied				
Grade 5	54,000		52,500	47,250	45,938	53,646			179	N/A	Complied				
Grade 6	54,000		52,500	47,250	45,938	53,646			179	N/A	Complied				
Grade 7	54,000		52,500	47,250	45,938	59,070			179	N/A	Complied				
Grade 8	54,000		52,500	47,250	45,938	59,070			179	N/A	Complied				
Grade 9	64,800		63,000	60,025	58,358	64,437			179	N/A	Complied				
Grade 10	64,800		63,000	60,025	58,358	64,437			179	N/A	Complied				
Grade 11	64,800		63,000	60,025	58,358	64,437			179	N/A	Complied				
Grade 12	64,800		63,000	60,025	58,358	64,437			179	N/A	Complied				

See the accompanying notes to the other supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
Year Ended June 30, 2011

Chico Unified School District

	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2010-11 Actual Minutes	Status
INSPIRE CHARTER SCHOOL				
Grade 9	64,800	62,949	65,498	Complied
Grade 10	64,800	62,949	65,498	Complied
Grade 11	64,800	62,949	65,498	Complied
Grade 12	64,800	62,949	65,498	Complied

See the accompanying notes to the other supplementary information.

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

Year Ended June 30, 2011

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			
Title I Cluster			
NCLB - Title I basic grants	84.010	14329	\$ 3,066,927
ARRA - Title I Part A	84.389A	15005	1,139,835
ARRA - NCLB Title I school improvement	84.389	15004	58,192
Total Title I Cluster			4,264,954
NCLB - Title I school improvement	84.377	15124	158,508
ARRA - State fiscal stabilization fund	84.394	24997	3,226,170
Education Jobs Fund	84.410	25152	2,304,558
Vocational programs - secondary, Carl D. Perkins Act	84.048	14894	104,660
NCLB - Title IV drug-free schools	84.186	14347	39,597
NCLB - Title II teacher quality	84.367	14341	456,950
NCLB - Title II enhancing education through technology	84.318	14334	1,023
ARRA - NCLB - Title II enhancing education through technology	84.386	14368	29,653
ARRA - NCLB - Title II enhancing education through technology	84.386	15126	154,794
NCLB - Title II California math and science partnership	84.366	14512	382,233
NCLB - Title V, Part A: innovative ed strategies	84.298	14354	14,800
NCLB - Title IV 21st century learning centers	84.287	14765	112,997
NCLB - Title IV 21st century learning centers	84.287	14788	131,687
NCLB - Title IV 21st century learning centers	84.287	14535	422,907
NCLB - Title IV 21st century learning centers	84.287	14349	898,382
NCLB - Title III immigrant education	84.365	14346	22,984
NCLB - Title III limited english proficiency	84.365	14346	151,994
NCLB - Title V, Part B: public charter school grants	84.282	14941	151,138
Passed Through Butte County Office of Education			
Special Education Cluster			
Special ed - basic local assistance entitlement	84.027	13379	1,252,033
ARRA - special ed - basic local assistance entitlement	84.391	15003	888,000
Special ed - preschool grant	84.173	13430	97,374
ARRA - special ed - preschool grant	84.392	15000	66,400
Special ed- preschool local entitlement	84.027	13682	144,317
ARRA - special ed - preschool local entitlement	84.391	15002	118,881
Special ed- state improvement grant	84.323	14920	907
Total Special Education Cluster			2,567,912
Direct program			
Elementary and secondary school counseling	84.215E	No PCA	295,033
Readiness and emergency management for schools	84.184E	No PCA	51,269
Total U.S. Department of Education			15,944,203
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education			
Child Nutrition Cluster			
School breakfast	10.553	13525	527,222
National school lunch	10.555	13524	2,111,096
Total Child Nutrition Cluster			2,638,318
Balance forward			18,582,521

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

Year Ended June 30, 2011

Chico Unified School District

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Passed Through Butte County Office of Education Forest reserve	10.665	10044	55,993
Total U.S. Department of Agriculture			<u>2,694,311</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Education Child development - quality improvement	93.575	Various	1,224
ARRA quality improvement - child development	93.713	Various	698
Passed Through Glenn County Office of Education Medi-cal administrative activities	93.778	10060	1,472,160
Passed Through State of California Medi-cal billing option	93.778	10013	201,408
Total U.S. Department of Health and Human Services			<u>1,675,490</u>
Total Federal Programs			<u>20,314,004</u>
NONMONETARY ASSISTANCE			
USDA food distribution	10.550	No PCA	253,653
Total Expenditures of Federal Awards			<u>\$ 20,567,657</u>

See the accompanying notes to the other supplementary information.

**SCHEDULE OF FINANCIAL TRENDS
AND ANALYSIS**

Year Ended June 30, 2011

Chico Unified School District

	<u>(Budget) 2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
GENERAL FUND				
Revenues and Other Financial Sources	\$ 93,864,524	\$ 104,019,396	\$ 98,213,486	\$ 112,114,821
Expenditures	97,117,473	99,552,203	98,610,989	104,396,870
Other uses and transfers out	366,951	85,493	1,745,278	21,575
Total Outgo	97,484,424	99,637,696	100,356,267	104,418,445
Change in Fund Balance	\$ (3,619,900)	\$ 4,381,700	\$ (2,142,781)	\$ 7,696,376
Ending Fund Balance	19,120,753	22,740,653	18,358,953	20,501,734
Available Reserves	16,113,915	19,659,972	13,455,656	13,666,392
Reserved for Economic Uncertainties	2,924,533	2,989,131	3,010,688	3,106,983
Unassigned Fund Balance	13,189,382	15,956,973	8,027,214	5,418,995
Available Reserves as a Percentage of Total Outgo	17%	20%	13%	13%
Total Long-Term Debt	54,733,580	57,411,472	60,204,000	62,682,597
Average Daily Attendance at P-2	11,402	11,402	11,631	12,144

The General Fund balance has increased by \$2,238,919 over the past two years. The fiscal year 2011-12 budget projects a decrease of \$3,619,900 (15.9%). 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 2011-12 fiscal year. Total long-term debt has decreased by \$5,271,125 over the past two years.

Average daily attendance has decreased by 742 over the past two years. No additional growth is anticipated during fiscal year 2011-12.

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

<u>Year Ended June 30, 2011</u>	<u>General</u>	<u>Deferred Maintenance</u>
June 30, 2011, Annual Financial and Budget Report Fund Balances	<u>\$22,740,653</u>	<u>\$ 369,658</u>
ADJUSTMENTS INCREASING (DECREASING) THE FUND BALANCES		
Reclassification for financial statement presentation*	<u>369,658</u>	<u>(369,658)</u>
Net Adjustments	<u>369,658</u>	<u>(369,658)</u>
June 30, 2011, Audited Financial Statement Fund Balances	<u>\$23,110,311</u>	<u>\$ -</u>

*This audit reclassification is made for financial presentation purposes only, pursuant to GASB Statement 54 which, when applied, does not recognize these funds as special revenue fund types. Therefore, the fund balances are consolidated with the General Fund. However, the District is permitted under current State law to account for these funds as a special revenue fund type for interim reporting and budgeting purposes.

See the accompanying notes to the other supplementary information.

SCHEDULE OF CHARTER SCHOOLS

Year Ended June 30, 2011

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
Inspire School of Arts and Sciences	Included
Chico Green School	Not Included
Sherwood Montessori	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.

This schedule includes only the activity of Fund 01, the General Fund. The General Fund activity on the Statement of Revenues, Expenditures, and Changes in Fund Balances includes Fund 01 – General Fund and Fund 14 – Deferred Maintenance Fund, in accordance with the provisions of GASB Statement 54.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

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

OTHER 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, 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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 11-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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*.

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

This report is intended solely for the information and use of the 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 9, 2011



TIMOTHY A. TITTLE, CPA HEIDI M. COPPIN, CPA MICHAEL D. LAW, CPA

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

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, 2011. 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, 2011.

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.

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

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 9, 2011



TIMOTHY A. TITTLE, CPA HEIDI M. COPPIN, CPA MICHAEL D. LAW, CPA

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Chico Unified School District
Chico, California

We have audited the District's compliance with the compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies* for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance with the applicable compliance requirements 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 the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11* prescribed in the California Code of Regulations, Title 5, section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our opinion does not provide a legal determination of the District's compliance with those requirements.

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

INDEPENDENT AUDITORS' 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	Not applicable
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	Yes
Mode of instruction	1	Yes
Nonclassroom-based instruction/independent study	15	No
Determination of funding for nonclassroom-based instruction	3	No
Annual instructional minutes - classroom based	3	Yes

INDEPENDENT AUDITORS' 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 2010-11 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

- Charter Schools:

 - Nonclassroom-based instruction/independent study

 - Determination of funding for nonclassroom-based instruction

As described in item(s) 2011-2, 2011-3 and 2011-4 in the accompanying schedule of findings and questioned costs, the District did not comply with certain state laws and regulations. Compliance with such requirements is necessary, in our opinion, for the District to comply with the applicable state requirements.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2011.

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, LLP

December 9, 2011

FINDINGS AND QUESTIONED COSTS SECTION

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

June 30, 2011

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?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major program	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, 84.389	NCLB – Title I Cluster
CFDA No. 84.394	ARRA – State fiscal stabilization fund
CFDA No. 84.027, 84.173, 84.391, 84.392	Special Education Cluster
CFDA No. 84.410	Education Jobs Fund
CFDA No. 84.287	NCLB: Title IV 21 st Century
CFDA No. 84.386	ARRA – NCLB: Title II Enhancing Education Through Technology
CFDA No. 93.778	Medi-Cal Administrative Activities
Threshold for distinguishing types A and B programs	\$617,030
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	Qualified

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

Chico Unified School District

SECTION II FINDINGS FINANCIAL STATEMENTS AUDIT

INTERNAL CONTROL (Student Body-Inspire Charter)

30000 (11-1)

Significant Deficiencies

Condition

Our tests of internal controls over the student body account at Inspire School of Arts and Sciences resulted in the following:

1. Cash receipts were not deposited in a timely manner and a detail of amounts making up deposits was not always retained for a sufficient audit trail.
2. Bank statements were not reconciled on a timely basis.
3. Two out of seven disbursements tested did not have approval of study body advisor or student body officer.
4. Monthly reports of financial transactions of club accounts were not prepared and submitted to the appropriate school officials and students.

Criteria

Internal controls should be in place to provide for the following:

1. All student body cash and checks should be deposited in a timely manner and a detail of amounts making up deposits retained.
2. Bank statements should be reconciled on a monthly basis.
3. All student body expenditures should be approved by student body advisor, charter school official, and student body officer.
4. Monthly reports of financial transactions of club accounts should be prepared and submitted to the appropriate school officials and students.

Effect

Without strengthening internal controls over cash receipts and disbursements, student body assets may not be properly safeguarded and expended for valid student body activities.

Recommendation

Procedures should be implemented to strengthen internal controls over student body accounting records.

Response

The above recommendations have been implemented for the 2011-12 school year by the charter school.

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

June 30, 2011

Chico Unified School District

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

Chico Unified School District

SECTION IV FINDINGS STATE AWARDS AUDIT

ATTENDANCE

10000 (11-2)

Significant Deficiency

During our site attendance testing, we noted that Bidwell Jr. High is not following CDE approved attendance accounting procedures. The teachers are signing a weekly exception report. CDE approved attendance accounting procedures require that the teachers sign weekly a report listing all of the students in the class not an exception report. 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 the 2011-12 school year to ensure that the appropriate signed weekly teachers' attendance reports are being maintained at all school sites.

Response

The District will adopt procedures during 2011-12 to comply with the recommendation.

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

June 30, 2011

Chico Unified School District

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

**AFTER SCHOOL EDUCATION AND SAFETY PROGRAM
10000 (11-3)**

Significant Deficiency

Condition

During our testing of attendance for the after school program, we noted that the number of students served per the 1st Half: After School Base Attendance Report did not agree to the student sign in/out sheets for one month selected for testing.

Criteria

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

Effect

The number of students served on the 1st Half: After School Base Attendance Report for McManus Elementary School was overstated by 15. The amount originally reported was 5,721 students served. The correct amount should be 5,706 students served. There is no financial impact as the program is not funded based upon attendance.

Recommendation

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

Response

The attendance report will be amended and the District will implement procedures during 2011-12 to comply with the recommendation.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

Chico Unified School District

SECTION IV FINDINGS STATE AWARDS AUDIT

ATTENDANCE-CHARTER SCHOOL (INSPIRE SCHOOL OF ARTS AND SCIENCES) 10000 (11-4)

Significant Deficiency

Condition

Apportionment attendance was improperly claimed for some absence days due to incorrect coding in the attendance software. In addition, there were many missing signed teachers' weekly attendance reports and clerical errors were noted in the calculation of average daily attendance (ADA) on the annual report of attendance.

Criteria

Apportionment attendance should include only actual days of attendance. Charter school is not following approved attendance accounting procedures. The calculation of ADA reported on the P-2 and Annual Reports of Attendance should be reviewed for accuracy by someone independent of the preparation of the reports.

Effect

The charter school has overstated ADA by 1.23 on the second period report of attendance and understated ADA by .27 on the annual report of attendance. The effect on revenue is a reduction of approximately \$7,561.

Recommendation

We recommend that the charter school's management implement procedures during the 2011-12 school year to ensure that signed weekly teacher's attendance reports are being maintained and proper attendance accounting procedures are being followed. In addition, we recommend that attendance worksheets, prepared to summarize the days of apportionment attendance, be reviewed for accuracy prior to preparing the second period and annual reports of attendances. We also recommend that the charter school file amended second period and annual attendance reports for 2010-11.

Response

The charter school will adopt procedures during 2011-12 to comply with the recommendation. The second period and annual attendance reports have been amended.

There were no current year findings related to major programs.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2011

Chico Unified School District

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.

Current Status

Fully implemented.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2011

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.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2011

Chico Unified School District

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.

Current Status

Fully implemented.