



MATSON
& ISOM

CHICO UNIFIED SCHOOL DISTRICT

**County of Butte
Chico, California**

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITORS' REPORTS

June 30, 2012

TABLE OF CONTENTS

June 30, 2012

*Chico Unified
School District*

	Page Number
Independent Auditors' Report	1
FINANCIAL SECTION	
Required Supplementary Information	
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements	
Balance Sheet – Governmental Funds	16
Reconciliation of Governmental Fund Balances to Government-Wide Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	19
Reconciliation of Net Change in Fund Balances to Change in Net Assets	20
Statement of Net Assets – Proprietary Fund	22
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	23
Statement of Cash Flows – Proprietary Fund	24
Statement of Fiduciary Net Assets – Fiduciary Funds	25
Notes to the Financial Statements	26
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	52
Notes to the Budgetary Comparison Schedule	53

TABLE OF CONTENTS

June 30, 2012

*Chico Unified
School District*

	Page Number
<hr/>	
OTHER SUPPLEMENTARY INFORMATION SECTION	
Local Education Agency Organization Structure	55
Schedule of Average Daily Attendance	56
Schedule of Instructional Time	57
Schedule of Expenditures of Federal Awards	58
Schedule of Financial Trends and Analysis	59
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	60
Schedule of Charter Schools	61
Note to the Other Supplementary Information	62
 OTHER REPORTS SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	64
Independent Auditors' 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	66
Independent Auditors' Report on State Compliance	68
 FINDINGS AND QUESTIONED COSTS SECTION	
Schedule of Findings and Questioned Costs	71
Corrective Action Plan	78
Summary Schedule of Prior Audit Findings	79



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chico Unified School District (the District) as of and for the year ended June 30, 2012, 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, each major fund, and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

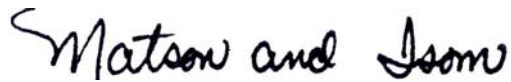
In accordance with *Government Auditing Standards*, we have also issued a report dated February 6, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

INDEPENDENT AUDITORS' REPORT

Continued

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. Such information is the responsibility of management and was derived from and relates 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 as a whole.

A handwritten signature in black ink that reads "Matson and Isom". The script is cursive and fluid.

February 6, 2013
Chico, California

FINANCIAL SECTION

Required Supplementary Information

INTRODUCTION

This section of the Chico Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the independent auditors' report presented and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

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

FINANCIAL HIGHLIGHTS

- Total net assets were \$101,595,617 at June 30, 2012. This was a decrease of \$1,872,446 over the prior year.
- Overall revenues were \$112,741,452, total current-year expenses exceeded revenues by \$1,872,466 primarily due to multiple years of underfunding to education by the State of California.
- Capital assets, net of depreciation, decreased by \$378,118 due to current-year recognition of \$3,971,325 of depreciation expense which was in excess of construction in progress additions made during the year.
- Long-term debt decreased by \$2,520,770 due to incurring no new debt and making payments on the general obligation bonds, early retirement incentives, and certificates of participation.
- The District maintains sufficient reserves for a district its size. It meets the State required minimum reserve for economic uncertainty of 3% of General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2011-12, General Fund expenditures and other financing uses totaled \$102,449,354. At June 30, 2012, the District has available reserves of \$14,048,471 in the General Fund, which represents a reserve of 14%.

THE FINANCIAL REPORT

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

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

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

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

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

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

The District as a whole is reported in the government-wide financial statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the statement of net assets. The statement of activities reports all of the current-year's revenues and expenses, regardless of when cash is received or paid. The District's financial health or position (net assets) can be measured by the difference between the District's assets and liabilities.

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

In the statement of net assets and the statement of activities, we divide the District into two kinds of activities:

Governmental Activities

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

Business-Type Activities

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

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

Governmental Funds

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

Fiduciary Funds

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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

The District's net assets were \$101,595,617 for the fiscal year ended June 30, 2012. Restricted net assets are reported separately if they are not available for day-to-day operations or their use is constrained to a particular purpose by statutes, rules or other entities with authority over the District.

	Governmental Activities		Percentage
	2011	2012	Change
			2011-12
ASSETS			
Cash and investments	\$ 55,165,285	\$ 43,398,783	-21.3%
Accounts receivable	18,032,636	22,958,451	27.3%
Inventories and other assets	1,415,078	1,518,723	7.3%
Capital assets - net of accumulated depreciation	94,760,889	94,382,771	-0.4%
Total Assets	\$ 169,373,888	\$ 162,258,728	-4.2%
LIABILITIES			
Accounts payable and other current liabilities	\$ 8,494,333	\$ 5,772,409	-32.0%
Long-term debt	57,411,472	54,890,702	-4.4%
Total Liabilities	\$ 65,905,805	\$ 60,663,111	-8.0%
NET ASSETS			
Invested in capital assets - net of related debt	\$ 56,668,417	\$ 57,229,615	1.0%
Restricted	45,075,203	43,291,312	-4.0%
Unrestricted	1,724,463	1,074,690	-37.7%
Total Net Assets	\$ 103,468,083	\$ 101,595,617	-1.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

*Chico Unified
School District*

Change in Net Assets

The following table summarizes the change in net assets for the District. Expenses exceeded the District's revenues for the year by \$1,872,466. The District's expenses are primarily related to educating and caring for students and make up 83.7% of all expenses. Administrative activities of the District account for 5.9% of the total costs. The decrease in revenues is related to multiple years of underfunding to education from the State. The increase in expenses is related to statutory increases to salaries and benefits per collective bargaining agreements, increases to health and welfare insurance premiums, and increases in property and liability insurance premiums.

	Governmental Activities		Percentage
	2011	2012	Change 2011-12
REVENUES			
PROGRAM REVENUES			
Charges for services	\$ 350,544	\$ 672,527	91.9%
Operating grants and contributions	31,387,032	30,799,100	-1.9%
Capital grants and contributions	1,007,878	96,002	-90.5%
GENERAL REVENUES			
Property taxes	29,433,492	30,242,646	2.7%
Federal and state aid not restricted	57,254,455	48,373,867	-15.5%
Interest and investment earnings	324,737	432,341	33.1%
Miscellaneous	2,549,568	2,124,969	-16.7%
Total Revenues	122,307,706	112,741,452	-7.8%
EXPENSES			
Instruction	71,631,932	74,421,298	3.9%
Instruction - related services	9,072,562	9,259,704	2.1%
Pupil services	11,202,422	12,289,085	9.7%
General administration	5,354,930	6,743,928	25.9%
Plant services	8,264,898	8,276,871	0.1%
Ancillary services	524,892	577,755	10.1%
Community services	20,846	13,660	-34.5%
Enterprise activities	78,139	-	-100.0%
Other outgo	4,225,418	3,031,617	-28.3%
Total Expenses	110,376,039	114,613,918	3.8%
Change in Net Assets	\$ 11,931,667	\$ (1,872,466)	-115.7%

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

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2011	2012	2011-12	2011	2012	2011-12
Instruction	\$ 71,631,932	\$ 74,421,298	-2.7%	\$ 46,256,832	\$ 52,270,185	0.3%
Instruction - related services	9,072,562	9,259,704	0.2%	8,112,913	8,171,892	2.0%
Pupil services	11,202,422	12,289,085	1.2%	5,758,628	5,838,312	59.1%
General administration	5,354,930	6,743,928	-6.9%	4,629,697	5,834,908	-7.2%
Plant services	8,264,898	8,276,871	0.9%	8,260,615	8,269,120	1.1%
Ancillary services	524,892	577,755	7.4%	518,003	(153,451)	6.6%
Community services	20,846	13,660	-39.1%	20,846	13,660	39.3%
Enterprise activities	78,139	-	-25.4%	78,139	-	-25.4%
Other outgo	4,225,418	3,031,617	43.2%	3,994,912	2,801,663	98.4%
Total	\$ 110,376,039	\$ 114,613,918	-2.5%	\$ 77,630,585	\$ 83,046,289	1.7%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**Governmental Funds**

The District's governmental funds reported a combined fund balance of \$61,938,022, a decrease of \$4,186,452 from the previous year. Following is a summary of the District's fund balances.

	Fund Balance		Increase
	2011	2012	(Decrease)
General	\$ 23,110,311	\$ 20,716,095	\$ (2,394,216)
Charter Schools	-	440,849	440,849
Cafeteria Special Revenue	47,310	10,577	(36,733)
Building	18,207,781	15,371,122	(2,836,659)
Capital Facilities	11,334,545	11,343,474	8,929
County School Facilities	7,981,588	8,125,089	143,501
Special Reserve Capital Projects	620,396	1,308,352	687,956
Bond Interest and Redemption	4,575,876	4,372,908	(202,968)
Debt Service	246,667	249,556	2,889
Total	\$ 66,124,474	\$ 61,938,022	\$ (4,186,452)

The General Fund decrease is due primarily to deficit spending resulting from underfunding for education from the State. A portion of the decrease is due to the transfer of fund balance to the Charter Schools Fund.

The Charter Schools Fund increase is due to a change in accounting for the charter school activity of Inspire Schools of Arts and Sciences in the Charter Schools Fund instead of the General Fund.

The Building Fund decrease is due to beginning the final phase of Measure A projects. These projects will continue through 2012-13 and conclude in 2013-14.

The County School Facilities Fund increase is due to the delay in project spending from the 2011-12 year to the 2012-13 year.

The Special Reserve Capital Projects Fund increase is due to the delay in project spending from the 2011-12 year to the 2012-13 year.

The Bond Interest and Redemption Fund decrease is due primarily from reduced taxes on the secured tax roll along with debt payments from the Series B 1998 General Obligation Bond reflecting actual yearly activity.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on the Governor's May Revise. Not later than 45 days after the state budget is adopted, school districts are required to make available for public review any revisions in revenues and expenditures that it makes to its budget to reflect the funding made available by the State budget. In addition, the District revises its budget at the first and second interim reporting periods. Budgeted revenues increased by \$1,918,523 and budgeted expenditures increased by \$128,964. The budget amendments for the year typically fell into the following categories:

- Final revenue limit and class size reduction allocations were higher than anticipated.
- Restricted programs are fully budgeted to be spent even though they continue to have carryover and deferred revenue.
- Medi-Cal Administrative Activities (MAA) revenues were funded for both the prior and current years in 2011-12.

CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION

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

Capital Assets

The District has invested \$94,382,771 in capital assets including land, buildings and improvements, and equipment and vehicles. The District purchased land for a parking lot at Chapman Elementary School, installed sewer connections at two sites, installed portables at Fair View High School, replaced a water tank at the Forest Ranch School site, and purchased four vehicles and three trailers. In addition, the District continued construction on the Pleasant Valley High School classroom buildings and the Inspires School of the Arts and Sciences relocatable classrooms. The District disposed of six vehicles.

	Governmental Activities		Percentage
	2011	2012	Change 2011-12
Land	\$ 11,785,001	\$ 11,825,696	0.3%
Construction in progress	1,636,608	3,039,185	85.7%
Site improvements	7,492,658	8,083,937	7.9%
Buildings	133,144,182	134,174,482	0.8%
Equipment and vehicles	4,989,976	5,339,821	7.0%
Subtotal	159,048,425	162,463,121	2.1%
Less: Accumulated depreciation	64,287,536	68,080,350	5.9%
Total	\$ 94,760,889	\$ 94,382,771	-0.4%

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

*Chico Unified
School District*

Long-Term Debt

The District has \$54,890,702 in long-term debt as of June 30, 2012. The District did not enter into any new debt-financing arrangements in 2011-12 and made normally scheduled payments on the general obligation bonds, capital leases, certificates of participation, and early retirement incentives.

	Governmental Activities		Percentage
	2011	2012	Change 2011-12
Compensated absences	\$ 447,088	\$ 604,210	35.1%
General obligations bonds	52,195,000	50,510,000	-3.2%
Bond issuance premium	726,506	692,047	-4.7%
Capital leases	492,924	468,933	-4.9%
Certificates of participation	1,685,824	1,445,824	-14.2%
Early retirement incentives	1,864,130	1,169,688	-37.3%
Total	\$ 57,411,472	\$ 54,890,702	-4.4%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Enrollment projections indicate enrollment stability, however, the District has experienced several years of declining enrollment as well as enrollment loss to charter schools. The District will continue to monitor enrollment carefully for trending and accuracy.
- Health benefits, workers' compensation rates, and fuel and energy costs continue to escalate.
- Mandated programs such as special education, special education transportation, food service, and routine restricted maintenance continue to experience costs far in excess of program revenues, which negatively impact the District's ability to fund other instructional programs.
- Statutory salary and benefit increases per collective bargaining agreements continue to exceed additional state funding, resulting in on-going deficit spending.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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

Basic Financial Statements

STATEMENT OF NET ASSETS*Chico Unified
School District*

June 30, 2012	Governmental Activities
ASSETS	
Cash and investments	\$ 43,398,783
Accounts receivable	557,900
Due from other governments	22,400,551
Inventories - supplies and materials	334,689
Prepaid expenses	603,076
Net OPEB deferred charge	580,958
Nondepreciated capital assets	14,864,881
Depreciated capital assets	147,598,240
Accumulated depreciation	(68,080,350)
Total Assets	\$ 162,258,728
LIABILITIES	
Overdraft in county treasury	\$ 1,297,352
Accounts payable and other current liabilities	3,807,097
Due to other governments	543,666
Deferred revenue	124,294
Long-term obligations:	
Due within one year	2,476,221
Due beyond one year	52,414,481
Total Liabilities	\$ 60,663,111
NET ASSETS	
Invested in capital assets - net of related debt	\$ 57,229,615
Restricted for capital projects	34,839,685
Restricted for debt service	4,622,464
Restricted for educational programs	3,829,163
Unrestricted	1,074,690
Total Net Assets	\$ 101,595,617

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

STATEMENT OF ACTIVITIES

Chico Unified School District

Year Ended June 30, 2012	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for	Operating	Capital Grants	and Change in Net Assets
		Services	Grants and	and	
			Contributions	Contributions	Governmental Activities
FUNCTIONS/PROGRAMS					
PRIMARY GOVERNMENT					
Governmental activities:					
Instruction	\$ 74,421,298	\$ 566,239	\$ 21,488,872	\$ 96,002	\$ (52,270,185)
Instruction - related services	9,259,704	25,450	1,062,362	-	(8,171,892)
Pupil services	12,289,085	38,269	6,412,504	-	(5,838,312)
Ancillary services	577,755	-	731,206	-	153,451
Community services	13,660	-	-	-	(13,660)
General administration	6,743,928	22,810	886,210	-	(5,834,908)
Plant services	8,276,871	339	7,412	-	(8,269,120)
Other outgo	475,270	19,420	210,534	-	(245,316)
Interest on long-term debt	2,556,347	-	-	-	(2,556,347)
Total Governmental Activities	\$ 114,613,918	\$ 672,527	\$ 30,799,100	\$ 96,002	(83,046,289)
GENERAL REVENUES					
Property taxes - levied for general purposes					23,383,663
Property taxes - levied for debt service					3,894,840
Property taxes - levied for other specific purposes					2,964,143
Federal and state aid not restricted to specific purposes					48,373,867
Unrestricted investment earnings					432,341
Interagency revenues					3,718
Miscellaneous					2,121,251
Total General Revenues and Transfers					81,173,823
Change in Net Assets					(1,872,466)
Net Assets - Beginning of Year					103,468,083
Net Assets - End of Year				\$	101,595,617

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

**BALANCE SHEET –
GOVERNMENTAL FUNDS**

*Chico Unified
School District*

June 30, 2012	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 1,192,739	\$ 15,739,130	\$ 11,362,369	\$ 8,125,089	\$ 6,979,316	\$ 43,398,643
Accounts receivable	545,205	-	-	-	12,695	557,900
Due from other governments	21,746,222	-	-	-	654,329	22,400,551
Due from other funds	-	-	-	-	44,034	44,034
Inventories - supplies and materials	280,912	-	-	-	53,777	334,689
Prepaid expenditures	9,600	-	-	-	-	9,600
Total Assets	\$ 23,774,678	\$ 15,739,130	\$ 11,362,369	\$ 8,125,089	\$ 7,744,151	\$ 66,745,417
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Overdraft in county treasury	\$ -	\$ -	\$ -	\$ -	\$ 1,297,352	\$ 1,297,352
Accounts payable and other current liabilities	2,346,589	368,008	18,895	-	64,557	2,798,049
Due to other governments	543,666	-	-	-	-	543,666
Due to other funds	44,034	-	-	-	-	44,034
Deferred revenue	124,294	-	-	-	-	124,294
Total Liabilities	3,058,583	368,008	18,895	-	1,361,909	4,807,395
FUND BALANCES						
Nonspendable	315,512	-	-	-	53,777	369,289
Restricted	3,811,365	15,371,122	11,343,474	8,125,089	4,640,262	43,291,312
Assigned	2,540,747	-	-	-	1,731,403	4,272,150
Unassigned	14,048,471	-	-	-	(43,200)	14,005,271
Total Fund Balances	20,716,095	15,371,122	11,343,474	8,125,089	6,382,242	61,938,022
Total Liabilities and Fund Balances	\$ 23,774,678	\$ 15,739,130	\$ 11,362,369	\$ 8,125,089	\$ 7,744,151	\$ 66,745,417

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

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

June 30, 2012

*Chico Unified
School District*

Page 1 of 2

Total Fund Balances – Governmental Funds		\$ 61,938,022
<p>Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:</p>		
<p>Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.</p>		
Capital assets at historical cost	\$162,463,121	
Accumulated depreciation	<u>(68,080,350)</u>	
		94,382,771
<p>Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:</p>		
		593,476
<p>Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was:</p>		
		(1,009,048)
<p>Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:</p>		
General obligation bonds	51,202,047	
Net OPEB obligation (deferred charge)	(580,958)	
Compensated absences	604,210	
Certificates of participation	1,445,824	
Capital leases	468,933	
Early retirement incentives	<u>1,169,688</u>	
		<u>(54,309,744)</u>
Balance Forward		\$101,595,477

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

June 30, 2012

***Chico Unified
School District***

Page 2 of 2

Balance Brought Forward		\$ 101,595,477
Internal service funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are:		
		<u>140</u>
Total Net Assets – Governmental Activities		<u>\$ 101,595,617</u>

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, 2012	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 23,339,629	\$ -	\$ -	\$ -	\$ 6,903,017	\$ 30,242,646
State revenue	54,588,938	-	-	-	2,654,221	57,243,159
Federal revenue	13,794,299	-	-	-	3,330,468	17,124,767
Interest and investment earnings	7,076	(173,448)	64,901	155,392	26,625	80,546
Other local revenue	6,201,359	-	987,391	17,264	849,030	8,055,044
Total Revenues	97,931,301	(173,448)	1,052,292	172,656	13,763,361	112,746,162
EXPENDITURES						
Current:						
Instruction	70,032,142	-	-	-	1,427,921	71,460,063
Instruction - related services	8,299,039	-	-	-	737,843	9,036,882
Pupil services	8,146,469	-	-	-	4,161,266	12,307,735
Ancillary services	575,527	-	-	-	21,077	596,604
Community services	13,660	-	-	-	-	13,660
General administration	5,812,523	-	492,696	-	251,911	6,557,130
Plant services	7,773,048	2,772	11,705	-	200,380	7,987,905
Transfers between agencies	475,270	-	-	-	-	475,270
Debt service:						
Principal	886,013	-	-	-	1,685,000	2,571,013
Interest and other charges	151,091	-	-	-	2,426,525	2,577,616
Issuance costs and discounts	950	-	-	-	-	950
Capital outlay	110,670	2,660,439	509,316	29,155	38,329	3,347,909
Total Expenditures	102,276,402	2,663,211	1,013,717	29,155	10,950,252	116,932,737
Excess (Deficiency) of Revenues Over Expenditures	(4,345,101)	(2,836,659)	38,575	143,501	2,813,109	(4,186,575)
OTHER FINANCING SOURCES (USES)						
Interfund transfers in	2,123,837	-	-	-	172,952	2,296,789
Interfund transfers out	(172,952)	-	(29,646)	-	(2,094,068)	(2,296,666)
Total Other Financing Sources (Uses)	1,950,885	-	(29,646)	-	(1,921,116)	123
Net Change in Fund Balances	(2,394,216)	(2,836,659)	8,929	143,501	891,993	(4,186,452)
Fund Balances - Beginning of Year	23,110,311	18,207,781	11,334,545	7,981,588	5,490,249	66,124,474
Fund Balances - End of Year	\$ 20,716,095	\$ 15,371,122	\$ 11,343,474	\$ 8,125,089	\$ 6,382,242	\$ 61,938,022

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

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

June 30, 2012

**Chico Unified
School District**

Page 1 of 2

**Total Net Change in Fund Balances –
Governmental Funds**

\$ (4,186,452)

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

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

Expenditures for capital outlay	\$ 3,546,738	
Depreciation expense	<u>(3,917,325)</u>	
		(370,587)

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

2,643,433

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

39,285

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:

(4,714)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:

(157,122)

Balance Forward

\$ (2,036,157)

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

June 30, 2012

**Chico Unified
School District**

Page 2 of 2

Balance Brought Forward		\$ (2,036,157)
Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:		183,693
Cost write-off for canceled capital projects: If a planned capital project is canceled and will not be completed, costs previously capitalized as construction in progress must be written off to expense. Costs written off for canceled projects were:		(2,813)
Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:		
Issue costs incurred during the period	\$ 950	
Issue costs amortized for the period	<u>(52,475)</u>	
		(51,525)
Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:		34,459
Internal service funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:		<u>(123)</u>
Change in Net Assets of Governmental Activities		\$ (1,872,466)

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

**STATEMENT OF NET ASSETS –
PROPRIETARY FUND**

*Chico Unified
School District*

<u>June 30, 2012</u>	<u>Self-Insurance Internal Service</u>
ASSETS	
CURRENT ASSETS	
Cash and investments	<u>\$ 140</u>
NET ASSETS	
Unrestricted	<u>\$ 140</u>

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

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

*Chico Unified
School District*

<u>Year Ended June 30, 2012</u>	<u>Self-Insurance Internal Service</u>
NONOPERATING REVENUES	
Operating transfers out	\$ (123)
Change in Net Assets	(123)
Net Assets - Beginning of Year	263
Net Assets - End of Year	\$ 140

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

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUND**

*Chico Unified
School District*

<u>Year Ended June 30, 2012</u>	<u>Self-Insurance Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash paid for services and other operating expenses	\$ (9,371)
Net Cash Used by Operating Activities	(9,371)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers out	(123)
Net Decrease in Cash	(9,494)
Cash - Beginning of Year	9,634
Cash - End of Year	\$ 140
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ -
Adjustments to reconcile operating loss to net cash used by operating activities:	
Decrease in accounts receivable	123
Decrease in accounts payable	(9,494)
Total Adjustments	(9,371)
Net Cash Used by Operating Activities	\$ (9,371)

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

**STATEMENT OF FIDUCIARY NET ASSETS –
FIDUCIARY FUNDS**

*Chico Unified
School District*

June 30, 2012	Agency
ASSETS	
Cash and investments	\$ 862,007
Accounts receivable	3,244
Inventories - supplies and materials	34,334
Total Assets	\$ 899,585
LIABILITIES	
Accounts payable	\$ 25,978
Due to student groups	873,607
Total Liabilities	\$ 899,585

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

1. SIGNIFICANT ACCOUNTING POLICIES**Accounting Policies**

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

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The District's financial statements are prepared in accordance with generally accepted accounting principles (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 business-type activities and 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.

Financial Reporting Entity

The District's financial reporting entity comprises the following:

Primary government

Chico Unified School District

Blended component units

Chico Educators Health and Welfare Benefits Trust

Chico Unified Schools Financing Corporation

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

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

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

Blended Component Units

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

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

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

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

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

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

Fund Financial Statements

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

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

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

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

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

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

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

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

Proprietary Funds

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

Fiduciary Funds

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

Major and Nonmajor Funds

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

Major Governmental Funds

- General Fund
- Building Fund
- Capital Facilities Fund
- County School Facilities Fund

Nonmajor Governmental Funds

- Charter Schools Fund
- Cafeteria Special Revenue Fund
- Special Reserve Capital Projects Fund
- Bond Interest and Redemption Fund
- Debt Service Fund

Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

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

Basis of Accounting

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

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

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

Budgets and Budgetary Accounting

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

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

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

Cash, Cash Equivalents, and Investments

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

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

In accordance with *California Education Code*, Section 41001, the District maintains substantially all of its cash in the Butte County Treasury as part of the common investment pool. The County is restricted by *California Government Code*, Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes, or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Investments in the County pool are valued using the amortized cost method (which approximates fair value) and includes accrued interest. The pool has deposits and investments with a weighted-average maturity of more than one year. As of June 30, 2012, the fair value of the County pool is 100.87% of the carrying value and is deemed to represent a material difference. Information regarding the amount of dollars invested in derivatives with the County was not available. The county investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code*, Section 27130. The District is considered to be an involuntary participant in the external investment pool.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net decrease in the fair value of investments during the year ended June 30, 2012, was \$452,833. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at June 30, 2012, was \$344,844.

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, 2012. 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, 2012. At June 30, 2012, no allowance for doubtful accounts was deemed necessary.

Interfund Receivables and Payables

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

Inventories and Prepaid Expenses

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

Deferred Charges

On the government-wide financial statements, bond issuance and certificates of participation costs are deferred as prepaid expenses and amortized over the term of the bonds and certificates of participation using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

Bond and Certificates of Participation Premium

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

Fixed Assets

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

Government-Wide Statements

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

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

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

Fund Financial Statements

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

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 exceeds qualified expenditures.

Long-Term Debt

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

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

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

Compensated Absences

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

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 that are 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, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted Net Assets: Consists of all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

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

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

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

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

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

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

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

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

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

Revenue Limit and Property Tax

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

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

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

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

Revenue – Nonexchange Transactions

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

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

Expenditures and Expenses

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

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

Governmental funds – by character

Current (further classified by function)

Debt service

Capital outlay

Proprietary funds – by operating and nonoperating

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

Interfund Transfers

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

2. CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 2012:

	Maturities	Fair Value
DEPOSITS (1)		\$ 2,834,975
INVESTMENTS THAT ARE NOT SECURITIES (2)		
County treasurer's investment pool (net of overdraft)	30.4 months average	40,128,463
Total Cash and Investments		42,963,438
Less: Agency fund cash and investments		862,007
Total Cash and Investments Per Government-Wide Statement of Net Assets (Net of Overdraft in County Treasury)		\$ 42,101,431

- (1) **Deposits** The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions, if any.
- (2) **Investments That are Not Securities** A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

Custodial Credit Risk – Deposits

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. As of June 30, 2012, \$1,250,848 of the District's bank balance of \$1,540,793 was exposed to custodial credit risk as follows:

	Bank Balance
Uninsured and uncollateralized	\$ 1,250,848

Credit Risk – Investments

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

Concentration of Credit Risk – Investments

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

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

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

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

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012, consists of the following:

	General Fund	Other Governmental Funds
Interest	\$ 25,157	\$ 12,695
Other	520,048	-
Total Accounts Receivable	\$ 545,205	\$ 12,695

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

*Chico Unified
School District***4. DUE FROM OTHER GOVERNMENTS**

Due from other governments at June 30, 2012, consists of the following:

	General Fund	Other Governmental Funds
Due from federal government	\$ 1,575,447	\$ 410,280
Due from state government	19,825,234	244,049
Due from local governments	345,541	-
Total Due From Other Governments	\$ 21,746,222	\$ 654,329

5. INTERFUND TRANSACTIONS AND BALANCES**Interfund Receivables/Payables**

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

Interfund Receivable	Interfund Payable	Amounts
Special Reserve Capital Projects	General	\$ 44,034

The specific purposes of the interfund balances are as follows:

Special Reserve Capital Projects Fund interfund receivable from the General Fund for RDA funds deposited in the wrong fund.

Interfund Transfers

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

Interfund transfers are as follows:

Transfer Out	Transfer In	Amounts
Capital Facilities	General	\$ 29,646
Special Reserve Capital Projects	General	2,094,068
Self-Insurance	General	123
General	Charter Schools	172,952
Total		\$ 2,296,789

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

*Chico Unified
School District*

Transfers are used for the following:

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

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

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

Interfund transfer out of the Self-Insurance Fund to the General Fund to close fund.

Interfund transfer out of the General Fund to the Charter Schools Fund to open fund.

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

6. CAPITAL ASSETS

Capital asset activity is as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
GOVERNMENTAL ACTIVITIES				
NONDEPRECIATED CAPITAL ASSETS				
Land	\$ 11,785,001	\$ 40,695	\$ -	\$ 11,825,696
Construction in progress	1,636,608	2,949,180	1,546,603	3,039,185
Total Nondepreciated Capital Assets	13,421,609	2,989,875	1,546,603	14,864,881
DEPRECIATED CAPITAL ASSETS				
Buildings	133,144,182	1,030,300	-	134,174,482
Site improvements	7,492,658	591,279	-	8,083,937
Equipment and vehicles	4,989,976	479,070	129,225	5,339,821
Total Depreciated Capital Assets	145,626,816	2,100,649	129,225	147,598,240
Total at Historical Cost	159,048,425	5,090,524	1,675,828	162,463,121
LESS: ACCUMULATED DEPRECIATION				
Buildings	55,296,049	3,414,471	-	58,710,520
Site improvements	5,032,731	261,863	-	5,294,594
Equipment and vehicles	3,958,756	240,991	124,511	4,075,236
Total Accumulated Depreciation	64,287,536	3,917,325	124,511	68,080,350
Total Depreciated Capital Assets - Net	81,339,280	(1,816,676)	4,714	79,517,890
Governmental Activities Capital Assets - Net	\$ 94,760,889	\$ 1,173,199	\$ 1,551,317	\$ 94,382,771

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

*Chico Unified
School District*

Depreciation expense was charged to governmental activities as follows:

GOVERNMENTAL ACTIVITIES	
Instruction	\$ 3,221,452
Instruction - related services	213,689
Pupil services	70,938
General administration	86,540
Plant services	324,706
Total Depreciation Expense - Governmental Activities	\$ 3,917,325

7. ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consists of the following:

	General Fund	Building Fund	Capital Facilities Fund	Other Governmental Funds
Vendors	\$ 345,538	\$ 368,008	\$ 18,863	\$ 17,253
Salaries and benefits	1,984,581	-	-	47,011
Other	16,470	-	32	293
Total Accounts Payable	\$ 2,346,589	\$ 368,008	\$ 18,895	\$ 64,557

8. DUE TO OTHER GOVERNMENTS

Due to other governments at June 30, 2012, consists of the following:

	General Fund
Due to state government	\$ 39,289
Due to local governments	504,377
Total Due To Other Governments	\$ 543,666

9. BONDED DEBT

The outstanding general obligation bonded debt is as follows:

Issue Date	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding July 1, 2011	Redeemed Current Year	Outstanding June 30, 2012
1998	5.00% to 9.00%	2018	\$ 16,965,000	\$ 7,520,000	\$ 1,185,000	\$ 6,335,000
1998	5.00% to 8.25%	2029	18,000,000	13,950,000	500,000	13,450,000
2008	4.00% to 5.75%	2033	30,725,000	30,725,000	-	30,725,000
Totals			\$ 65,690,000	\$ 52,195,000	\$ 1,685,000	\$ 50,510,000

The amount of interest cost incurred during the year ended June 30, 2012, was \$2,390,254, all of which was charged to expenses.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

*Chico Unified
School District*

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

Year Ending June 30	Principal	Interest	Total
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	2,545,000	1,922,540	4,467,540
2018-2022	11,330,000	8,088,253	19,418,253
2023-2027	19,580,000	4,695,347	24,275,347
2028-2032	7,395,000	1,075,606	8,470,606
2033	1,375,000	31,797	1,406,797
Totals	\$ 50,510,000	\$ 24,569,874	\$ 75,079,874

10. CAPITAL LEASES

The District leases equipment valued at \$622,136 under agreements which provide for title to pass upon expiration of the lease period. The amount of interest cost incurred during the year ended June 30, 2012, was \$23,675, all of which was charged to expenses. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2013	\$ 47,667
2014	47,666
2015	47,667
2016	47,666
2017	47,666
2018-2022	238,333
2023-2026	165,688
Total	642,353
Less: Amount representing interest	173,420
Present Value of Net Minimum Lease Payments	\$ 468,933

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

*Chico Unified
School District***11. CERTIFICATES OF PARTICIPATION**

In 2004, the District issued certificates of participation (COP) in the amount of \$2,705,000, with interest rates ranging from 2% to 4%. As of June 30, 2012, the principal balance outstanding was \$1,460,000. The amount of interest cost incurred during the year ended June 30, 2012, was \$54,996, all of which was charged to expenses.

The certificates mature through 2018 as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 255,000	\$ 47,252	\$ 302,252
2014	270,000	38,585	308,585
2015	285,000	29,075	314,075
2016	300,000	18,650	318,650
2017	315,000	7,306	322,306
2018	35,000	700	35,700
Totals	\$ 1,460,000	\$ 141,568	\$ 1,601,568

12. CHANGES IN LONG-TERM DEBT

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

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Compensated absences	\$ 447,088	\$ 157,122	\$ -	\$ 604,210	\$ -
General obligation bonds	52,195,000	-	1,685,000	50,510,000	1,885,000
Bond issuance premium	726,506	-	34,459	692,047	34,459
Capital leases	492,924	-	23,991	468,933	25,194
Certificates of participation	1,700,000	-	240,000	1,460,000	255,000
COPS issuance premium	(14,176)	-	-	(14,176)	-
Early retirement incentives	1,864,130	-	694,442	1,169,688	276,568
Totals	\$ 57,411,472	\$ 157,122	\$ 2,677,892	\$ 54,890,702	\$ 2,476,221

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

*Chico Unified
School District*

13. FUND BALANCES COMPONENTS

Fund balances as of June 30, 2012, are composed of the following:

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Other Governmental Funds
NONSPENDABLE					
Reserved for revolving cash	\$ 25,000	\$ -	\$ -	\$ -	\$ -
Reserved for stores inventories	280,912	-	-	-	53,777
Reserved for prepaid expenditures	9,600	-	-	-	-
Total Nonspendable	\$ 315,512	\$ -	\$ -	\$ -	\$ 53,777
RESTRICTED					
Restricted for capital projects	\$ -	\$ 15,371,122	\$ 11,343,474	\$ 8,125,089	\$ -
Restricted for debt service	-	-	-	-	4,622,464
Restricted for federal and state categoricals	3,811,365	-	-	-	17,798
Total Restricted	\$ 3,811,365	\$ 15,371,122	\$ 11,343,474	\$ 8,125,089	\$ 4,640,262
ASSIGNED					
Assigned for board reserve	\$ 2,031,853	\$ -	\$ -	\$ -	\$ -
Assigned for program and school site carryover	423,032	-	-	-	-
Assigned for charter schools	-	-	-	-	423,051
Assigned for capital projects	-	-	-	-	1,308,352
Assigned for deferred maintenance	85,862	-	-	-	-
Total Assigned	\$ 2,540,747	\$ -	\$ -	\$ -	\$ 1,731,403
UNASSIGNED					
Designated for economic uncertainties	\$ 3,047,780	\$ -	\$ -	\$ -	\$ -
Unassigned	11,000,691	-	-	-	(43,200)
Total Unassigned	\$ 14,048,471	\$ -	\$ -	\$ -	\$ (43,200)

14. JOINT POWERS AUTHORITIES

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

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

15. COMMITMENTS AND CONTINGENCIES**Federal and State Allowances, Awards, and Grants**

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

Construction Project Commitments

Construction project commitments as of June 30, 2012, are as follows:

Construction Project	Remaining Construction Commitment
CHS Inspire relocatable classrooms	\$ 425,256
PVHS classroom	5,869
Total	\$ 431,125

16. RISK MANAGEMENT

The District is exposed to various risks, including loss or damage to property, general liability, and injuries to employees. Settled claims resulting from these risks have not exceeded insurance coverage in 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 joint powers agreements for property, liability, workers' compensation, health care, and excess liability coverage.

17. EMPLOYEE RETIREMENT SYSTEMS

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

California State Teachers' Retirement System**Plan Description**

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

Funding Policy

Active plan members are required to contribute 8.00% of their salary. The required employer contribution rate for fiscal year 2011-12 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$4,021,188, \$3,902,574, and \$3,933,060, respectively, and equaled 100% of the required contributions for each year.

California Public Employees Retirement System**Plan Description**

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

Funding Policy

Active plan members are required to contribute 7.00% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the 2011-12 fiscal year was 10.923%. 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, 2012, 2011, and 2010, were \$1,751,413, \$1,710,757, and \$1,539,128, respectively, and equaled 100% of the required contributions for each year.

18. EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2011-12, pursuant to *California Education Code*, Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

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

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

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

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

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

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

At June 30, 2012, 228 retirees met these eligibility requirements and an estimated 1,097 participants will be eligible in future years.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

*Chico Unified
School District***Funding Policy**

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

Annual Other Postemployment Benefit (OPEB) Cost and Net Obligation

For the year ended June 30, 2012, the District's annual OPEB cost is calculated based on the annual required contribution for the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation:

Annual required contribution	\$ 2,389,128
Interest on net OPEB deferred charge	(19,863)
Adjustment to annual required contribution	25,843
Annual OPEB Cost	2,395,108
Contributions	2,578,801
Change in Net OPEB Deferred Charge	(183,693)
Net OPEB Deferred Charge - Beginning of Year	(397,265)
Net OPEB Deferred Charge - End of Year	\$ (580,958)

The District's annual OPEB cost (benefit), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (deferred charge) for the year ended June 30, 2012, and the preceding two years were as follows:

Year Ended	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net Ending OPEB Obligation (Deferred Charge)
June 30, 2010	\$ 2,416,309	\$ 2,758,596	114.17%	\$ 158,109
June 30, 2011	\$ 2,421,460	\$ 2,976,834	122.94%	\$ (397,265)
June 30, 2012	\$ 2,395,108	\$ 2,578,801	107.67%	\$ (580,958)

Funded Status and Funding Progress

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

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

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

In the July 1, 2011, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 5.00% investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 8.00% initially, reduced by decrements to an ultimate rate of 5.00% after three years. Both rates include a 5.00% inflation assumption. The District's unfunded actuarial accrued liability is being amortized over an open period of 30 years. The remaining amortization period at June 30, 2012, was 29 years.

20. SUBSEQUENT EVENTS**Long-Term Debt – Refunding**

On July 20, 2012, the District refunded \$5,095,000 of the 1998 General Obligation Refunding Bonds and \$12,925,000 of the 1998 Series A general obligation bonds with the Series 2012 general obligation refunding bonds. Resources totaling \$18,516,524 were placed in an irrevocable trust for the purpose of generating resources for all future debt services payments of the refunded general obligation bonds.

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

Bonded Debt

In November 2012, voters approved Measure E, a \$78,000,000 general obligation bond authorization for the District. The proceeds will be used to improve student access to computers and modern technology, repair or replace leaky roofs and plumbing systems, and upgrade heating, ventilation, and cooling systems.

21. FUTURE GASB IMPLEMENTATION

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, to incorporate into GASB's authoritative literature certain accounting and financial reporting guidance. This statement will improve financial reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so they derive from a single source. In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, to provide reporting guidance for deferred outflows and inflows of resources. The District's management has not yet determined the impact implementation of these standards, which is required on July 1, 2012, will have on the District's financial statements, if any.

Required Supplementary Information

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

*Chico Unified
School District*

Year Ended June 30, 2012	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 22,545,693	\$ 20,945,488	\$ 23,339,629	\$ 2,394,141
State revenue	56,139,523	56,676,667	54,588,938	(2,087,729)
Federal revenue	7,781,304	12,606,096	13,794,299	1,188,203
Interest and investment earnings	107,076	107,076	7,076	(100,000)
Other local revenue	4,737,597	5,677,451	6,201,359	523,908
Total Revenues	91,311,193	96,012,778	97,931,301	1,918,523
EXPENDITURES				
Certificated salaries	45,319,165	45,330,424	47,697,859	(2,367,435)
Classified salaries	15,534,905	15,713,469	16,582,492	(869,023)
Employee benefits	25,259,442	25,319,295	24,192,251	1,127,044
Books and supplies	3,364,883	8,782,641	4,327,405	4,455,236
Services and other operating	5,536,398	5,408,026	7,717,827	(2,309,801)
Capital outlay	3,082	240,963	483,415	(242,452)
Other outgo	355,279	304,924	238,049	66,875
Debt service:				
Principal	912,985	912,985	886,013	26,972
Interest and other charges	134,711	134,711	151,091	(16,380)
Total Expenditures	96,420,850	102,147,438	102,276,402	(128,964)
Excess (Deficiency) of Revenues Over Expenditures	(5,109,657)	(6,134,660)	(4,345,101)	1,789,559
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	2,108,811	2,108,811	2,123,837	15,026
Interfund transfers out	(366,951)	-	(172,952)	(172,952)
Other sources	-	79,478	-	(79,478)
Total Other Financing Sources (Uses)	1,741,860	2,188,289	1,950,885	(237,404)
Net Change in Fund Balances	(3,367,797)	(3,946,371)	(2,394,216)	1,552,155
Fund Balances - Beginning of Year	23,110,311	23,110,311	23,110,311	-
Fund Balances - End of Year	\$ 19,742,514	\$ 19,163,940	\$ 20,716,095	\$ 1,552,155

See the accompanying notes to this budgetary comparison schedule.

**NOTES TO THE BUDGETARY
COMPARISON SCHEDULE**

June 30, 2012

*Chico Unified
School District*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2012, expenditures exceeded appropriations by the following amounts:

	General Fund
Certificated salaries	\$ 2,367,435
Classified salaries	\$ 869,023
Services and other operating	\$ 2,309,801
Capital outlay	\$ 242,452
Debt service - interest and other charges	\$ 16,380

These excess expenditures were funded by greater than anticipated revenues.

OTHER SUPPLEMENTARY INFORMATION SECTION

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

June 30, 2012

*Chico Unified
School District*

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

GOVERNING BOARD

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

ADMINISTRATION

Kelly Staley
Superintendent

Bob Feaster
Assistant Superintendent, Human Resources

Maureen Fitzgerald
Assistant Superintendent, Business Services

Dave Scott
Assistant Superintendent, Educational Services

SCHEDULE OF AVERAGE DAILY ATTENDANCE

June 30, 2012

*Chico Unified
School District*

	Originally Reported		Final	
	Second Period Report	Annual Report	Second Period Report	Annual Report
ELEMENTARY				
Kindergarten	821	819	819	817
Grades 1 through 3	2,375	2,370	2,375	2,370
Grades 4 through 6	2,360	2,358	2,360	2,358
Grades 7 and 8	1,678	1,672	1,678	1,672
Opportunity classes	37	37	37	37
Home and hospital	8	9	8	9
Special education - special day class	287	287	286	287
Special education - nonpublic	2	3	2	3
Community day school - mandatory expelled pupils	1	1	1	1
Community day school - all other pupils	7	7	7	7
Special education - extended year	13	13	13	13
Elementary Totals	7,589	7,576	7,586	7,574
HIGH SCHOOL				
Grades 9 through 12	3,358	3,331	3,358	3,331
Continuation education	173	177	173	176
Opportunity classes	38	37	38	37
Home and hospital	18	20	18	20
Special education - special day class	164	162	164	162
Special education - nonpublic	3	3	3	3
Community day school - mandatory expelled pupils	1	2	1	2
Community day school - all other pupils	20	17	20	17
Special education - extended year	4	4	4	4
High School Totals	3,779	3,753	3,779	3,752
ADA Totals	11,368	11,329	11,365	11,326

	Originally Reported		Final	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Funded Through Block Grant				
INSPIRE SCHOOL OF ARTS AND SCIENCES				
RESIDENT				
Grades 9 through 12	278	276	278	276
NONRESIDENT				
Grades 9 through 12	72	71	72	71
ADA Totals (All Classroom-Based)	350	347	350	347

See the accompanying note to the other supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME

Year Ended June 30, 2012

*Chico Unified
School District*

Traditional Schools	1986-87 Minutes Requirement	1986-87 Minutes As Reduced	1982-83 Actual Minutes	1982-83 Minutes As Reduced	2011-12 Actual Minutes	Traditional Calendar Days	Multitrack Calendar Days	Status
Kindergarten	36,000	33,600	31,680	29,568	35,800	179	N/A	Complied
Grade 1	50,400	47,040	42,240	39,424	50,010	179	N/A	Complied
Grade 2	50,400	47,040	42,240	39,424	50,010	179	N/A	Complied
Grade 3	50,400	47,040	42,240	39,424	50,111	179	N/A	Complied
Grade 4	54,000	50,400	47,250	44,100	53,590	179	N/A	Complied
Grade 5	54,000	50,400	47,250	44,100	53,590	179	N/A	Complied
Grade 6	54,000	50,400	47,250	44,100	53,590	179	N/A	Complied
Grade 7	54,000	50,400	47,250	44,100	60,518	179	N/A	Complied
Grade 8	54,000	50,400	47,250	44,100	60,518	179	N/A	Complied
Grade 9	64,800	60,480	60,025	56,023	63,584	179	N/A	Complied
Grade 10	64,800	60,480	60,025	56,023	63,584	179	N/A	Complied
Grade 11	64,800	60,480	60,025	56,023	63,584	179	N/A	Complied
Grade 12	64,800	60,480	60,025	56,023	63,584	179	N/A	Complied
Charter Schools			1986-87 Minutes Requirement	1986-87 Minutes As Reduced	2011-12 Actual Minutes	Traditional Calendar Days	Multitrack Calendar Days	Status
Grade 9			64,800	60,357	65,827	179	N/A	Complied
Grade 10			64,800	60,357	65,827	179	N/A	Complied
Grade 11			64,800	60,357	65,827	179	N/A	Complied
Grade 12			64,800	60,357	65,827	179	N/A	Complied

See the accompanying note to the other supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

*Chico Unified
School District*

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
FEDERAL PROGRAMS			
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education			
Special Education Cluster			
Special Education - IDEA Basic Local Assistance	84.027	13379	\$ 1,406,108
Special Education - ARRA IDEA Basic Local Assistance	84.391	15003	171,448
Special Education - IDEA Preschool	84.173	13430	99,022
Special Education - ARRA IDEA Preschool	84.392	15000	136
Special Education - IDEA Preschool Local Entitlement	84.027	13682	144,040
Total Special Education Cluster			1,820,754
NCLB - Title I, Part A, Basic Grants	84.010	14329	4,739,195
ARRA - Education Jobs Fund	84.410	25152	34,188
Special Education - State Improvement Grant	84.323	14920	655
Vocational Programs - Vocational and Applied Technical			
Secondary IC, Section 131	84.048	14894	80,369
NCLB - Title II, Part A, Administrator Training	84.367	14344	1,297
NCLB - Title II, Part A, Improving Teacher Quality	84.367	14341	713,065
NCLB - Title II, Part D, Enhancing Education Through Technology,			
Competitive Grants	84.386	15126	95,206
NCLB - Title II, Part D, Enhancing Education Through Technology	84.318X	14334	27,776
NCLB - Title II, Part B, CA Mathematics and Science Partnerships	84.366	14512	112,251
NCLB - Title V, Part A, Innovative Education Strategies	84.298A	14354	2,134
NCLB - Title III, Immigrant Education	84.365	15146	26,751
NCLB - Title III, Limited English Proficiency Student Program	84.365	14346	152,831
NCLB - Title V, Part B, Public Charter Schools	84.282	14941	110,376
NCLB - Title IV, 21st Century Community Learning Centers	84.287	14349	3,092,452
Direct Program			
Elementary and Secondary School Counseling	84.215E		391,356
Readiness and Emergency Management for Schools	84.184E		113,821
Total U.S. Department of Education			11,514,477
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education			
Child Nutrition Cluster			
School Breakfast	10.553	13390	589,448
National School Lunch	10.555	13391	2,327,310
Summer Food Service Program Operations	10.559	13004	75,943
Total Child Nutrition Cluster			2,992,701
Child and Adult Care Food	10.558	13393	3,193
Pass Through Butte County Office of Education			
Schools and Roads - Grants to Counties	10.666	10044	50,965
Total U.S. Department of Agriculture			3,046,859
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Medicaid Cluster			
Passed Through Glenn County Office of Education			
Medi-Cal Administrative Activities (MAA)	93.778	10060	2,037,632
Passed Through State of California			
Medical Assistance Program (Medi-Cal)	93.778	10013	301,601
Total U.S. Department of Health and Human Services			2,339,233
Total Federal Programs			16,900,569
NONMONETARY ASSISTANCE			
Food Donation	10.550		224,198
Total Expenditures of Federal Awards			\$ 17,124,767

See the accompanying note to the other supplementary information.

**SCHEDULE OF FINANCIAL TRENDS
AND ANALYSIS**

*Chico Unified
School District*

Year Ended June 30	(Budget) 2013	2012	2011	2010
GENERAL FUND				
Revenues and Other Financial Sources	\$ 93,927,738	\$100,055,138	\$104,007,719 *	\$ 98,238,986 *
Expenditures	99,269,542	102,276,402	100,391,525 *	98,975,874 *
Other uses and transfers out	-	172,952	85,493	1,745,278
Total Outgo	99,269,542	102,449,354	100,477,018 *	100,721,152 *
Change in Fund Balance	\$ (5,341,804)	\$ (2,394,216)	\$ 3,530,701 *	\$ (2,482,166) *
Ending Fund Balance	15,374,291	20,716,095	23,110,311 *	19,579,610 *
Available Reserves	11,309,055	14,048,471	19,659,972	13,455,656
Designated for Economic Uncertainties	3,229,542	3,047,780	2,989,131	3,010,688
Undesignated Fund Balance	5,578,659	11,000,691	15,956,973	8,027,214
Available Reserves as a Percentage of Total Outgo	11%	14%	20%	13%
Total Long-Term Debt	52,414,481	54,890,702	57,411,472	60,204,000
Average Daily Attendance at P-2	11,315	11,365	11,402	11,631

* As restated for GASB Statement No. 54 adoption in 2010-11 to include the Deferred Maintenance Fund.

The General Fund balance has increased by \$1,136,485 over the past two years. The fiscal year 2012-13 budget projects a decrease of \$5,341,804 (25.8%). For a district this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in two of the past three years and anticipates incurring an operating deficit during the 2012-13 fiscal year. Total long-term debt has decreased by \$5,313,298 over the past two years.

Average daily attendance has decreased by 266 over the past two years. The District anticipates ADA to decline by 50 during fiscal year 2012-13.

See the accompanying note to the other supplementary information.

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

*Chico Unified
School District*

Year Ended June 30, 2012	General Fund	Cafeteria Special Revenue Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Projects Fund	Bond Interest and Redemption Fund
June 30, 2012 - Annual Financial and Budget Report Fund Balances	<u>\$ 20,935,030</u>	<u>\$ 568,646</u>	<u>\$ 15,605,125</u>	<u>\$ 11,410,205</u>	<u>\$ 8,065,698</u>	<u>\$ 1,264,318</u>	<u>\$ 5,594,155</u>
ADJUSTMENTS INCREASING (DECREASING) THE FUND BALANCES							
Overstatement of cash and cash equivalents	-	-	-	-	-	-	(1,192,700)
Overstatement of cash awaiting deposit	-	(314,771)	-	-	-	-	-
Overstatement of fair value of cash in county treasury	(174,901)	-	(234,003)	(66,731)	-	-	(28,547)
Understatement of fair value of cash in county treasury	-	-	-	-	59,391	-	-
Overstatement of due from other governments	-	(347,366)	-	-	-	-	-
Understatement of due from other funds	-	-	-	-	-	44,034	-
Overstatement of accounts payable	-	104,068	-	-	-	-	-
Understatement of due to other funds	(44,034)	-	-	-	-	-	-
Net Adjustments	<u>(218,935)</u>	<u>(558,069)</u>	<u>(234,003)</u>	<u>(66,731)</u>	<u>59,391</u>	<u>44,034</u>	<u>(1,221,247)</u>
June 30, 2012 - Audited Financial Statement Fund Balances	<u>\$ 20,716,095</u>	<u>\$ 10,577</u>	<u>\$ 15,371,122</u>	<u>\$ 11,343,474</u>	<u>\$ 8,125,089</u>	<u>\$ 1,308,352</u>	<u>\$ 4,372,908</u>

See the accompanying note to the other supplementary information.

SCHEDULE OF CHARTER SCHOOLS

Year Ended June 30, 2012

***Chico Unified
School District***

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

Inspire School of Arts and Sciences

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

Chico County Day School

Blue Oak Charter

Forest Ranch Charter

Nord Country School

Sherwood Montessori

Wildflower Open Classroom

See the accompanying note to the other supplementary information.

**NOTE TO THE OTHER SUPPLEMENTARY
INFORMATION**

June 30, 2012

*Chico Unified
School District*

PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance

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

Schedule of Instructional Time

The District 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 *California Education Code*, Sections 46201 through 46206.

Schedule of Expenditures of Federal Awards

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

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current-year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

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

OTHER REPORTS SECTION



MATSON
& ISOM

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

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

We have audited 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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 6, 2013. 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

Management of the District is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses; and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (item 12-3).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in accompanying schedule of findings and questioned costs to be significant deficiencies (items 12-1 and 12-2).

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

Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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.

Matson and Isom

February 6, 2013
Chico, California

**INDEPENDENT AUDITORS' 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**

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

Compliance

We have audited the compliance of Chico Unified School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. 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, 2012.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our 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 AUDITORS' 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 that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. 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.

Matson and Isom

February 6, 2013
Chico, California

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited the Chico Unified School District's (the District) compliance with the types of state compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, published by the Education Audit Appeals Panel, for the year ended June 30, 2012. The applicable state compliance requirements are identified in the table below. Compliance with the requirements referred to above is the responsibility of the District's management. Our responsibility is to express an opinion on District's compliance with the state laws and regulations based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, published by the Education Audit Appeals Panel. Those standards and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on compliance with the state laws and regulations described in the schedule below. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

Description	Procedures in Audit Guide	Procedures Performed
Attendance reporting	6	Yes
Teacher certification and misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	No
Instructional time:		
School districts	6	Yes
County offices of education	3	Not applicable
Instructional materials:		
General requirements	8	Yes
Ratios of administrative employees to teachers	1	Yes
Classroom teacher salaries	1	Yes
Early retirement incentive program	4	No
Gann limit calculation	1	Yes
School accountability report card	3	Yes
Public hearing requirement - receipt of funds	1	Yes
Juvenile court schools	8	Not applicable
Exclusion of pupils - pertussis immunization	2	Yes

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

Description	Procedures in Audit Guide	Procedures Performed
Class size reduction (including in charter schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	No
Districts or charter schools with only one school serving kindergarten through grade 3	4	Not applicable
After school education and safety program (including charter schools):		
General requirements	4	Yes
After school	5	Yes
Before school	6	Yes
Charter schools:		
Contemporaneous records of attendance	3	Yes
Mode of instruction	1	Yes
Nonclassroom-based instruction/independent study	15	No
Determination of funding for nonclassroom-based instruction	3	No
Annual instructional minutes - classroom based	4	Yes

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

Since the District did not participate in the following programs during 2011-12, all steps related to them were not performed:

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

Since the District did not sponsor any charter schools that offered nonclassroom-based instruction during 2011-12, all steps related to the following were not performed:

- Nonclassroom-based instruction/independent study
- Determination of funding for nonclassroom-based instruction

In our opinion, the District complied, in all material respects, with the state laws and regulations referred to above that are applicable to the District for the year ended June 30, 2012, except as described in the accompanying schedule of findings and questions costs as items 12-4 and 12-5.

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.

Matson and Isom

February 6, 2013
Chico, California

FINDINGS AND QUESTIONED COSTS SECTION

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2012

*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?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Type of auditors' report issued on compliance for major program	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. 10.553	School Breakfast
CFDA No. 10.555	National School Lunch
CFDA No. 10.559	Summer Food Service Program
CFDA No. 84.027	Special Education – IDEA Basic Local Assistance
CFDA No. 84.173	Special Education – IDEA Preschool
CFDA No. 84.391	Special Education – ARRA IDEA Basic Local Assistance
CFDA No. 84.392	Special Education – ARRA IDEA Preschool
Threshold for distinguishing types A and B programs	\$513,743
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, 2012

*Chico Unified
School District*

**SECTION II
FINANCIAL STATEMENTS AUDIT**

INTERNAL CONTROL (Student Body – Bidwell Junior High)
30000 (12-1)

Significant Deficiency

Condition

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

Criteria

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

Effect

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

Recommendation

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

Response

The District's administration will adopt procedures during the 2012-13 fiscal year to comply with the recommendation.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2012

*Chico Unified
School District*

INTERNAL CONTROL (Cash Receipts – Cash in County Treasury)

30000 (12-2)

Significant Deficiency

Condition

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

Criteria

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

Effect

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

Recommendation

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

Response

The District's administration will adopt procedures during the 2012-13 fiscal year to comply with the recommendation.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2012

*Chico Unified
School District*

INTERNAL CONTROL (District Bank Accounts)

30000 (12-3)

Material Weakness

Condition

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

Criteria

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

Effect

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

Recommendation

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

Response

The District will implement procedures during the 2012-13 year to comply with the recommendation.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2012

*Chico Unified
School District*

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2012

*Chico Unified
School District*

SECTION IV FINDINGS STATE AWARDS AUDIT

STATE COMPLIANCE (Exclusion of Pupils – Pertussis Immunization)

40000 (12-4)

Significant Deficiency

Condition

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

Criteria

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

Effect

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

Recommendation

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

Response

The District has amended both the Second Period and Annual Report of School District Attendance and will adopt procedures during the 2012-13 fiscal year to comply with the recommendation.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2012

*Chico Unified
School District*

TEACHER MISASSIGNMENTS (Teacher Certification and Misassignments)

71000 (12-5)

Significant Deficiency

Condition

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

Criteria

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

Effect

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

Recommendation

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

Response

The District will pay the penalty to the California Department of Education and will adopt procedures during the 2012-13 fiscal year to comply with the recommendation.

CORRECTIVE ACTION PLAN

June 30, 2012

*Chico Unified
School District*

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

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2012

*Chico Unified
School District*

INTERNAL CONTROL (Student Body – Inspire School of Arts and Sciences)

30000 (11-1)

Significant Deficiency

Recommendation

The prior auditor recommended that procedures be implemented to strengthen internal controls over student body accounting records.

Current Status

Fully implemented.

ATTENDANCE (Bidwell Junior High School)

10000 (11-2)

Significant Deficiency

Recommendation

The prior auditor recommended that the District's management implement during the 2011-12 school year to ensure that the appropriate signed weekly teachers' attendance reports are being maintained for all school sites.

Current Status

Fully implemented.

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM

10000 (11-3)

Significant Deficiency

Recommendation

The prior auditor recommended that sign in/out sheets be thoroughly completed and that monthly attendance reports be reviewed for accuracy. In addition, the prior auditor recommended that the attendance report be amended for the errors noted.

Current Status

Fully implemented.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2012

*Chico Unified
School District*

ATTENDANCE (Inspire School of Arts and Sciences)

10000 (11-4)

Significant Deficiency

Recommendation

The prior auditor recommended that the charter school's management implement during the 2011-12 school year to ensure that the appropriate signed weekly teachers' attendance reports are being maintained and proper attendance accounting procedures are being followed. In addition, the prior auditor recommended 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 Attendance. The prior auditor also recommended that the charter school filed amended Second Period and Annual Reports of Attendance for 2010-11.

Current Status

Fully implemented.