

**WILLOWS UNIFIED SCHOOL DISTRICT**

**AUDIT REPORT**

**JUNE 30, 2011**



**WILLOWS UNIFIED SCHOOL DISTRICT  
OF GLENN COUNTY**

**WILLOWS, CALIFORNIA**

**JUNE 30, 2011**

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The Willows Unified School District was established in 1966. There were no changes in the boundaries of the District during the current year. The District operates one elementary school, one intermediate school, one high school, and one continuation school.

**GOVERNING BOARD**

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<b>MEMBER</b>	<b>OFFICE</b>	<b>TERM EXPIRES</b>
Jeromy Geiger	President	December 2012
Alex Parisio	Vice President	December 2014
James "Buck" Ward	Clerk	December 2012
Michelle Knight	Member	December 2014
Kyle Munguia	Member	December 2014

**DISTRICT ADMINISTRATORS**

Dr. Mort Geivett  
*Superintendent*

Betty Skala  
*Director of Business Services*

**WILLOWS UNIFIED SCHOOL DISTRICT  
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JUNE 30, 2011**

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Willows Unified School District  
Willows, California

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Willows Unified School District, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Willows Unified School 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; and *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010 – 11*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Willows Unified School District, as of June 30, 2011, 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 our report dated November 23, 2011 on our consideration of the Willows Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

SAN DIEGO

RANCHO CUCAMONGA

2727 Camino Del Rio South • Suite 219 • San Diego, CA 92108 | 8686 Haven Avenue • Suite 250 • Rancho Cucamonga, CA 91730  
tel. 619.270.8222 • [www.cwacpa.com](http://www.cwacpa.com) • fax. 619.260.9085

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The required supplementary information, such as management's discussion and analysis on pages 3 through 9, the budgetary comparison schedule on page 42, and the schedule of funding progress on page 43 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Willows Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and the Combining Statements – Non-Major Governmental Funds, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
San Diego, California  
November 23, 2011

**WILLOWS UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

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**INTRODUCTION**

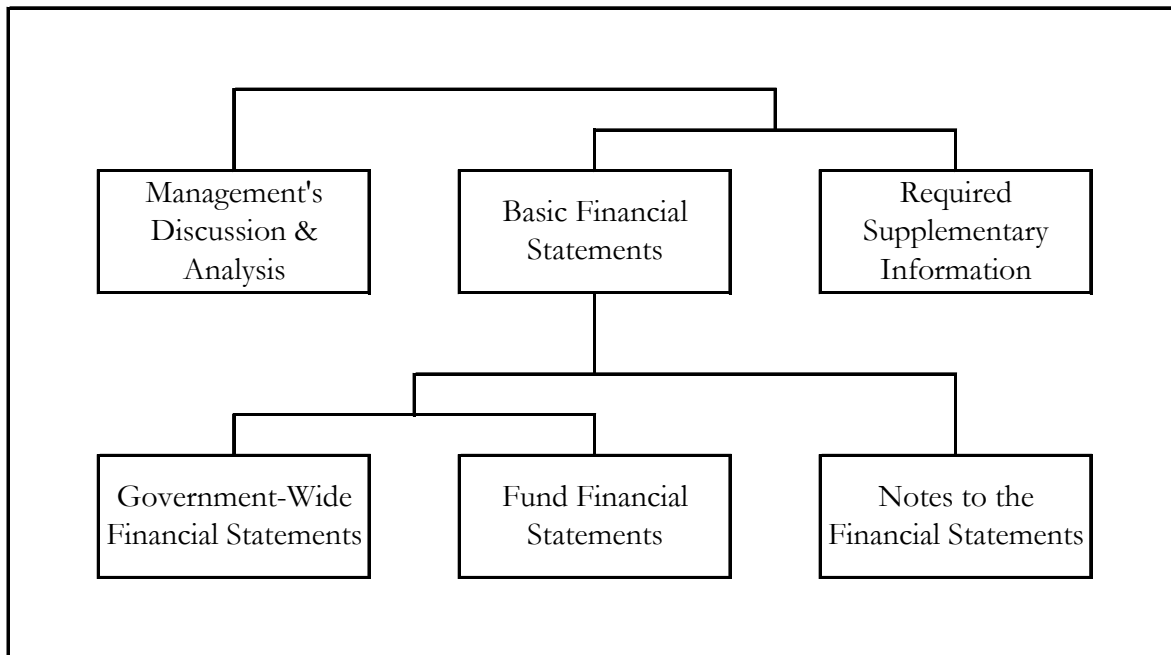
Our discussion and analysis of Willows Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. It should be read in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

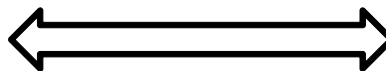
- ▶ Total net assets were \$6.5 million at June 30, 2011. This was an increase of \$0.7 million over the prior year.
- ▶ Overall revenues were \$13.4 million, which exceeded expenses of \$12.7 million.

**OVERVIEW OF FINANCIAL STATEMENTS**

**Components of the Financials Section**



Summary



Detail



**WILLOWS UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
  
- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
  - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
  
  - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

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

### **Government-Wide Statements**

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

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

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

WILLOWS UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*  
JUNE 30, 2011

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FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Assets

The District's combined net assets were \$6,492,897 at June 30, 2011.

	Governmental Activities		
	2011	2010	Net Change
<i>(amounts in thousands)</i>			
<b>ASSETS</b>			
Current assets	\$ 5,080	\$ 4,038	\$ 1,042
Non-current assets, net	3,633	3,871	(238)
<b>Total Assets</b>	<b>8,713</b>	<b>7,909</b>	<b>804</b>
<b>LIABILITIES</b>			
Current liabilities	1,744	1,409	(335)
Non-current liabilities	476	670	194
<b>Total Liabilities</b>	<b>2,220</b>	<b>2,079</b>	<b>(141)</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,645	3,849	(204)
Restricted	1,218	450	768
Unrestricted	1,630	1,531	99
<b>Total Net Assets</b>	<b>\$ 6,493</b>	<b>\$ 5,830</b>	<b>\$ 663</b>

**WILLOWS UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)**

**Changes in Net Assets**

The District's total revenues were \$13,407,456. The majority of the revenue comes from Revenue Limit and property taxes (64%). Federal and state aid for specific programs accounted for another 32% of total revenues. Miscellaneous local sources accounted for the remaining 4%.

The total cost of all programs and services was \$12,744,082. The District's expenses are predominately related to educating and caring for students (65%). Pupil Services (including transportation and food services) account for 11% of expenses. Administrative activities accounted for just 9% of total costs. Plant services, which represent the facilities maintenance and operations costs, account for 9% of all costs. The remaining expenses were for interest on long term debt and other outgo (6%).

	<b>Governmental Activities</b>			
	<i>(amounts in thousands)</i>	<b>2011</b>	<b>2010</b>	<b>Net Change</b>
<b>REVENUES</b>				
Program revenues				
Charges for services	\$	141	\$ 130	\$ 11
Operating grants		2,484	2,030	454
General revenues				
Property taxes		3,359	3,511	(152)
Unrestricted federal and state aid		7,036	6,456	580
Other		388	445	(57)
<b>Total Revenues</b>		<b>13,408</b>	<b>12,572</b>	<b>836</b>
<b>EXPENSES</b>				
Instructional and instruction related		8,272	8,151	(121)
Pupil services		1,361	1,334	(27)
General administration		1,127	1,532	405
Plant services		1,218	1,277	59
Interest		1	2	1
Transfers to other agencies		766	618	(148)
<b>Total Expenses</b>		<b>12,745</b>	<b>12,914</b>	<b>169</b>
<b>Excess (deficiency)</b>		<b>663</b>	<b>(342)</b>	<b>1,005</b>
<b>Net Assets - Beginning</b>		<b>5,830</b>	<b>6,172</b>	<b>(342)</b>
<b>Net Assets - Ending</b>	\$	<b>6,493</b>	\$ 5,830	\$ 663

**CURRENT YEAR BUDGET 2010-11**

The District revises its annual budget over the course of the year. This is done to reflect any changes in expected revenues and expenditures. A schedule of the District's General Fund original and final budget amounts compared with actual revenues and expenditures is provided with the basic financial statements in the audited financial report.

WILLOWS UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*  
JUNE 30, 2011

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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

	<i>(amounts in thousands)</i>		
	<b>Governmental Activities</b>		
	<b>2011</b>	<b>2010</b>	<b>Net Change</b>
<b>CAPITAL ASSETS</b>			
Land and construction in progress	\$ 107	\$ 107	\$ -
Buildings and equipment	11,124	11,144	(20)
Accumulated depreciation	(7,598)	(7,380)	(218)
<b>Total Capital Assets</b>	<b>\$ 3,633</b>	<b>\$ 3,871</b>	<b>\$ (238)</b>

Long-Term Debt

At year-end, the District had \$668,235 in long-term debt, a decrease of 25% from last year – as shown below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	<i>(amounts in thousands)</i>		
	<b>Governmental Activities</b>		
	<b>2011</b>	<b>2010</b>	<b>Net Change</b>
<b>LONG-TERM LIABILITIES</b>			
Capital leases	\$ 12	\$ 36	\$ (24)
Compensated absences	71	58	13
Early retirement incentives	567	756	(189)
Net OPEB	18	37	(19)
<b>Total Long-term Liabilities</b>	<b>\$ 668</b>	<b>\$ 887</b>	<b>\$ (219)</b>

**WILLOWS UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

- At the state level, the budget situation continues to reflect challenging economic times. The 2011 State Budget was balanced on optimistic revenue projections and contains "trigger" language that would reduce school funding mid-year, should the state fail to meet those projections. In addition, one-time sources of federal funding from the American Recovery and Reinvestment Act and the Education Jobs Act are ending and to continue program services funded by these sources will require either new federal funding or a reallocation of district funds. State categorical program flexibility continues for the 2010-11 and 2011-12 fiscal years with no anticipated changes. School districts continue to be authorized to use funding from 42 Tier III categorical programs for any purpose. K-3 class size reduction penalties have been relaxed through 2012-13 and school agencies maintain the flexibility to shorten the school year until 2014-15.
- Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2011-12 fiscal year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for money it receives. If you have any questions about this report, or need additional financial information, contact the District Office: Willows Unified School District; 823 W. Laurel Street; Willows, CA 95988.

**WILLOWS UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

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	<b>Governmental</b>
	<b>Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,043,676
Accounts receivable	1,793,066
Inventory	12,405
Prepaid expenses	230,542
<b>Total current assets</b>	<b>5,079,689</b>
Capital assets, non-depreciable	106,915
Capital assets, depreciable, net	3,526,178
<b>Total non-current assets</b>	<b>3,633,093</b>
<b>Total Assets</b>	<b>8,712,782</b>
<b>LIABILITIES</b>	
Accrued liabilities	1,209,867
Deferred revenue	341,783
Long-term liabilities, current portion	192,730
<b>Total current liabilities</b>	<b>1,744,380</b>
Long-term liabilities, non-current portion	475,505
<b>Total Liabilities</b>	<b>2,219,885</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	3,621,563
Restricted for	
Capital projects	269,934
Cafeteria program	67,262
Educational programs	1,218,414
Unrestricted	1,315,724
<b>Total Net Assets</b>	<b>\$ 6,492,897</b>

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

**WILLOWS UNIFIED SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

Function/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Assets
				Governmental Activities
<b>GOVERNMENTAL ACTIVITIES</b>				
Instruction	\$ 6,866,414	\$ 7,373	\$ 1,223,219	\$ (5,635,822)
Instruction-related services				
Instructional supervision and administration	257,775	-	135,115	(122,660)
Instructional library, media, and technology	91,587	-	54,098	(37,489)
School site administration	1,056,624	271	20,014	(1,036,339)
Pupil services				
Home-to-school transportation	187,986	-	110,466	(77,520)
Food services	668,790	117,135	521,575	(30,080)
All other pupil services	503,825	-	237,294	(266,531)
General administration				
Centralized data processing	181,802	-	6,807	(174,995)
All other general administration	944,723	8,133	119,420	(817,170)
Plant services	1,217,729	7,732	11,530	(1,198,467)
Interest on long-term debt	1,116	-	-	(1,116)
Transfer to other agencies	765,711	-	43,968	(721,743)
<b>Total Governmental Activities</b>	<b>\$ 12,744,082</b>	<b>\$ 140,644</b>	<b>\$ 2,483,506</b>	<b>(10,119,932)</b>
General revenues				
Taxes and subventions				
Property taxes, levied for general purposes				
Federal and state aid not restricted for specific purposes				
Interest and investment earnings				
Interagency revenues				
Miscellaneous				
<b>Subtotal, General Revenue</b>				
<b>CHANGE IN NET ASSETS</b>				
<b>Net Assets - Beginning</b>				
<b>Net Assets - Ending</b>				

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

**WILLOWS UNIFIED SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**JUNE 30, 2011**

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	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,696,287	\$ 347,389	\$ 3,043,676
Accounts receivable	1,721,073	71,993	1,793,066
Due from other funds	62,471	266	62,737
Stores inventory	-	12,405	12,405
Prepaid expenditures	229,420	1,122	230,542
<b>Total Assets</b>	<b>\$ 4,709,251</b>	<b>\$ 433,175</b>	<b>\$ 5,142,426</b>
<b>LIABILITIES</b>			
Accrued liabilities	\$ 1,189,886	\$ 19,981	\$ 1,209,867
Due to other funds	266	62,471	62,737
Deferred revenue	341,783	-	341,783
<b>Total Liabilities</b>	<b>1,531,935</b>	<b>82,452</b>	<b>1,614,387</b>
<b>FUND BALANCES</b>			
Non-spendable	235,195	13,527	248,722
Spendable			
Restricted			
Educational programs	1,218,414	-	1,218,414
Capital projects	-	269,934	269,934
Cafeteria program	-	67,262	67,262
Assigned	1,111,219	-	1,111,219
Unassigned	612,488	-	612,488
<b>Total Fund Balances</b>	<b>3,177,316</b>	<b>350,723</b>	<b>3,528,039</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,709,251</b>	<b>\$ 433,175</b>	<b>\$ 5,142,426</b>

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



**WILLOWS UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT  
OF NET ASSETS  
JUNE 30, 2011**

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**Total Fund Balance - Governmental Funds** \$ 3,528,039

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

Capital assets:

In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation:

Capital assets	\$ 11,230,722	
Accumulated depreciation	(7,597,629)	3,633,093

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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:

Net OPEB obligation	\$ (17,986)	
Compensated absences	(71,438)	
Capital leases payable	(11,530)	
Other long term debt	(567,281)	(668,235)

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**Total Net Assets - Governmental Activities** \$ 6,492,897

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

WILLOWS UNIFIED SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Revenue limit sources	\$ 8,594,116	\$ -	\$ 8,594,116
Federal sources	1,625,166	491,352	2,116,518
Other state sources	2,091,576	38,246	2,129,822
Other local sources	410,908	156,092	567,000
<b>Total Revenues</b>	<b>12,721,766</b>	<b>685,690</b>	<b>13,407,456</b>
<b>EXPENDITURES</b>			
Current			
Instruction	6,781,275	-	6,781,275
Instruction-related services			
Instructional supervision and administration	249,760	-	249,760
Instructional library, media, and technology	91,132	-	91,132
School site administration	1,051,860	-	1,051,860
Pupil services			
Home-to-school transportation	187,946	-	187,946
Food services	-	668,585	668,585
All other pupil services	487,186	-	487,186
General administration			
Centralized data processing	188,519	-	188,519
All other general administration	1,074,638	26,298	1,100,936
Plant services	1,123,883	2,386	1,126,269
Transfers to other agencies	765,711	-	765,711
Debt service			
Principal	24,646	-	24,646
Interest and other	1,116	-	1,116
<b>Total Expenditures</b>	<b>12,027,672</b>	<b>697,269</b>	<b>12,724,941</b>
<b>Excess (Deficiency) of Revenues</b>			
<b>Over Expenditures</b>	<b>694,094</b>	<b>(11,579)</b>	<b>682,515</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	554	35,591	36,145
Transfers out	(35,591)	(554)	(36,145)
<b>Net Financing Sources (Uses)</b>	<b>(35,037)</b>	<b>35,037</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>659,057</b>	<b>23,458</b>	<b>682,515</b>
<b>Fund Balance - Beginning, as originally stated</b>	<b>1,114,355</b>	<b>1,731,169</b>	<b>2,845,524</b>
Adjustments for restatement	1,403,904	(1,403,904)	-
<b>Fund Balance - Beginning, as restated</b>	<b>2,518,259</b>	<b>327,265</b>	<b>2,845,524</b>
<b>Fund Balance - Ending</b>	<b>\$ 3,177,316</b>	<b>\$ 350,723</b>	<b>\$ 3,528,039</b>

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

**WILLOWS UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

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<b>Net Change in Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>682,515</b>
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: \$	6,807	
Depreciation expense:	(244,873)	(238,066)
<hr/>		
Debt service:		
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		
		24,646
Compensated absences:		
In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:		
		(13,693)
Early retirement incentives:		
In governmental funds, early retirement incentives are measured by the amounts paid during the period. In the statement of activities, early retirement incentives are measured by the amount earned. The difference between amounts paid and earned, was:		
		189,094
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:		
		18,878
<b>Change in net assets of Governmental Activities</b>	<b>\$</b>	<b>663,374</b>

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

**WILLOWS UNIFIED SCHOOL DISTRICT**  
**FIDUCIARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

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	<b>Private-Purpose Trust Fund</b>	<b>ASB Agency Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 187,432	\$ 144,097
Accounts receivable	326	76
Stores inventory	-	13,667
<b>Total Assets</b>	<b>187,758</b>	<b>\$ 157,840</b>
<b>LIABILITIES</b>		
Accrued liabilities	-	\$ 32
Due to other agencies/student groups	-	157,808
<b>Total Liabilities</b>	<b>-</b>	<b>\$ 157,840</b>
<b>NET ASSETS</b>		
Unrestricted	187,758	
<b>Total Net Assets</b>	<b>\$ 187,758</b>	

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

**WILLOWS UNIFIED SCHOOL DISTRICT  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011**

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	<u>Private-Purpose Trust Fund</u>
<b>ADDITIONS</b>	
Investment earnings	\$          939
<b>DELETIONS</b>	
Other trust activities	5,000
<b>NET CHANGE IN FUND BALANCE</b>	<u>(4,061)</u>
<b>Net Assets - Beginning</b>	<u>191,819</u>
<b>Net Assets - Ending</b>	<u>\$         187,758</u>

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

**WILLOWS UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

The Willows Unified School District was established in 1966, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K – 12 as mandated by the State and/or Federal agencies. The District operates one elementary school, one intermediate school, one high school, and one continuation high school.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For Willows Unified School District, this includes general operations, food service, and student related activities of the District.

**B. Component Unit**

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no such component units.

**C. Other Related Entities**

**Joint Powers Authority (JPA).** The District is associated with three JPAs. These organizations do not meet the criteria for inclusion as a component unit of the District. Additional information is presented in Note 14 to the financial statements. These organizations are:

- California's Valued Trust (CVT)
- Golden State Risk Management Authority (GSRMA)
- Schools Excess Liability Fund (SELF)

WILLOWS UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Basis of Presentation

**Government-Wide Statements.** The statement of net assets and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue 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. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

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

*Governmental funds* are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

*Fiduciary funds* are used to account for assets held by the Local Education Agency (LEA) in a trustee or agency capacity for others that cannot be used to support the LEA's own programs.

**Major Governmental Funds**

**General Fund.** The general fund is the main operating fund of the LEA. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of an LEA's activities are reported in the general fund unless there is a compelling reason to account for an activity in another fund. An LEA may have only one general fund.

WILLOWS UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Basis of Presentation (*continued*)

Non-Major Governmental Funds

**Special Revenue Funds** are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue fund:

**Cafeteria Special Revenue Fund.** This fund is used to account separately for federal, state, and local resources to operate the food service program (Education Code sections 38090–38093). The Cafeteria Special Revenue Fund (Fund 13) shall be used only for those expenditures authorized by the governing board as necessary for the operation of the LEA's food service program (Education Code sections 38091 and 38100).

**Capital Projects Funds.** Capital projects funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The District maintains the following capital projects fund:

**Capital Facilities Fund.** This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (Education Code sections 17620–17626). The authority for these levies may be county/city ordinances (Government Code sections 65970–65981) or private agreements between the LEA and the developer. Interest earned in the Capital Facilities Fund (Fund 25) is restricted to that fund (Government Code Section 66006).

Fiduciary Funds

**Trust and Agency Funds.** Trust and Agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the LEA's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

**Foundation Private-Purpose Trust Fund.** This fund is used to account separately for gifts or bequests per Education Code Section 41031 that benefit individuals, private organizations, or other governments and under which neither principal nor income may be used for purposes that support the LEA's own programs.

**Student Body Fund.** The Student Body Fund is an agency fund and, therefore, consists only of accounts such as Cash and balancing liability accounts, such as Due to Student Groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (Education Code sections 48930–48938).



WILLOWS UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Basis of Accounting – Measurement Focus

**Government-Wide and Fiduciary Financial Statements**

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

All governmental activities of the District follow Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

**Governmental Funds**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within one year after year-end. All other revenue items are considered to be measurable and available only when the District receives cash. Revenue limits, property taxes, and grant awards are recorded the same as what is described for Government-Wide Statements. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, early retirement and postemployment healthcare benefits and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

**Revenues – Exchange and Non-Exchange Transactions**

Revenue limits and other state apportionments are government mandated non-exchange transactions and are recognized when all eligibility requirements have been met. When the annual calculation of the revenue limit (Form K-12 Annual) is made, and the District's actual tax receipts as reported by the county auditor is subtracted, the result determines the annual state aid to which the LEA is entitled. If the difference between the calculated annual state aid and the state aid received on the second principal apportionment is positive a receivable is recorded, and if it is negative a payable is recorded. The District recognizes property tax revenues actually received as reported on California Department of Education's Principal Apportionment Tax Software, used by county offices of education and county auditors to report school district and county taxes. The District makes no accrual for property taxes receivable as of June 30.

WILLOWS UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Basis of Accounting – Measurement Focus (*continued*)

The District receives grant awards that are "reimbursement type" or "expenditure driven." The eligibility requirements of these awards have not been met until the LEA has made the required expenditures of the grant within the time period specified by the grantor. Revenue is recognized in the period in which the qualifying expenditures are made. Cash received but unspent at the end of the fiscal period is booked as a liability, and revenue is reduced to the amount that has been expended.

The District also receives funds for which they have fulfilled specific eligibility requirements or have provided a particular service. Once the LEAs have provided these services, they have earned the revenue provided. Any unspent money may be carried to the next year to be expended for the same restricted purposes. Revenue is recognized in the period that the service is provided, and any carryover becomes a part of the LEA's ending fund balance.

**Deferred Revenue**

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

WILLOWS UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities, and Net Assets

**Deposits and Investments**

The cash balances of substantially all funds are pooled and invested by the county treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2011, based on market process. The individual funds' portions of the pool's fair value are presented as "Cash in County." Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

**Cash and Cash Equivalents**

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Cash in County is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

**Inventories and Prepaid Items**

Inventories are valued at cost using average cost method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Depreciation of capital assets is computed and recorded by the straight-line method over the following estimated useful life:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Land Improvements	10 – 50 years
Buildings & Improvements	25 – 50 years
Furniture & Equipment	5 – 50 years

**Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net assets.

WILLOWS UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

F. Assets, Liabilities, and Net Assets (*continued*)

**Compensated Absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported.

**Accrued Liabilities and Long-Term Obligations**

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

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

However, claims and judgments and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

WILLOWS UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

F. Assets, Liabilities, and Net Assets (*continued*)

*Restricted* - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide, proprietary fund, and fiduciary trust fund statements.

*Committed* - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

*Assigned* - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

*Unassigned* - In the general fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the general fund, that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**WILLOWS UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Assets, Liabilities, and Net Assets (continued)**

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has related debt outstanding as of June 30, 2011. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The district-wide financial statements report \$6,492,897 of restricted net assets.

**G. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

**H. Estimates**

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

**I. Budgetary Data**

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have been included as revenue and expenditures as required under generally accepted accounting principles.

WILLOWS UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Changes in Accounting Principles

For the fiscal year ended June 30, 2011, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Summary of Deposits and Investments

	Governmental Activities	Fiduciary Funds	Total
Cash on hand and in banks	\$ 8,813	\$ 144,097	\$ 152,910
Cash in revolving fund	3,275	-	3,275
Cash in county	3,031,588	187,432	3,219,020
<b>Total</b>	<b>\$ 3,043,676</b>	<b>\$ 331,529</b>	<b>\$ 3,375,205</b>

B. Policies and Practices

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

**Investment in County Treasury** – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

WILLOWS UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, *continued*  
 JUNE 30, 2011

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NOTE 2 – DEPOSITS AND INVESTMENTS (*continued*)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the investment policy:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker’s Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. As of June 30, 2011, the fair market value of cash in county treasury is approximately \$3,220,470.



WILLOWS UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 2 – DEPOSITS AND INVESTMENTS (*continued*)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the county pool are not required to be rated.

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, all of the District's bank balance was insured.

**WILLOWS UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

**NOTE 3 – ACCOUNTS RECEIVABLE**

Receivables at June 30, 2011, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	Private-Purpose Trust Fund	ASB Agency Funds	Total Fiduciary
Federal Government						
Categorical Aid	\$ 10,464	\$ 65,650	\$ 76,114	\$ -	\$ -	\$ -
State Government						
Apportionment	1,345,555	-	1,345,555	-	-	-
Categorical Aid	170,509	5,704	176,213	-	-	-
Lottery	110,487	-	110,487	-	-	-
Local Government						
Interest	6,557	639	7,196	-	-	-
Other Local Sources	77,501	-	77,501	326	76	402
<b>Total</b>	<b>\$ 1,721,073</b>	<b>\$ 71,993</b>	<b>\$ 1,793,066</b>	<b>\$ 326</b>	<b>\$ 76</b>	<b>\$ 402</b>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 01, 2010	Additions	Deductions	Balance June 30, 2011
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 106,915	\$ -	\$ -	\$ 106,915
Capital assets being depreciated				
Land improvements	673,108	-	-	673,108
Buildings & improvements	8,827,708	-	27,638	8,800,070
Furniture & equipment	1,643,822	6,807	-	1,650,629
Total Capital Assets Being Depreciated	11,144,638	6,807	27,638	11,123,807
Less Accumulated Depreciation				
Land improvements	594,253	7,148	-	601,401
Buildings & improvements	5,449,091	211,413	27,638	5,632,866
Furniture & equipment	1,337,050	26,312	-	1,363,362
Total Accumulated Depreciation	7,380,394	244,873	27,638	7,597,629
<b>Governmental Activities</b>				
<b>Capital Assets, net</b>	<b>\$ 3,871,159</b>	<b>\$ (238,066)</b>	<b>\$ -</b>	<b>\$ 3,633,093</b>

WILLOWS UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

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NOTE 4 – CAPITAL ASSETS (continued)

Depreciation expense was charged as a direct expense to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 98,337
School site administration	8,015
All other pupil services	17,207
All other administration	32,154
Plant services	89,160
<hr/>	
Total Depreciation Expense	
Governmental Activities	\$ 244,873

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

	<u>Due From Other Funds</u>		
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
<u>Due To Other Funds</u>			
General Fund	\$ -	\$ 266	\$ 266
Non-Major Governmental Funds	62,471	-	62,471
<b>Total Due From Other Funds</b>	<b>\$ 62,471</b>	<b>\$ 266</b>	<b>\$ 62,737</b>

A balance due to the Non-Major Cafeteria Fund from the General Fund for the summer school SPARK snack program	\$	266
A balance due to the General Fund from the Non-Major Cafeteria Fund for a reduced contribution and indirect costs		61,917
A balance due to the General Fund from the Non-Major Capital Facilities Fund for the three percent administrative fee on developer fees received		554
<b>Total</b>	<b>\$</b>	<b>62,737</b>

WILLOWS UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

NOTE 5 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

Interfund Transfers Out	Interfund Transfers In		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 35,591	\$ 35,591
Non-Major Governmental Funds	554	-	554
<b>Total Interfund Transfers</b>	<b>\$ 554</b>	<b>\$ 35,591</b>	<b>\$ 36,145</b>

The General Fund transferred to the Non-Major Cafeteria Fund for cash contribution		\$	35,591
The Non-Major Capital Facilities Fund transferred to the General Fund for the three percent administrative fee on developer fees received			554
<b>Total</b>		<b>\$</b>	<b>36,145</b>

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2011, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	ASB Agency Funds
Payroll	\$ 267,986	\$ 19,981	\$ 287,967	\$ -
Vendors payable	921,900	-	921,900	32
<b>Total</b>	<b>\$ 1,189,886</b>	<b>\$ 19,981</b>	<b>\$ 1,209,867</b>	<b>\$ 32</b>

NOTE 7 – TAX REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2010, the District issued \$960,000 Tax and Revenue Anticipation Notes bearing interest at 2.00 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on March 1, 2011. By January 31, 2011, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

**WILLOWS UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 8 – DEFERRED REVENUE**

The District periodically will receive grant money prior to making expenditures for that grant. The source of that grant money is listed below by fund. The deferred revenue totals at June 30, 2011, consist of the following:

	<u>General Fund</u>
Federal sources	\$ 331,959
State categorical sources	4,177
Local deferrals	5,647
<b>Total</b>	<b>\$ 341,783</b>

**NOTE 9 – LONG-TERM DEBT**

**A. Long-Term Debt Summary**

	<u>Balance</u>		<u>Accretion/</u>		<u>Balance</u>		<u>Balance Due</u>
	July 01, 2010		Additions	Deductions	June 30, 2011		In One Year
<b>Governmental Activities</b>							
Capital leases	\$ 36,176	\$	-	\$ 24,646	\$ 11,530	\$	3,636
Compensated absences	57,745		13,693	-	71,438		-
Early retirement incentives	756,375		-	189,094	567,281		189,094
Net OPEB obligations	36,864		-	18,878	17,986		-
<b>Total</b>	<b>\$ 887,160</b>	<b>\$</b>	<b>13,693</b>	<b>\$ 232,618</b>	<b>\$ 668,235</b>	<b>\$</b>	<b>192,730</b>

**B. Capital Leases**

The District has entered into agreements to lease computer equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	<u>Governmental</u>
	<u>Activities</u>
Balance, July 1, 2010	\$ 38,748
Additions	-
Payments	25,900
<b>Balance, June 30, 2011</b>	<b>\$ 12,848</b>

WILLOWS UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, *continued*  
 JUNE 30, 2011

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NOTE 9 – LONG-TERM DEBT (*continued*)

B. Capital Leases (*continued*)

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2012	\$ 4,283
2013	4,283
2014	4,282
Total	12,848
Less: Amount representing interest	1,318
Present value of minimum lease payments	\$ 11,530

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2011, include the following:

Equipment	\$ 413,001
Less: Accumulated depreciation	(401,181)
<b>Total</b>	<b>\$ 11,820</b>

C. Compensated Absences

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$71,438.

D. Early Retirement Incentive

The District has early retirement incentive annuities payable with Pacific Life Insurance for retirees whereby payments will be annual as follows:

Year Ending June 30,	Amount
2012	\$ 189,094
2013	189,094
2014	189,093
<b>Total</b>	<b>\$ 567,281</b>

WILLOWS UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

NOTE 9 – LONG-TERM DEBT (continued)

E. Other Postemployment Benefits

The District follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The District's annual required contribution (ARC) for the year ended June 30, 2011 was \$495,200 with net interest and other adjustments of \$51 for a net annual OPEB cost of \$495,251 and contributions made by the District during the year were \$514,129, which resulted in a decrease to net OPEB obligation of \$18,878. The ending balance was \$17,986. See Note 11 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

NOTE 10 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable			
Non-restricted			
Reserve for revolving cash	\$ 3,275	\$ -	\$ 3,275
Reserve for stores inventory	-	12,405	12,405
Reserve for prepaid expenditures	229,420	1,122	230,542
Reserve for all others	2,500	-	2,500
Spendable			
Restricted			
Educational programs			
Federal	13,423	-	13,423
State	302,647	-	302,647
Local	902,344	-	902,344
Other	-	-	-
Capital projects	-	269,934	269,934
Cafeteria program	-	67,262	67,262
Assigned			
Instructional Materials Funding Realignment Program	174,024	-	174,024
Special Reserve Fund	687,669	-	687,669
Vacation reserve	71,438	-	71,438
Other assignments	178,088	-	178,088
Unassigned			
Reserve for economic uncertainties	612,488	-	612,488
<b>Total</b>	<b>\$ 3,177,316</b>	<b>\$ 350,723</b>	<b>\$ 3,528,039</b>

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, equal to no less than three percent of General Fund expenditures and other financing uses.

WILLOWS UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011

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NOTE 11 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS  
(OPEB)

A. Plan Description

The District provides postemployment medical, dental, and vision benefits to all certificated employees and spouses who retire on or after attaining the age of 55, but not after age 65, with at least 15 consecutive years of service if employed by the District prior to June 30, 1992, and with at least 15 consecutive years of service if on salary step 16 or above in Class V if employed by the District on or after June 30, 1992. The District also provides postemployment health care benefits to all classified employees and spouses who retire on or after attaining the age of 55 with at least 20 years of service to the District, but not after age 65, unless they commenced their employment prior to January 1, 1995, in which case they are eligible for lifetime benefits. The District also provides postemployment health care benefits to all confidential/management employees and spouses who retire on or after attaining the age of 55 with at least 16 years of service to the District, but not after age 65, unless they commenced their employment prior to January 1, 1995, in which case they are eligible for lifetime benefits.

The District provides these benefits through their retiree health program, a single-employer defined benefit health care plan administered by the District. At June 30, 2011, 38 met these eligibility requirements and an estimated 135 participants will be eligible in future years.

B. Funding Policy

The contribution requirements of Plan members and the District are established and may be amended by the District and District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011, the District contributed \$514,129 to the Plan, all of which was used for current premiums.

C. Annual OPEB Cost and Net OPEB Obligatio

The District's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:



WILLOWS UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

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NOTE 11 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POST EMPLOYMENT BENEFITS  
 (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Obligation (continued)

Annual required contribution	\$	495,200
Interest on net OPEB obligation		1,567
Adjustment to annual required contribution		(1,516)
Annual OPEB cost (expense)		495,251
Contributions made		(514,129)
Decrease in net OPEB obligation		(18,878)
Net OPEB obligation, beginning of the year		36,864
Net OPEB obligation, end of the year	\$	17,986

D. Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Fiscal Year	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2009	\$ 495,200	83%	\$ 83,236
2010	\$ 495,200	109%	\$ 36,864
2011	\$ 495,251	104%	\$ 17,986

**WILLOWS UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 11 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS**  
**(OPEB) (continued)**

**E. Funded Status and Funding Progress**

As of January 1, 2009, the most recent actuarial valuation date, the plan was not funded. This results in an unfunded actuarial accrued liability (UAAL) of \$7,640,500. The covered payroll (annual payroll of active employees covered by the plan) was \$10,292,300, and the ratio of UAAL to the covered payroll was zero percent.

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

**F. Actuarial Methods and Assumptions**

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

In the January 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included an inflation rate of 3 percent per year; a 4.25 percent investment return on plan assets. For medical costs a 5.5 percent trend rate was used based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Dental costs are assumed to increase 3 percent and vision costs are assumed to increase 2 percent. Finally, payroll is assumed to increase 3 percent per year. A level percentage of payroll method was used to allocate amortization cost by year. We used a 30 year amortization period. Because there has not been a previous valuation to comply with GASB 43 and/or 45, it was not necessary at this time for the District to make an election with respect to whether to use an “open” or “closed” amortization period; or whether to use different amortization periods for different sources of the UAAL.

**WILLOWS UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer contributory retirement 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).

**A. CalSTRS**

**Plan Description**

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits 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, 7919 Folsom Blvd., Sacramento, CA 95826.

**Funding Policy**

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011 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 last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2010-11	\$ 494,854	100%
2009-10	\$ 494,396	100%
2008-09	\$ 643,599	100%

**On-Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$257,516 (4.267 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund - Budgetary Comparison Schedule.

**WILLOWS UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS (continued)**

**B. CalPERS**

**Plan Description**

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (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 Laws. 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 the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

**Funding Policy**

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011 was 10.707% of annual payroll.

The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2010-11	\$ 158,521	100%
2009-10	\$ 156,921	100%
2008-09	\$ 164,413	100%

**C. Social Security**

As established by federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the Social Security as its alternative plan.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

**WILLOWS UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 13 – COMMITMENTS AND CONTINGENCIES (continued)**

**B. Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2011.

**C. Construction Commitments**

As of June 30, 2011, the District had no commitments with respect to the unfinished capital projects.

**D. Operating Leases**

The District has entered into an operating lease for copiers and printers with a lease term in excess of one year. The agreement does not contain a purchase option. The agreement contains a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel the agreement prior to the expiration date. Future minimum lease payments are as follows:

<b>Fiscal Year</b>	
<b>Ending June 30,</b>	<b>Lease Payments</b>
2012	\$ 58,000
2013	58,000
2014	29,000
	<u>\$ 145,000</u>

**NOTE 14 – PARTICIPATION IN JOINT POWERS AUTHORITIES**

The District is a member of three joint powers authorities (JPAs). The first is the California's Valued Trust (CVT) to provide the District's health and welfare benefits, another is Golden State Risk Management Authority (GSRMA) to provide the District's property and liability coverage, and the final is the Schools Excess Liability Fund (SELF) to provide excess liability coverage. The relationship is such that the JPAs are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these financial statements. Audited financial statements are available from the respective entities.

During the year ended June 30, 2011, the District made payments of \$2,370,188 and \$345,392, to CVT and GSRMA, respectively; payments to SELF are included with the payments to GSRMA.

**WILLOWS UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 15 – SUBSEQUENT EVENTS**

**A. Tax Revenue Anticipation Notes (TRANs)**

The District issued \$885,000 of TRANs dated July 1, 2011. The notes mature on March 1, 2012, and yield a 2.00% interest rate. The notes were sold to supplement cash flow. Repayment requirements are that 100 percent of principal and interest be deposited with the Fiscal Agent during the period January 1, 2012 through and including February 29, 2012.

**NOTE 16 – PRIOR PERIOD RESTATEMENTS**

The District implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, during the fiscal year 2010-11, the effect of which was to reclassify and restate the following funds as General Fund activities:

	General Fund	Special Reserve Fund For Other Than Capital Outlay Projects	Special Reserve Fund for Post- Employment Benefits	Total
<b>2010 Change in Fund Balance</b>	\$ (211,490)	\$ 8,546	\$ 1,602	\$ (201,342)
Decrease in:				
Local revenue	-	(8,546)	(1,602)	(10,148)
Increase in:				
Local revenue	10,148	-	-	10,148
<b>Restated Change in Fund Balance</b>	<b>\$ (201,342)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (201,342)</b>

	General Fund	Special Reserve Fund For Other Than Capital Outlay Projects	Special Reserve Fund for Post- Employment Benefits	Total
<b>2010 Fund Balance</b>	\$ 1,114,355	\$ 1,187,669	\$ 216,235	\$ 2,518,259
Decrease in:				
Cash in County	-	(648,150)	(215,814)	(863,964)
Accounts receivable	-	(1,436)	(421)	(1,857)
Due from Other Funds	-	(538,083)	-	(538,083)
Increase in:				
Cash in County	863,964	-	-	863,964
Accounts receivable	1,857	-	-	1,857
Due from Other Funds	538,083	-	-	538,083
<b>Restated Fund Balance</b>	<b>\$ 2,518,259</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,518,259</b>

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**WILLOWS UNIFIED SCHOOL DISTRICT  
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Positive / (Negative) Final to Actual
<b>REVENUES</b>				
Revenue limit sources				
State aid	\$ 4,801,214	\$ 5,359,312	\$ 5,425,598	\$ 66,286
Local sources	3,478,952	3,475,106	3,358,922	(116,184)
Transfers	(35,472)	(195,144)	(190,404)	4,740
Federal sources	924,928	1,846,575	1,625,166	(221,409)
Other state sources	1,704,950	1,772,846	2,091,576	318,730
Other local sources	308,876	359,813	410,908	51,095
<b>Total Revenues</b>	<b>11,183,448</b>	<b>12,618,508</b>	<b>12,721,766</b>	<b>103,258</b>
<b>EXPENDITURES</b>				
Certificated salaries	6,365,234	6,146,566	6,035,055	111,511
Classified salaries	1,413,346	1,450,576	1,474,166	(23,590)
Employee benefits	1,881,232	1,887,158	2,109,789	(222,631)
Books and supplies	423,510	909,458	305,659	603,799
Services and other operating expenditures	1,269,567	1,499,726	1,331,021	168,705
Capital outlay	-	1,103	6,807	(5,704)
Other outgo				
Excluding transfers of indirect costs	819,078	907,325	791,473	115,852
Transfers of indirect costs	(28,972)	(29,815)	(26,298)	(3,517)
<b>Total Expenditures</b>	<b>12,142,995</b>	<b>12,772,097</b>	<b>12,027,672</b>	<b>744,425</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>(959,547)</b>	<b>(153,589)</b>	<b>694,094</b>	<b>847,683</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	864,863	560	554	(6)
Transfers out	(965,292)	(71,210)	(35,591)	35,619
<b>Net Financing Sources (Uses)</b>	<b>(100,429)</b>	<b>(70,650)</b>	<b>(35,037)</b>	<b>35,613</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,059,976)</b>	<b>(224,239)</b>	<b>659,057</b>	<b>883,296</b>
<b>Fund Balance - Beginning, as restated</b>	<b>2,518,259</b>	<b>2,518,259</b>	<b>2,518,259</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 1,458,283</b>	<b>\$ 2,294,020</b>	<b>\$ 3,177,316</b>	<b>\$ 883,296</b>



**WILLOWS UNIFIED SCHOOL DISTRICT  
 SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT (OPEB) FUNDING PROGRESS AND  
 EMPLOYER CONTRIBUTION  
 FOR THE YEAR ENDED JUNE 30, 2011**

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Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a) / c]
January 1, 2009	\$ -	\$ 7,640,500	\$ 7,640,500	0%	\$ 10,292,300	74%

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**SUPPLEMENTARY  
INFORMATION**

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**WILLOWS UNIFIED SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
Passed through California Department of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I, Part A Cluster:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14416	\$ 562,275
ARRA: Title I, Part A, Basic Grants Low Income and Neglected	84.389	15005	145,931
Subtotal			<u>708,206</u>
Title II, Part A Cluster:			
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	176,488
Title II, Part A, Administrator Training	84.367	14344	3,000
Subtotal			<u>179,488</u>
Title II, Part D Cluster:			
ARRA: Title II, Part D, Enhancing Education Through Technology (EETT) Formula Grants	84.386	15019	9,544
ARRA: Title II, Part D, Enhancing Education Through Technology, Competitive Grants (EETT)	84.386	15126	9,217
Subtotal			<u>18,761</u>
Title III, Limited English Proficient (LEP) Student Program	84.365	10084	19,903
Title IV, Part A, Drug-Free Schools	84.186	14347	8,039
Title VI, Part B, Rural & Low Income School Program	84.358	14356	42,293
ARRA: State Fiscal Stabilization Fund (SFSF)	84.394	25008	162,799
Education Jobs Fund (SB 847)	84.410	25152	130,916
<b>Total U. S. Department of Education</b>			<u>1,270,405</u>
U. S. DEPARTMENT OF AGRICULTURE:			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch	10.555	13396	342,461
Especially Needy Breakfast	10.553	13526	94,768
Meal Supplements	10.555	13528	13,688
Commodities	10.555	13389	40,435
Subtotal			<u>491,352</u>
Forest Reserve	10.665	10044	20,766
<b>Total U. S. Department of Agriculture</b>			<u>512,118</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Passed through California Department of Health Services:			
Medi-Cal Billing Option	93.778	10013	1,412
Passed through Glenn County Office of Education (GCOE):			
Medi-Cal Administrative Activities (MAA)	93.778	10060	69,464
<b>Total U. S. Department of Health &amp; Human Services</b>			<u>70,876</u>
U.S. DEPARTMENT OF THE INTERIOR			
Passed through GCOE:			
Fish and Wildlife Management Assistance	15.608	*	14,810
<b>Total Federal Expenditures</b>			<u>\$ 1,868,209</u>

\* - PCS Number not available

See accompanying note to supplementary information.

**WILLOWS UNIFIED SCHOOL DISTRICT  
 SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)  
 FOR THE YEAR ENDED JUNE 30, 2011**

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	<b>Second Period Report</b>	<b>Annual Report</b>
<b>ELEMENTARY</b>		
Kindergarten	117	116
First through third	309	307
Fourth through sixth	331	328
Seventh through eighth	185	184
Special day class	66	67
Total Elementary	1,008	1,002
<b>SECONDARY</b>		
Regular classes	414	407
Continuation education	25	27
Special day class	40	41
Total Secondary	479	475
Average Daily Attendance Total	1,487	1,477

See accompanying note to supplementary information.

**WILLOWS UNIFIED SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2011**

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<b>Grade Level</b>	<b>1982 - 83</b>	<b>1982 - 83</b>	<b>1986 - 87</b>	<b>1986 - 87</b>	<b>2010-11</b>	<b>Number of Days</b>	<b>Status</b>
	<b>Actual Minutes</b>	<b>Actual Minutes Reduced</b>	<b>Minutes Requirement</b>	<b>Minutes Requirement Reduced</b>	<b>Actual Minutes</b>		
Kindergarten	31,500	30,625	36,000	35,000	52,580	175	Complied
Grade 1	46,740	45,442	50,400	49,000	49,080	175	Complied
Grade 2	46,740	45,442	50,400	49,000	49,080	175	Complied
Grade 3	46,740	45,442	50,400	49,000	50,700	175	Complied
Grade 4	50,120	48,728	54,000	52,500	52,751	175	Complied
Grade 5	50,120	48,728	54,000	52,500	57,081	175	Complied
Grade 6	50,120	48,728	54,000	52,500	57,081	175	Complied
Grade 7	50,120	48,728	54,000	52,500	57,081	175	Complied
Grade 8	50,120	48,728	54,000	52,500	57,081	175	Complied
Grade 9	58,885	57,249	64,800	63,000	63,737	175	Complied
Grade 10	58,885	57,249	64,800	63,000	63,737	175	Complied
Grade 11	58,885	57,249	64,800	63,000	63,737	175	Complied
Grade 12	58,885	57,249	64,800	63,000	63,737	175	Complied

See accompanying note to supplementary information.

**WILLOWS UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

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	2012 (Budget)	2011	2010	2009
GENERAL FUND:				
Revenues	\$ 11,188,270	\$ 12,721,766	\$ 11,926,135	\$ 14,367,312
Transfers in	560	554	179,555	63,609
Total	11,188,830	12,722,320	12,105,690	14,430,921
Expenditures	11,411,832	12,027,672	12,223,450	13,992,911
Other uses and transfers out	61,018	35,591	93,730	862,571
Total	11,472,850	12,063,263	12,317,180	14,855,482
INCREASE/(DECREASE)				
IN FUND BALANCE	\$ (284,020)	\$ 659,057	\$ (211,490)	\$ (424,561)
ENDING FUND BALANCE <sup>1</sup>				
	\$ 2,893,296	\$ 3,177,316	\$ 1,114,355	\$ 1,325,845
AVAILABLE RESERVES <sup>1</sup>				
	\$ 696,911	\$ 612,488	\$ 111,429	\$ 1,386,685
AVAILABLE RESERVES AS A				
PERCENTAGE OF OUTGO	6.1%	5.1%	0.9%	9.3%
LONG-TERM DEBT				
	\$ 475,505	\$ 668,235	\$ 887,160	\$ 1,167,437
AVERAGE DAILY				
ATTENDANCE AT P-2	1,398	1,487	1,602	1,628

The General Fund balance has increased by \$1,851,471 over the past two years. The fiscal year 2011-2012 budget projects a further decrease of \$284,020 (16 percent). For a district this size, the State recommends available reserves of at least three percent of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2011-2012 fiscal year. Total long term obligations have decreased by \$499,202 over the past two years.

Average daily attendance has decreased by 141 ADA over the past two years. Additional decrease of 89 ADA is anticipated during fiscal year 2011-2012.

<sup>1</sup> Available reserves consist of all funds designated for economic uncertainty within the General Fund and the Reserve for Economic Uncertainty. The General Fund beginning balance was restated by \$1,403,904 with the implementation of GASB 54, see Note 6 to the financial statements.

**WILLOWS UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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*There were no differences between the Annual Financial and Budget Report and the Audited Financial Statements as of June 30, 2011.*

**WILLOWS UNIFIED SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
JUNE 30, 2011**

	Cafeteria Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits	Capital Facilities Fund	Non-Major Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 77,365	\$ -	\$ -	\$ 270,024	\$ 347,389
Accounts receivable	71,529	-	-	464	71,993
Due from other funds	266	-	-	-	266
Stores inventory	12,405	-	-	-	12,405
Prepaid expenditures	1,122	-	-	-	1,122
<b>Total Assets</b>	<b>\$ 162,687</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 270,488</b>	<b>\$ 433,175</b>
<b>LIABILITIES</b>					
Accrued liabilities	\$ 19,981	\$ -	\$ -	\$ -	\$ 19,981
Due to other funds	61,917	-	-	554	62,471
<b>Total Liabilities</b>	<b>81,898</b>	<b>-</b>	<b>-</b>	<b>554</b>	<b>82,452</b>
<b>FUND BALANCES</b>					
Non-spendable	13,527	-	-	-	13,527
Spendable					
Restricted					
Capital projects	-	-	-	269,934	269,934
Cafeteria program	67,262	-	-	-	67,262
<b>Total Fund Balances</b>	<b>80,789</b>	<b>-</b>	<b>-</b>	<b>269,934</b>	<b>350,723</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 162,687</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 270,488</b>	<b>\$ 433,175</b>

See accompanying note to supplementary information.



**WILLOWS UNIFIED SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
 BALANCE  
 FOR THE YEAR ENDED JUNE 30, 2011**

	Cafeteria Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits	Capital Facilities Fund	Non-Major Governmental Funds
<b>REVENUES</b>					
Federal sources	\$ 491,352	\$ -	\$ -	\$ -	\$ 491,352
Other state sources	38,246	-	-	-	38,246
Other local sources	136,346	-	-	19,746	156,092
<b>Total Revenues</b>	<b>665,944</b>	<b>-</b>	<b>-</b>	<b>19,746</b>	<b>685,690</b>
<b>EXPENDITURES</b>					
Current					
Pupil services					
Food services	668,585	-	-	-	668,585
General administration					
All other general administration	26,298	-	-	-	26,298
Plant services	2,386	-	-	-	2,386
<b>Total Expenditures</b>	<b>697,269</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>697,269</b>
<b>Excess (Deficiency) of Revenues</b>					
<b>Over Expenditures</b>	<b>(31,325)</b>	<b>-</b>	<b>-</b>	<b>19,746</b>	<b>(11,579)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	35,591	-	-	-	35,591
Transfers out	-	-	-	(554)	(554)
<b>Net Financing Sources (Uses)</b>	<b>35,591</b>	<b>-</b>	<b>-</b>	<b>(554)</b>	<b>35,037</b>
<b>NET CHANGE IN FUND BALANCE</b>					
<b>Fund Balance - Beginning, as originally stated</b>	<b>76,523</b>	<b>1,187,669</b>	<b>216,235</b>	<b>250,742</b>	<b>1,731,169</b>
Adjustments for restatement	-	(1,187,669)	(216,235)	-	(1,403,904)
<b>Fund Balance - Beginning, as restated</b>	<b>76,523</b>	<b>-</b>	<b>-</b>	<b>250,742</b>	<b>327,265</b>
<b>Fund Balance - Ending</b>	<b>\$ 80,789</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 269,934</b>	<b>\$ 350,723</b>

See accompanying note to supplementary information.

**WILLOWS UNIFIED SCHOOL DISTRICT  
 NOTES TO SUPPLEMENTARY INFORMATION  
 JUNE 30, 2011**

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**NOTE 1 – PURPOSE OF SCHEDULES**

**A. Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2011 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2011.

	CFDA	
	Number	Amount
	<u>          </u>	<u>          </u>
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 2,116,518
ARRA: State Fiscal Stabilization Fund (SFSF)	84.394	83,964
Medi-Cal Billing Option	93.778	153
Medi-Cal Administrative Activities (MAA)	93.778	(332,426)
<u>Total Expenditures reported in the Schedule of Expenditures of Federal Awards</u>		<u>\$ 1,868,209</u>

**B. Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) 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.

**C. Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201.

**WILLOWS UNIFIED SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2011**

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**NOTE 1 – PURPOSE OF SCHEDULES (continued)**

**D. 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.

**E. Schedule of Annual Financial and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

**F. Combining Statements – Non-Major Governmental Funds**

These statements provide information on the District's non-major governmental funds.

**G. Local Education Agency Organization Structure**

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration. (Located in the front of the audit report)

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**OTHER INDEPENDENT  
AUDITORS' REPORTS**

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

Board of Trustees  
Willows Unified School District  
Willows, California

We have audited the financial statements of Willows Unified School District as of and for the year ended June 30, 2011, and have issued our report thereon dated November 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of Willows Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Willows Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as finding #2011-1 that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Willows Unified School 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*.

Willows Unified School District's responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit Willows Unified School District's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the California 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.

*Christ White Accountancy Corporation*

San Diego, California

November 23, 2011

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

Board of Trustees  
Willows Unified School District  
Willows, California

**Compliance**

We have audited Willows Unified School District's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. Willows Unified School District's major federal programs are identified in the summary of auditor's 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 Willows Unified School District's management. Our responsibility is to express an opinion on Willows Unified School 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 that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Willows Unified School 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 Willows Unified School District's compliance with those requirements.

In our opinion, Willows Unified School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and which are reported in the accompanying Schedule of Audit Findings and Questioned Costs as finding #2011-2.

## Internal Control over Compliance

Management of Willows Unified School 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 Willows Unified School 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.

*A deficiency in internal control over compliance* 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, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

Willows Unified School District's responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit Willows Unified School District's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the California 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.

*Chint White Accountancy Corporation*

San Diego, California

November 23, 2011





**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

Board of Trustees  
 Willows Unified School District  
 Willows, California

We have audited Willows Unified School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations for the year ended June 30, 2011. Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Willows Unified School District's management. Our responsibility is to express an opinion on Willows Unified School District's compliance 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Willows Unified School 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 on Willows Unified School District's compliance with the state laws and regulations referred to above.

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

<b>PROGRAM NAME</b>	<b>PROCEDURES IN AUDIT GUIDE</b>	<b>PROCEDURES PERFORMED</b>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time for:		
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

**SAN DIEGO**

**RANCHO CUCAMONGA**

<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Class Size Reduction (including in charter schools):		
General requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or charter schools with only one school serving K - 3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	5	Not Applicable
Contemporaneous Records of Attendance; for charter schools	1	Not Applicable
Mode of Instruction; for charter schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	3	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	3	Not Applicable

In our opinion, Willows Unified School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2011.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the California 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.

*Chintia White* *Accountancy Corporation*

San Diego, California

November 23, 2011

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**SCHEDULE OF FINDINGS AND  
QUESTIONED COSTS**

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**WILLOWS UNIFIED SCHOOL DISTRICT  
SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	<u>Yes</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
<u>84.010, 84.389 (ARRA)</u>	<u>Title I, Part A Cluster (including ARRA)</u>
<u>84.394 (ARRA)</u>	<u>ARRA: State Fiscal Stabilization Fund (SFSF)</u>
<u>84.410</u>	<u>Education Jobs Fund (SB 847)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unqualified</u>

**WILLOWS UNIFIED SCHOOL DISTRICT  
 FINANCIAL STATEMENT FINDINGS  
 FOR THE YEAR ENDED JUNE 30, 2011**

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**FIVE DIGIT CODE**

20000  
 30000  
 60000

**AB 3627 FINDING TYPE**

Inventory of Equipment  
 Internal Control  
 Miscellaneous

**FINDING #2011-1: ASSOCIATED STUDENT BODY FUND (30000)**

**Criteria:** Maintaining sound internal control procedures over cash receipts, cash disbursements, bank reconciliations and minutes of council meetings reduces the opportunity for irregularities to go undetected. The Fiscal Crisis & Management Assistance Team (FCMAT) Associated Student Body Accounting Manual & Desk Reference outlines proper internal control procedures for associated student body accounts to follow.

**Condition: Willows High School**

Auditor noted that 7 out of 17 cash receipts did not have a proper cash control sheet. Cash control documentation such as inventory reconciliations, ticket sales, tally sheets or sequentially numbered cash receipts are important to ensure that all cash collected is deposited intact and that any over/shortages are tracked and investigated when significant. The specific exceptions found were:

1. Concession stand sales amounting to \$1,759.76 deposited on 8/30/10 had no cash control sheet.
2. Pizza sales during meeting amounting to \$132.76 deposited on 9/20/10 had no cash control sheet.
3. Car wash amounting to \$800 deposited on 10/11/10 had no cash control sheet for \$788 worth of the sales. The other \$12 was paid in check.
4. Egg roll sales amounting to \$387.90 deposited on 10/21/10 had no cash control sheet for \$319 worth of the sales.
5. Home Economic Cookbooks amounting to \$220 deposited on 11/10/10 had no cash control sheet for \$200 worth of sales.
6. Spaghetti Fundraiser amounting to \$1,800 deposited on 1/28/11 had no cash control sheet for \$460 worth of the sales.
7. Valentine roses amounting to \$56.80 deposited on 2/14/11 had no cash control sheet.

Three (3) out of 20 expenditures tested were approved before items were paid for. Prior approval of expenditures is important to help ensure the items/services are allowable ASB expenditures and there are sufficient funds available. The specific exceptions found were:

- Cookbooks had invoice date of 11/22/10 and purchase order approval of 12/1.
- All Seasons expense had invoice date of 12/3 and purchase order of 12/15.
- Cali Girls expense had invoice date of 10/19 and purchase order date of 12/16.

**WILLOWS UNIFIED SCHOOL DISTRICT  
FINANCIAL STATEMENT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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**FINDING #2011-1: ASSOCIATED STUDENT BODY FUND (30000) (continued)**

**Willows Intermediate School**

The following audit findings were noted at Willows Intermediate School's Student Body:

- Student approval, as evidenced through the review of student council minutes, is not being obtained for cash disbursements.
- Student council does not prepare revenue potentials for major fundraising events to help project budgeted revenues, expenditures and net profits.

**Cause:** Insufficient controls over student body activities.

**Effect:** The potential for irregularities in accounting to go undetected.

**Recommendation:** We recommend training and monitoring of the ASB accounting for compliance with good internal control practices.

**District Response:** The District has enrolled both ASB clerks in the School Services of California's on-line workshop which should improve controls during the 2011-12 fiscal year.

**WILLOWS UNIFIED SCHOOL DISTRICT  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**FIVE DIGIT CODE**

50000

**AB 3627 FINDING TYPE**

Federal Compliance

**FINDING #2011-2: REMITTANCE OF INTEREST ON ADVANCED FEDERAL FUNDS (50000)**

**CFDA Number and Title:** 84.010 Title I, Part A, Basic Grants Low-Income and Neglected  
84.394 American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization  
Fund  
84.410 Education Jobs Fund

**Federal Grantor Name:** U.S. Department of Education

**Federal Award/Contract Number:** Not Applicable

**Pass-through Entity Name:** California Department of Education

**Questioned Cost Amount:** \$105 – 84.010 Title I, Part A, Basic Grants Low-Income and Neglected  
\$186 – 84.394 ARRA State Fiscal Stabilization Fund  
\$340 – 84.410 Education Jobs Fund

**Criteria:** Federal Law Title 34 CFR 80.21(i)(2010) requires for Interest earned on advances that grantees and subgrantees promptly and at least quarterly remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

**Condition:** The District did not remit interest earned on advances of Federal funds.

**Cause:** The District was unaware of the requirement to prepare the calculation and remit the interest in excess of \$100.

**Effect:** Non compliance with the Federal Code of Regulations the amounts in which are immaterial to the programs.

**Recommendation:** We recommend the District perform the calculation and remittance at least quarterly.

**District Response:** The District will perform the calculation and ensure that proper remittances are made in accordance with law.

**WILLOWS UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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*There were no state award findings or questioned costs in 2010-11.*



**WILLOWS UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

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*Prior Year Audit Finding #2010-1: Financial Uncertainty (60000)*

**Condition:** Willows Unified School District filed qualified certifications on First and Second Interim reports with the Glenn County Office of Education for the fiscal year 2009-10. The qualified finding status states that the District is unable to meet its cash flow needs. In addition, the District did not meet their minimum 3% reserve at June 30, 2010. However, the District does have designated fund balance reserves amounting to \$1.2 Million in the Special Reserve Fund for Other Than Capital Outlay. This money is one-time in nature and designated for other purposes but might assist with meeting cash flow needs.

**Recommendation:** We recommend the District take the necessary corrective actions to meet their cash flow needs, including spending reductions, and borrowing funds, if necessary.

**Current Status:** Implemented.

**WILLOWS UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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*Prior Year Audit Finding #2010-2: Associated Student Bodies (30000)*

**Criteria:** Internal controls should be implemented to minimize the possibility for waste or abuse of ASB resources.

**Condition:** We found the following internal control deficiencies during the audit of Willows Intermediate School's ASB:

- One out of five cash receipts tested did not have appropriate supporting documentation that reconciled cash collected to cash deposited.
- Student approval is not being obtained for cash disbursements
- Checks are pre-signed by the principal and vice principal before payee and dollar amounts are completed.
- Student council minutes are not kept for clubs.
- Clubs do not have charters or constitutions on file.
- Student council does not prepare a budget or revenue potentials.
- Ticket logs and ticket sales reports are not used for dances.

We found the following internal control deficiencies during the audit of Willows High School's ASB:

- Three out of seven cash receipts tested were missing supporting documentation that reconciled cash collected to cash deposited.
- One out of seven cash receipts tested showed a shortage of \$62.

**Cause:** District ASB policies and procedures have either not been communicated to those with responsibility for managing ASB resources or are not being followed.

**Effect:** The possibility exists for waste or abuse of ASB resources without timely detection.

**Recommendation:** Provide training to ASB staff and implement controls to address the internal control deficiencies noted above.

**Current Status:** Not implemented, see Finding #2011-1

**WILLOWS UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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*Prior Year Audit Finding #2010-3: Cash Disbursements (30000)*

**Condition:** During our testing of internal controls over the cash disbursement function, we found that purchase orders were often obtained after the corresponding expenditure had been incurred. We tested 29 District expenditures in the 2009-10 fiscal year and found that three purchase orders accompanying the expenditure documentation were dated after the corresponding invoice date.

**Recommendation:** We recommend that purchase orders and contracts be approved before expenditures are incurred. If the item is for an emergency repair, we recommend a verbal purchase order number is obtained from the business office followed up by a written order. Adhering to this process will help ensure that unauthorized expenditures do not occur.

**Current Status:** Substantially implemented

*Prior Year Audit Finding #2010-4 Credit Cards (30000)*

**Condition:** Through our testing of credit cards, we found that two out of the four credit card transactions tested were approved only by the cardholder, and one out of the four credit card transactions tested did not contain all of the proper documentation to support the payment.

**Recommendation:** We recommend that the cardholder not approve their own transactions and that supporting documentation is provided for all credit card charges, including itemized receipts when available.

**Current Status:** Implemented

**WILLOWS UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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*Prior Year Audit Finding #2010-5: Independent Study (10000)*

**Criteria:** For attendance generated through independent study, all independent study written agreements need to contain the signatures of the pupil, pupil's parent or guardian, and a certificated employee prior to the commencement of independent study (Education Code Section 51747(c)(8)).

**Condition:** At two school sites we found that a total of four agreements did not contain all required signatures on or before the commencement of independent study. A total of 78 days of attendance were deemed to be unallowable.

**Cause:** Clerical oversight as District procedures were not followed to obtain all required elements of the independent study agreement prior to commencement of independent study.

**Effect:** Overstatement of independent study attendance.

**Questioned costs:** 78 attendance days were overstated as tested (0.60 ADA). Given 131 days in the 2009-10 P-2 attendance period and a 2009-10 base revenue limit per ADA of \$6,417, the fiscal impact of the ADA overstatement is \$3,821.

**Context:** Four independent study contracts tested at two school sites.

**Recommendation:** The District should continue to monitor the procedures and policies over independent study through annual training. The District should revise P-2 and Annual to exclude the 78 ineligible attendance days.

**Current Status:** Implemented

**WILLOWS UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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*Prior Year Audit Finding #2010-6 Attendance Internal Controls (10000)*

**State Funding Source:** Revenue Limit ADA

**Criteria:** All source documents prepared for attendance accounting should be maintained to support the accuracy of the system information pursuant to provisions of the California Code of Regulations Title V- Regulations Required.

**Condition:** For Willows Intermediate School, attendance clerks are collecting substitute rosters that are filled out manually with attendance data, entering the information into the attendance system, and discarding the source documentation.

**Questioned Costs:** None, there is corroborating evidence of attendance for students tested in this departmentalized intermediate educational program.

**Context:** All substitute rosters at the above mentioned school site.

**Effect:** The District is out of compliance with respect to maintaining contemporaneous records that support the attendance being reported.

**Cause:** The attendance clerk at the above mentioned school site was simply discarding the substitute teacher rosters unaware of the contemporaneous record keeping requirement.

**Recommendation:** Although we believe there are alternative procedures that mitigate the risk of inaccurate attendance records including weekly review of the signed weekly certificated teacher rosters, parent notes, parent call logs, and parent access to attendance database online, we recommend that the attendance personnel maintain those records to support the attendance information being reported by the District.

**Current Status:** Implemented