

WILLOWS UNIFIED SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2012



**WILLOWS UNIFIED SCHOOL DISTRICT
OF GLENN COUNTY**

WILLOWS, CALIFORNIA

JUNE 30, 2012

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

Member	Office	Term Expires
Alex Parisio	President	December 2014
Jeromy Geiger	Vice President	December 2012
Michelle Knight	Clerk	December 2014
James "Buck" Ward	Member	December 2012
Kyle Munguia	Member	December 2014

DISTRICT ADMINISTRATORS

Dr. Mort Geivett
Superintendent

Debby Beymer * effective July 16, 2012
Director of Business Services

**WILLOWS UNIFIED SCHOOL DISTRICT
 TABLE OF CONTENTS
 FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL SECTION

Independent Auditors' Report 1
 Management's Discussion and Analysis..... 3
 Basic Financial Statements
 Government-wide Financial Statements
 Statement of Net Assets 10
 Statement of Activities 11
 Fund Financial Statements
 Governmental Funds – Balance Sheet..... 12
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 13
 Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances..... 14
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund
 Balances to the Statement of Activities 15
 Fiduciary Funds – Statement of Net Assets..... 17
 Fiduciary Funds – Statement of Changes in Net Assets..... 18
 Notes to Financial Statements 19

REQUIRED SUPPLEMENTARY INFORMATION

General Fund – Budgetary Comparison Schedule 44
 Schedule of Funding Progress 45
 Notes to Required Supplementary Information..... 46

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards 47
 Schedule of Average Daily Attendance (ADA)..... 48
 Schedule of Instructional Time 49
 Schedule of Financial Trends and Analysis 50
 Reconciliation of Annual Financial and Budget Report with Audited Financial Statements..... 51
 Combining Statements – Non-Major Governmental Funds
 Combining Balance Sheet..... 52
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances..... 53
 Notes to Supplementary Information..... 54

**WILLOWS UNIFIED SCHOOL DISTRICT
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2012**

OTHER INDEPENDENT AUDITORS' REPORTS

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* 56

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..... 58

Independent Auditors' Report on State Compliance 60

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results 62

Financial Statement Findings..... 63

Federal Award Findings and Questioned Costs 64

State Award Findings and Questioned Costs..... 65

Summary Schedule of Prior Audit Findings 66

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

Licensed by the California
State Board of Accountancy

Governing Board
Willows Unified School District
Willows, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Willows Unified School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Willows Unified School District, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2012 on our consideration of 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.

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 3 through 9, the budgetary comparison information on page 44, and the schedule of funding progress on page 45 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Christy White Associates

San Diego, California
December 3, 2012

WILLOWS UNIFIED SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

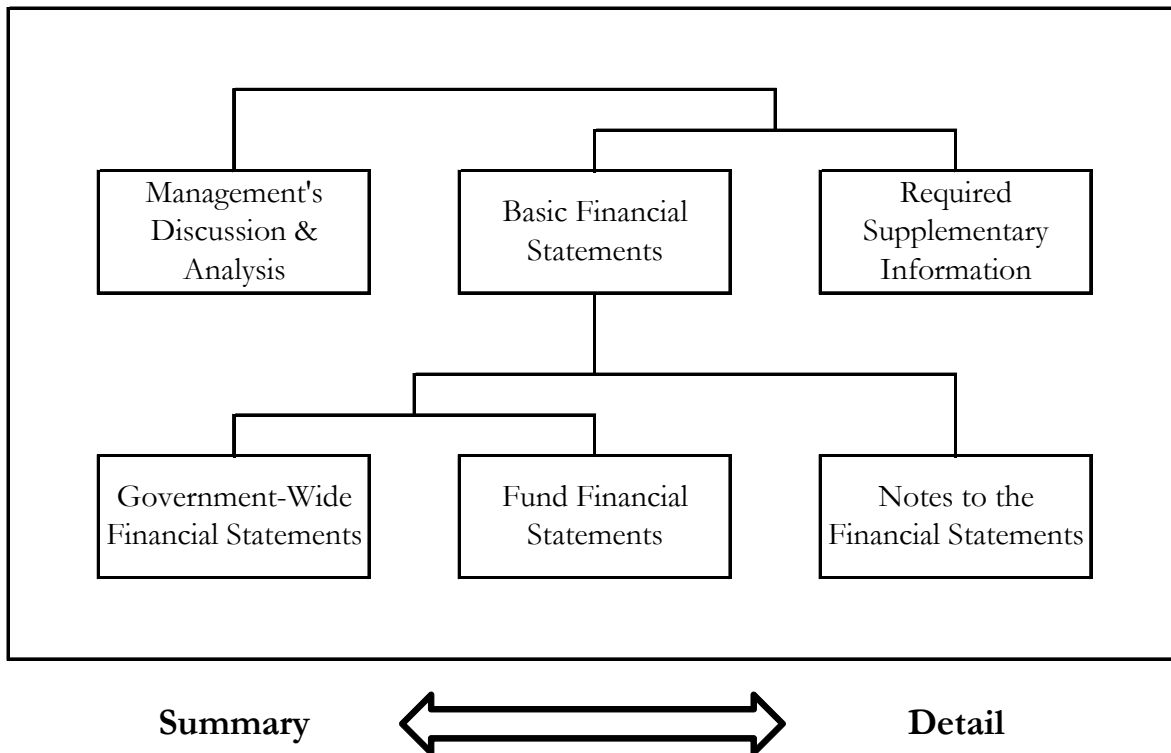
Our discussion and analysis of Willows Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total net assets were \$6,869,150 at June 30, 2012. This was an increase of \$376,253 from the prior year.
- Overall revenues were \$12,486,734 which exceeded expenses of \$12,110,481.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**WILLOWS UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

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.

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
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Assets

The District's combined net assets were \$6,869,150 at June 30, 2012, as reflected in Table A-1 below. Of this amount, \$2,070,430 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use those net assets for day-to-day operations.

Table A-1

	Governmental Activities		
	2012	2011	Net Change
ASSETS			
Current and other assets	\$ 5,173,544	\$ 5,079,689	\$ 93,855
Capital assets	3,367,823	3,633,093	(265,270)
Total Assets	8,541,367	8,712,782	(171,415)
LIABILITIES			
Current liabilities	1,351,322	1,744,380	393,058
Long-term liabilities	320,895	475,505	154,610
Total Liabilities	1,672,217	2,219,885	547,668
NET ASSETS			
Invested in capital assets, net of related debt	3,359,929	3,621,563	(261,634)
Restricted	1,438,791	1,555,610	(116,819)
Unrestricted	2,070,430	1,315,724	754,706
Total Net Assets	\$ 6,869,150	\$ 6,492,897	\$ 376,253

**WILLOWS UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Table A-2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly, so you can see our total revenues, expenses, and special items for the year.

Table A-2

	Governmental Activities		
	2012	2011	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 122,811	\$ 140,644	\$ (17,833)
Operating grants and contributions	2,006,772	2,483,506	(476,734)
General revenues			
Property taxes	3,329,058	3,358,922	(29,864)
Unrestricted federal and state aid	6,646,891	7,036,291	(389,400)
Other	381,202	388,093	(6,891)
Total Revenues	12,486,734	13,407,456	(920,722)
EXPENSES			
Instruction	6,383,679	6,866,414	(482,735)
Instruction-related services	1,356,217	1,405,986	(49,769)
Pupil services	1,330,134	1,360,601	(30,467)
General administration	1,039,395	1,126,525	(87,130)
Plant services	1,233,450	1,217,729	15,721
Ancillary and community services	4,318	-	4,318
Debt service	647	1,116	(469)
Other Outgo	762,641	765,711	(3,070)
Total Expenses	12,110,481	12,744,082	(633,601)
Change in net assets	376,253	663,374	(287,121)
Net Assets - Beginning	6,492,897	5,829,523	663,374
Net Assets - Ending	\$ 6,869,150	\$ 6,492,897	\$ 376,253

**WILLOWS UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Assets (continued)

The cost of all our governmental activities this year was \$12,110,481 (refer to Table A-3). The amount that our taxpayers ultimately financed for these activities through taxes was only \$3,329,058 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions (\$8,653,663).

	Table A-3	
	Total cost of services	Net cost of services
Instruction	\$ 6,383,679	\$ 5,481,645
Instruction-related services	1,356,217	1,174,718
Pupil services	1,330,134	428,941
General administration	1,039,395	915,141
Plant services	1,233,450	1,212,847
Ancillary and community services	4,318	4,318
Debt service	647	647
Transfers to other agencies	762,641	762,641
Total Expenses	\$ 12,110,481	\$ 9,980,898

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$4,015,156, which is more than last year's ending fund balance of \$3,528,039. The District's General Fund had \$493,561 more in operating revenues than expenditures for the year ended June 30, 2012.

CURRENT YEAR BUDGET 2011-12

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a monthly basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

**WILLOWS UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011-12 the District had invested \$3,367,823 in capital assets, net of accumulated depreciation.

Table A-4

	Governmental Activities		
	2012	2011	Net Change
CAPITAL ASSETS			
Land	\$ 106,915	\$ 106,915	\$ -
Land improvements	673,108	673,108	-
Buildings & improvements	8,800,070	8,800,070	-
Furniture & equipment	1,656,379	1,650,629	5,750
Accumulated depreciation	(7,868,649)	(7,597,629)	(271,020)
Total Capital Assets	\$ 3,367,823	\$ 3,633,093	\$ (265,270)

Long-Term Liabilities

At year-end, the District had \$513,829 in long-term liabilities, a decrease of 23.1% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

Table A-5

	Governmental Activities		
	2012	2011	Net Change
LONG-TERM LIABILITIES			
Capital leases	\$ 7,894	\$ 11,530	\$ (3,636)
Early retirement incentive	378,187	567,281	(189,094)
Compensated absences	105,025	71,438	33,587
Net OPEB obligation	22,723	17,986	4,737
Total Long-term Liabilities	\$ 513,829	\$ 668,235	\$ (154,406)

**WILLOWS UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

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. A major key to higher funding for education is the recovery of the economy. There were two tax initiatives on the November 2012 ballot – the Governor's Proposition 30 and a rival tax initiative, Proposition 38. Since the Governor's proposal was approved by voters in November 2012, K-12 spending will remain flat at roughly the 2011-12 level. State categorical program flexibility continues for the 2011-12 and 2012-13 fiscal years with no anticipated changes. School districts are currently authorized to use funding from Tier III categorical programs for any purpose. K-3 class size reduction penalties have been relaxed through 2013-14 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 2012-13 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any 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, 2012

	Governmental
	Activities
	<hr/>
ASSETS	
Cash and cash equivalents	\$ 3,121,062
Accounts receivable	1,813,276
Inventory	4,772
Prepaid expenses	234,434
Capital assets, not depreciated	106,915
Capital assets, net of accumulated depreciation	3,260,908
Total Assets	<hr/> 8,541,367 <hr/>
LIABILITIES	
Accrued liabilities	1,033,911
Deferred revenue	124,477
Long-term liabilities, current portion	192,934
Long-term liabilities, non-current portion	320,895
Total Liabilities	<hr/> 1,672,217 <hr/>
NET ASSETS	
Invested in capital assets, net of related debt	3,359,929
Restricted for	
Capital projects	277,311
Educational programs	1,161,480
Unrestricted	2,070,430
Total Net Assets	<hr/> \$ 6,869,150 <hr/>

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

**WILLOWS UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Function/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 6,383,679	\$ 3,131	\$ 898,903	\$ (5,481,645)
Instruction-related services				
Instructional supervision and administration	250,837	-	132,448	(118,389)
Instructional library, media, and technology	50,681	-	31,218	(19,463)
School site administration	1,054,699	-	17,833	(1,036,866)
Pupil services				
Home-to-school transportation	188,358	-	114,175	(74,183)
Food services	614,462	107,407	463,825	(43,230)
All other pupil services	527,314	-	215,786	(311,528)
General administration				
Centralized data processing	107,486	1,651	10,549	(95,286)
All other general administration	931,909	5,178	106,876	(819,855)
Plant services	1,233,450	5,444	15,159	(1,212,847)
Community services	4,318	-	-	(4,318)
Interest on long-term debt	647	-	-	(647)
Other Outgo	762,641	-	-	(762,641)
Total Governmental Activities	\$ 12,110,481	\$ 122,811	\$ 2,006,772	(9,980,898)
General revenues				
Taxes and subventions				
Property taxes, levied for general purposes				3,329,058
Federal and state aid not restricted for specific purposes				6,646,891
Interest and investment earnings				19,015
Interagency revenues				215,495
Miscellaneous				146,692
Subtotal, General Revenue				10,357,151
CHANGE IN NET ASSETS				376,253
Net Assets - Beginning				6,492,897
Net Assets - Ending				\$ 6,869,150

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

WILLOWS UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,809,724	\$ 311,338	\$ 3,121,062
Accounts receivable	1,743,948	69,328	1,813,276
Due from other funds	25,999	27,048	53,047
Stores inventory	-	4,772	4,772
Prepaid expenditures	232,287	2,147	234,434
Total Assets	\$ 4,811,958	\$ 414,633	\$ 5,226,591
LIABILITIES			
Accrued liabilities	\$ 1,016,604	\$ 17,307	\$ 1,033,911
Due to other funds	27,048	25,999	53,047
Deferred revenue	124,477	-	124,477
Total Liabilities	1,168,129	43,306	1,211,435
FUND BALANCES			
Nonspendable	239,062	6,919	245,981
Restricted	1,108,723	330,068	1,438,791
Assigned	1,599,133	34,340	1,633,473
Unassigned	696,911	-	696,911
Total Fund Balances	3,643,829	371,327	4,015,156
Total Liabilities and Fund Balances	\$ 4,811,958	\$ 414,633	\$ 5,226,591

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, 2012**

Total Fund Balance - Governmental Funds \$ 4,015,156

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	\$ 11,236,472	
Accumulated depreciation	(7,868,649)	3,367,823

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:

Capital leases	\$ 7,894	
Early retirement incentive	378,187	
Compensated absences	105,025	
Net OPEB obligation	22,723	(513,829)

Total Net Assets - Governmental Activities \$ 6,869,150

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 BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Revenue limit sources			
State aid	\$ 5,048,731	\$ -	\$ 5,048,731
Local sources	3,329,058	-	3,329,058
Transfers	(250,905)	-	(250,905)
Federal sources	1,184,231	477,409	1,661,640
Other state sources	2,127,101	37,673	2,164,774
Other local sources	412,327	121,109	533,436
Total Revenues	11,850,543	636,191	12,486,734
EXPENDITURES			
Current			
Instruction	6,271,715	-	6,271,715
Instruction-related services			
Instructional supervision and administration	250,706	-	250,706
Instructional library, media, and technology	49,530	-	49,530
School site administration	1,028,778	-	1,028,778
Pupil services			
Home-to-school transportation	187,970	-	187,970
Food services	-	614,250	614,250
All other pupil services	506,808	-	506,808
General administration			
Centralized data processing	113,236	-	113,236
All other general administration	1,051,462	25,999	1,077,461
Plant services	1,125,535	2,386	1,127,921
Community services	4,318	-	4,318
Transfers to other agencies	762,641	-	762,641
Debt service			
Principal	3,636	-	3,636
Interest and other	647	-	647
Total Expenditures	11,356,982	642,635	11,999,617
Excess (Deficiency) of Revenues			
Over Expenditures	493,561	(6,444)	487,117
Other Financing Sources (Uses)			
Transfers In	-	27,048	27,048
Transfers Out	(27,048)	-	(27,048)
Net Financing Sources (Uses)	(27,048)	27,048	-
NET CHANGE IN FUND BALANCE	466,513	20,604	487,117
Fund Balance - Beginning	3,177,316	350,723	3,528,039
Fund Balance - Ending	\$ 3,643,829	\$ 371,327	\$ 4,015,156

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 BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances - Governmental Funds \$ 487,117

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:	\$ 5,750	
Depreciation expense:	<u>(271,020)</u>	(265,270)

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:

3,636

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:

(33,587)

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, continued
FOR THE YEAR ENDED JUNE 30, 2012**

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:

(4,737)

Other liabilities not normally liquidated with current financial resources:

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were:

189,094

Change in Net Assets of Governmental Activities

\$ 376,253

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

WILLOWS UNIFIED SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Trust Funds</u>	<u>Agency Funds</u>
	<u>Private-Purpose</u>	<u>Student Body</u>
	<u>Trust Fund</u>	<u>Fund</u>
ASSETS		
Cash and cash equivalents	\$ 181,305	\$ 119,620
Accounts receivable	260	-
Total Assets	<u>181,565</u>	<u>\$ 119,620</u>
LIABILITIES		
Due to student groups	-	\$ 119,620
Total Liabilities	<u>-</u>	<u>\$ 119,620</u>
NET ASSETS		
Unrestricted	181,565	
Total Net Assets	<u>\$ 181,565</u>	

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, 2012

	<u>Trust Funds</u> <u>Private-Purpose</u> <u>Trust Fund</u>
ADDITIONS	
Investment earnings	\$ 807
DEDUCTIONS	
Other trust activities	7,000
CHANGE IN NET ASSETS	<u>(6,193)</u>
Net Assets - Beginning	187,758
Net Assets - Ending	<u>\$ 181,565</u>

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

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Willows Unified School District (the “District”) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. 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 the District, this includes general operations, food service, and student-related activities.

B. Component Units

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. 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 or business segment is self-financing or draws from the general revenues of the District.

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

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

C. **Basis of Presentation** (*continued*)

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 District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. 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 the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

Non-Major Governmental Funds

Special Revenue 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 funds:

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 shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections 38091 and 38100*).

Capital Project Funds: Capital project 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).

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 District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

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

C. Basis of Presentation (*continued*)

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 District'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 District'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*).

D. 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-type activities of the District follow the FASB and AICPA pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Governmental Funds

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

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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 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.

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

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

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Assets, Liabilities, Fund Balance and Net Assets

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Inventories

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.

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, Fund Balance and Net Assets (continued)

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. 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 capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<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.

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 recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

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

E. Assets, Liabilities, Fund Balance and Net Assets (*continued*)

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, compensated absences 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 other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Deferred Issuance Costs, Premiums, and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

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.

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.

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.

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

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

E. Assets, Liabilities, Fund Balance and Net Assets (*continued*)

Fund Balance (*continued*)

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.

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. 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.

F. 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 in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

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

G. 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.

H. 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 not been included as revenue and expenditures as required under generally accepted accounting principles.

I. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

WILLOWS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Fiduciary Funds
Cash in county	\$ 3,094,427	\$ 181,305
Cash on hand and in banks	22,360	119,620
Cash in revolving fund	4,275	-
Total cash and cash equivalents	\$ 3,121,062	\$ 300,925

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; collateralized mortgage obligations; and the County Investment Pool.

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Glenn County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is 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, 2012

NOTE 2 – CASH 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 the investment types permitted by California Government Code.

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 Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$3,274,880.

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 2 – CASH 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 investments in the County Treasury are not required to be rated. As of June 30, 2012, the pooled investments in the County Treasury were not 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. 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, 2012, the District's bank balance was not exposed to custodial credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	Total Fiduciary
Federal Government				
Categorical aid	\$ 11,098	\$ 60,996	\$ 72,094	\$ -
State Government				
Apportionment	1,456,015	-	1,456,015	-
Categorical aid	194,668	5,144	199,812	-
Lottery	35,651	-	35,651	-
Local Government				
Other Local Sources	46,516	3,188	49,704	260
Total	\$ 1,743,948	\$ 69,328	\$ 1,813,276	\$ 260

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance July 01, 2011	Additions	Deletions	Balance June 30, 2012
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 106,915	\$ -	\$ -	\$ 106,915
Construction in progress	-	-	-	-
Total Capital Assets not Being Depreciated	106,915	-	-	106,915
Capital assets being depreciated				
Land improvements	673,108	-	-	673,108
Buildings & improvements	8,800,070	-	-	8,800,070
Furniture & equipment	1,650,629	5,750	-	1,656,379
Total Capital Assets Being Depreciated	11,123,807	5,750	-	11,129,557
Less Accumulated Depreciation				
Land improvements	601,401	11,355	-	612,756
Buildings & improvements	5,632,866	214,237	-	5,847,103
Furniture & equipment	1,363,362	45,428	-	1,408,790
Total Accumulated Depreciation	7,597,629	271,020	-	7,868,649
Governmental Activities				
Capital Assets, net	\$ 3,633,093	\$ (265,270)	\$ -	\$ 3,367,823

Depreciation expense was allocated to governmental activities as follows:

Governmental Activities	
Instruction	\$ 108,837
School site administration	8,871
All other pupil services	19,044
All other general administration	35,588
Plant services	98,680
Total	<u>\$ 271,020</u>

WILLOWS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012

NOTE 5 – INTERFUND TRANSACTIONS

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

Individual interfund receivable and payable balances at June 30, 2012 were as follows:

<u>Due To Other Funds</u>	<u>Due From Other Funds</u>		
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 27,048	\$ 27,048
Non-Major Governmental Funds	25,999	-	25,999
Total Due From Other Funds	\$ 25,999	\$ 27,048	\$ 53,047

The General Fund owed the Non-Major Cafeteria Fund for cash flow purposes.	\$ 27,048
The Non-Major Cafeteria Fund owed the General Fund for indirect costs and administrative fees.	25,999
Total	\$ 53,047

B. Operating Transfers

Interfund transfers for the year ended June 30, 2012 consisted of the following:

<u>Interfund Transfers Out</u>	<u>Interfund Transfers In</u>
	<u>Non-Major Governmental Funds</u>
General Fund	\$ 27,048
Total Interfund Transfers	\$ 27,048

The General Fund transferred to the Non-Major Cafeteria Fund for cash flow purposes.	\$ 27,048
Total	\$ 27,048

WILLOWS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2012 consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Payroll	\$ 176,514	\$ 16,369	\$ 192,883
Vendors payable	106,489	938	107,427
Apportionment	733,601	-	733,601
Total	\$ 1,016,604	\$ 17,307	\$ 1,033,911

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2012, consisted of the following:

	General Fund
Federal sources	\$ 84,973
State categorical sources	32,728
Local deferrals	6,776
Total	\$ 124,477

NOTE 8 – TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2011, the District issued \$885,000 of 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, 2012. By February 2012, the District had paid off the notes.

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 9 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2012 consisted of the following:

	Balance July 01, 2011	Additions	Deductions	Balance June 30, 2012	Balance Due In One Year
Governmental Activities					
Capital leases	\$ 11,530	\$ -	\$ 3,636	\$ 7,894	\$ 3,840
Early retirement incentive	567,281	-	189,094	378,187	189,094
Compensated absences	71,438	33,587	-	105,025	-
Net OPEB obligation	17,986	4,737	-	22,723	-
Total	\$ 668,235	\$ 38,324	\$ 192,730	\$ 513,829	\$ 192,934

A. 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 capital leases have minimum lease payments as follows:

Year Ended June 30,	Lease Payment
2013	\$ 4,283
2014	4,282
Total	8,565
Less: Amount representing interest	(671)
Present value of minimum lease payments	\$ 7,894

Leased equipment under capital leases in capital assets at June 30, 2012, includes the following:

Equipment	\$ 19,168
Less: Accumulated depreciation	(11,501)
Total	\$ 7,667

WILLOWS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2012

NOTE 9 – LONG-TERM DEBT (*continued*)

B. Early Retirement Incentive

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

<u>Year Ended June 30,</u>	<u>Amount</u>
2013	\$ 189,094
2014	189,093
Total	<u>\$ 378,187</u>

C. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2012 amounted to \$105,025. This amount is included as part of long-term liabilities in the government-wide financial statements.

D. 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, 2012 was \$621,530 with net interest and other adjustments of (\$271) for a net annual OPEB cost of \$621,259. The contributions made by the District during the year were \$616,522 (including the implicit rate subsidy), which resulted in an increase to net OPEB obligation of \$4,737. At June 30, 2012, the ending balance was \$22,723. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefit plan.

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 10 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2012:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable			
Revolving cash	\$ 4,275	\$ -	\$ 4,275
Stores inventory	-	4,772	4,772
Prepaid expenditures	232,287	2,147	234,434
All others	2,500	-	2,500
Total non-spendable	239,062	6,919	245,981
Restricted			
Educational programs	1,108,723	-	1,108,723
Capital projects	-	277,311	277,311
All others	-	52,757	52,757
Total restricted	1,108,723	330,068	1,438,791
Assigned			
Vacation liability	105,025	-	105,025
Fund 17 Reserve	687,669	-	687,669
Instructional Materials	175,866	-	175,866
CAHSEE	19,218	-	19,218
PEER WUTA	19,402	-	19,402
Opportunity	3,944	-	3,944
Classroom supplies	12,000	-	12,000
Bus purchase	143,000	-	143,000
Solar project	110,000	-	110,000
Equipment repairs	10,000	-	10,000
Equipment replacement	60,000	31,840	91,840
Restore EFB	253,009	-	253,009
Other assignments	-	2,500	2,500
Total assigned	1,599,133	34,340	1,633,473
Unassigned			
Reserve for economic uncertainties	696,911	-	696,911
Total	\$ 3,643,829	\$ 371,327	\$ 4,015,156

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, 2012

NOTE 11 –POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

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, 2012, 49 met these eligibility requirements and an estimated 112 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 2012, the District contributed \$616,522 (including the implicit rate subsidy) to the Plan, all of which was used for current premiums.

As of June 30, 2012, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

WILLOWS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Obligation

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 the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (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:

Annual required contribution	\$ 621,530
Interest on net OPEB obligation	899
Adjustment to annual required contribution	<u>(1,170)</u>
Annual OPEB cost (expense)	621,259
Contributions made	<u>(616,522)</u>
Increase (decrease) in net OPEB obligation	4,737
Net OPEB obligation, beginning of the year	<u>17,986</u>
Net OPEB obligation, end of the year	<u>\$ 22,723</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2012 and the preceding two years were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2012	\$ 621,259	99%	\$ 22,723
2011	\$ 495,251	104%	\$ 17,986
2010	\$ 495,200	109%	\$ 36,864

WILLOWS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial evaluation consists of the following:

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2011	\$ -	\$ 7,109,278	\$ 7,109,278	0%	\$ 7,056,519	101%

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, investment returns, 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 financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

WILLOWS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2012

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (*continued*)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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.

Additional information as of the latest actuarial valuation follows:

Valuation Date	7/1/2011
Actuarial Cost Method	Projected Unit Credit
Amortization Method	30-year level dollar, open
Asset Valuation	\$ -
Actuarial Assumptions:	
Investment rate of return	5.0%
Discount rate	5.0%
Health care trend rate	8.0%
Inflation rate	5.0%

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer 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).

California State Teachers' Retirement System (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 2012 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>
2011-12	\$ 451,046	100%
2010-11	\$ 494,854	100%
2009-10	\$ 494,396	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$233,286 to CalSTRS (4.267% of salaries subject to CalSTRS in 2011-12).

WILLOWS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS (continued)

California Public Employees’ Retirement System (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 2012 was 10.923% 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:

	Contribution	Percent of Required Contribution
2011-12	\$ 136,672	100%
2010-11	\$ 158,521	100%
2009-10	\$ 156,921	100%

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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, 2012.

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, 2012.

C. 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:

<u>Year Ended June 30,</u>	<u>Lease Payments</u>
2013	\$ 58,000
2014	29,000
	<u>\$ 87,000</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.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**WILLOWS UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
Revenue limit sources				
State aid	\$ 4,588,914	\$ 4,887,089	\$ 5,048,731	\$ 161,642
Local sources	3,475,106	3,351,535	3,329,058	(22,477)
Transfers	(279,845)	(346,818)	(250,905)	95,913
Federal sources	44,995	212,116	1,184,231	972,115
Other State sources	1,258,654	1,320,621	1,893,815	573,194
Other local sources	332,455	372,009	412,327	40,318
Total Revenues	9,420,279	9,796,552	11,617,257	1,820,705
EXPENDITURES				
Certificated salaries	4,856,598	4,951,960	5,523,275	(571,315)
Classified salaries	903,978	933,698	1,336,710	(403,012)
Employee benefits	1,468,095	1,510,850	1,824,628	(313,778)
Books and supplies	131,781	241,947	366,597	(124,650)
Services and other operating expenditures	1,298,784	1,317,420	1,325,811	(8,391)
Capital outlay	-	5,750	5,750	-
Other outgo				
Excluding transfers of indirect costs	4,283	4,283	766,924	(762,641)
Transfers of indirect costs	(146,980)	(184,626)	(25,999)	(158,627)
Total Expenditures	8,516,539	8,781,282	11,123,696	(2,342,414)
Excess (Deficiency) of Revenues				
Over Expenditures	903,740	1,015,270	493,561	(521,709)
Other Financing Sources (Uses)				
Transfers In	560	560	-	(560)
Contributions	(995,208)	(1,201,318)	-	1,201,318
Transfers Out	(61,018)	(58,962)	(27,048)	31,914
Net Financing Sources (Uses)	(1,055,666)	(1,259,720)	(27,048)	1,232,672
NET CHANGE IN FUND BALANCE				
Fund Balance - Beginning	3,177,316	3,177,316	3,177,316	-
Fund Balance - Ending	\$ 3,025,390	\$ 2,932,866	\$ 3,643,829	\$ 710,963

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance because, on behalf payments of \$233,286 are not included in the actual revenues and expenditures reported in this schedule.

See accompanying note to required supplementary information.

**WILLOWS UNIFIED SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012**

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2011	\$ -	\$ 7,109,278	\$ 7,109,278	0%	\$ 7,056,519	101%
January 1, 2009	-	7,640,500	7,640,500	0%	10,292,300	74%

See accompanying note to required supplementary information.

**WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District’s budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2012, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Certificated salaries	\$ 4,951,960	\$ 5,523,275	\$ 571,315
Classified salaries	\$ 933,698	\$ 1,336,710	\$ 403,012
Employee benefits	\$ 1,510,850	\$ 1,824,628	\$ 313,778
Books and supplies	\$ 241,947	\$ 366,597	\$ 124,650
Services and other operating expenditures	\$ 1,317,420	\$ 1,325,811	\$ 8,391
Other outgo			
Excluding transfers of indirect costs	\$ 4,283	\$ 766,924	\$ 762,641
Transfers of indirect costs	\$ (184,626)	\$ (25,999)	\$ 158,627

**SUPPLEMENTARY
INFORMATION**

**WILLOWS UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A Cluster			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14981	\$ 563,545
Title I, Part A, Program Improvement LEA Corrective Action	84.010	14955	72,015
Subtotal Title I, Part A Cluster			<u>635,560</u>
Title II, Part A, Teacher Quality	84.367A	14341	92,309
Educational Technology State Grants Cluster			
Title II, Part D, Enhancing Education Through Technology, Formula Grants	84.318	14334	5,348
ARRA Title II, Part D, Enhancing Education Through Technology (EETT) Formula Grant	84.386	15019	952
ARRA Title II, Part D, Enhancing Education Through Technology, Competitive Grants (I	84.386	15126	783
Education Technology State Grants Cluster			<u>7,083</u>
Title III Cluster			
Title III, Immigrant Education Program	84.365	15146	610
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	40,309
Subtotal Title III Cluster			<u>40,919</u>
Title IV, Part A, Drug-Free Schools	84.186	14347	3,087
Title VI, Part B, Rural & Low Income School Program	84.358	14356	37,039
Education Jobs Fund	84.410	25152	179,462
Total U. S. Department of Education			<u>995,459</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program	10.553	13526	92,151
National School Lunch Program	10.555	13391	337,474
Meal Supplements	10.555	13392	15,780
Commodities	10.555	13391	32,004
Subtotal Child Nutrition Cluster			<u>477,409</u>
Forest Reserve Funds	10.665	10044	16,486
Total U. S. Department of Agriculture			<u>493,895</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Health Services:</i>			
Medicaid Cluster			
Medi-Cal Billing Option	93.778	10013	2,828
Medi-Cal Administrative Activities (MAA)	93.778	10060	171,696
Subtotal Medicaid Cluster			<u>174,524</u>
Total U. S. Department of Health & Human Services			<u>174,524</u>
Total Federal Expenditures			<u>\$ 1,663,878</u>

See accompanying note to supplementary information.

**WILLOWS UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
 FOR THE YEAR ENDED JUNE 30, 2012**

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	96	96
First through third	297	296
Fourth through sixth	313	311
Seventh through eighth	193	191
Special education	61	60
Total Elementary	960	954
SECONDARY		
Regular classes	405	401
Continuation education	20	20
Special education	50	50
Total Secondary	475	471
Average Daily Attendance Total	1,435	1,425

See accompanying note to supplementary information.

**WILLOWS UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012**

Grade Level	1982-83		1986-87		2011-12 Actual Minutes	Number of Days	Status
	Actual Minutes	Actual Minutes Reduced	Minutes Requirement	Minutes Requirement Reduced			
Kindergarten	36,750	34,300	36,000	33,600	52,400	180	Complied
Grade 1	46,375	43,283	50,400	47,040	48,834	180	Complied
Grade 2	46,375	43,283	50,400	47,040	48,834	180	Complied
Grade 3	46,375	43,283	50,400	47,040	50,455	180	Complied
Grade 4	46,375	43,283	54,000	50,400	51,320	180	Complied
Grade 5	46,375	43,283	54,000	50,400	59,120	180	Complied
Grade 6	46,375	43,283	54,000	50,400	59,120	180	Complied
Grade 7	46,375	43,283	54,000	50,400	59,120	180	Complied
Grade 8	46,375	43,283	54,000	50,400	59,120	180	Complied
Grade 9	56,912	53,118	64,800	60,480	63,175	180	Complied
Grade 10	56,912	53,118	64,800	60,480	63,175	180	Complied
Grade 11	56,912	53,118	64,800	60,480	63,175	180	Complied
Grade 12	56,912	53,118	64,800	60,480	63,175	180	Complied

See accompanying note to supplementary information.

**WILLOWS UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

	2013 (Budget)	2012	2011	2010
General Fund - Budgetary Basis*				
Revenues And Other Financing Sources	\$ 10,338,437	\$ 11,617,257	\$ 12,722,320	\$ 12,105,690
Expenditures And Other Financing Uses	11,097,123	11,150,744	12,063,263	12,317,180
Net change in Fund Balance	\$ (758,686)	\$ 466,513	\$ 659,057	\$ (211,490)
Ending Fund Balance	\$ 2,885,143	\$ 3,643,829	\$ 3,177,316	\$ 2,518,259
Available Reserves**	\$ 696,911	\$ 696,911	\$ 612,488	\$ 111,429
Available Reserves As A Percentage Of Outgo	6.28%	6.25%	5.08%	0.90%
Long-term Debt	\$ 320,895	\$ 513,829	\$ 668,235	\$ 887,160
Average Daily Attendance At P-2	1,386	1,435	1,487	1,602

The General Fund balance has increased by \$1,125,570 over the past two years. The fiscal year 2012-13 budget projects a decrease of \$758,686. 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 surpluses in two of the past three years but anticipates incurring an operating deficit during the 2012-13 fiscal year. Total long term obligations have decreased by \$373,331 over the past two years.

Average daily attendance has decreased by 167 ADA over the past two years. Additional decline of 49 ADA is anticipated during the 2012-13 fiscal year.

*The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance because, on behalf payments of \$233,286 are not included in the actual revenues and expenditures reported in this schedule.

**Available reserves consist of all unassigned fund balance within the General Fund.

**WILLOWS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

	Cafeteria Fund
June 30, 2012, annual financial and budget report fund balance	\$ 42,400
Adjustments and reclassifications:	
Increase in:	
Accounts receivable	51,616
June 30, 2012, audited financial statement fund balance	<u>\$ 94,016</u>

See accompanying note to supplementary information.

WILLOWS UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 FOR THE YEAR ENDED JUNE 30, 2012

	Cafeteria Fund	Capital Facilities Fund	Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 34,422	\$ 276,916	\$ 311,338
Accounts receivable	68,933	395	69,328
Due from other funds	27,048	-	27,048
Stores inventory	4,772	-	4,772
Prepaid expenditures	2,147	-	2,147
Total Assets	\$ 137,322	\$ 277,311	\$ 414,633
LIABILITIES			
Accrued liabilities	\$ 17,307	\$ -	\$ 17,307
Due to other funds	25,999	-	25,999
Total Liabilities	43,306	-	43,306
FUND BALANCES			
Non-spendable	6,919	-	6,919
Restricted	52,757	277,311	330,068
Assigned	34,340	-	34,340
Total Fund Balances	94,016	277,311	371,327
Total Liabilities and Fund Balance	\$ 137,322	\$ 277,311	\$ 414,633

See accompanying note to supplementary information.

**WILLOWS UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	Cafeteria Fund	Capital Facilities Fund	Non-Major Governmental Funds
REVENUES			
Federal sources	\$ 477,409	\$ -	\$ 477,409
Other State sources	37,673	-	37,673
Other local sources	113,732	7,377	121,109
Total Revenues	628,814	7,377	636,191
EXPENDITURES			
Current			
Pupil services			
Food services	614,250	-	614,250
General administration			
All other general administration	25,999	-	25,999
Plant services	2,386	-	2,386
Total Expenditures	642,635	-	642,635
Excess (Deficiency) of Revenues			
Over Expenditures	(13,821)	7,377	(6,444)
Other Financing Sources (Uses)			
Transfers In	27,048	-	27,048
Net Financing Sources (Uses)	27,048	-	27,048
NET CHANGE IN FUND BALANCE	13,227	7,377	20,604
Fund Balance - Beginning	80,789	269,934	350,723
Fund Balance - Ending	\$ 94,016	\$ 277,311	\$ 371,327

See accompanying note to supplementary information.

**WILLOWS UNIFIED SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 JUNE 30, 2012**

NOTE 1 – PURPOSE OF SCHEDULES

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, 2012 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2012.

	CFDA	
	Number	Amount
	<hr/>	<hr/>
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 1,661,640
Medi-Cal Billing Option	93.778	<u>2,238</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$ 1,663,878</u>

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.

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*. For 2011-12, the instructional day and minute requirements have been reduced pursuant to *Education Code Sections 46201.2 and 46201.3*.

WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2012

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Combining Statements – Non-Major Funds

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

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)

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

Governing Board
Willows Unified School District
Willows, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Willows Unified School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 3, 2012. 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 Willows Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Willows Unified School 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.

SAN DIEGO
2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA
8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA
1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222
fax: 619.260.9085
www.cwacpa.com

Licensed by the California
State Board of Accountancy

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 item #2012-1 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 findings and questioned costs. We did not audit the Willows Unified School District's responses and, accordingly, we express no opinion on them.

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



San Diego, California
December 3, 2012

**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**

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

Governing Board
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, 2012. 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, 2012.

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

*Licensed by the California
State Board of Accountancy*

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 Willows Unified School 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.

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

Christy White Associates

San Diego, California
December 3, 2012

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 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 Education Agencies 2011-12*, issued by the California Education Audit Appeals Panel as regulations for the year ended June 30, 2012. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K – 12 Local Education Agencies 2011-12*, 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:

<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	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

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

SAN DIEGO

2727 Camino Del Rio South
 Suite 219
 San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
 Suite 250
 Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
 Suite 201
 Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

*Licensed by the California
 State Board of Accountancy*

<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
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	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	5	Not Applicable
Before school	6	Not Applicable
Contemporaneous Records of Attendance; for charter schools	3	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	4	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, 2012.

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

Christy White Associates

San Diego, California
December 3, 2012

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**WILLOWS UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012**

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>None Reported</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>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
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, 2012**

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

FINDING # 2012-1: ASSOCIATED STUDENT BODY FUND INTERNAL CONTROLS (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

During our audit, we noted that 6 out of 20 cash receipts did not have a proper cash control sheet and 2 out of 20 cash receipts were not deposited timely. 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 overages/shortages are tracked and investigated when significant.

We also noted 6 out of 24 expenditures tested were not approved before the item was purchased. Prior approval of expenditures is important to help ensure the items/services are allowable ASB expenditures and there were sufficient funds available.

Finally, it was noted that the ASB is not using revenue potential forms for fundraising activities. Revenue potentials are important to help project budgeted revenues, expenditures and calculate actual net profits.

Willows Intermediate School

During our audit, we noted the ASB is not obtaining approval prior to making expenditures. Prior approval of expenditures is important to help ensure the items/services are allowable ASB expenditures and there were sufficient funds available.

Cause: Insufficient controls over student body activities.

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

Perspective: Testing of internal control procedures at 2 ASB sites.

Recommendation: We recommend training and monitoring of the ASB accounting staff for compliance and assistance with proper internal control practices.

District Response: The Director of Business Services will conduct random on-site audits throughout the next fiscal year.

WILLOWS UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no federal award findings or questioned costs for the year ended June 30, 2012.

**WILLOWS UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

FIVE DIGIT CODE

10000
40000
41000
60000
61000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
CalSTRS
Miscellaneous
Classroom Teacher Salaries
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no state award findings or questioned costs for the year ended June 30, 2012.

**WILLOWS UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

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
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

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.

Current Status: Not implemented, see current year findings and recommendations #2012-1.

**WILLOWS UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

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.

Current Status: Implemented.