

**TEHAMA COUNTY
DEPARTMENT OF EDUCATION**

ANNUAL AUDIT REPORT

June 30, 2012



**TEHAMA COUNTY DEPARTMENT OF EDUCATION
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JUNE 30, 2012**

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FINANCIAL SECTION



TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Tehama County Department of Education
Red Bluff, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Tehama County Department of Education (the Department of Education) as of and for the year ended June 30, 2012, which collectively comprise the Department of Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Education 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 17, 2012, on our consideration of the Department of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITORS' REPORT

Continued

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

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

Tittle & Company, LLP

December 17, 2012

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2012**

This section of the Tehama County Department of Education's (the Department of Education) annual financial report presents our discussion and analysis of the Department of Education's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the Independent Auditors' Report and the Department of Education's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Overall revenues were \$23,486,519, exceeding current year expenditures by \$27,421.
- Average Daily Attendance (ADA) for the Department of Education increased by 2.8%, mainly in the Special Education program.
- Capital asset balances net of depreciation increased by \$361,926. This increase was primarily in buildings, equipment and work in progress.
- The Department of Education maintains sufficient reserves for a Department of Education its size. It meets the State required minimum reserve for economic uncertainty of 3% of County School Services Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2011-12, County School Services Fund expenditures and other financing uses totaled \$16,774,960. As of June 30, 2012, the Department of Education has available unrestricted reserves of \$3,124,840 in the County School Services Fund, which represents a reserve of 18.6%.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS

The full annual financial report consists of three separate parts - Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, government-wide and funds.

- Government-Wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the Department of Education's overall financial position.
- Fund financial statements that focus on individual parts of the Department of Education, reporting the Department of Education's operations in more detail than the Government-Wide statements.
 - The governmental fund statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
 - The fiduciary fund statements provide information about the financial relationships in which the Department of Education acts solely as an agent or trustee for the benefit of others to whom the resources belong.

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

REPORTING THE DEPARTMENT OF EDUCATION AS A WHOLE:

The Government-Wide statements report information about the Department of Education and use accounting methods similar to those used by companies in the private sector. All of the Department of Education's assets and liabilities are included in the Statement of Net Assets. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The Department of Education's financial health or position (net assets) can be measured by the difference between the Department of Education's assets and liabilities.

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2012**

In the Statement of Net Assets and the Statement of Activities, the activities are divided into two categories:

Governmental Activities:

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

Business-Type Activities:

The Department of Education does not provide any services that should be included in this category.

REPORTING THE DEPARTMENT OF EDUCATION'S MOST SIGNIFICANT FUNDS

The Department of Education's fund-based financial statements provide detailed information about the Department of Education's most significant funds, not the Department of Education as a whole. Some funds are required to be established by State law and bond covenants. However, the Department of Education establishes many other funds as needed to control and manage money for specific purposes.

Governmental Funds

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

Proprietary Funds

Services for which the Department of Education charges a fee are generally reported in Proprietary funds on a full accrual basis. Proprietary funds are reported in the same way as the Government-Wide statements. The Department of Education does not operate a proprietary fund.

Fiduciary Funds

If the Department of Education is the trustee, or fiduciary, for assets that belong to others, it is reported in Fiduciary Funds. The Department of Education utilizes a Fiduciary Fund to account for resources of the National Forest Coalition and the California Forest Coalition.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DEPARTMENT OF EDUCATION AS A WHOLE

The Department of Education's net assets were \$11,089,169 for the fiscal year ended June 30, 2012. Of this amount, \$3,571,296 was unrestricted. Restricted net assets are reported separately and are not available for day-to-day operations or their use is constrained to a particular purpose by statutes, rules or entities with authority over the Department of Education.

Table 1: Statement of Net Assets

	Governmental Activities		Percentage Change 2011-2012
	2011	2012	
ASSETS			
Cash and investments	\$ 7,694,699	\$ 6,815,384	-11.4%
Other current assets	4,647,356	5,556,578	19.6%
Capital assets - net	2,653,883	3,015,809	13.6%
Total Assets	\$ 14,995,938	\$ 15,387,771	2.6%
LIABILITIES			
Current liabilities	\$ 3,170,854	\$ 3,732,169	17.7%
Long-term liabilities	763,336	566,433	-25.8%
Total Liabilities	\$ 3,934,190	\$ 4,298,602	9.3%
NET ASSETS			
Invested in capital assets - net of related debt	\$ 1,975,653	\$ 2,543,620	28.7%
Restricted	5,520,292	4,974,253	-9.9%
Unrestricted	3,565,803	3,571,296	0.2%
Total Net Assets	\$ 11,061,748	\$ 11,089,169	0.2%

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2012**

Table 2: Changes in Net Assets

	Governmental Activities		Percentage
	2011	2012	Change 2011-2012
REVENUES			
PROGRAM REVENUES			
Charges for services	\$ 333,416	\$ 446,796	34.0%
Operating grants and contributions	15,548,087	14,355,248	-7.7%
Capital grants and contribution	-	293	0.0%
GENERAL REVENUES			
Unrestricted Federal/State aide	4,849,808	4,670,949	-3.7%
Property taxes	2,767,261	2,787,712	0.7%
Other	1,416,424	1,225,521	-13.5%
Total Revenues	24,914,996	23,486,519	-5.7%
EXPENSES			
Instruction	5,676,487	5,993,176	5.6%
Instruction-related services	5,386,729	5,081,102	-5.7%
Pupil services	1,368,062	1,850,953	35.3%
General administration	2,073,488	2,288,252	10.4%
Plant services	745,249	803,966	7.9%
Ancillary services	830,397	775,353	-6.6%
Community services	456,049	557,666	22.3%
Enterprise activities	24,510	-	-100.0%
Interest on long-term debt	28,406	4,250	-85.0%
Other outgo	7,816,945	6,104,380	-21.9%
Total Expenses	24,406,322	23,459,098	-3.9%
Change in Net Assets	\$ 508,674	\$ 27,421	-94.6%

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2012**

Governmental Activities

The net cost of all governmental activities this year was \$8,656,761.

Net cost is total cost less fees generated by the related activity. The net cost reflects what was funded by charges for services, operating grants, capital grants and contributions.

Table 3: Net Cost of Governmental Activities

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2011	2012	2011-2012	2011	2012	2011-2012
Instruction	\$ 5,676,487	\$ 5,993,176	5.6%	\$ 1,214,372	\$ 1,384,157	14.0%
Instruction-related services	5,386,729	5,081,102	-5.7%	1,888,032	1,880,569	-0.4%
Pupil services	1,368,062	1,850,953	35.3%	648,140	564,310	-12.9%
General administration	2,073,488	2,288,252	10.4%	1,375,574	1,676,752	21.9%
Plant services	745,249	803,966	7.9%	535,410	601,180	12.3%
Ancillary services	830,397	775,353	-6.6%	16,069	41,427	157.8%
Community services	456,049	557,666	22.3%	36,463	46,385	27.2%
Enterprise services	24,510	-	-100.0%	24,510	-	-100.0%
Interest on long-term debt	28,406	4,250	-85.0%	28,406	4,250	-85.0%
Other outgo	7,816,945	6,104,380	-21.9%	2,757,843	2,457,731	-10.9%
Total	\$ 24,406,322	\$ 23,459,098	-3.9%	\$ 8,524,819	\$ 8,656,761	1.5%

FINANCIAL ANALYSIS OF THE DEPARTMENT OF EDUCATION'S FUNDS

General Governmental Functions

The Department of Education's governmental funds reported a combined fund balance of \$8,639,793, a decrease of \$531,406 from the previous year. Following is a summary of the Department of Education's fund balances.

Table 4: Governmental Fund Balances

	Fund Balance June 30, 2011	Fund Balance June 30, 2012	Increase (Decrease)
County School Services	\$ 7,685,172	\$ 7,585,923	\$ (99,249)
Child Development	225,473	224,158	(1,315)
Deferred Maintenance	275,145	228,965	(46,180)
Forest Reserve	41,280	41,827	547
County School Facilities	-	250,525	250,525
Special Reserve Fund for Capital Outlay Projects	944,129	308,395	(635,734)
Total	\$ 9,171,199	\$ 8,639,793	\$ (531,406)

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2012**

The County School Services Fund decreased due to costs incurred for the Department of Education's new technology center.

The Deferred Maintenance Fund decreased due to flexing the funds for use on long overdue repairs at the Department of Education's main office.

The County School Facilities Fund increased due to a transfer of funds from the Special Reserve Fund for Capital Outlay in order to meet the Department of Education's state matching requirement for state new school funding.

The Special Reserve Fund for Capital Outlay Projects decreased due to the transfer discussed above and the purchase of school buildings for the new special education site.

County School Services Fund Budgetary Highlights

Over the course of the year, the Department of Education revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the Department of Education revises its budget at First and Second Interim. The budget amendments for the year typically fell into the following categories:

- Adjustment of revenue to actual enrollment and average daily attendance (ADA) data.
- Inclusion of new grants.
- Addition of grant and entitlement funds from the prior year.
- Negotiated salary increases.

CAPITAL ASSETS AT YEAR END

By June 30, 2012, the Department of Education had invested \$5,543,010 in a broad range of capital assets including land, school buildings, equipment and administrative offices. In the current year, capital assets increased by \$2,527,201 which included land, buildings, equipment and work in progress.

Buildings increased due to the purchase of buildings for the new special education site.

Machinery and equipment increased primarily due to purchases of various technology, exhaust retrofit of buses, and five new vehicles.

Work in progress increased primarily due to planning costs for the state new school funding.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2012**

Table 5: Capital Assets – Governmental Funds

	Governmental Activities		Percentage
	2011	2012	Change 2011-2012
Land	\$ 1,000	\$ 1,000	0.0%
Land improvements	549,902	549,902	0.0%
Buildings	2,608,921	2,908,921	11.5%
Machinery and equipment	1,804,080	1,990,580	10.3%
Work in progress	-	92,607	0.0%
Subtotal	4,963,903	5,543,010	11.7%
Less: Accumulated depreciation	(2,310,020)	(2,527,201)	9.4%
Total Capital Assets	\$ 2,653,883	\$ 3,015,809	13.6%

OUTSTANDING DEBT AT YEAR END

The liability for capital leases was paid off.

The liability for other general long-term debt represents purchase of preschool buildings in prior years.

The liability for compensated absences increased due to shortage of staff throughout the Department of Education

Table 8: Outstanding Debt – Governmental Funds

			Percentage
	2011	2012	Change 2011-2012
Capital leases	\$ 107,874	\$ -	-100.0%
Other general long-term debt	570,359	472,188	100.0%
Compensated absences	85,103	92,244	8.4%
Total Outstanding Debt	\$ 763,336	\$ 564,432	-26.1%

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2012**

ECONOMIC FACTORS BEARING ON THE COUNTY'S FUTURE

- The overall slowdown in the global, federal and state economies are a primary concern, adding pressure to governmental tax revenues and affecting both federal and state programs in the future.
- State revenue limit funding will decrease by an estimated 0% in the subsequent year, due to the current economic conditions. It is not known when this decrease will be eliminated or future COLA's will be funded.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Wes Grossman
Assistant Superintendent, Business Services
Tehama County Department of Education
P.O. Box 689
Red Bluff, CA 96080

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Governmental Activities
ASSETS	
Cash and investments	\$ 6,815,384
Due from other governments	5,455,165
Prepaid expenses	101,413
Capital assets:	
Land	1,000
Improvement of sites	549,902
Buildings	2,908,921
Equipment	1,990,580
Work in progress	92,607
Less accumulated depreciation	(2,527,201)
Total Assets	\$ 15,387,771
LIABILITIES	
Accounts payable	\$ 825,035
Due to other governments	2,824,749
Deferred revenue	82,385
Long-term liabilities:	
Due within one year	192,414
Due in more than one year	374,019
Total Liabilities	\$ 4,298,602
NET ASSETS	
Invested in capital assets, net of related debt	\$ 2,543,620
Restricted for:	
Capital projects	250,525
Educational programs	4,723,728
Unrestricted	3,571,296
Total Net Assets	\$ 11,089,169

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
STATEMENT OF ACTIVITIES
JUNE 30, 2012**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities					
Instruction	\$ 5,993,176	\$ 71,563	\$ 4,537,163	\$ 293	\$ (1,384,157)
Instruction-related services:					
Supervision of instruction	5,015,615	172,120	3,028,413	-	(1,815,082)
Instructional library, media and technology	19,967	-	-	-	(19,967)
School site administration	45,520	-	-	-	(45,520)
Pupil services:					
Home-to-school transportation	468,002	82,964	350,959	-	(34,079)
Food services	15,445	-	15,330	-	(115)
All other pupil services	1,367,506	3,080	834,310	-	(530,116)
General administration:					
Data processing services	349,868	-	-	-	(349,868)
All other general administration	1,938,384	28,943	582,557	-	(1,326,884)
Plant services	803,966	72	202,714	-	(601,180)
Ancillary services	775,353	12,305	721,621	-	(41,427)
Community services	557,666	41,219	470,062	-	(46,385)
Interest on long-term debt	4,250	-	-	-	(4,250)
Other outgo	6,104,380	34,530	3,612,119	-	(2,457,731)
Total Governmental Activities	<u>\$ 23,459,098</u>	<u>\$ 446,796</u>	<u>\$ 14,355,248</u>	<u>\$ 293</u>	<u>(8,656,761)</u>
General Revenues					
Property taxes - levied for general purposes					2,787,712
Federal and state aid not restricted to specific purposes					4,670,949
Interest and investment earnings					66,829
Interagency revenues					580,982
Miscellaneous					577,710
Total General Revenues					<u>8,684,182</u>
Change in Net Assets					27,421
Net Assets - July 1, 2011					<u>11,061,748</u>
Net Assets - June 30, 2012					<u>\$ 11,089,169</u>

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General	Special Education Pass- Through Fund	Nonmajor Governmental	Total Governmental Funds
ASSETS				
Cash and investments	\$ 5,901,326	\$ -	\$ 914,058	\$ 6,815,384
Due from other governments	3,756,416	1,496,035	202,714	5,455,165
Due from other funds	237	-	-	237
Prepaid expenditures	101,413	-	-	101,413
Total Assets	\$ 9,759,392	\$ 1,496,035	\$ 1,116,772	\$ 12,372,199
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 769,985	\$ -	\$ 55,050	\$ 825,035
Due to other governments	1,321,099	1,496,035	7,615	2,824,749
Due to other funds	-	-	237	237
Deferred revenue	82,385	-	-	82,385
Total Liabilities	2,173,469	1,496,035	62,902	3,732,406
FUND BALANCES				
Nonspendable	3,340	-	-	3,340
Spendable:				
Restricted	4,457,743	-	516,510	4,974,253
Assigned	1,711,891	-	537,360	2,249,251
Unassigned	1,412,949	-	-	1,412,949
Total Fund Balances	7,585,923	-	1,053,870	8,639,793
Total Liabilities and Fund Balances	\$ 9,759,392	\$ 1,496,035	\$ 1,116,772	\$ 12,372,199

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
RECONCILIATION OF GOVERNMENTAL FUND BALANCES
TO GOVERNMENT-WIDE NET ASSETS
JUNE 30, 2012**

Total Fund Balances - Governmental Funds		\$ 8,639,793
<p>Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:</p>		
<p>Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds. The historical cost of the assets is \$5,543,010 and the accumulated depreciation is \$2,527,201.</p>		
		3,015,809
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:</p>		
	Compensated absences payable	94,244
	Other general long-term debt	472,189
		<u>(566,433)</u>
Total Net Assets - Governmental Activities		\$ 11,089,169

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General	Special Education Pass- Through	Nonmajor Governmental	Total Governmental Funds
REVENUES				
Federal revenue	\$ 3,387,151	\$ 1,110,608	\$ 1,015,611	\$ 5,513,370
Property taxes	2,787,711	-	-	2,787,711
Revenue limit source	1,072,808	-	-	1,072,808
Other state revenue	7,002,314	2,971,601	1,466,993	11,440,908
Other local revenue	2,275,860	-	297,693	2,573,553
Total Revenues	16,525,844	4,082,209	2,780,297	23,388,350
EXPENDITURES				
Current				
Instruction	5,225,631	-	706,913	5,932,544
Instruction - related services	4,507,192	-	549,046	5,056,238
Pupil services	1,874,079	-	15,445	1,889,524
Ancillary services	778,176	-	-	778,176
Community services	73,351	-	477,140	550,491
General administration	2,161,857	-	143,128	2,304,985
Plant services	532,123	-	561,000	1,093,123
Other outgo	1,504,111	4,082,209	518,061	6,104,381
Principal	107,874	-	98,170	206,044
Interest	4,250	-	-	4,250
Total Expenditures	16,768,644	4,082,209	3,068,903	23,919,756
Excess of Revenues Over (Under) Expenditures	(242,800)	-	(288,606)	(531,406)
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	149,867	-	290,394	440,261
Interfund transfers out	(6,316)	-	(433,945)	(440,261)
Total Other Financing Sources (Uses)	143,551	-	(143,551)	-
Net Change in Fund Balances	(99,249)	-	(432,157)	(531,406)
Fund Balances - July 1, 2011	7,685,172	-	1,486,027	9,171,199
Fund Balances - June 30, 2012	\$ 7,585,923	\$ -	\$ 1,053,870	\$ 8,639,793

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
RECONCILIATION OF NET CHANGE IN
FUND BALANCES TO CHANGE IN NET ASSETS
JUNE 30, 2012**

Total Net Change in Fund Balances - Governmental Funds	\$ (531,406)
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:	
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are required. 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 (\$659,677) and depreciation expense (\$297,751) for the period is:	361,924
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:	206,044
In governmental funds, compensated absences are measured by the amount paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and earned was:	(9,141)
Total Change in Net Assets - Governmental Activities	\$ 27,421

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2012**

	Foundation Private Purpose Trust Fund
ASSETS	
Cash on hand and in banks	\$ 176,424
Accounts receivable	511
Total Assets	\$ 176,935
LIABILITIES	
Due to other governments	\$ 117,291
Total Liabilities	\$ 117,291
NET POSITION	
Held in trust for Forest Coalitions	\$ 59,644

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2012**

	Foundation Private- Purpose Trust Fund
ADDITIONS	
Interest income	\$ 1,329
Other local revenue	73,505
Total Additions	74,834
DEDUCTIONS	
Services and other operating	194,304
Total Deductions	194,304
Change in net position	(119,470)
Net Position - July 1, 2011	179,114
Net Position - June 30, 2012	\$ 59,644

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The Department of Education is governed by an elected 5 member board. The Department of Education operates one juvenile hall, one special education school and sponsors one charter school in Tehama County, California.

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

Basis of Presentation

Government-Wide Financial Statements

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

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

Fund Financial Statements

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

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

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

The funds of the Department of Education are described below:

Major Governmental Funds

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

Special Education Pass-Through Fund is used only for pass-through revenues. Special education pass-through revenues are those that are received by the Department of Education on behalf of the SELPA for distribution to other member LEAs in accordance with the local plan.

Non-Major Governmental Funds

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

1. Child Development Fund is used to account for resources committed to child development programs maintained by the County Department.
2. Deferred Maintenance Fund is used for the purpose of repair and replacement of property within the Department of Education.
3. Forest Reserve Fund is used to account for federal forest reserve funds received by the County Department for distribution to schools, county Departments, and community colleges.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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

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

Fiduciary Funds

Foundation Private-Purpose Trust Funds are used to account separately for moneys received from gifts or bequests per Education Code Section 41031 under which principal and income benefit individuals, private organizations, or other governments and under which neither principal nor income may be used for purposes that support the Department of Education's own programs. The Timber Coalition Fund is maintained to account for the financial resources of the National Forest Coalition and the California Forest Coalition.

Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

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

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

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

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 60 days. However, under the modified accrual basis of accounting, debt service expenditures (including related interest), as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the Department of Education’s policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Investments

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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

The County is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes, or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Information regarding the amount of dollars invested in derivatives with the County was not available. The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the County are either secured by federal depository insurance or are collateralized.

Due From Other Governments

Amounts due from other governments including entitlements and grants from federal, state, and local governments that the Department of Education has earned or been allocated but has not received as of June 30, 2012. At June 30, 2012, no allowance for doubtful accounts was deemed necessary.

Interfund Transactions

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets. Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Prepaid Expenditures

Prepaid expenses consist of operating expenses for which payment is due in advance and are expensed when the benefit is received.

Capital Assets

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

Assets capitalized have an original cost of \$5,000 or more. The capitalization threshold for vehicles is \$15,000 or more and \$50,000 for buildings and sites. Depreciation on all capital assets is computed using a straight-line basis over the estimated useful lives of the various classes of depreciable capital assets as follows: buildings, 50 years; portable classrooms, 25; land improvements, 15 years; furniture and equipment, 5-8 years; and vehicles, 8-15 years.

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

Deferred Revenue

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

Long-Term Debt

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

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

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

Compensated Absences

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

Equity Classifications

Government-Wide Statements

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

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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

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

Fund Statements

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

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

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

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

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

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

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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

Revenue Limit and Property Tax

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

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

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

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

Estimates

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2012, consist of the following:

Deposits	
Cash in banks	\$ 20,580
Cash in revolving fund	2,500
Cash awaiting deposit	3,242
Investments	
County treasurer's investment pool	6,835,511
Certificates of deposit	129,975
Total Cash and Investments	6,991,808
Less fiduciary fund cash and investments	176,424
Total Cash and Investments per Statement of Net Assets	\$ 6,815,384

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Department of Education's deposits may not be returned to it. The Department of Education does not have a deposit policy for custodial credit risk. As of June 30, 2012, all of the Department of Education's deposits were insured.

Investments

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department of Education will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2012, all of the Department of Education's investments were insured.

Credit Risk

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

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

Interest Rate Risk

California Government Code Section 53601 limits the Department of Education's investments to maturities of five years. The Department of Education does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments grouped by maturity date at June 30, 2012, are as follows:

Investment	Fair Value	Less Than One Year
Certificates of deposit	\$ 129,975	\$ 129,975
Total	\$ 129,975	\$ 129,975

NOTE 3. DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2012, for the Department of Education's individual major funds and nonmajor governmental funds in the aggregate are as follows:

	General	Special Education Pass-Through	Nonmajor Governmental	Total Governmental Activities
Due from Federal government	\$ 897,458	\$ 555,303	\$ 57,545	\$ 1,510,306
Due from State government	2,128,061	940,732	95,229	3,164,022
Due from local governments	730,897	-	49,940	780,837
Total	\$ 3,756,416	\$ 1,496,035	\$ 202,714	\$ 5,455,165

NOTE 4. INTERFUND TRANSACTIONS

Interfund Receivables/Payables

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

Fund	Interfund Receivables	Interfund Payables
General	\$ -	\$ 237
Child Development	237	-
Total	\$ 237	\$ 237

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

Interfund Transfers

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

Interfund transfers for the year ended June 30, 2012, are as follows:

Fund	Transfers In	Transfers Out
General	\$ 149,867	\$ 6,316
Nonmajor governmental	290,394	433,945
Total	\$ 440,261	\$ 440,261

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

The transfer of \$58,446 from the Special Reserve for Capital Outlay Fund to the General Fund was to transfer bus reserve to the General Fund.

The transfer of \$284,078 from the Special Reserve for Capital Outlay Fund to the Capital Facilities Fund was to establish a new fund.

NOTE 5. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2012, is shown below:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Work in progress	-	92,607	-	92,607
Total capital assets, not being depreciated	1,000	92,607	-	93,607
Capital assets, being depreciated:				
Improvements of sites	549,902	-	-	549,902
Buildings	2,608,921	300,000	-	2,908,921
Equipment	1,804,080	267,070	80,570	1,990,580
Total capital assets, being depreciated	4,962,903	567,070	80,570	5,449,403
Less accumulated depreciation for:				
Improvements of sites	225,736	16,940	-	242,676
Buildings	1,076,607	95,012	-	1,171,619
Equipment	1,007,677	185,799	80,570	1,112,906
Total accumulated depreciation	2,310,020	297,751	80,570	2,527,201
Total capital assets, being depreciated, net	2,652,883	269,319	-	2,922,202
Governmental activity capital assets, net	\$ 2,653,883	\$ 361,926	\$ -	\$ 3,015,809

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Instruction	\$ 67,837
Instruction - related services	65,879
Pupil services	30,640
Ancillary services	15,639
Community services	6,348
General administration	76,463
Plant services	34,945
Total Depreciation Expense	\$ 297,751

NOTE 6. ACCOUNTS PAYABLE

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

	General	Nonmajor Governmental	Total Governmental Activities
Vendors	\$ 167,177	\$ 27,430	\$ 194,607
Salaries and benefits	588,837	7,992	596,829
Other	13,971	19,628	33,599
Total	\$ 769,985	\$ 55,050	\$ 825,035

NOTE 7. DUE TO OTHER GOVERNMENTS

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

	General	Special Education Pass-Through	Nonmajor Governmental	Total Governmental Activities
Due to State government	\$ -	\$ -	\$ 153	\$ 153
Due to local governments	1,321,099	1,496,035	7,462	2,824,596
Total	\$ 1,321,099	\$ 1,496,035	\$ 7,615	\$ 2,824,749

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8. NOTE PAYABLE

Beginning November 2004, the Department of Education entered into five notes payable to finance expenditures for preschool buildings within the County. There is no interest and principal payments are due annually. On June 30, 2012, the principal balance outstanding was \$472,189.

The principal payments of the loan are as follows:

	Principal
2013	\$ 98,170
2014	98,170
2015	59,170
2016	59,170
2017	59,170
2018-2022	98,339
Total	\$ 472,189

NOTE 9. LONG-TERM DEBT - SCHEDULE OF CHANGES

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

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
Compensated absences	\$ 85,103	\$ 9,141	\$ -	\$ 94,244	\$ 94,244
Capital leases	107,874	-	107,874	-	-
Other general long-term debt	570,359	-	98,170	472,189	98,170
Total	\$ 763,336	\$ 9,141	\$ 206,044	\$ 566,433	\$ 192,414

The accrued vacation will be paid by the fund for which the employee worked. Payments on the notes payable are paid by the Child Development Fund.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10. FUND BALANCES

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2012, are as follows:

	General	Nonmajor Governmental	Total Governmental Funds
Nonspendable:			
Revolving fund	\$ 2,500	\$ -	\$ 2,500
Prepaid expenditures	840	-	840
Restricted:			
Educational programs	4,457,743	265,985	4,723,728
Capital projects	-	250,525	250,525
Assigned:			
Capital projects	-	537,360	537,360
MAA	826,149		826,149
Data processing	356,699		356,699
Family literacy	128,540		128,540
Superintendent core	142,185		142,185
Other assigned	258,318	-	258,318
Unassigned:			
Economic uncertainties	539,000	-	539,000
Other unassigned	873,949	-	873,949
Total	\$ 7,585,923	\$ 1,053,870	\$ 8,639,793

NOTE 11. JOINT POWERS AGREEMENTS

The Department of Education participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): Northern California Schools Insurance Group (NCSIG), North Valley Schools Insurance Group (NVSIG), Tri-County Schools Insurance Group (TCSIG) and Schools Excess Liability Fund (SELF). The relationship between the Department of Education and the JPAs is such that the JPAs are not component units of the Department of Education for financial reporting purposes.

TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

	June 30, 2011			
	NVSIG	TCSIG	NCSIG	SELF
Total assets	\$ 2,862,063	\$ 24,792,508	\$ 7,122,065	\$ 174,774,000
Total liabilities	1,658,220	10,896,925	4,356,527	141,524,000
Net Assets (Liabilities)	\$ 1,203,843	\$ 13,895,583	\$ 2,765,538	\$ 33,250,000
Operating revenues	\$ 9,675,785	\$ 54,736,884	\$ 6,678,108	\$ 7,095,000
Operating expenses	9,850,913	56,703,420	6,846,445	12,425,000
Other income (expenses)	15,023	356,427	(157,171)	2,070,000
Excess Revenues (Expenses)	\$ (160,105)	\$ (1,610,109)	\$ (325,508)	\$ (3,260,000)

NOTE 12. COMMITMENTS AND CONTINGENCIES

Federal and State Allowances, Awards, and Grants

The Department of Education has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the Department of Education may incur a liability to grantor agencies. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Department of Education at June 30, 2012.

NOTE 13. RISK MANAGEMENT

The Department of Education is exposed to various risks including loss or damage to property, general liability, and injuries to employees. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years. No significant reductions in insurance coverage from the prior year have been made. As described above, the Department of Education participates in risk pools under JPAs for property and liability, health benefits, and workers' compensation coverage.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 14. EMPLOYEE RETIREMENT SYSTEMS

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

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the Department of Education is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-12 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The Department of Education's contributions to CalSTRS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$316,940, \$316,113, and \$318,927, respectively, and equal 100% of the required contributions for each year.

California Public Employees Retirement System (CalPERS)

Plan Description

The Department of Education contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from CalPERS, 400 Q Street, Sacramento, California 95814.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the Department of Education is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-12 was 10.923%. The contribution requirements of the plan members are established by state statute. The County Department's contributions to CalPERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$559,370, \$556,337, and \$549,545, respectively, and equal 100% of the required contributions for each year.

NOTE 15. EARLY RETIREMENT INCENTIVE PROGRAM

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

NOTE 16. UPCOMING ACCOUNTING PRONOUNCEMENTS

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The Department of Education is currently evaluating the effect this standard will have on the financial statements when adopted during the Department of Education's 2013 fiscal year.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. This incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989, that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The Department of Education is currently evaluating the effect this standard will have on the financial statements when adopted during the Department of Education's 2013 fiscal year.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Department of Education's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will affect the format and reporting of the balance sheet at the government-wide level and also at the fund level.

**REQUIRED SUPPLEMENTARY
INFORMATION SECTION**

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
GENERAL FUND
JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final	(GAAP Basis)	Final Budget Favorable (Unfavorable)
REVENUES				
Federal revenue	\$ 2,979,889	\$ 3,498,918	\$ 3,387,151	\$ (111,767)
Property taxes	2,823,744	2,649,473	2,787,711	138,238
Revenue limit source	941,932	1,133,294	1,072,808	(60,486)
Other state revenue	6,816,103	7,477,545	7,002,314	(34,015)
Other local revenue	2,323,305	2,617,533	2,275,860	(341,673)
Total Revenues	15,884,973	17,376,763	16,525,844	(850,919)
EXPENDITURES				
Certificated salaries	4,335,591	4,363,870	4,342,375	21,495
Classified salaries	4,391,071	4,602,730	4,582,000	20,730
Employee benefits	2,384,650	2,305,188	2,246,644	58,544
Books and supplies	1,035,399	1,436,599	834,249	602,350
Services and other operating	2,530,242	3,544,984	3,023,199	521,785
Capital outlay	72,000	300,838	267,070	33,768
Other outgo	1,752,718	1,625,192	1,360,983	264,209
Debt service				
Principal	107,874	107,874	107,874	-
Interest	4,250	4,250	4,250	-
Total Expenditures	16,613,795	18,291,525	16,768,644	1,522,881
Excess of Revenues Over (Under) Expenditures	(728,822)	(914,762)	(242,800)	671,962
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	162,345	150,567	149,867	(700)
Interfund transfers out	(650)	(6,602)	(6,316)	286
Total Other Financing Sources (Uses)	161,695	143,965	143,551	(414)
Net Change in Fund Balances	(567,127)	(770,797)	(99,249)	671,548
Fund Balances - July 1, 2011	7,685,172	7,685,172	7,685,172	-
Fund Balances - June 30, 2012	\$ 7,118,045	\$ 6,914,375	\$ 7,585,923	\$ 671,548

See the accompanying notes to the required supplementary information.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
SPECIAL EDUCATION PASS-THROUGH FUND
JUNE 30, 2012**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Federal revenue	\$ 692,708	\$ 1,110,608	\$ 1,110,608	\$ -
Other state revenue	2,683,309	2,974,179	2,971,601	(2,578)
Total Revenues	3,376,017	4,084,787	4,082,209	(2,578)
EXPENDITURES				
Other outgo	3,376,017	4,084,787	4,082,209	2,578
Total Expenditures	3,376,017	4,084,787	4,082,209	2,578
Net Change in Fund Balances	-	-	-	-
Fund Balances - July 1, 2011	-	-	-	-
Fund Balances - June 30, 2012	\$ -	\$ -	\$ -	\$ -

See the accompanying notes to the required supplementary information.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**OTHER SUPPLEMENTARY
INFORMATION SECTION**

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
ORGANIZATION
JUNE 30, 2012**

The Tehama County Department of Education (the Department of Education) is located in Red Bluff, California. The County Department coordinates the educational programs among school Districts in Tehama County. The Department of Education also provides professional and financial assistance to school districts and general responsibilities to support and control all schools in Tehama County.

GOVERNING BOARD

Name	Department	Term Expires November
Danny Rabalais	President	2012
Tom Moisey	Vice President	2014
Daniel M. King	Member	2014
Betty Brown	Member	2012
Carolyn Steffan	Member	2014

ADMINISTRATION

Larry Champion
Superintendent of Schools

Charles Allen
Deputy Superintendent

Wesley Grossman
Assistant Superintendent, Business Services

Heidi Schuller
Assistant Superintendent, Special Programs and Services

Roxy Williams
Assistant Superintendent, Human Resource Services

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF AVERAGE DAILY ATTENDANCE
JUNE 30, 2012**

County Superintendent's Report of Schools and Classes Maintained	Annual Report
ELEMENTARY	
Juvenile halls, homes, and camps	1
HIGH SCHOOL	
Juvenile halls, homes, and camps	25
ADA Totals	26

Report of Attendance for Students in County-Operated Community Schools and Special Education Special Day Classes	Second Period Report	Annual Report
ELEMENTARY		
County Community School	66	68
Special Education		
Special day class	27	26
Special education students extended year	-	2
Special ed - nonpublic, nonsectarian schools	1	3
Elementary Totals	94	99
HIGH SCHOOL		
Special Education		
Special day class	16	18
Special ed - nonpublic, nonsectarian schools	4	2
Special ed - nonpublic, nonsectarian schools/licensed children's institutions	-	1
High School Totals	20	21
ADA Totals	114	120

See the accompanying notes to the other supplementary information.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF INSTRUCTIONAL TIME
JUNE 30, 2012**

	1986-87 Minutes Requirement	2011-12 Actual Minutes	Traditional Calendar Days	Multitrack Calendar Days	Status
Kindergarten	36,000	51,030	180	N/A	Complied
Grade 1	50,400	50,760	180	N/A	Complied
Grade 2	50,400	50,760	180	N/A	Complied
Grade 3	50,400	52,560	180	N/A	Complied
Grade 4	54,000	54,270	180	N/A	Complied
Grade 5	54,000	54,180	180	N/A	Complied
Grade 6	54,000	58,320	180	N/A	Complied
Grade 7	54,000	58,320	180	N/A	Complied
Grade 8	54,000	58,320	180	N/A	Complied
Grade 9	64,800	65,478	180	N/A	Complied
Grade 10	64,800	65,478	180	N/A	Complied
Grade 11	64,800	65,478	180	N/A	Complied
Grade 12	64,800	65,478	180	N/A	Complied

See the accompanying notes to the other supplementary information.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
FEDERAL PROGRAMS			
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education			
Title I Cluster			
NCLB - Title I basic grants	84.010	14329	\$ 34,798
NCLB - Title I basic school support	84.010	14416	507,443
NCLB - Title I Part D	84.010	14357	50,813
Total Title I Cluster			<u>593,054</u>
Education Jobs Fund	84.410	25152	16,082
Special Education Cluster			
Special Ed - basic local assistance entitlement	84.027	13379	1,933,863
ARRA - special ed - basic local assistance entitlement	84.391	15003	119,735
Special Ed - preschool grant	84.173	13430	51,027
Special Ed - preschool local entitlement	84.027	13682	122,562
Special Ed - mental health	84.027	14468	51,730
Special Ed - staff development IDEA preschool	84.173	13431	538
Special Ed - early intervention	84.181	23761	59,480
Total Special Education Cluster			<u>2,338,935</u>
Adult Ed - English literacy and civics education	84.002	14109	17,801
NCLB - Title II teacher quality	84.367	14341	1,106
NCLB - Title II California math and science partnership	84.366	14512	656,647
NCLB - Title III immigrant education	84.365	14346	15,200
NCLB - Title III limited English proficient	84.365	14346	44,715
NCLB - Title X homeless children education	84.196	14332	38,406
Direct Program			
Safe and drug-free schools and communities	84.184A	No PCA	145,103
TRIO - talent search	84.044A	No PCA	221,009
Rural education achievement program	84.358	No PCA	22,266
Hope grant	84.184	No PCA	116,589
Total U.S. Department of Education			<u>4,226,913</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through County of Tehama			
Forest reserve	10.665	10044	609,482
U.S. DEPARTMENT OF INTERIOR			
Wildlife reserve	15.608	No PCA	525
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Education			
Child development - federal child care, center-based	93.596	13609	74,754
Child development - federal child care, center-based	93.575	15136	41,151
Child development - quality improvement	93.575	Various	237,107
Child development - local planning councils	93.575	13946	53,117
Passed Through State of California			
Medi-cal billing option	93.778	10013	99,228
Passed Through Glenn County of Education			
Medi-cal administrative activities	93.778	10060	171,093
Total U.S. Department of Health and Human Services			<u>676,450</u>
Total Expenditures of Federal Awards			<u>\$ 5,513,370</u>

See the accompanying notes to the other supplementary information.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
JUNE 30, 2012**

	(Budget) 2013	2012	2011	2010
GENERAL FUND				
Revenues and Other Financial Sources	\$ 16,812,552	\$ 16,675,711	\$ 21,965,590	\$ 22,066,464
Expenditures	17,657,498	16,768,644	21,543,901	21,549,302
Other uses and transfers out	979	6,316	750,060	156,692
Total Outgo	17,658,477	16,774,960	22,293,961	21,705,994
Change in Fund Balance	\$ (845,925)	\$ (99,249)	\$ (328,371)	\$ 360,470
Ending Fund Balance	6,739,998	7,585,923	7,685,172	8,013,543
Available Reserves	2,538,163	3,124,840	1,412,171	2,131,258
Reserve for Economic Uncertainties	554,000	539,000	-	-
Unassigned Fund Balance	1,172,812	873,949	1,412,171	2,131,258
Available Reserves as a Percentage of Total Outgo	14%	19%	6%	10%
Total Long-Term Debt	468,263	566,433	763,336	1,028,773
Average Daily Attendance at Annual	146	146	135	133

The General Fund balance has decreased by \$427,620 over the past two years. The fiscal year 2012-13 budget projects a decrease of \$845,925 (11.1%). For a Department of Education this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out and other uses (total outgo).

The Department of Education has incurred an operating deficit in two of the past three years, and anticipates an operating deficit during the 2012-13 fiscal year. Total long-term debt has decreased by \$462,340 over the past two years.

Average daily attendance has increased by 13 over the past two years. No additional growth is anticipated during fiscal year 2012-13.

See the accompanying notes to the other supplementary information.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
JUNE 30, 2012**

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

See the accompanying notes to the other supplementary information.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF CHARTER SCHOOLS
JUNE 30, 2012**

Charter schools sponsored by the Department of Education that were excluded in the audit of the Department of Education:

Sacramento River Discovery Charter School

See the accompanying notes to the other supplementary information.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
NOTES TO THE OTHER SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

NOTE 1. PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance

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

Schedule of Instructional Time

The Department of Education 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 Department of Education and whether the Department of Education complied with the provisions of Education Code Section 46201 through 46206.

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Department of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

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

**OTHER INDEPENDENT AUDITORS'
REPORTS SECTION**



TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA

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

Board of Trustees
Tehama County Department of Education
Red Bluff, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tehama County Department of Education (the Department of Education) as of and for the year ended June 30, 2012, which collectively comprise the Department of Education's basic financial statements and have issued our report thereon dated December 17, 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 the Department of Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department of Education's internal control over financial reporting.

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

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

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

Continued

COMPLIANCE AND OTHER MATTERS

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

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

Tittle & Company, LLP

December 17, 2012



TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA

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

Board of Trustees
Tehama County Department of Education
Red Bluff, California

COMPLIANCE

We have audited Tehama County Department of Education's (the Department of Education) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department of Education's major federal programs for the year ended June 30, 2012. The Department of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department of Education's management. Our responsibility is to express an opinion on the Department of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above which could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department of Education's compliance with those requirements.

In our opinion, the Department of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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

Continued

INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

Tittle & Company, LLP

December 17, 2012



TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Tehama County Department of Education
Red Bluff, California

We have audited the Department of Education's compliance with the compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies* for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of the Department of Education's management. Our responsibility is to express an opinion on the Department of Education's compliance with the applicable compliance requirements based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12* prescribed in the California Code of Regulations, Title 5, section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Department of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our opinion does not provide a legal determination of the Department of Education's compliance with those requirements.

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

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

Description	Procedures in Audit Guide	Procedures Performed
Attendance reporting	6	Yes
Teacher certification and misassignments	3	Yes
Kindergarten continuance	3	No
Independent study	23	Yes
Continuation education	10	No
Instructional time		
School districts	6	Not applicable
County offices of education	3	Yes
Instructional materials general requirements	8	Yes
Ratio of administrative employees to teachers	1	Not applicable
Classroom teacher salaries	1	Not applicable
Early retirement incentive program	4	No
Gann limit calculation	1	Yes
School accountability report card	3	Yes
Public hearing requirement - receipt of funds	1	Yes
Juvenile court schools	8	Yes
Exclusion of pupils - pertussis immunization	2	Yes
Class size reduction		
General requirements	7	No
Option one classes	3	No
Option two classes	4	No
Only one school serving K-3	4	No
After school education and safety program		
General requirements	4	Yes
After school program	5	Yes
Before school program	6	No
Charter schools		
Contemporaneous records of attendance	3	No
Mode of instruction	1	No
Nonclassroom-based instruction/independent study	15	No
Determination of funding for nonclassroom-based instruction	3	No
Annual instructional minutes - classroom based	4	No

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

Kindergarten continuance steps (a) through (d) were not performed since the Department of Education does not include Kindergarten pupils.

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

Continuation Education
Early Retirement Incentive
Class Size Reduction Option One Classes
Class Size Reduction Option Two Classes
Class Size Reduction only one school serving K-3
After School Education and Safety Program - Before School

Since the Department of Education audit did not include charter schools, all steps related to them were not been performed.

As described in item(s) 12-1, 12-2 and 12-3 in the accompanying schedule of findings and questioned costs, the Department of Education did not comply with certain state laws and regulations. Compliance with such requirements is necessary, in our opinion, for the Department of Education to comply with the applicable state requirements.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department of Education complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2012.

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

Tittle & Company, LLP

December 17, 2012

**FINDINGS AND QUESTIONED COSTS
SECTION**

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 JUNE 30, 2012**

**SECTION I
 SUMMARY OF AUDITORS' RESULTS**

FINANCIAL STATEMENTS

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major program	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133?	No
Identification of major programs:	
CFDA No. 84.027, 84.173, 84.391, 84.392	Special Education Cluster
Threshold for distinguishing types A and B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for state programs	Qualified

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

**SECTION II FINDINGS
FINANCIAL STATEMENTS AUDIT**

None.

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

**STATE COMPLIANCE (Pertussis)
40000 (12-1)**

Significant Deficiency

Criteria

Health and Safety Code Section 120335.1(a) requires that each pupil under age 18 receive a pertussis booster vaccine or after the pupil's 7th birthday. The District must have evidence of the immunization on file by the 30th calendar day after the pupil's first day of attendance in the 2011/12 school year.

Condition

One pupil selected in our sample did not receive the pertussis booster vaccine due to personal exemption. The Department of Education did not obtain the approved waiver until the 2012/13 school year. Others noted in our sample received the pertussis booster vaccine within the prescribed timeframe however the Department of Education did not appear to have the evidence on file in a timely manner.

Effect

ADA cannot be claimed for this pupil for the 2011/12 school year. Average daily attendance is overstated by .29 ADA at P-2 and Annual. The estimated financial effect is \$1,615.

Recommendation

The District must amend the P-2 and Annual attendance reports to exclude this ADA and develop procedures to insure compliance with immunization requirements including documenting evidence of immunization requires within prescribed time frames.

Response

The Department of Education's administration will implement procedures during the 2012-13 school year to comply with the recommendation.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

**AFTER SCHOOL EDUCATION AND SAFETY PROGRAM
10000 (12-2)**

Significant Deficiency

Criteria

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

Condition

During our testing of attendance for the after school program, we noted 9 days in the month selected for testing where students did not sign in but were marked as being present in the attendance system resulting in overstatement of days reported on the 2nd Half: After School Base Attendance Report.

Effect

The number of students served on the 2nd Half: After School Base Attendance Report was overstated by 9 days. The amount originally reported was 144,584 students served. The correct amount should have been 144,575 students served. There is no financial impact as the program is not funded based upon attendance.

Recommendation

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

Response

The attendance report will be amended and the Department of Education will implement procedures during 2012-13 to comply with the recommendation.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

ATTENDANCE

10000 (12-3)

Significant Deficiency

Criteria

Attendance accounting procedures required that absence documentation be retained with attendance records and reports.

Condition

Special education teachers did not retain absence documentation (notes, phone logs, etc.) for the 2011/12 school year.

Effect

The Department of Education is not in compliance with approved attendance accounting procedures.

Recommendation

We recommend that the Department of Education implement procedures during the 2012/13 school year for retention of absence documentation by special education teachers.

Response

The Department of Education will implement such procedures during the 2012/13 school year to comply with the recommendation.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
CORRECTIVE ACTION PLAN
JUNE 30, 2012**

There are no current year findings related to major programs.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

STATE COMPLIANCE

30000 (11-1)

Significant Deficiency

Criteria

The Department of Education must hold a public hearing and adopt a resolution regarding the sufficiency of textbooks or instructional materials on or before the eighth week from the first day pupils attend school for that year.

Condition

The Department of Education did hold a public hearing, however it was not held on or before the eighth week from the first day pupils attend school for that year.

Effect

The full amounts \$6,306 of Instructional Materials Funding Realignment Program allowance may be disallowed in accordance with the 2010/11 Audit Guide. The Department of Education may be asked to return to the State the \$6,306 funding unless the State grants a specific waiver.

Recommendation

The Department of Education should seek a waiver of the public hearing requirement by submitting Form SW-1, Specific Waiver Request, to the State, based on these grounds: (a) the public hearing and resolution were done, though delayed, (b) the prior omissions were purely inadvertent, and (c) the Department was in compliance in prior years.

Current Status

The Department of Education was granted a waiver by the State.

**TEHAMA COUNTY DEPARTMENT OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

STATE COMPLIANCE

40000 (11-2)

Significant Deficiency

Criteria

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

Condition

Attendance shown on the Sign-in/out Sheets (data origination documents) for a middle school did not match the summarized information submitted to the Department of Education, which also did not match the attendance report submitted to the State. 5 days of attendance were found to not be reported on the summarized information which supports the attendance reported to the State for the 1st half of the year.

Effect

Inaccurate half-year report was filed with the California Department of Education.

Recommendation

The Department of Education should review, on a regular basis, randomly selected attendance reports from school sites.

Current Status

See current year finding 12-2.