

**GLENN COUNTY
OFFICE OF EDUCATION**

**County of Glenn
Willows, California**

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

June 30, 2005

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*Glenn County
Office of Education*

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Board of Education
Glenn County Office of Education
Willows, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Glenn County Office of Education (the Office of Education) as of and for the year ended June 30, 2005, which collectively comprise the Office of Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Office 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 basic 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 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 Office of Education as of June 30, 2005, 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.

As described in note 1, the Office of Education has adopted the provisions of GASB No. 40, *Deposit and Investment Risk Disclosures*, as of June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 14, 2005, on our consideration of the Office of Education's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and budgetary comparison schedules listed in the table of contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITORS' REPORT

Continued

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office of Education's basic financial statements. The accompanying financial information listed as other supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Matson and Isom

October 14, 2005

Required Supplemental Information

INTRODUCTION

Our discussion and analysis of the Glenn County Office of Education's (the Office of Education) financial performance provides an overview of the Office of Education's financial activities for the fiscal year ended June 30, 2005. It should be read in conjunction with the Office of Education's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total net assets were \$17,877,251 at June 30, 2005. This was an increase of \$5,894,006 (49.2%) over the prior year.
- Overall revenues were \$23,011,687, which exceeded expenses of \$17,117,681 by \$5,894,006.
- Long-term debt has decreased by \$264 due to decreased compensated absence balances.

USING THIS ANNUAL REPORT

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

- Government-Wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- Fund financial statements focus on reporting the individual parts of the Office of Education's operations in more detail. The fund financial statements comprise the remaining statements.
 - Governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
 - Fiduciary fund statements provide information about the financial relationships in which the Office of Education acts solely as a trustee or agent for the benefit of others to whom the resources belong.

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

Government-Wide Statements

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

The two government-wide statements report the Office of Education's net assets and how they have changed. Net assets—the difference between the assets and liabilities - is one way to measure the Office of Education's financial health or position.

- Over time, increases or decreases in the Office of Education's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Office of Education, one needs to consider additional nonfinancial factors such as changes in enrollment, changes in the property tax base, changes in program funding by the federal and state governments, and the condition of facilities.

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

Fund Financial Statements

The fund financial statements provide more detailed information about the Office of Education's most significant funds—not the Office of Education as a whole. Funds are accounting devices that the Office of Education uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that the Office of Education is meeting legal responsibilities for using certain revenues. The Office of Education has two kinds of funds:

- Governmental Funds - Most of the Office of Education's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Office of Education's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the government funds statements that explains the relationship (or differences) between them.
- Fiduciary Funds – The Office of Education is the trustee, or fiduciary, for assets that belong to others. For the Office of Education, the Warrant/Pass-through Fund is an agency fund. The Office of Education is responsible for ensuring that assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the Office of Education's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the government-wide financial statements because the Office of Education cannot use the assets to finance its operations.

FINANCIAL ANALYSIS OF THE OFFICE OF EDUCATION AS A WHOLE

Net Assets

The Office of Education's combined net assets were \$17,877,251 at June 30, 2005.

Table 1: Net Assets

	Governmental Activities		Percentage Change 2004-2005
	2004	2005	
ASSETS			
Cash and investments	\$ 9,645,735	\$ 11,094,822	15.0%
Receivables	1,769,269	2,241,611	26.7%
Prepaid expenses	91,297	94,072	3.0%
Capital assets, net of accumulated depreciation	2,232,713	6,703,659	200.2%
Total Assets	\$ 13,739,014	\$ 20,134,164	46.5%
LIABILITIES			
Accounts payable and other liabilities	\$ 1,555,757	\$ 1,993,901	28.2%
Deferred revenue	124,373	187,637	50.9%
Long-Term debt	75,639	75,375	-0.3%
Total Liabilities	\$ 1,755,769	\$ 2,256,913	28.5%
NET ASSETS			
Invested in capital assets, net of related debt	\$ 2,232,713	\$ 6,703,659	200.2%
Restricted	6,054,064	5,592,844	-7.6%
Unrestricted	3,696,468	5,580,748	51.0%
Total Net Assets	\$ 11,983,245	\$ 17,877,251	49.2%

Change in Net Assets

The Office of Education's total revenues were \$23,011,687. A majority of the revenue comes from operating and capital grants (75%). Federal and state aid for specific programs accounted for another 16% of total revenues. Charges for services increased between 2003-04 and 2004-05 principally due to an increase in local revenues from the Office of Education's Child and Family program. Unrestricted federal and state aid increased due to a change in how revenue limit funding is reported. Other revenue increased due to several one-time local grant awards.

The total cost of all programs and services was \$17,117,681. The Office of Education's expenses are predominately related to educating and caring for students (53%). Administrative activities accounted for 13% of total costs. The remaining expenses were for plant services (maintenance and operations), community services, ancillary services, enterprise activities, pupil services, and other outgo.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

*Glenn County
Office of Education*

Table 2: Change in Net Assets

	Governmental Activities		Percentage
	2004	2005	Change 2004-2005
REVENUES			
PROGRAM REVENUES			
Charges for services	\$ 261,239	\$ 273,550	4.7%
Federal and state categorical programs	12,611,176	17,309,032	37.3%
GENERAL REVENUES			
Property taxes	1,104,127	906,781	-17.9%
Federal and state aid unrestricted	2,956,913	3,675,810	24.3%
Other	552,989	846,514	53.1%
Total Revenues	17,486,444	23,011,687	31.6%
EXPENSES			
Instruction	4,912,962	5,373,970	9.4%
Instruction-related	1,552,997	2,309,860	48.7%
Pupil services	1,191,460	1,272,849	6.8%
Ancillary services	76,506	98,135	28.3%
Community services	3,935,168	4,016,809	2.1%
Enterprise services	11,464	-	-100.0%
General administration	2,237,230	2,153,710	-3.7%
Maintenance and operations	499,713	533,982	6.9%
Other	1,217,386	1,358,366	11.6%
Total Expenses	15,634,886	17,117,681	9.5%
Change in Net Assets	\$ 1,851,558	\$ 5,894,006	218.3%

FINANCIAL ANALYSIS OF THE OFFICE OF EDUCATION'S FUNDS

The strong financial performance of the Office of Education as a whole is reflected in its governmental funds as well. As the Office of Education completed the year, its governmental funds reported a combined fund balance of \$11,248,967, well above last year's ending fund balance of \$9,826,171. The single largest reason for the increase is due to the receipt of state bond funds to continue the construction of multiple classrooms throughout the county. The Charter School Fund was also opened with the start of William Finch Charter School.

General Governmental Funds

	Fund Balance June 30, 2004	Fund Balance June 30, 2005	Increase (Decrease)
County School Services	\$ 5,553,807	\$ 5,775,224	\$ 221,417
Charter Schools	-	241,043	241,043
Adult Education	85,660	74,634	(11,026)
Child Development	113,713	141,720	28,007
Deferred Maintenance	778,559	930,454	151,895
Forest Reserve	7,834	6,600	(1,234)
Special Reserve Special Revenue	1,491,149	1,388,444	(102,705)
Special Reserve for Postemployment Benefits	46,821	46,940	119
County School Facilities	1,748,628	2,643,908	895,280
Total	\$ 9,826,171	\$ 11,248,967	\$ 1,422,796

County School Services Fund Budgetary Highlights

Over the course of the year, the Office of Education revises its annual budget to reflect unexpected changes in revenues and expenditures. The final amendment to the budget was approved June 30, 2005. A schedule of the Office of Education's original and final budget amounts compared with actual revenues and expenses are provided in the supplemental section of the audited financial report.

Actual revenues were \$324,945 less than the final budget. The difference is due to a new grant award that was fully budgeted, but due to delayed implementation resulted in lower earnings. Actual expenses were \$4,428,185 less than the final budget, with the principle difference being the practice of the Office of Education to fully budget the expenditure of carryover while not actually expending it. The original budgeted expenditures do not reflect carryover amounts and thus were comparable to actual expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the Office of Education had invested \$8,155,898 in a broad range of capital assets, including land, buildings and improvements, equipment, and vehicles. The Office of Education purchased vehicles, computer equipment, land, and playground equipment during the 2004-05 fiscal year. Construction in progress relates to the Office of Education’s state bond supported building projects, which consist of ten new buildings some of which are multiple classroom projects. An administration building is also under construction and will be financed through a USDA Rural Development loan.

	Governmental Activities		Percentage
	2004	2005	Change
			2004-2005
Land	\$ 3,600	\$ 112,371	3021.4%
Buildings and improvements	1,765,420	1,765,420	0.0%
Equipment	360,369	459,991	27.6%
Vehicles	466,215	507,251	8.8%
Construction in progress	982,732	5,310,865	440.4%
Total Capital Assets	\$ 3,578,336	\$ 8,155,898	127.9%

The Office of Education’s fiscal year 2006 budget projects spending of \$6,341,551 for capital projects, primarily for site improvements and building costs. These expenditures are related to the Office of Education’s state bond supported building projects. The total cost of these projects is projected to be \$12,000,000 over the next five years.

Long-Term Debt

At year-end, the Office of Education had \$75,375 in debt, consisting of compensated absences. The Office of Education reduced \$264 in compensated absences during the fiscal year.

			Percentage
	2004	2005	Change
			2004-2005
Compensated Absences	\$ 75,639	\$ 75,375	-0.3%

FACTORS BEARING ON THE OFFICE OF EDUCATION'S FUTURE

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

- The uncertainty of federal and state funding can have a profound impact on the financial health of the Office of Education. Although no changes are currently anticipated, the federal budget was recently adopted; and the state could implement midyear budget cuts as it did during the 2005 fiscal year.
- The continuing increases in premiums for health care insurance and worker's compensation could have a significant effect on the future financial health of the Office of Education. The 2006 premium for health insurance increased by over 16% above the 2005 premium. The worker's compensation rate increased by 10% over the 2005 rate. Health care premiums are predicted to continue to increase in the foreseeable future.
- The budget assumptions used to prepare the budget for 2006 included a 4.23% cost of living allowance (COLA), and salary step and column increase of 2%.

CONTACTING THE OFFICE OF EDUCATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the Office of Education's finances and to demonstrate the Office of Education's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Tim Uptegrove, Deputy Superintendent of Business Services, at (530) 934-6575 ext. 3050.

Basic Financial Statements

STATEMENT OF NET ASSETS*Glenn County
Office of Education*

June 30, 2005	Governmental Activities
ASSETS	
Cash and investments	\$ 11,094,822
Accounts receivable	521,059
Due from other governments	1,720,552
Prepaid expenses	94,072
Nondepreciated capital assets	5,423,236
Depreciated capital assets	2,732,662
Accumulated depreciation	(1,452,239)
Total Assets	\$ 20,134,164
LIABILITIES	
Accounts payable and other current liabilities	\$ 1,993,901
Deferred revenues	187,637
Long-term obligations	
Due beyond one year	75,375
Total Liabilities	\$ 2,256,913
NET ASSETS	
Invested in capital assets - net of related debt	\$ 6,703,659
Restricted for capital projects	3,574,362
Restricted for educational programs	2,018,482
Unrestricted	5,580,748
Total Net Assets	\$ 17,877,251

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

STATEMENT OF ACTIVITIES

*Glenn County
Office of Education*

Year Ended June 30, 2005	Expenses	Program Revenue			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
FUNCTIONS/PROGRAMS					
PRIMARY GOVERNMENT					
Governmental activities					
Instruction	\$ 5,373,970	\$ 104,943	\$ 2,988,631	\$ 5,453,064	\$ 3,172,668
Instruction - related services	2,309,860	49,234	1,162,113	-	(1,098,513)
Pupil services	1,272,849	27,107	928,457	-	(317,285)
Ancillary services	98,135	-	-	-	(98,135)
Community services	4,016,809	30,932	4,129,488	-	143,611
General administration	2,153,710	31,870	1,213,492	-	(908,348)
Plant services	533,982	6,325	381,606	-	(146,051)
Other outgo	1,358,366	23,139	1,052,181	-	(283,046)
Total Governmental Activities	\$ 17,117,681	\$ 273,550	\$ 11,855,968	\$ 5,453,064	464,901
GENERAL REVENUES					
Property taxes - levied for general purposes					906,781
Federal and state aid not restricted to specific purposes					3,675,810
Unrestricted investment earnings					113,558
Interagency revenues					368,662
Miscellaneous					364,294
Total General Revenues and Transfers					5,429,105
Change in Net Assets					5,894,006
Net Assets - Beginning of Year					11,983,245
Net Assets - End of Year					\$ 17,877,251

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

**BALANCE SHEET
GOVERNMENTAL FUNDS**

*Glenn County
Office of Education*

June 30, 2005	County School Services Fund	Child Development Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 5,003,751	\$ 222,973	\$ 3,235,209	\$ 2,632,889	\$ 11,094,822
Accounts receivable	294,980	200,386	312	25,381	521,059
Due from other governments	1,370,316	222,180	-	128,056	1,720,552
Due from other funds	525,172	140,343	-	113,228	778,743
Prepaid expenditures	50,408	43,664	-	-	94,072
Total Assets	\$ 7,244,627	\$ 829,546	\$ 3,235,521	\$ 2,899,554	\$ 14,209,248
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and other current liabilities	\$ 1,112,035	\$ 219,618	\$ 588,347	\$ 73,901	\$ 1,993,901
Due to other funds	253,571	387,144	3,266	134,762	778,743
Deferred revenue	103,797	81,064	-	2,776	187,637
Total Liabilities	1,469,403	687,826	591,613	211,439	2,960,281
FUND BALANCES					
Reserved for revolving fund	6,000	2,000	-	-	8,000
Reserved for prepaid expenditures	50,407	43,664	-	-	94,071
Reserved for other purposes	1,600,149	-	-	-	1,600,149
Unreserved - reported in general fund	4,118,668	-	-	-	4,118,668
Unreserved - reported in special revenue funds	-	96,056	-	2,688,115	2,784,171
Unreserved - reported in capital projects funds	-	-	2,643,908	-	2,643,908
Total Fund Balances	5,775,224	141,720	2,643,908	2,688,115	11,248,967
Total Liabilities and Fund Balances	\$ 7,244,627	\$ 829,546	\$ 3,235,521	\$ 2,899,554	\$ 14,209,248

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

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

*Glenn County
Office of Education*

Total Fund Balances – Governmental Funds	\$ 11,248,967
<p>Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:</p>	
<p>Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.</p>	
Capital assets at historical cost	\$ 8,155,898
Accumulated depreciation	<u>(1,452,239)</u>
	6,703,659
<p>Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:</p>	
Compensated absences	<u>(73,375)</u>
Total Net Assets – Governmental Activities	\$ 17,877,251

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

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

*Glenn County
Office of Education*

Year Ended June 30, 2005	County School Services Fund	Child Development Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 908,341	\$ -	\$ -	\$ -	\$ 908,341
State revenue	6,927,611	948,202	5,409,378	1,033,753	14,318,944
Federal revenue	2,172,794	3,133,943	-	413,916	5,720,653
Interest and investment earnings	91,617	3,734	43,685	39,138	178,174
Other local revenue	1,099,442	409,148	-	376,985	1,885,575
Total Revenues	11,199,805	4,495,027	5,453,063	1,863,792	23,011,687
EXPENDITURES					
Current					
Instruction	4,461,332	-	-	742,680	5,204,012
Instruction-related services	1,779,610	150,333	-	388,526	2,318,469
Pupil services	1,255,471	-	-	-	1,255,471
Ancillary services	100,121	-	-	-	100,121
Community services	283,767	3,654,032	-	-	3,937,799
General administration	1,647,300	516,997	-	25,719	2,190,016
Plant services	301,248	173,890	-	81,919	557,057
Transfers between agencies	1,080,553	-	-	277,813	1,358,366
Capital outlay	-	109,797	4,557,783	-	4,667,580
Total Expenditures	10,909,402	4,605,049	4,557,783	1,516,657	21,588,891
Excess (Deficiency) of Revenues Over Expenditures	290,403	(110,022)	895,280	347,135	1,422,796
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	404,618	138,029	-	335,575	878,222
Interfund transfers out	(473,604)	-	-	(404,618)	(878,222)
Total Other Financing Sources (Uses)	(68,986)	138,029	-	(69,043)	-
Net Change in Fund Balances	221,417	28,007	895,280	278,092	1,422,796
Fund Balances - Beginning of Year	5,553,807	113,713	1,748,628	2,410,023	9,826,171
Fund Balances - End of Year	\$ 5,775,224	\$ 141,720	\$ 2,643,908	\$ 2,688,115	\$ 11,248,967

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

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

*Glenn County
Office of Education*

<hr/>		<hr/>	<hr/>
Total Net Change in Fund Balances			
Governmental Funds			\$ 1,422,796
<p>Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:</p>			
<p>Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:</p>			
Expenditures for capital outlay		\$ 4,577,562	
Depreciation expense		<u>(106,616)</u>	
			4,470,946
<p>Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:</p>			
			<u>264</u>
Change in Net Assets of Governmental Activities			<u>\$ 5,894,006</u>

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

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

*Glenn County
Office of Education*

June 30, 2005

Agency

ASSETS

Cash and investments

\$ 83,766

LIABILITIES

Accounts payable

\$ 83,766

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

1. SIGNIFICANT ACCOUNTING POLICIES**Accounting Policies**

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

Implementation of New Accounting Standards**Governmental Accounting Standards Board Statement No. 40**

The Office of Education adopted the provisions of GASB No. 40, *Deposit and Investment Risk Disclosures*. This statement establishes and modifies disclosure requirements for deposit risks related to custodial credit risk and foreign currency risk. This statement also establishes and modifies disclosure requirements related to investment risks including custodial credit risk, concentrations of credit risk, interest rate risk, and foreign currency risk.

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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute 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 Office 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 financial reporting entity are described below:

Governmental Funds

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

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

1. Charter Schools Fund is used to report separately the activities of William Finch Charter School.
2. Adult Education Fund is used to account separately for federal, state, and local revenues and the expenditure of those funds to operate adult education programs (*Education Code* Sections 52616[b] and 52501).
3. Child Development Fund is used to account separately for federal, state, and local revenues and the expenditure of those funds to operate child development programs (*Education Code* Section 8328).
3. Deferred Maintenance Fund is used to account separately for state apportionments and Office of Education contributions for deferred maintenance purposes. Expenditures in this fund are for major repairs or replacements as identified in the plan approved by the State Allocation Board (*Education Code* Sections 17582-17587).
4. Forest Reserve Fund is used to account separately for federal forest reserve funds received by the Office of Education for distribution to school districts and community college districts (*Education Code* Section 2300; *Government Code* Section 29484).
5. Special Reserve Fund is used to provide for the accumulation of resources designated for general operating purposes.

6. Special Reserve Fund for Postemployment Benefits is used to account for amounts earmarked for the future cost of retiree benefits but not contributed irrevocably to a separate trust for a retiree benefit plan.

Capital projects funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities.

1. County School Facilities Fund is used to receive apportionments from the State School Facilities Fund authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070).

Fiduciary Funds

Agency funds are used to account for assets of others for whom the Office of Education acts as an agent.

1. Warrant/Pass-Through Fund is used to accumulate funds for payroll and benefit liabilities of the Office of Education and the school districts.

Major and Nonmajor Funds

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

Major Governmental Funds

- County School Services Fund
- Child Development Fund
- County School Facilities Fund

Nonmajor governmental funds

- Charter Schools Fund
- Adult Education Fund
- Deferred Maintenance Fund
- Forest Reserve Fund
- Special Reserve Special Revenue Fund
- Special Reserve Postemployment Benefits Fund

Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

Basis of Accounting

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

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

Budgets and Budgetary Accounting

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

These budgets are revised by the Office of Education’s Governing Board and Office of Education Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the County School Services Fund and each major special revenue fund as required supplemental information.

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

Cash, Cash Equivalents, and Investments

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

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

In accordance with Education Code Section 41001, the Office of Education maintains substantially all of its cash in the Glenn County Treasury as part of the common investment 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. Investments in the county pool are valued using the amortized cost method (which approximates fair value) and includes accrued interest. The fair value of the Office of Education's position in the pool is the same as the carrying value of the pool shares. The pool has deposits and investments with a weighted-average maturity of less than one year. As of June 30, 2005, the fair value of the county pool is 99.48% of the carrying value and is deemed to not represent a material difference. Information regarding the amount of dollars invested in derivatives with the county was not available. The county investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by Government Code Section 27130. The Office of Education is considered to be an involuntary participant in the external investment pool.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The change in the fair value of investments was insignificant during the year ended June 30, 2005, and there was no significant unrealized gain or loss on investments held at June 30, 2005.

Accounts Receivable and Due From Other Governments

Accounts receivable represent amounts due from private persons, firms, or corporations based on contractual agreements or amounts billed but not received as of June 30, 2005. Amounts due from other governments include entitlements and grants from federal, state, and local governments that the Office of Education has earned or been allocated but has not received as of June 30, 2005.

Interfund Receivables and Payables

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

Prepaid Expenses

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

Fixed Assets

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

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the Office of Education as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2002.

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

Portable classrooms	25
Equipment	5-20
Vehicles	8

Fund Financial Statements

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

Deferred Revenue

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

Long-Term Debt

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

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

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures.

Compensated Absences

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

Equity Classifications

Government-Wide Statements

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

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

Restricted net assets consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulation 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. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

Revenue Limit and Property Tax

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

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

Revenue – Non-Exchange Transactions

Non-exchange transactions, in which the Office 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 Office of Education must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Office 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.

Expenditures and Expenses

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

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

Governmental funds – by character

Current (further classified by function)

Debt service

Capital outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

Interfund Transfers

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

2. CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 2005:

	<u>Maturities</u>	<u>Fair Value</u>
DEPOSITS (1)		\$ 13,530
INVESTMENTS THAT ARE NOT SECURITIES (2)		
County treasurer's investment pool	8.8 months	<u>11,165,058</u>
Total Cash and Investments		11,178,588
Less: Agency fund cash and investments		<u>83,766</u>
Total Cash and Investments Per Government-Wide Statement of Net Assets		<u>\$ 11,094,822</u>

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

Credit Risk – Investments

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

Concentration of Credit Risk – Investments

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

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

California Government Code Section 53601 places the following concentration limits on the Office of Education’s investments:

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

Interest Rate Risk – Investments

California Government Code Section 53601 limits the Office of Education’s investments to maturities of five years. The Office 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, 2005, are as follows:

<u>Investment</u>	<u>Less Than One Year</u>
County treasurer's investment pool	\$11,165,058

3. INTERFUND TRANSACTIONS AND BALANCES

Interfund Receivables/Payables

Individual fund interfund receivable and payable balances are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
County School Services	\$ 525,172	\$ 253,571
Charter Schools	-	78,957
Adult Education	35,401	54,411
Child Development	140,343	387,144
Forest Reserve	-	1,394
Special Reserve Special Revenue	67,146	-
Special Reserve for Postemployment Benefits	10,681	-
County School Facilities	-	3,266
Total	\$ 778,743	\$ 778,743

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2005

*Glenn County
Office of Education***Interfund Transfers**

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

Interfund transfers are as follows:

Fund	Transfers In	Transfers Out
County School Services	\$ 404,618	\$ 473,604
Charter Schools	121,702	121,648
Adult Education	23,735	-
Child Development	138,029	-
Deferred Maintenance	75,848	-
Forest Reserve	-	43,236
Special Reserve Special Revenue	103,609	228,484
Special Reserve Postemployment Benefits	10,681	11,250
Total	\$ 878,222	\$ 878,222

Transfers are used for the following:

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

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

4. CAPITAL ASSETS

Capital asset activity is as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
GOVERNMENTAL ACTIVITIES				
NONDEPRECIATED CAPITAL ASSETS				
Land	\$ 3,600	\$ 108,771	\$ -	\$ 112,371
Construction in progress	982,732	4,336,301	8,168	5,310,865
Total Nondepreciated Capital Assets	<u>986,332</u>	<u>4,445,072</u>	<u>8,168</u>	<u>5,423,236</u>
DEPRECIATED CAPITAL ASSETS				
Buildings	1,765,420	-	-	1,765,420
Machinery and equipment	360,369	99,622	-	459,991
Vehicles	466,215	41,036	-	507,251
Total Depreciated Capital Assets	<u>2,592,004</u>	<u>140,658</u>	<u>-</u>	<u>2,732,662</u>
Totals at Historical Cost	<u>\$ 3,578,336</u>	<u>\$ 4,585,730</u>	<u>\$ 8,168</u>	<u>\$ 8,155,898</u>
LESS ACCUMULATED DEPRECIATION				
Buildings	\$ 774,179	\$ 55,761	\$ -	\$ 829,940
Machinery and equipment	164,999	33,477	-	198,476
Vehicles	406,445	17,378	-	423,823
Total Accumulated Depreciation	<u>1,345,623</u>	<u>106,616</u>	<u>-</u>	<u>1,452,239</u>
Total Depreciated Capital Assets - Net	<u>1,246,381</u>	<u>34,042</u>	<u>-</u>	<u>1,280,423</u>
Governmental Activities Capital Assets - Net	<u>\$ 2,232,713</u>	<u>\$ 4,479,114</u>	<u>\$ 8,168</u>	<u>\$ 6,703,659</u>

Depreciation expense was charged to governmental activities as follows:

GOVERNMENTAL ACTIVITIES	
Instruction	\$ 63,344
Instruction-related services	19,756
Pupil services	15,472
Community services	3,065
Plant services	4,979
Total Depreciation Expense - Governmental Activities	<u>\$ 106,616</u>

5. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
GOVERNMENTAL ACTIVITIES					
Compensated absences	\$ 75,639	\$ -	\$ 264	\$ 75,375	\$ -

6. DESIGNATED FUND BALANCES

Fund balances as of June 30, 2005, are designated for the following purpose:

	County School Services	Child Development	County School Facilities	Other Governmental Funds
Designated for special purposes	\$ 150,000	\$ 96,056	\$ 2,643,908	\$ 2,688,115
Designated for economic uncertainties	850,000	-	-	-
Total Designated	1,000,000	96,056	2,643,908	2,688,115
Undesignated	3,118,668	-	-	-
Total Unreserved	\$ 4,118,668	\$ 96,056	\$ 2,643,908	\$ 2,688,115

7. JOINT POWERS AGREEMENTS

The Office of Education participates in joint ventures under Joint Powers Agreements (JPAs) with Golden State Risk Management Authority (GSRMA), Tri-Counties School Insurance Group (TCSIG), and Schools Excess Liability Fund (SELF). The relationship between the Office of Education and the JPAs is such that the JPAs are not component units of the Office of Education for financial reporting purposes.

The JPAs arrange for and provide property and liability, health care, and excess liability coverage for their members. Each JPA is governed by a board consisting of a representative from each member district. The Boards control the operations of the JPAs including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. Separately issued financial statements can be requested from each JPA. Condensed financial information of the JPAs is as follows:

June 30, 2004	GSRMA	SELF	TCSIG
Total assets	\$ 6,562,615	\$ 173,648,016	\$ 8,092,873
Total liabilities	5,640,364	147,852,240	10,069,150
Net Assets (Liabilities)	\$ 922,251	\$ 25,795,776	\$ (1,976,277)
Operating revenues	\$ 3,504,449	\$ 74,589,111	\$ 43,928,537
Operating expenses	3,610,841	81,308,586	47,086,246
Other income (expenses)	104,059	1,317,721	139,677
Excess Revenues (Expenses)	\$ (2,333)	\$ (5,401,754)	\$ (3,018,032)

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

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

Construction Project Commitments

The Office of Education is constructing special education classrooms at Capay Joint Union Elementary School District, Hamilton Union Elementary School District, Plaza Elementary School District, Willows Intermediate School, and Willows High School. Additionally, the Office of Education is building a community school in Willows. The total estimated cost to complete the construction is \$1,617,780. At June 30, 2005, total payments on the contracts totaled \$4,031,273.

9. RISK MANAGEMENT

The Office 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 Office of Education participates in risk pools under JPAs for property and liability, health benefits, and workers' compensation coverage.

10. 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 State Teachers' Retirement System (STRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS).

State Teachers' Retirement System (STRS)*Plan Description*

The Office of Education contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. 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. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7919 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2004-05 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The Office of Education's contributions to STRS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$358,092, \$322,160, and \$306,038, respectively, and equal 100% of the required contributions for each year.

California Public Employees Retirement System (CalPERS)***Plan Description***

The Office of Education contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement 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 the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary, and the Office 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 the 2004-05 fiscal year was 9.952%. The contribution requirements of the plan members are established by state statute. The Office of Education's contributions to CalPERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$346,516, \$345,859, and \$85,091, respectively, and equal 100% of the required contribution for each year.

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described above, the Office of Education provides postretirement health care benefits to all employees who retire on or after attaining the age of 55 with at least 15 consecutive years of service. On June 30, 2005, three retirees met these eligibility requirements.

The Office of Education pays 100% of the premiums for medical, dental, and vision insurance for the employee for two years following retirement. Expenditures for postretirement health care benefits are recognized as incurred. During the fiscal year ended June 30, 2005, expenditures of \$23,246 were recognized for postretirement health care.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2005

*Glenn County
Office of Education*

12. SUBSEQUENT EVENT

On September 30, 2005, the Office of Education issued certificates of participation in the amount of \$2,538,000 with an interest rate of 4.125%. The certificates mature beginning September 1, 2006, through September 1, 2045, in varying amounts from \$25,000 to \$125,000. The proceeds were used to purchase an administrative building in Orland, CA.

Required Supplemental Information

**BUDGETARY COMPARISON SCHEDULE
COUNTY SCHOOL SERVICES FUND**

*Glenn County
Office of Education*

Year Ended June 30, 2005	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 1,011,033	\$ 790,421	\$ 908,341	\$ 117,920
State revenue	7,939,751	7,697,374	6,927,611	(769,763)
Federal revenue	691,658	2,099,448	2,172,794	73,346
Interest and investment earnings	62,200	63,227	91,617	28,390
Other local revenue	936,465	874,280	1,099,442	225,162
Total Revenues	10,641,107	11,524,750	11,199,805	(324,945)
EXPENDITURES				
Current				
Instruction	4,467,799	5,100,992	4,461,332	639,660
Instruction - related services	1,124,436	2,033,912	1,779,610	254,302
Pupil services	1,093,882	1,459,742	1,255,471	204,271
Ancillary services	177,545	114,907	100,121	14,786
Community services	263,351	347,673	283,767	63,906
General administration	2,065,358	4,353,832	1,647,300	2,706,532
Plant services	268,959	411,534	301,248	110,286
Transfers between agencies	987,003	1,146,648	1,080,553	66,095
Other outgo	26,286	-	-	-
Capital outlay	93,855	368,347	-	368,347
Total Expenditures	10,568,474	15,337,587	10,909,402	4,428,185
Excess (Deficiency) of Revenues Over Expenditures				
	72,633	(3,812,837)	290,403	4,103,240
OTHER FINANCING SOURCES (USES)				
Transfers in	59,509	421,352	404,618	(16,734)
Transfers out	(141,823)	(506,662)	(473,604)	33,058
Other sources	-	4,103	-	(4,103)
Total Other Financing Sources (Uses)	(82,314)	(81,207)	(68,986)	12,221
Net Change in Fund Balances	(9,681)	(3,894,044)	221,417	4,115,461
Fund Balances - Beginning of Year	5,553,807	5,553,807	5,553,807	-
Fund Balances - End of Year	\$ 5,544,126	\$ 1,659,763	\$ 5,775,224	\$ 4,115,461

See the accompanying notes to the budgetary comparison schedules.

**BUDGETARY COMPARISON SCHEDULE
CHILD DEVELOPMENT FUND**

*Glenn County
Office of Education*

Year Ended June 30, 2005	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
State revenue	\$ 898,637	\$ 1,178,023	\$ 948,202	\$ (229,821)
Federal revenue	3,155,053	3,265,441	3,133,943	(131,498)
Interest and investment earnings	3,000	6,598	3,734	(2,864)
Other local revenue	354,513	423,222	409,148	(14,074)
Total Revenues	4,411,203	4,873,284	4,495,027	(378,257)
EXPENDITURES				
Current				
Instruction - related services	-	158,765	150,333	8,432
Community services	3,680,402	3,894,705	3,654,032	240,673
General administration	559,337	797,119	516,997	280,122
Plant services	175,424	191,218	173,890	17,328
Capital outlay	-	128,409	109,797	18,612
Total Expenditures	4,415,163	5,170,216	4,605,049	565,167
Excess (Deficiency) of Revenues Over Expenditures				
	(3,960)	(296,932)	(110,022)	186,910
OTHER FINANCING SOURCES (USES)				
Transfers in	4,960	185,218	138,029	(47,189)
Transfers out	(1,000)	-	-	-
Total Other Financing Sources (Uses)	3,960	185,218	138,029	(47,189)
Net Change in Fund Balances	-	(111,714)	28,007	139,721
Fund Balances - Beginning of Year	113,713	113,713	113,713	-
Fund Balances - End of Year	\$ 113,713	\$ 1,999	\$ 141,720	\$ 139,721

See the accompanying notes to the budgetary comparison schedules.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Office of Education's Governing Board annually adopts budgets for the County School Services Fund and each major special revenue fund of the Office of Education. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedules of the County School Services and 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 budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were no excesses of budgetary expenditures for the year ended June 30, 2005.

OTHER SUPPLEMENTAL INFORMATION SECTION

SCHEDULE OF AVERAGE DAILY ATTENDANCE

June 30, 2005

*Glenn County
Office of Education*

Report of Schools and Classes Maintained	Annual Report
ELEMENTARY	
Juvenile halls, homes, and camps	3
Opportunity schools and full-day opportunity classes	32
Elementary Totals	35
HIGH SCHOOL	
Juvenile halls, homes, and camps	25
Opportunity schools and full-day opportunity classes	5
Regional occupational centers/programs	349
Handicapped adults	30
Adults (E.C. Section 52616.21)	140
High School Totals	549
ADA Totals	584

County Operated Special Day Classes	Second Period Report	Annual Report
ELEMENTARY		
Special day classes		
SDC	65	69
SDC extended year	4	3
Elementary Totals	69	72
HIGH SCHOOL		
Special day classes		
SDC	56	57
ADA Totals	125	129

See the accompanying notes to the supplemental information.

SCHEDULE OF AVERAGE DAILY ATTENDANCE

June 30, 2005

*Glenn County
Office of Education*

Funded Through Block Grant	Second Period Report	Annual Report
WILLIAM FINCH CHARTER SCHOOL		
Kindergarten	2	2
Grades 1 through 3	26	26
Grades 4 through 6	26	28
Grades 7 and 8	17	18
Elementary Totals	71	258
HIGH SCHOOL		
Grades 9 through 12	83	83
Totals (All Full-Time Independent Study)	154	157

See the accompanying notes to the supplemental information.

SCHEDULE OF INSTRUCTIONAL TIME

Year Ended June 30, 2005

*Glenn County
Office of Education*

	1986-87 Minutes Requirement	2004-05 Actual Minutes	Traditional Calendar Days	Multitrack Calendar Days	Status
Kindergarten	36,000	36,000	180	N/A	Complied
Grades 1 through 3	50,400	50,508	180	N/A	Complied
Grades 4 through 8	54,000	54,090	180	N/A	Complied
Grades 9 through 12	64,800	64,754	180	N/A	Did not comply

See the accompanying notes to the supplemental information.

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

Year Ended June 30, 2005

*Glenn County
Office of Education*

Page 1 of 2

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
FEDERAL PROGRAMS			
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education			
California alternative performance assessment	84.unknown	14488	\$ 140
NCLB - Title I, Part D local delinquent programs	84.010	13798	17,147
NCLB - Title I Basic School Support SSSS	84.010	14416	21,839
Special Ed - IDEA basic local assistance entitlement	84.027	13379	548,389
Special Ed - preschool grants	84.173	13430	41,637
Special Ed - preschool local entitlement	84.027	13682	53,032
Special Ed - mental health	84.027	14468	7,717
Special Ed - infant discretionary	84.027	13612	1,789
Special Ed - local staff development	84.027	13613	6,929
Special Ed - preschool staff development	84.173	13431	1,000
Special Ed - low incidence entitlement	84.027	13459	6,915
Special Ed - early intervention	84.181	23761	34,422
Vocational and applied tech prep, Title II, Sec 203	84.243	13929	2,375
Vocational programs - secondary	84.048	13924	56,938
Vocational programs - postsecondary and adult	84.048	13923	5,167
Safe and drug-free schools and communities	84.186	13453	8,450
Safe and drug-free schools program development	84.186	13452	13,563
Safe and drug-free schools and communities, Part A	84.186	14378	28,578
Goals 2000 - secondary reading	84.276	24165	1,706
Adult education: adult basic education and ESL	84.002	14508	16,756
Adult education: english literacy and civics	84.002	14109	64,808
Adult education: adult secondary education	84.002	13978	2,354
Adult education: family literacy	84.002	13977	5,175
NCLB - Title II, Part A, improving teacher quality	84.367	14341	2,847
NCLB - Title IV, 21st century community learning center programs	84.287	14349	215,732
NCLB - Title V, innovative education strategies	84.298	13340	5,398
NCLB - Title VI, Flexibility and accountability, ELDT funding	84.369	14363	290
NCLB - Title VI, Part B, rural and low income school	84.358	14356	35,783
NCLB - Title X, education for homeless children and youth	84.196	14332	138,476
Passed Through Tehama County Department of Education			
Early Childhood Education Professional Development	84.349		29,927
Total U.S. Department of Education			<u>1,375,279</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education			
Child and adult care food	10.558	13393	92,634
Passed Through CSU, Chico Research Foundation			
Nutrition services incentive	10.570		32,645
Direct Program			
Schools and roads - grants to counties	10.666	10044	319,656
Total U.S. Department of Agriculture			<u>444,935</u>
Balance Carried Forward			<u>\$ 1,820,214</u>

See the accompanying notes to the supplemental information.

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

Year Ended June 30, 2005

*Glenn County
Office of Education*

Page 2 of 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Balance Forward			\$ 1,820,214
U.S. DEPARTMENT OF THE INTERIOR Passed Through Tehama County Office of Education Fish and wildlife management assistance	15.608		4,235
Total U.S. Department of the Interior			4,235
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Passed Through California Department of Education			
Child development - quality improvement activities	93.575	14130	13,839
Child development - federal alternative payment	93.596	13694	279,466
Child development - local planning councils	93.575	13946	87,969
Child development - federal alternative payment - stage II	93.575	13880	257,953
Child development - federal alternative payment - stage III	93.575	13881	156,270
Child development - federal resource and referral	93.596	13934	81,221
Child development - infant/toddler child care resource	93.575	13942	3,273
Direct Program			
Head Start PA22 and PA25	93.600	10016	2,123,777
Head Start PA20 and PA 26	93.600	10016	37,541
Passed Through CSU, Chico Research Foundation			
Special programs for the aging - Title III, Part B - Grants for services	93.044		27,218
Special programs for the aging - Title III, Part C - Nutrition	93.045		162,048
Passed Through State of California			
Medical assistance program (Medi-Cal)	93.778	10013	136,787
Medi-Cal administrative activities (MAA)	93.unknown	10060	528,842
Total U.S. Department of Health and Human Services			3,896,204
Total Expenditures of Federal Awards			\$ 5,720,653

See the accompanying notes to the supplemental information.

**SCHEDULE OF FINANCIAL TRENDS
AND ANALYSIS**

*Glenn County
Office of Education*

<u>Year Ended June 30, 2005</u>	<u>(Budget) 2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
COUNTY SCHOOL SERVICES FUND				
Revenues and Other Financial Sources	\$ 12,302,441	\$ 11,604,423	\$ 10,591,860	\$ 10,548,629
Expenditures	12,421,378	10,909,402	10,330,316	10,027,962
Other uses and transfers out	332,072	473,604	102,547	172,010
Total Outgo	<u>12,753,450</u>	<u>11,383,006</u>	<u>10,432,863</u>	<u>10,199,972</u>
Change in Fund Balance	\$ (451,009)	\$ 221,417	\$ 158,997	\$ 348,657
Ending Fund Balance	<u>5,324,215</u>	<u>5,775,224</u>	<u>5,553,807</u>	<u>5,394,810</u>
Available Reserves	<u>4,025,075</u>	<u>4,118,668</u>	<u>3,772,107</u>	<u>3,366,359</u>
Designated for Economic Uncertainties	<u>850,000</u>	<u>850,000</u>	<u>850,000</u>	<u>850,000</u>
Undesignated Fund Balance	<u>3,025,075</u>	<u>3,118,668</u>	<u>2,748,848</u>	<u>2,347,603</u>
Available Reserves as a Percentage of Total Outgo	<u>32%</u>	<u>36%</u>	<u>36%</u>	<u>33%</u>
Total Long-Term Debt	<u>75,375</u>	<u>75,375</u>	<u>75,639</u>	<u>65,030</u>
Average Daily Attendance at Annual	<u>730</u>	<u>730</u>	<u>707</u>	<u>706</u>

The County School Services Fund balance has increased by \$380,414 over the past two years. The fiscal year 2005-06 budget projects a decrease of \$451,009 (7.8%). For an office of education this size, the state recommends available reserves of at least \$400,000.

The Office of Education has not incurred an operating deficit in any of the past three years. An operating deficit is anticipated during the 2005-06 fiscal year. Total long-term debt has increased by \$10,345 over the past two years.

Average daily attendance has increased by 24 over the past two years. No additional growth is anticipated during fiscal year 2005-06.

See the accompanying notes to the supplemental information.

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

*Glenn County
Office of Education*

Year Ended June 30, 2005	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	GAAP Basis	Final Budget - Positive (Negative)
REVENUES				
Property taxes	\$ 1,011,033	\$ 790,421	\$ 908,341	\$ 117,920
State revenue	7,939,751	7,697,374	6,927,611	(769,763)
Federal revenue	691,658	2,099,448	2,172,794	73,346
Interest and investment earnings	62,200	63,227	91,617	28,390
Other local revenue	936,465	874,280	1,099,442	225,162
Total Revenues	10,641,107	11,524,750	11,199,805	(324,945)
EXPENDITURES				
Current				
Instruction	4,467,799	5,100,992	4,461,332	639,660
Instruction - related services	1,124,436	2,033,912	1,779,610	254,302
Pupil services	1,093,882	1,459,742	1,255,471	204,271
Ancillary services	177,545	114,907	100,121	14,786
Community services	263,351	347,673	283,767	63,906
General administration	2,065,358	4,353,832	1,647,300	2,706,532
Plant services	268,959	411,534	301,248	110,286
Transfers between agencies	987,003	1,146,648	1,080,553	66,095
Other outgo	26,286	-	-	-
Capital outlay	93,855	368,347	-	368,347
Total Expenditures	10,568,474	15,337,587	10,909,402	4,428,185
Excess (Deficiency) of Revenues Over Expenditures	72,633	(3,812,837)	290,403	4,103,240
OTHER FINANCING SOURCES (USES)				
Transfers in	59,509	421,352	404,618	(16,734)
Transfers out	(141,823)	(506,662)	(473,604)	33,058
Total Other Financing Sources (Uses)	(82,314)	(81,207)	(68,986)	12,221
Net Change in Fund Balances	(9,681)	(3,894,044)	221,417	4,115,461
Fund Balances - Beginning of Year		-	-	-
Fund Balances - End of Year	\$ (9,681)	\$ (3,894,044)	\$ 221,417	\$ 4,115,461

See the accompanying notes to the budgetary comparison schedule.

SCHEDULE OF CHARTER SCHOOLS

Year Ended June 30, 2005

*Glenn County
Office of Education*

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

William Finch Charter School

See the accompanying notes to the supplemental information.

1. PURPOSE OF SCHEDULES**Schedule of Average Daily Attendance**

Average daily attendance is a measurement of the number of pupils attending classes of the Office 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 the Office of Education. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The Office 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 Office of Education and whether the Office of Education complied with the provisions of Education Code Sections 46201 through 46206.

Schedule of Expenditures of Federal Awards

This schedule is prepared on the modified accrual basis of accounting. OMB Circular A-133 requires disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with OMB Circular A-133 requirements.

Schedule of Financial Trends and Analysis

This schedule discloses the Office 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 Office 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 Office of Education and indicates whether or not the charter school is included in the audit of the Office of Education.

2. EARLY RETIREMENT INCENTIVE PROGRAM

The Office of Education did not enter into any early retirement incentive agreements during 2004-05, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

OTHER REPORTS SECTION



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

Board of Education
Glenn County Office of Education
Willows, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Glenn County Office of Education (the Office of Education) as of and for the year ended June 30, 2005, which collectively comprise the Office of Education's basic financial statements and have issued our report thereon dated October 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Office of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Office 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.

Matson and Isom

October 14, 2005



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Glenn County Office of Education
Willows, California

COMPLIANCE

We have audited the compliance of Glenn County Office of Education (the Office of Education) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Office of Education's major federal programs are identified in the summary of audit 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 Office of Education's management. Our responsibility is to express an opinion on the Office 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 Office 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 Office of Education's compliance with those requirements.

In our opinion, the Office of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Office of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Office of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Continued

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Matson and Isom

October 14, 2005



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INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Glenn County Office of Education
Willows, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Glenn County Office of Education (the Office of Education) as of and for the year ended June 30, 2005, which collectively comprise the Office of Education's basic financial statements and have issued our report thereon dated October 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2004-05*, published by the Education Audit Appeals Panel. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

The Office of Education's management is responsible for the Office of Education's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Office of Education's compliance with the state laws and regulations applicable to the following:

Description	Procedures in Audit Guide	Procedures Performed
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	22	Yes
Continuation education	10	No
Adult education	9	Yes
Regional occupational centers and programs	6	Yes
Instructional time and staff development reform program	7	Yes
Instructional time		
School districts	4	Not applicable
County offices of education	3	Yes
Community day schools	9	No
Class size reduction		
General requirements	7	No
Option one classes	3	No
Option two classes	4	No
Districts or charter schools with only one school serving kindergarten through grade 3	4	Not applicable
Instructional materials		
General requirements	12	Yes
Kindergarten through grade 8 only	1	Yes
Grades 9 through 12 only	1	Yes
Ratios of administrative employees to teachers	1	No
Early retirement incentive program	4	No
Gann limit calculation	1	Yes
School construction funds		
School district bonds	3	No
State school facilities funds	1	Yes
Alternative pension plans	2	No
Proposition 20 lottery funds (Cardenas Textbook Act of 2000)	2	Yes
State lottery funds (California State Lottery Act of 1984)	2	Yes
California school age families education (Cal-Safe) program	3	No
School accountability report card	3	No

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

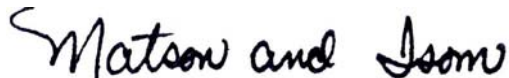
The audit procedure related to the ratios of administrative employees to teachers does not apply to offices of education. School accountability report card procedure (b) was not performed because an interim evaluation instrument was not completed prior to the school accountability report card published during 2004-05.

Since the Office of Education did not participate in the following programs during 2004-05, all steps related to them were not performed:

- Continuation Education
- Community Day Schools
- Class Size Reduction Option One Classes
- Class Size Reduction Option Two Classes
- Early Retirement Incentive Program
- School District Bonds
- Alternative Pension Plans
- California School Age Families Education (Cal-Safe) Program

Based on our audit, for the items tested, we found the Office of Education complied with the state laws and regulations referred to above, except as described in the schedule of findings and questioned costs. Further, based on our examination for items not tested, nothing came to our attention to indicate that the Office of Education had not complied with state laws and regulations, except as described in the accompanying schedule of findings and questioned costs as item 05-1.

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.



October 14, 2005

FINDINGS AND QUESTIONED COSTS SECTION

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

June 30, 2005

*Glenn County
Office of Education*

**SECTION I
SUMMARY OF AUDIT RESULTS**

FINANCIAL STATEMENTS

Type of auditors' report issued	Unqualified
Internal control over financial reporting	
Material weaknesses identified?	No
Reportable conditions 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
Reportable conditions identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major program	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No
Identification of major programs	
CFDA No. 93.600	Head Start
CFDA No. 93.	Medi-Cal Administrative Activities (MAA)
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
Reportable conditions identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for state programs	Qualified

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

June 30, 2005

*Glenn County
Office of Education*

**SECTION II FINDINGS
FINANCIAL STATEMENTS AUDIT**

None.

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None.

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

June 30, 2005

*Glenn County
Office of Education*

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

STATE COMPLIANCE (Incentives for Longer Instructional Day)

40000 (05-1)

Reportable Condition

Condition

During our test work over compliance with Longer Instructional Day Incentive Funding, it was noted that the instructional minutes were 46 minutes short of the required 64,800 minutes for grades nine through twelve at Princeton Joint Unified School District, where the Office of Education operates a special day program.

Criteria

To qualify for instructional time incentive funding, the Office of Education must offer at least the amount of instructional time specified in Education Code Section 46201.

Effect

The Office of Education is subject to an instructional time penalty for not offering the 64,800 minutes required for grades nine through twelve at Princeton Joint Unified School District. The Office of Education is required to return to the California Department of Education funding totaling \$0.36 that was received from principal apportionments. The amount is calculated by multiplying .97 ADA by the result of the following:

Number of minutes short	46
Divided by number of required minutes	64,800
Multiplied by special education incidence multiplier (IM) rate	\$538.91

Recommendation

We recommend that the Office of Education increase instructional minutes for grades nine through twelve at Princeton Joint Unified School District to the minimum required of 64,800 in order to be in compliance with the state requirements to receive the Longer Instructional Day Incentive Funding. We also recommend the Office of Education return funding totaling \$0.36 to the California Department of Education.

Response

The Office of Education's administration will adopt procedures during 2005-06 to comply with the recommendation.

CORRECTIVE ACTION PLAN
June 30, 2005

*Glenn County
Office of Education*

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

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2005

*Glenn County
Office of Education*

None.