

DURHAM UNIFIED SCHOOL DISTRICT

**County of Butte
Durham, California**

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

June 30, 2010

TABLE OF CONTENTS

June 30, 2010

*Durham Unified
School District*

	Page Number
FINANCIAL SECTION	
Independent Auditors' Report	2
Required Supplementary Information	
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements	
Balance Sheet – Governmental Funds	17
Reconciliation of Governmental Fund Balances to Government-Wide Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	19
Reconciliation of Net Change in Fund Balances to Change in Net Assets	20
Statement of Fiduciary Net Assets – Fiduciary Funds	21
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund	22
Notes to the Financial Statements	23
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	43
Notes to the Budgetary Comparison Schedule	44

TABLE OF CONTENTS

June 30, 2010

*Durham Unified
School District*

	Page Number
OTHER SUPPLEMENTARY INFORMATION SECTION	
Local Education Agency Organization Structure	46
Schedule of Average Daily Attendance	47
Schedule of Instructional Time	48
Schedule of Expenditures of Federal Awards	49
Schedule of Financial Trends and Analysis	50
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	51
Schedule of Charter Schools	52
Notes to the Other Supplementary Information	53
OTHER REPORTS SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	55
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	57
Independent Auditors' Report on State Compliance	59
FINDINGS AND QUESTIONED COSTS SECTION	
Schedule of Findings and Questioned Costs	63
Corrective Action Plan	67
Summary Schedule of Prior Audit Findings	68

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Durham Unified School District
Durham, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durham Unified School District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

INDEPENDENT AUDITORS' REPORT

Continued

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The accompanying financial information listed as other supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the 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 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Matson and Isom

November 22, 2010

Required Supplementary Information

INTRODUCTION

This section of the Durham Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the independent auditors' report presented and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

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

FINANCIAL HIGHLIGHTS

- Total net assets were \$8,091,976 at June 30, 2010. This was a decrease of \$349,421 over the prior year.
- Overall revenues were \$8,410,736, total current-year expenses exceeded revenues by \$349,421 primarily due to the uncertainty of the State of California's budget and the federal stimulus funding received in the 2008-2009 fiscal year that was expended during the 2009-2010 fiscal year.
- Capital assets, net of depreciation, decreased by \$351,722 due to the current year acquisition and/or construction of \$20,579 of new capital assets, and the current year recognition of \$372,301 of depreciation expense.
- Long-term debt has increased by \$4,604.
- October 2009 enrollment decreased by 27 students to 1,069. Enrollment projections indicate a continued decline due in part to low area birth rates, a very limited rental market and a tight but highly priced single-family home real estate market. This will continue to strain the unrestricted revenue limit funding.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of General Fund expenditures, transfers out, and other uses (total outgo). When the District's average daily attendance (ADA) drops below 1,000 (projected in the 2010-11 fiscal year), the reserve threshold increases to 4%. During fiscal year 2009-10, General Fund expenditures and other financing uses totaled \$8,023,550. At June 30, 2010, the District has available reserves of \$1,641,571 in the General Fund, which represents a reserve of 20%.

THE FINANCIAL REPORT

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

Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.

Fund financial statements focus on reporting the individual parts of the District's operations in more detail.

- Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
- Short- and long-term financial information about the activities of the District that operated like businesses are provided in the proprietary fund statements.
- Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds statements.

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

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

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

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

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

Governmental Activities

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

Business-Type Activities

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

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

Governmental Funds

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

Proprietary Funds

Services for which the District charges a fee are generally reported in proprietary funds on a full accrual basis. These include both enterprise funds and internal service funds. Enterprise funds are considered business-type activities and are also reported under a full accrual method. This is the same basis as business-type activities; therefore no reconciling entries are required. Internal service funds are reported with the governmental funds. The District has no funds of this type.

Fiduciary Funds

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$8,091,976 for the fiscal year ended June 30, 2010. Restricted net assets are reported separately if they are not available for day-to-day operations or their use is constrained to a particular purpose by statutes, rules or other entities with authority over the District. District net assets decreased \$349,421 during fiscal year 2009-10.

	Governmental Activities	
	2009	2010
ASSETS		
Cash and investments	\$ 3,883,076	\$ 3,180,412
Accounts receivable	717,392	950,867
Inventories and other assets	21,630	14,304
Capital assets - net of accumulated depreciation	5,261,013	4,909,291
Total Assets	\$ 9,883,111	\$ 9,054,874
LIABILITIES		
Accounts payable and other current liabilities	\$ 1,418,869	\$ 935,449
Long-term debt obligations	22,845	27,449
Total Liabilities	\$ 1,441,714	\$ 962,898
NET ASSETS		
Invested in capital assets	\$ 5,261,013	\$ 4,909,291
Restricted	878,053	810,200
Unrestricted	2,302,331	2,372,485
Total Net Assets	\$ 8,441,397	\$ 8,091,976

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

*Durham Unified
School District***Change in Net Assets**

The following table summarizes the change in net assets for the District. Expenses exceeded the District's revenues for the year by \$349,421. The District's expenses are primarily related to educating and caring for students and make up 80% of all expenses. Administrative activities of the District account for 7% of the total costs. The decrease in revenue is related to a substantial decrease in Revenue Limit funding due to declining enrollment as well as deficit funding imposed by the State budget. The decrease in expenses is related to a reduction in staffing due to declining enrollment and the deficit funding imposed by the State budget.

	Governmental Activities	
	2009	2010
REVENUES		
PROGRAM REVENUES		
Charges for services	\$ 186,464	\$ 168,988
Operating grants and contributions	2,149,365	1,053,849
GENERAL REVENUES		
Property taxes	2,425,525	2,437,790
Federal and state aid not restricted	4,641,604	4,191,207
Interest and investment earnings	178,852	26,187
Interagency	156,940	114,906
Miscellaneous	116,007	417,809
Total Revenues	9,854,757	8,410,736
EXPENSES		
Instruction	5,963,180	5,202,582
Instruction-related services	789,901	717,005
Pupil services	1,079,373	1,070,344
General administration	653,188	620,841
Plant services	912,170	853,818
Ancillary services	144,679	125,822
Other outgo	255,945	169,745
Total Expenses	9,798,436	8,760,157
Change in Net Assets	\$ 56,321	\$ (349,421)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

*Durham Unified
School District*

GOVERNMENTAL ACTIVITIES

	Total Cost of Services 2010	Net Cost of Services 2010
Instruction	\$ 5,202,582	\$ 4,594,279
Instruction-related services	717,005	687,485
Pupil services	1,070,344	427,551
General administration	620,841	572,024
Plant services	853,818	793,472
Ancillary services	125,822	125,822
Other outgo	169,745	336,687
Total	\$ 8,760,157	\$ 7,537,320

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

	June 30, 2010	Percent of Total	Increase (Decrease) from June 30, 2009	Percent Increase (Decrease)
REVENUES				
PROGRAM REVENUES				
Charges for services	\$ 168,988	2.01%	\$ (17,476)	-9.37%
Operating grants and contributions	1,053,849	12.53%	(1,095,516)	-50.97%
GENERAL REVENUES				
Property taxes	2,437,790	28.98%	12,265	0.51%
Federal and state aid not restricted	4,191,207	49.83%	(450,397)	-9.70%
Interest and investment earnings	26,187	0.31%	(152,665)	-85.36%
Interagency	114,906	1.37%	(42,034)	-26.78%
Miscellaneous	417,809	4.97%	301,802	260.16%
Total Revenues	\$ 8,410,736	100%	\$ (1,444,021)	-14.65%

	June 30, 2010	Percent of Total	Increase (Decrease) from June 30, 2009	Percent Increase (Decrease)
EXPENSES				
Instruction	\$ 5,202,582	59.39%	\$ (760,598)	-12.75%
Instruction-related services	717,005	8.18%	(72,896)	-9.23%
Pupil services	1,070,344	12.22%	(9,029)	-0.84%
General administration	620,841	7.09%	(32,347)	-4.95%
Plant services	853,818	9.75%	(58,352)	-6.40%
Ancillary services	125,822	1.44%	(18,857)	-13.03%
Other outgo	169,745	1.94%	(86,200)	-33.68%
Total Expenses	\$ 8,760,157	100%	\$ (1,038,279)	-10.60%

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

Governmental Funds

The District’s governmental funds reported a combined fund balance of \$3,207,903, an increase of \$4,674 from the previous year. Following is a summary of the District’s fund balances.

	Fund Balance		Increase
	June 30, 2009	June 30, 2010	(Decrease)
General	\$ 1,373,370	\$ 1,675,602	\$ 302,232
Cafeteria Special Revenue	10,000	9,435	(565)
Deferred Maintenance	668,277	318,496	(349,781)
Pupil Transportation Equipment	295	302	7
Special Reserve Special Revenue	283,187	290,034	6,847
Capital Facilities	273,947	310,779	36,832
County School Facilities	58,669	60,088	1,419
Special Reserve Capital Projects	440,194	450,838	10,644
Foundation Permanent Trust	95,290	92,329	(2,961)
Total	\$ 3,203,229	\$ 3,207,903	\$ 4,674

The General Fund increase is due primarily to the one-time transfer made from the Deferred Maintenance Fund that was authorized by the flexibility provisions enacted in the State budget.

The Deferred Maintenance Fund decrease is due to the one-time transfer made to the General Fund that was authorized by the flexibility provisions enacted in the State budget.

The Special Reserve Special Revenue Fund and the Special Reserve Capital Projects Fund increases are due to interest earnings on the funds cash deposited in the County Treasury.

The Capital Facilities Fund increase is due to the collection of developer fee revenue; there was no need for any major development in the current year to expend the fees collected.

The County Schools Facilities Fund increase is due to interest earnings on the funds cash deposited in the County Treasury.

General Fund Budgetary Highlights

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

- County special education bill-back was less than anticipated, which was unknown at the time of the final budget revision.
- Restricted programs are fully budgeted to be spent even though they continue to have carryover and deferred revenue.
- Specific one-time program allocations from the State were allocated late to the District.

CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION

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

Capital Assets

The District has invested \$4,909,291 in capital assets including land, buildings and improvements, and equipment and vehicles.

	Governmental Activities	
	2009	2010
Land	\$ 153,080	\$ 153,080
Site improvements	3,981,146	4,001,725
Buildings	6,867,257	6,892,496
Equipment and vehicles	1,062,232	1,036,993
Subtotals	12,063,715	12,084,294
Less: Accumulated depreciation	(6,802,702)	(7,175,003)
Total	\$ 5,261,013	\$ 4,909,291

Long-Term Debt

	Governmental Activities	
	2009	2010
Net OPEB obligation (deferred charge)	\$ -	\$ (2,231)
Compensated absences	22,845	27,449
Total	\$ 22,845	\$ 25,218

Compensated absences increased by \$4,604 due to the fact that there were not substantial changes in the work force that is able to accrue vacation balances. The District did not enter into any new debt-financing arrangements in 2009-10.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Enrollment projections indicate continued decline as large classes continue to graduate from the high school and smaller classes enter the elementary school.
- Health benefits, workers' compensation rates, and fuel and energy costs continue to escalate.
- Mandated programs such as special education, special education transportation, food service and routine restricted maintenance continue to experience costs far in excess of program revenues which negatively impact the District's ability to fund other instructional programs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Connie Cavanaugh
Business Manager
Durham Unified School District
PO Box 300
Durham, California 95938

Basic Financial Statements

STATEMENT OF NET ASSETS*Durham Unified
School District*

June 30, 2010	Governmental Activities
ASSETS	
Cash and investments	\$ 3,180,412
Accounts receivable	88,413
Due from other governments	862,454
Inventories - supplies and materials	3,820
Prepaid expenses	8,253
Net OPEB deferred charge	2,231
Nondepreciated capital assets	153,080
Depreciated capital assets	11,931,214
Accumulated depreciation	(7,175,003)
Total Assets	\$ 9,054,874
LIABILITIES	
Accounts payable and other current liabilities	\$ 707,967
Due to other governments	103,619
Deferred revenue	123,863
Long-term obligations	
Due beyond one year	27,449
Total Liabilities	\$ 962,898
NET ASSETS	
Invested in capital assets	\$ 4,909,291
Restricted for capital projects	689,665
Restricted for educational programs	120,535
Unrestricted	2,372,485
Total Net Assets	\$ 8,091,976

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

STATEMENT OF ACTIVITIES

*Durham Unified
School District*

Year Ended June 30, 2010	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
				<u>Governmental Activities</u>
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT				
Governmental activities				
Instruction	\$ 5,202,582	\$ 22,864	\$ 585,439	\$ (4,594,279)
Instruction - related services	717,005	-	29,520	(687,485)
Pupil services	1,070,344	125,495	517,298	(427,551)
Ancillary services	125,822	-	-	(125,822)
General administration	620,841	6,087	42,730	(572,024)
Plant services	853,818	7,789	52,557	(793,472)
Other outgo	169,745	6,753	(173,695)	(336,687)
Total Governmental Activities	\$ 8,760,157	\$ 168,988	\$ 1,053,849	(7,537,320)
GENERAL REVENUES				
				2,437,790
Property taxes - levied for general purposes				4,191,207
Federal and state aid not restricted to specific purposes				26,187
Unrestricted investment earnings				114,906
Interagency revenues				417,809
Miscellaneous				7,187,899
Total General Revenues and Transfers				(349,421)
Change in Net Assets				8,441,397
Net Assets - Beginning of Year				\$ 8,091,976
Net Assets - End of Year				

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

**BALANCE SHEET –
GOVERNMENTAL FUNDS**

*Durham Unified
School District*

June 30, 2010	General Fund	Special Reserve Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,633,083	\$ 448,285	\$ 1,099,044	\$ 3,180,412
Accounts receivable	74,803	2,553	11,057	88,413
Due from other governments	860,199	-	2,255	862,454
Due from other funds	34,198	-	10,161	44,359
Inventories - supplies and materials	-	-	3,820	3,820
Prepaid expenditures	8,253	-	-	8,253
Total Assets	\$ 2,610,536	\$ 450,838	\$ 1,126,337	\$ 4,187,711
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and other current liabilities	\$ 697,291	\$ -	\$ 10,676	\$ 707,967
Due to other governments	103,619	-	-	103,619
Due to other funds	10,161	-	34,198	44,359
Deferred revenue	123,863	-	-	123,863
Total Liabilities	934,934	-	44,874	979,808
FUND BALANCES				
Reserved for revolving fund	2,687	-	500	3,187
Reserved for inventories	-	-	3,820	3,820
Reserved for prepaid expenditures	8,253	-	-	8,253
Reserved for other purposes	23,091	-	-	23,091
Unreserved - reported in general fund	1,641,571	-	-	1,641,571
Unreserved - reported in special revenue funds	-	-	613,947	613,947
Unreserved - reported in capital projects funds	-	450,838	370,867	821,705
Unreserved - reported in permanent fund	-	-	92,329	92,329
Total Fund Balances	1,675,602	450,838	1,081,463	3,207,903
Total Liabilities and Fund Balances	\$ 2,610,536	\$ 450,838	\$ 1,126,337	\$ 4,187,711

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

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

*Durham Unified
School District*

June 30, 2010

Total Fund Balances – Governmental Funds	\$ 3,207,903
<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	\$ 12,084,294
Accumulated depreciation	<u>(7,175,003)</u>
	4,909,291
<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>	
Net OPEB obligation (deferred charge)	(2,231)
Compensated absences	<u>27,449</u>
	<u>(25,218)</u>
Total Net Assets – Governmental Activities	\$ 8,091,976

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

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

*Durham Unified
School District*

Year Ended June 30, 2010	General Fund	Special Reserve Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 2,437,790	\$ -	\$ -	\$ 2,437,790
State revenue	4,684,028	-	17,799	4,701,827
Federal revenue	541,890	-	204,268	746,158
Interest and investment earnings	30,616	10,644	24,023	65,283
Other local revenue	291,458	-	152,641	444,099
Total Revenues	7,985,782	10,644	398,731	8,395,157
EXPENDITURES				
Current				
Instruction	4,913,493	-	4,130	4,917,623
Instruction-related services	695,862	-	985	696,847
Pupil services	697,013	-	323,365	1,020,378
Ancillary services	125,822	-	-	125,822
General administration	595,201	-	17,988	613,189
Plant services	811,414	-	30,465	841,879
Transfers between agencies	169,745	-	-	169,745
Capital outlay	5,000	-	-	5,000
Total Expenditures	8,013,550	-	376,933	8,390,483
Excess (Deficiency) of Revenues Over Expenditures	(27,768)	10,644	21,798	4,674
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	340,000	-	10,000	350,000
Interfund transfers out	(10,000)	-	(340,000)	(350,000)
Total Other Financing Sources (Uses)	330,000	-	(330,000)	-
Net Change in Fund Balances	302,232	10,644	(308,202)	4,674
Fund Balances - Beginning of Year	1,373,370	440,194	1,389,665	3,203,229
Fund Balances - End of Year	\$ 1,675,602	\$ 450,838	\$ 1,081,463	\$ 3,207,903

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

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

*Durham Unified
School District*

June 30, 2010

Total Net Change in Fund Balances – Governmental Funds		\$ 4,674
<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	\$ 5,000	
Depreciation expense	<u>(372,301)</u>	(367,301)
<p>Donated capital assets: In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as revenue and as increases to capital assets at their fair market value on the date of donation. The fair market value of capital assets donated was:</p>		
		15,579
<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>		
		(4,604)
<p>Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:</p>		
		<u>2,231</u>
Change in Net Assets of Governmental Activities		\$ (349,421)

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

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

*Durham Unified
School District*

June 30, 2010	Foundation Private-Purpose Trust	Agency
ASSETS		
Cash and investments	\$ 277,793	\$ 141,233
Accounts receivable	3,880	383
Total Assets	\$ 281,673	\$ 141,616
LIABILITIES		
Accounts payable	\$ 15,825	\$ -
Due to student groups	-	141,616
Total Liabilities	\$ 15,825	\$ 141,616
NET ASSETS		
Held in trust for scholarships	\$ 265,848	

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

**STATEMENT OF CHANGES IN
FIDUCIARY NET ASSETS –
FIDUCIARY FUND**

*Durham Unified
School District*

Year Ended June 30, 2010	Foundation Private-Purpose Trust
ADDITIONS	
Interest and investment earnings	\$ 12,189
Donations	6,012
Total Additions	18,201
DEDUCTIONS	
Scholarships awarded	17,615
Change in Net Assets	586
Net Assets - Beginning of Year	265,262
Net Assets - End of Year	\$ 265,848

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

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The District is governed by an elected five member board. The District operates one elementary school, one intermediate school, one high school, and one continuation high school in Durham, California.

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

Implementation of New Accounting Standards

Governmental Accounting Standards Board Statement No. 45

The District adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

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

1. Cafeteria Special Revenue Fund is used to account separately for federal, state, and local resources received to operate the District's food service program (*California Education Code* Sections 38090-38093).
2. Deferred Maintenance Fund is used to account separately for state apportionments and District 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 (*California Education Code* Sections 17582-17587).
3. Pupil Transportation Equipment Fund is used to account separately for state and local revenues received for the acquisition, rehabilitation, or replacement of equipment used to transport students (*California Education Code* Section 41852[b]).
4. Special Reserve Fund is used to provide for the accumulation of resources designated for general operating purposes.

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

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

Permanent Funds

Foundation permanent funds are used to account for resources received from gifts or bequests pursuant to *California Education Code* Section 41031 that are restricted to the extent that earnings, but not principal, may be used for purposes that support the District's own programs. The Foundation Permanent Fund is used to account separately for gifts or bequests that support the Durham High School Music and Library Programs.

Fiduciary Funds

Private-purpose trust funds are used to account for assets held by the District as trustee pursuant to formal agreements with donors and under which neither principal nor income may be used for purposes that support the District's own programs. The Foundation Private-Purpose Trust Fund is used to account separately for gifts or bequests that provide scholarships to students of the District.

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

Major and Nonmajor Funds

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

Major Governmental Funds

General Fund

Special Reserve Capital Projects Fund

Nonmajor Governmental Funds

Cafeteria Special Revenue Fund

Deferred Maintenance Fund

Pupil Transportation Equipment Fund

Special Reserve Special Revenue Fund

Capital Facilities Fund

County School Facilities Fund

Foundation Permanent Fund

Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

Basis of Accounting

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

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

Budgets and Budgetary Accounting

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

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

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

Cash, Cash Equivalents, and Investments

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

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

In accordance with *California Education Code* Section 41001, the District maintains substantially all of its cash in the Butte County Treasury as part of the common investment pool. The county is restricted by *California Government Code* Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes, or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Investments in the county pool are valued using the amortized cost method (which approximates fair value) and includes accrued interest. The pool has deposits and investments with a weighted-average maturity of more than one year. As of June 30, 2010, the fair value of the county pool is 102.38% of the carrying value and is deemed to represent a material difference. Information regarding the amount of dollars invested in derivatives with the county was not available. The county investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code* Section 27130. The District is considered to be an involuntary participant in the external investment pool.

The calculation of realized losses is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net decrease in the fair value of investments during the year ended June 30, 2010, was \$14,667. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at June 30, 2010, was \$80,116.

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, 2010. Amounts due from other governments include entitlements and grants from federal, state, and local governments that the District has earned or been allocated but has not received as of June 30, 2010. At June 30, 2010, no allowance for doubtful accounts was deemed necessary.

Interfund Receivables and Payables

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

Inventories and Prepaid Expenses

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

Fixed Assets

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

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the District as assets with an initial, individual cost of \$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:

School buildings	20-50
Portable classrooms	20-25
Site improvements	20-30
Equipment	5-20
Vehicles	8

Fund Financial Statements

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

Deferred Revenue

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

Long-Term Debt

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

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

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

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 consists of capital assets including restricted capital assets, net of accumulated depreciation.

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

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

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

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

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

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

Revenue – Nonexchange Transactions

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

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

Expenditures and Expenses

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

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

Governmental funds – by character

Current (further classified by function)

Debt service

Capital outlay

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, 2010:

	Maturities	Fair Value
DEPOSITS (1)		\$ 148,877
INVESTMENTS THAT ARE NOT SECURITIES (2)		
County treasurer's investment pool	1.7 years average	3,450,561
Total Cash and Investments		3,599,438
Less: Trust fund cash and investments		277,793
Less: Agency fund cash and investments		141,233
Total Cash and Investments Per Government-Wide Statement of Net Assets		\$ 3,180,412

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

Credit Risk – Investments

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

Concentration of Credit Risk – Investments

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

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

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

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

Interest Rate Risk – Investments

California Government Code Section 53601 limits the District’s investments to maturities of five years. The District 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, 2010, are as follows:

Investment	Less Than Five Years
County treasurer’s investment pool	\$ 3,450,561

3. INTERFUND TRANSACTIONS AND BALANCES

Interfund Receivables/Payables

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

Interfund Receivable	Interfund Payable	Amounts
General	Cafeteria Special Revenue	\$ 33,174
General	Capital Facilities	1,024
Cafeteria Special Revenue	General	10,161
Total		\$ 44,359

The specific purposes of the interfund balances are as follows:

To reimburse the General Fund for 2009-10 expenditures incurred by the Cafeteria Special Revenue Fund which were disbursed from the General Fund;

To reimburse the General Fund for direct costs incurred by the General Fund on behalf of the Capital Facilities Fund; and

To transfer monies to the Cafeteria Special Revenue Fund for General Fund support of the Cafeteria Special Revenue Fund.

Interfund Transfers

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

Interfund transfers are as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amounts</u>
General	Cafeteria Special Reserve	\$ 10,000
Deferred Maintenance	General	340,000
Total		\$ 350,000

Transfers are used for the following:

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

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

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

Interfund transfer out of the Deferred Maintenance Fund to the General Fund to transfer a portion of the restricted fund balance of the Deferred Maintenance Fund to the General Fund for any educational purpose.

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

*Durham Unified
School District*

4. CAPITAL ASSETS

Capital asset activity is as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
GOVERNMENTAL ACTIVITIES				
NONDEPRECIATED CAPITAL ASSETS				
Land	\$ 153,080	\$ -	\$ -	\$ 153,080
DEPRECIATED CAPITAL ASSETS				
Buildings	6,867,257	-	(25,239)	6,892,496
Site improvements	3,981,146	20,579	-	4,001,725
Equipment and vehicles	1,062,232	-	25,239	1,036,993
Total Depreciated Capital Assets	<u>11,910,635</u>	<u>20,579</u>	<u>-</u>	<u>11,931,214</u>
Totals at Historical Cost	<u>\$ 12,063,715</u>	<u>\$ 20,579</u>	<u>\$ -</u>	<u>\$ 12,084,294</u>
LESS ACCUMULATED DEPRECIATION				
Buildings	\$ 3,820,428	\$ 187,840	\$ (899)	\$ 4,009,167
Site improvements	2,186,368	154,513	(539)	2,341,420
Equipment and vehicles	795,906	29,948	1,438	824,416
Total Accumulated Depreciation	<u>6,802,702</u>	<u>372,301</u>	<u>-</u>	<u>7,175,003</u>
Total Depreciated Capital Assets - Net	<u>5,107,933</u>	<u>(351,722)</u>	<u>-</u>	<u>4,756,211</u>
Governmental Activities Capital Assets - Net	<u>\$ 5,261,013</u>	<u>\$ (351,722)</u>	<u>\$ -</u>	<u>\$ 4,909,291</u>

Depreciation expense was charged to governmental activities as follows:

GOVERNMENTAL ACTIVITIES	
Instruction	\$ 287,011
Instruction-related services	20,225
Pupil services	50,099
General administration	4,323
Plant services	10,643
Total Depreciation Expense - Governmental Activities	<u>\$ 372,301</u>

5. OPERATING LEASES

The District has entered into various operating leases for copy machines with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2011	\$ 14,384
2012	12,792
2013	12,792
2014	4,500
Total	\$ 44,468

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment. Rent expenditures were \$15,180 for the year ended June 30, 2010.

6. CHANGES IN LONG-TERM DEBT

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

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Compensated absences	\$ 22,845	\$ 4,604	\$ -	\$ 27,449	\$ -

7. DESIGNATED FUND BALANCES

Fund balances as of June 30, 2010, are designated for the following purpose:

	General Fund	Special Reserve Capital Projects Fund	Other Governmental Funds
Designated for special purposes	\$ 43,050	\$ 440,416	\$ 1,052,304
Designated for economic uncertainties	240,707	-	-
Designated for unrealized gain	38,355	10,422	24,839
Total Designated	322,112	450,838	1,077,143
Undesignated - general fund	1,319,459	-	-
Total Unreserved	\$ 1,641,571	\$ 450,838	\$ 1,077,143

8. JOINT POWERS AUTHORITIES

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

The JPAs arrange for and provide property, liability, workers' compensation, health care, and excess liability coverage for their members. Each JPA is governed by a board consisting of representatives from the members. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPAs. Separately issued financial statements can be requested from each JPA. Condensed financial information of the JPAs for the year ended June 30, 2009, is as follows:

	BSSP	NVSIG	SELF
Total assets	\$ 16,842,484	\$ 4,173,837	\$ 209,217,000
Total liabilities	5,293,463	2,946,514	161,555,000
Net Assets (Liabilities)	\$ 11,549,021	\$ 1,227,323	\$ 47,662,000
Operating revenues	\$ 48,112,726	\$ 11,561,217	\$ 18,330,000
Operating expenses	49,176,913	11,431,511	27,701,000
Other income (expenses)	814,825	16,620	8,315,000
Excess Revenues (Expenses)	\$ (249,362)	\$ 146,326	\$ (1,056,000)

9. COMMITMENTS AND CONTINGENCIES

Federal and State Allowances, Awards, and Grants

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

10. RISK MANAGEMENT

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

11. EMPLOYEE RETIREMENT SYSTEMS

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

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

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

Funding Policy

Active plan members are required to contribute 8.00% of their salary. The required employer contribution rate for fiscal year 2009-10 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2010, 2009, and 2008, were \$330,492, \$371,209, and \$396,150, respectively, and equaled 100% of the required contributions for each year.

California Public Employees Retirement System***Plan Description***

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

Funding Policy

Active plan members are required to contribute 7.00% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the 2009-10 fiscal year was 9.709%. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2010, 2009, and 2008, were \$121,069, \$129,230, and \$144,207, respectively, and equaled 100% of the required contributions for each year.

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

The District provides postemployment health care benefits to qualifying employees through a single-employer defined benefit healthcare plan administered by the District. The District provides postemployment health care benefits to all certificated employees who retire from the District on or after attaining the age of 55 with at least 12 years of service in the District immediately prior to retirement. The certificated retiree may choose from five to ten years of benefits or a cash payment. The District will contribute a maximum of \$720 per month toward continuation of health insurance coverage for a five-year period and provides a reduced amount for each additional year of coverage to a maximum of \$360 per month for ten years. The cash payment consists of four annual payments of \$8,700 payable of July 31 of each year commencing with July 31 immediately following the retirement date.

The District also provides postemployment health care benefits to all classified employees who retire from the District on or after obtaining the age of 55 and under the age of 65 with at least 15 years of services prior to retirement. The District will contribute a maximum of \$720 per month toward continuation of health insurance coverage for a seven-year period and provides a reduced amount for each additional year of coverage to a maximum of \$505 per month for ten years.

At June 30, 2010, 17 retirees met these eligibility requirements and an estimated 103 participants will be eligible in future years.

Funding Policy

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

Annual Other Postemployment Benefit (OPEB) Cost and Net Obligation

For the year ended June 30, 2010, the District's annual OPEB cost is calculated based on the annual required contribution for the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation:

Annual required contribution	\$ 115,867
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB Cost	115,867
Contributions	118,098
Change in Net OPEB Obligation (Deferred Charge)	(2,231)
Net OPEB Obligation - Beginning of Year	-
Net OPEB Obligation (Deferred Charge) - End of Year	\$ (2,231)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contributions</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB Obligation (Deferred Charge)</u>
June 30, 2010	\$ 115,867	\$ 118,098	101.93%	\$ (2,231)

Fiscal year 2010 was the year of implementation of GASB Statement No. 45, and the District has elected to implement prospectively. Therefore, prior-year comparative data is not available. In future years, multi-year trend information will be presented.

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, was as follows:

Actuarial accrued liability (AAL)	\$ 1,083,391
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 1,083,391
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active members)	\$ 5,334,936
UAAL as a Percentage of Covered Payroll	20.31%

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

Actuarial Methods and Assumptions

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

In the July 1, 2009, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 5.00% investment rate of return (net of administrative expenses) and an annual health care cost trend rates of 7.00% initially, reduced by decrements to an ultimate rate of 5.00% after three years. Both rates include a 5.00% inflation assumption. The District's unfunded actuarial accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2010, was 29 years.

13. FUTURE GASB IMPLEMENTATION

The GASB has issued a pronouncement that has an effective date that may impact future financial presentations. In February 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, with required implementation for the District during the 2010-11 fiscal year. The statement establishes accounting and financial reporting standards for all governmental funds, establishes criteria for classifying fund balances into specifically defined classifications, and clarifies definitions for governmental fund types.

Required Supplementary Information

**BUDGETARY COMPARISON SCHEDULE –
GENERAL FUND**

*Durham Unified
School District*

Year Ended June 30, 2010	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 2,213,373	\$ 2,294,671	\$ 2,437,790	\$ 143,119
State revenue	5,124,857	4,884,278	4,684,028	(200,250)
Federal revenue	315,018	446,130	541,890	95,760
Interest and investment earnings	35,000	45,000	30,616	(14,384)
Other local revenue	278,725	285,026	291,458	6,432
Total Revenues	7,966,973	7,955,105	7,985,782	30,677
EXPENDITURES				
Certificated salaries	4,010,413	4,091,005	4,089,448	1,557
Classified salaries	1,182,776	1,212,424	1,204,740	7,684
Employee benefits	1,768,130	1,742,166	1,729,167	12,999
Books and supplies	440,035	331,846	234,290	97,556
Services and other operating	641,383	667,563	594,157	73,406
Capital outlay	-	-	5,000	(5,000)
Other outgo	273,994	161,215	156,748	4,467
Total Expenditures	8,316,731	8,206,219	8,013,550	192,669
Excess (Deficiency) of Revenues Over Expenditures	(349,758)	(251,114)	(27,768)	223,346
OTHER FINANCING SOURCES (USES)				
Transfers in	-	340,000	340,000	-
Transfers out	(35,442)	(20,000)	(10,000)	10,000
Total Other Financing Sources (Uses)	(35,442)	320,000	330,000	10,000
Net Change in Fund Balances	(385,200)	68,886	302,232	233,346
Fund Balances - Beginning of Year	1,373,370	1,373,370	1,373,370	-
Fund Balances - End of Year	\$ 988,170	\$ 1,442,256	\$ 1,675,602	\$ 233,346

See the accompanying notes to this budgetary comparison schedule.

**NOTES TO THE BUDGETARY
COMPARISON SCHEDULE**

June 30, 2010

*Durham Unified
School District*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2010, expenditures exceeded appropriations by the following amounts:

	General Fund
Capital outlay	\$ 5,000

These excess expenditures were offset by unexpended appropriations in other categories.

OTHER SUPPLEMENTARY INFORMATION SECTION

**LOCAL EDUCATION AGENCY ORGANIZATION
STRUCTURE**

June 30, 2010

*Durham Unified
School District*

The Durham Unified School District is located in Butte County and was established in 1922. There were no changes in the boundaries of the District during the current year. The District is currently operating one elementary school, one intermediate school, one high school, and one continuation school.

GOVERNING BOARD

Name	Office	Term Expires
Greg Johnson	President	2012
Bob Bultema	Clerk	2012
Dona Bertain	Member	2010
Mark Kimmelshue	Member	2012
Grey Sohnrey	Member	2010

ADMINISTRATION

Mary L. von Rotz Sakuma
Superintendent

Connie Cavanaugh
Business Manager

SCHEDULE OF AVERAGE DAILY ATTENDANCE

June 30, 2010

*Durham Unified
School District*

	Originally Reported		Final	
	Second Period Report	Annual Report	Second Period Report	Annual Report
ELEMENTARY				
Kindergarten	64	64	64	64
Grades 1 through 3	202	203	202	203
Grades 4 through 6	214	214	214	214
Grades 7 and 8	164	164	164	164
Special education - special day class	24	25	24	25
Elementary Totals	668	670	668	670
HIGH SCHOOL				
Grades 9 through 12	334	333	334	333
Continuation education	5	6	5	6
Special education - special day class	12	11	12	11
High School Totals	351	350	351	350
ADA Totals	1,019	1,020	1,019	1,020

See the accompanying notes to the other supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME

Year Ended June 30, 2010

Durham Unified School District

	1986-87 Minutes Requirement	1982-83 Actual Minutes	2009-10 Actual Minutes	Traditional Calendar Days	Multitrack Calendar Days	Status
Kindergarten	36,000	36,000	36,000	180	N/A	Complied
Grade 1	50,400	52,200	55,105	180	N/A	Complied
Grade 2	50,400	52,200	55,160	180	N/A	Complied
Grade 3	50,400	52,200	55,160	180	N/A	Complied
Grade 4	54,000	55,260	56,960	180	N/A	Complied
Grade 5	54,000	55,260	56,960	180	N/A	Complied
Grade 6	54,000	55,260	62,195	180	N/A	Complied
Grade 7	54,000	55,260	62,195	180	N/A	Complied
Grade 8	54,000	55,260	62,195	180	N/A	Complied
Grade 9	64,800	64,800	73,390	180	N/A	Complied
Grade 10	64,800	64,800	73,390	180	N/A	Complied
Grade 11	64,800	64,800	73,390	180	N/A	Complied
Grade 12	64,800	64,800	73,390	180	N/A	Complied

See the accompanying notes to the other supplementary information.

**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

Year Ended June 30, 2010

*Durham Unified
School District*

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
FEDERAL PROGRAMS			
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education			
Title I, Part A Cluster			
NCLB - Title I, Part A, Basic Grants	84.010	13797	\$ 88,849
NCLB - ARRA Title I, Part A, Basic Grants	84.389	15005	13,170
Total Title I, Part A Cluster			102,019
Special Education Cluster			
Special Education - IDEA Basic Local Assistance	84.027	13379	100,682
Special Education - ARRA IDEA Basic Local Assistance	84.391	15003	105,884
Special Education - ARRA IDEA Preschool	84.392	15000	3,365
Special Education - ARRA IDEA Preschool Local Entitlement	84.391	15002	4,866
Total Special Education Cluster			214,797
ARRA State Fiscal Stabilization Fund - Education State	84.394	25008	506,247
Vocational Programs - Vocational and Applied Technical Secondary IC, Section 131	84.048	13924	4,806
NCLB - Title IV, Part A, Drug-Free Schools	84.186	14347	3,829
NCLB - Title II, Part A, Teacher Quality	84.367	14341	50,639
NCLB - Title II, Part D, Enhancing Education Through Technology	84.318	14334	174
NCLB - Title III, Limited English Proficiency Student Program	84.365	10084	20,800
Total U.S. Department of Education			903,311
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education			
Child Nutrition Cluster			
School Breakfast	10.553	13390	54,606
National School Lunch	10.555	13391	133,727
Total Child Nutrition Cluster			188,333
Pass Through Butte County Office of Education			
Schools and Roads - Grants to Counties	10.666	10044	5,169
Total U.S. Department of Agriculture			193,502
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Medicaid Cluster			
Passed Through Glenn County Office of Education			
Medi-Cal Administrative Activities (MAA)	93.778	10060	41,813
Passed Through State of California			
Medical Assistance Program (Medi-Cal)	93.778	10013	15,293
Total U.S. Department of Health and Human Services			57,106
Total Federal Programs			1,153,919
NONMONETARY ASSISTANCE			
Food Donation	10.550		15,935
Total Expenditures of Federal Awards			\$ 1,169,854

See the accompanying notes to the other supplementary information.

**SCHEDULE OF FINANCIAL TRENDS
AND ANALYSIS**

*Durham Unified
School District*

<u>Year Ended June 30</u>	<u>(Budget) 2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
GENERAL FUND				
Revenues and Other Financial Sources	\$ 7,752,201	\$ 8,325,782	\$ 9,402,177	\$ 9,719,725
Expenditures	8,057,712	8,013,550	9,058,044	9,485,673
Other uses and transfers out	20,000	10,000	8,991	199,253
Total Outgo	<u>8,077,712</u>	<u>8,023,550</u>	<u>9,067,035</u>	<u>9,684,926</u>
Change in Fund Balance	\$ (325,511)	\$ 302,232	\$ 335,142	\$ 34,799
Ending Fund Balance	<u>1,350,091</u>	<u>1,675,602</u>	<u>1,373,370</u>	<u>1,038,228</u>
Available Reserves	<u>1,354,302</u>	<u>1,641,571</u>	<u>911,407</u>	<u>774,891</u>
Designated for Economic Uncertainties	<u>323,108</u>	<u>240,707</u>	<u>272,100</u>	<u>336,400</u>
Undesignated Fund Balance	<u>992,839</u>	<u>1,319,459</u>	<u>478,717</u>	<u>285,283</u>
Available Reserves as a Percentage of Total Outgo	<u>17%</u>	<u>20%</u>	<u>10%</u>	<u>8%</u>
Total Long-Term Debt	<u>27,449</u>	<u>27,449</u>	<u>22,844</u>	<u>25,302</u>
Average Daily Attendance at P-2	<u>993</u>	<u>1,019</u>	<u>1,053</u>	<u>1,067</u>

The General Fund balance has increased by \$637,374 over the past two years. The fiscal year 2010-11 budget projects a decrease of \$325,511 (19.4%). For a district this size, the state recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has not incurred an operating deficit in any of the past three years and anticipates incurring an operating deficit during the 2010-11 fiscal year. Total long-term debt has increased by \$2,147 over the past two years.

Average daily attendance has decreased by 48 over the past two years. The District anticipates ADA to decline by 26 during fiscal year 2010-11.

See the accompanying notes to the other supplementary information.

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

*Durham Unified
School District*

Year Ended June 30, 2010

The fund balances for all funds, as reported in the annual financial and budget report, equal the corresponding balances in the audited financial statements.

See the accompanying notes to the other supplementary information.

SCHEDULE OF CHARTER SCHOOLS

Year Ended June 30, 2010

*Durham Unified
School District*

The District is not the sponsoring local educational agency for any charter schools.

See the accompanying notes to the other supplementary 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 District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *California Education Code* Sections 46201 through 46206.

Schedule of Expenditures of Federal Awards

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

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

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

2. EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2009-10, pursuant to *California 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 Trustees
Durham Unified School District
Durham, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durham Unified School District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District’s basic financial statements and have issued our report thereon dated November 22, 2010. 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 District’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (item 10-1). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Continued

Compliance and Other Matters

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

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response; and, accordingly, we express no opinion on it.

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

Matson and Isom

November 22, 2010



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

Board of Trustees
Durham Unified School District
Durham, California

Compliance

We have audited the compliance of Durham Unified School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

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

Continued

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

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

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

Matson and Isom

November 22, 2010



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INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Durham Unified School District
Durham, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durham Unified School District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 22, 2010. 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 2009-10*, 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 District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District'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	23	Yes
Continuation education	10	No
Instructional time		
School districts	6	Yes
County offices of education	3	Not applicable
Instructional materials		
General requirements	8	Yes
Ratios of administrative employees to teachers	1	Yes
Classroom teacher salaries	1	Yes
Early retirement incentive program	4	No
Gann limit calculation	1	Yes
School accountability report card	3	Yes
Public hearing requirement - receipt of funds	1	Yes

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

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

Testing was not performed for continuation education because the ADA for this program was below the level which requires testing. Since the District did not participate in the following programs during 2009-10, all steps related to them were not performed:

- Early retirement incentive program
- Class size reduction option two classes
- After school education and safety program

Since the District did not sponsor any charter schools during 2009-10, all steps related to the following were not performed:

- Contemporaneous records of attendance
- Mode of instruction
- Nonclassroom-based instruction/independent study
- Determination of funding for nonclassroom-based instruction
- Annual instructional minutes - classroom based

Based on our audit, for the items tested, we found the District 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 District had not complied with state laws and regulations, except as described in the accompanying schedule of findings and questioned costs as item 10-2.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

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

November 22, 2010

FINDINGS AND QUESTIONED COSTS SECTION

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2010

*Durham Unified
School District*

**SECTION I
SUMMARY OF AUDIT RESULTS**

FINANCIAL STATEMENTS

Type of auditors' report issued	Unqualified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Type of auditors' report issued on compliance for major program	Unqualified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	No
Identification of major programs	
CFDA No. 84.394	ARRA State Fiscal Stabilization Fund – Education State
Threshold for distinguishing types A and B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

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

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2010

*Durham Unified
School District*

**SECTION II
FINANCIAL STATEMENTS AUDIT**

INTERNAL CONTROL (Student Body – Durham Elementary School)

300000 (10-1)

Significant Deficiency

Condition

Our tests of internal controls over student body cash receipts resulted in the following:

1. There was no supporting documentation for any deposits.
2. Timeliness and completeness of deposits could not be supported.

Criteria

Internal controls should be in place to provide for the following:

1. Proof of funds collected should be kept on hand (i.e. copies of checks, cash count forms used, prenumbered receipts).
2. All student body cash and checks should be deposited in a timely manner.

Effect

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

Recommendation

Procedures should be implemented to strengthen internal controls over student body accounting records.

Response

The District will adopt procedures during the 2010-11 fiscal year to comply with the recommendation.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2010

*Durham Unified
School District*

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2010

*Durham Unified
School District*

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

SCHOOL ACCOUNTABILITY REPORT CARD

72000 (10-2)

Significant Deficiency

Condition

The District did not complete the school facility conditions evaluation instrument or a local evaluation instrument that meets the same legal criteria prior to the publication of the School Accountability Report Card (SARC) for any of their sites.

Criteria

Information on safety, cleanliness, and adequacy of school facilities contained in each site's SARC should be completed using the Facility Inspection Tool (FIT) developed by the Office of Public School Construction or a locally developed instrument that meets the same legal requirements pursuant to the provisions of *California Education Code* Section 33126(b). A copy of the instrument should be retained to support the information reported on the site's SARC.

Effect

The District is not in compliance with the provisions of *California Education Code* Section 33126(b). We were unable to verify the consistency of information reported on the SARC regarding safety, cleanliness, and adequacy of school facilities as the school facility conditions evaluation instrument were not completed prior to the publication of the SARC.

Recommendation

We recommend that the District complete a FIT or a locally developed instrument that meets the same legal requirements for each site prior to the publication of the SARC to aid in ensuring that all students have access to clean, safe, and functional school facilities. We also recommend that the District retain a copy of these documents in a safe and secure location.

Response

The District will adopt procedures during the 2010-11 fiscal year to comply with the recommendation.

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

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2010

*Durham Unified
School District*

None.