

DURHAM UNIFIED SCHOOL DISTRICT

**County of Butte
Durham, California**

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

June 30, 2011

TABLE OF CONTENTS

June 30, 2011

*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	44
Notes to the Budgetary Comparison Schedule	45

TABLE OF CONTENTS

June 30, 2011

*Durham Unified
School District*

	Page Number
OTHER SUPPLEMENTARY INFORMATION SECTION	
Local Education Agency Organization Structure	47
Schedule of Average Daily Attendance	48
Schedule of Instructional Time	49
Schedule of Expenditures of Federal Awards	50
Schedule of Financial Trends and Analysis	51
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	52
Schedule of Charter Schools	53
Note to the Other Supplementary Information	54
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>	56
Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	58
Independent Auditors' Report on State Compliance	60
FINDINGS AND QUESTIONED COSTS SECTION	
Schedule of Findings and Questioned Costs	63
Corrective Action Plan	66
Summary Schedule of Prior Audit Findings	67

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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, 2011, 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 December 2, 2011, 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 financial statements as a whole. The accompanying financial information listed as other supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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

December 2, 2011

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, 2011. 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 \$8,284,707 at June 30, 2011. This was an increase of \$192,731 over the prior year.
- Overall revenues were \$8,806,765, total current-year revenues exceeded expenses by \$192,731 primarily due to the uncertainty of the State of California's budget and the federal stimulus funding received in the 2008-09 and 2009-10 fiscal years that was continuing to be expended during the 2010-11 fiscal year.
- Capital assets, net of depreciation, decreased by \$215,461 due to the purchase of a bus and the current-year recognition of \$376,666 of depreciation expense.
- October 2010 enrollment decreased by 33 students to 1,033. 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 4% of General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2010-11, General Fund expenditures and other financing uses totaled \$7,948,076. At June 30, 2011, the District has available reserves of \$2,242,094 in the General Fund, which represents a reserve of 28%.

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 propriety 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 General Fund is the only major governmental fund of the District. 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 \$8,284,707 for the fiscal year ended June 30, 2011. 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 increased \$192,731 during fiscal year 2010-11.

	Governmental Activities	
	2010	2011
ASSETS		
Cash and investments	\$ 3,180,412	\$ 3,532,438
Accounts receivable	950,867	1,197,163
Inventories and other assets	14,304	20,260
Capital assets - net of accumulated depreciation	4,909,291	4,693,830
Total Assets	\$ 9,054,874	\$ 9,443,691
LIABILITIES		
Accounts payable and other current liabilities	\$ 935,449	\$ 1,129,734
Long-term debt obligations	27,449	29,250
Total Liabilities	\$ 962,898	\$ 1,158,984
NET ASSETS		
Invested in capital assets	\$ 4,909,291	\$ 4,693,830
Restricted	810,200	564,354
Unrestricted	2,372,485	3,026,523
Total Net Assets	\$ 8,091,976	\$ 8,284,707

Change in Net Assets

The following table summarizes the change in net assets for the District. Revenue exceeded the District's expenses for the year by \$192,731. The District's expenses are primarily related to educating and caring for students and make up 79.6% of all expenses. Administrative activities of the District account for 7.0% of the total costs. The increase in revenue is related to an increase in Medi-Cal administrative activities revenue as well as one-time stimulus funds received from the federal government. The decrease in expenses is related to a reduction in the number of classes due to declining enrollment.

	Governmental Activities	
	2010	2011
REVENUES		
PROGRAM REVENUES		
Charges for services	\$ 168,988	\$ 149,299
Operating grants and contributions	1,053,849	1,443,782
GENERAL REVENUES		
Property taxes	2,437,790	2,473,067
Federal and state aid not restricted	4,191,207	4,508,922
Interest and investment earnings	26,187	39,083
Interagency	114,906	120,004
Miscellaneous	417,809	72,608
Total Revenues	8,410,736	8,806,765
EXPENSES		
Instruction	5,202,582	5,140,307
Instruction-related services	717,005	694,497
Pupil services	1,070,344	1,024,824
General administration	620,841	600,714
Plant services	853,818	798,966
Ancillary services	125,822	134,793
Other outgo	169,745	219,933
Total Expenses	8,760,157	8,614,034
Change in Net Assets	\$ (349,421)	\$ 192,731

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

*Durham Unified
School District*

GOVERNMENTAL ACTIVITIES

	Total Cost of Services 2011	Net Cost of Services 2011
Instruction	\$ 5,140,307	\$ 4,563,613
Instruction-related services	694,497	638,734
Pupil services	1,024,824	295,299
General administration	600,714	551,314
Plant services	798,966	743,173
Ancillary services	134,793	134,793
Other outgo	219,933	94,027
Total	\$ 8,614,034	\$ 7,020,953

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, 2011	Percent of Total	Increase (Decrease) from June 30, 2010	Percent Increase (Decrease)
REVENUES				
PROGRAM REVENUES				
Charges for services	\$ 149,299	1.70%	\$ (19,689)	-11.65%
Operating grants and contributions	1,443,782	16.39%	389,933	37.00%
GENERAL REVENUES				
Property taxes	2,473,067	28.08%	35,277	1.45%
Federal and state aid not restricted	4,508,922	51.20%	317,715	7.58%
Interest and investment earnings	39,083	0.44%	12,896	49.25%
Interagency	120,004	1.36%	5,098	4.44%
Miscellaneous	72,608	0.82%	(345,201)	-82.62%
Total Revenues	\$ 8,806,765	100%	\$ 396,029	4.71%

	June 30, 2011	Percent of Total	Increase (Decrease) from June 30, 2010	Percent Increase (Decrease)
EXPENSES				
Instruction	\$ 5,140,307	59.67%	\$ (62,275)	-1.20%
Instruction-related services	694,497	8.06%	(22,508)	-3.14%
Pupil services	1,024,824	11.90%	(45,520)	-4.25%
General administration	600,714	6.97%	(20,127)	-3.24%
Plant services	798,966	9.28%	(54,852)	-6.42%
Ancillary services	134,793	1.56%	8,971	7.13%
Other outgo	219,933	2.55%	50,188	29.57%
Total Expenses	\$ 8,614,034	100%	\$ (146,123)	-1.67%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The District's governmental funds reported a combined fund balance of \$3,608,951, an increase of \$401,048 from the previous year. Following is a summary of the District's fund balances.

	Fund Balance		Increase (Decrease)
	2010	2011	
General	\$ 1,965,636 *	\$ 2,329,161	\$ 363,525
Cafeteria Special Revenue	9,435	16,525	7,090
Deferred Maintenance	318,496	333,054	14,558
Pupil Transportation Equipment	302	1,621	1,319
Capital Facilities	310,779	318,840	8,061
County School Facilities	60,088	60,735	647
Special Reserve Capital Projects	450,838	455,693	4,855
Foundation Permanent Trust	92,329	93,322	993
Total	\$ 3,207,903	\$ 3,608,951	\$ 401,048

** As restated for GASB Statement No. 54 adoption to include the Special Reserve Special Revenue Fund.*

The General Fund increase is due primarily to higher than anticipated revenue limit funding as well as the one-time stimulus funds received during the 2008-09 and 2009-10 fiscal years that was expended in 2010-11.

The Deferred Maintenance Fund increase is due to the contribution from the General Fund of 20% of the State allocation of deferred maintenance funding.

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

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 \$12,204,499 in capital assets including land, buildings and improvements, and equipment and vehicles. The District purchased a new bus in 2010-11 and disposal of another bus.

	Governmental Activities	
	2010	2011
Land	\$ 153,080	\$ 153,080
Site improvements	4,001,725	4,001,725
Buildings	6,892,496	6,892,496
Equipment and vehicles	1,036,993	1,157,198
Subtotals	12,084,294	12,204,499
Less: Accumulated depreciation	7,175,003	7,510,669
Total	\$ 4,909,291	\$ 4,693,830

Long-Term Debt

	Governmental Activities	
	2010	2011
Net OPEB obligation (deferred charge)	\$ (2,231)	\$ (11,176)
Compensated absences	27,449	29,250
Total	\$ 25,218	\$ 18,074

The District did not enter into any new debt-financing arrangements in 2010-11.

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
P.O. Box 300
Durham, California 95938

Basic Financial Statements

STATEMENT OF NET ASSETS*Durham Unified
School District*

June 30, 2011	Governmental Activities
ASSETS	
Cash and investments	\$ 3,532,438
Accounts receivable	258,041
Due from other governments	939,122
Inventories - supplies and materials	9,084
Net OPEB deferred charge	11,176
Nondepreciated capital assets	153,080
Depreciated capital assets	12,051,419
Accumulated depreciation	(7,510,669)
Total Assets	\$ 9,443,691
LIABILITIES	
Overdraft in county treasury	\$ 1,978
Accounts payable and other current liabilities	804,049
Due to other governments	95,722
Deferred revenue	227,985
Long-term obligations	
Due beyond one year	29,250
Total Liabilities	\$ 1,158,984
NET ASSETS	
Invested in capital assets	\$ 4,693,830
Restricted for capital projects	379,575
Restricted for educational programs	84,516
Restricted for other purposes	100,263
Unrestricted	3,026,523
Total Net Assets	\$ 8,284,707

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

STATEMENT OF ACTIVITIES

*Durham Unified
School District*

Year Ended June 30, 2011	<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	\$ 5,140,307	\$ 17,763	\$ 558,931	\$ (4,563,613)
Instruction - related services	694,497	-	55,763	(638,734)
Pupil services	1,024,824	107,373	622,152	(295,299)
Ancillary services	134,793	-	-	(134,793)
General administration	600,714	5,609	43,791	(551,314)
Plant services	798,966	7,280	48,513	(743,173)
Other outgo	219,933	11,274	114,632	(94,027)
Total Governmental Activities	\$ 8,614,034	\$ 149,299	\$ 1,443,782	(7,020,953)
GENERAL REVENUES				
Property taxes - levied for general purposes				2,473,067
Federal and state aid not restricted to specific purposes				4,508,922
Unrestricted investment earnings				39,083
Interagency revenues				120,004
Miscellaneous				70,508
Special item - gain on sale of asset				2,100
Total General Revenues, Special Items, and Transfers				7,213,684
Change in Net Assets				192,731
Net Assets - Beginning of Year				8,091,976
Net Assets - End of Year				\$ 8,284,707

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

**BALANCE SHEET –
GOVERNMENTAL FUNDS**

*Durham Unified
School District*

June 30, 2011	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 2,237,228	\$ 1,295,210	\$ 3,532,438
Accounts receivable	252,167	5,874	258,041
Due from other governments	937,549	1,573	939,122
Due from other funds	34,021	15,354	49,375
Inventories - supplies and materials	-	9,084	9,084
Total Assets	\$ 3,460,965	\$ 1,327,095	\$ 4,788,060
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Overdraft in county treasury	\$ -	\$ 1,978	\$ 1,978
Accounts payable and other current liabilities	792,743	11,306	804,049
Due to other governments	95,722	-	95,722
Due to other funds	15,354	34,021	49,375
Deferred revenue	227,985	-	227,985
Total Liabilities	1,131,804	47,305	1,179,109
FUND BALANCES			
Nonspendable	2,551	83,282	85,833
Restricted	84,516	406,140	490,656
Assigned	97,615	790,368	887,983
Unassigned	2,144,479	-	2,144,479
Total Fund Balances	2,329,161	1,279,790	3,608,951
Total Liabilities and Fund Balances	\$ 3,460,965	\$ 1,327,095	\$ 4,788,060

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, 2011

Total Fund Balances – Governmental Funds	\$ 3,608,951
<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	\$ 12,204,499
Accumulated depreciation	<u>(7,510,669)</u>
	4,693,830
<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)	(11,176)
Compensated absences	<u>29,250</u>
	<u>(18,074)</u>
Total Net Assets – Governmental Activities	\$ 8,284,707

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, 2011	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 2,473,067	\$ -	\$ 2,473,067
State revenue	4,842,662	159,614	5,002,276
Federal revenue	646,429	206,655	853,084
Interest and investment earnings	27,327	13,587	40,914
Other local revenue	322,116	115,308	437,424
Total Revenues	8,311,601	495,164	8,806,765
EXPENDITURES			
Current			
Instruction	4,865,862	-	4,865,862
Instruction-related services	684,328	-	684,328
Pupil services	665,586	445,672	1,111,258
Ancillary services	134,793	-	134,793
General administration	578,977	13,279	592,256
Plant services	783,397	13,890	797,287
Transfers between agencies	219,933	-	219,933
Total Expenditures	7,932,876	472,841	8,405,717
Excess of Revenues Over Expenditures	378,725	22,323	401,048
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	-	15,200	15,200
Interfund transfers out	(15,200)	-	(15,200)
Total Other Financing Sources (Uses)	(15,200)	15,200	-
Net Change in Fund Balances	363,525	37,523	401,048
Fund Balances - Beginning of Year	1,965,636	1,242,267	3,207,903
Fund Balances - End of Year	\$ 2,329,161	\$ 1,279,790	\$ 3,608,951

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, 2011

Total Net Change in Fund Balances – Governmental Funds		\$ 401,048
<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	\$ 161,205	
Depreciation expense	<u>(376,666)</u>	(215,461)
<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>		
		(1,801)
<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>8,945</u>
Change in Net Assets of Governmental Activities		\$ 192,731

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

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

*Durham Unified
School District*

June 30, 2011	Foundation Private-Purpose Trust	Agency
ASSETS		
Cash and investments	\$ 260,593	\$ 155,321
Accounts receivable - interest	894	310
Accounts receivable - other	2,575	-
Total Assets	\$ 264,062	\$ 155,631
LIABILITIES		
Accounts payable	\$ 10,850	\$ -
Due to student groups	-	155,631
Total Liabilities	\$ 10,850	\$ 155,631
NET ASSETS		
Held in trust for scholarships	\$ 253,212	

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

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

*Durham Unified
School District*

<u>Year Ended June 30, 2011</u>	<u>Foundation Private-Purpose Trust</u>
ADDITIONS	
Interest and investment earnings	\$ 9,114
Donations	2,350
Total Additions	<u>11,464</u>
DEDUCTIONS	
Scholarships awarded	<u>24,100</u>
Change in Net Assets	(12,636)
Net Assets - Beginning of Year	<u>265,848</u>
Net Assets - End of Year	<u>\$ 253,212</u>

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, and one 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. 54

The District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This 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.

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]).

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

Nonmajor Governmental Funds

Cafeteria Special Revenue Fund

Deferred Maintenance Fund

Pupil Transportation Equipment Fund

Capital Facilities Fund

County School Facilities Fund

Special Reserve Capital Projects 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, 2011, the fair value of the County pool is 101.47% 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 gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net decrease in the fair value of investments during the year ended June 30, 2011, was \$26,005. 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, 2011, was \$53,964.

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, 2011. 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, 2011. At June 30, 2011, 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

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.

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 and displayed in five components:

Nonspendable fund balance consists of amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted fund balance consists of amounts that can be spent only for specific purposes because of constraints that are externally imposed by groups such as creditors, grantors, contributors, or the laws or regulations of other governments, or because of laws through constitutional provisions or enabling legislation.

Committed fund balance consists of amounts that can be used only for specific purposes determined by a formal action of the District's Board of Trustees. The District's Board of Trustees is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or budget adoption approved by the District's Board of Trustees.

Assigned fund balance consists of amounts that the District intends to use for specific purposes. Assignments may be established either by the District's Board of Trustees or a designee of the District's Board of Trustees.

Unassigned fund balance consists of the residual balance in the General Fund that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, equal to no less than 8% of total General Fund operating expenditures and other financing uses. In the event the reserve falls below the established minimum level, it shall be recovered at a rate of at least 1% of total General Fund operating expenditures and other financing uses each year.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District's Board of Trustees has provided otherwise in its commitment or assignment actions.

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.

Reclassifications

Certain amounts of the beginning of the year fund balances have been reclassified for the adoption of GASB Statement No. 54 to conform with the 2011 presentation.

2. CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 2011:

	<u>Maturities</u>	<u>Fair Value</u>
DEPOSITS (1)		\$ 154,397
INVESTMENTS THAT ARE NOT SECURITIES (2)		
County treasurer's investment pool (net of overdraft)	2.2 years average	<u>3,791,977</u>
Total Cash and Investments		3,946,374
Less: Trust fund cash and investments		260,593
Less: Agency fund cash and investments		<u>155,321</u>
Total Cash and Investments Per Government-Wide Statement of Net Assets (Net of Overdraft in County Treasury)		<u>\$ 3,530,460</u>

- (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, 2011, are as follows:

Investment	Less Than Five Years
County treasurer's investment pool - net of overdraft	\$ 3,791,977

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2011, consists of the following:

	General Fund	Other Governmental Funds
Interest	\$ 12,897	\$ 5,788
Other	239,270	86
Total Accounts Receivable	\$ 252,167	\$ 5,874

4. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2011, consists of the following:

	General Fund	Other Governmental Funds
Due from federal government	\$ 111,865	\$ 1,443
Due from state government	825,684	130
Total Due From Other Governments	\$ 937,549	\$ 1,573

5. INTERFUND TRANSACTIONS AND BALANCES

Interfund Receivables/Payables

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

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Amounts</u>
General	Cafeteria Special Revenue	\$ 33,880
General	Capital Facilities	141
Cafeteria Special Revenue	General	154
Deferred Maintenance	General	11,100
Pupil Transportation Equipment	General	4,100
Total		\$ 49,375

The specific purposes of the interfund balances are as follows:

To reimburse the General Fund for 2010-11 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;

To reimburse the Cafeteria Special Revenue Fund for 2010-11 expenditures incurred on behalf of the General Fund that were paid by the Cafeteria Special Revenue Fund;

Deferred Maintenance Fund interfund receivable from the General Fund for deferred maintenance apportionment deposited in the wrong fund; and

General Fund contribution to the Pupil Transportation Equipment Fund to provide funds needed to purchase a bus.

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	Deferred Maintenance	\$ 11,100
General	Pupil Transportation Equipment	4,100
Total		\$ 15,200

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

*Durham Unified
School District*

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 General Fund to the Pupil Transportation Equipment Fund to provide funds needed to purchase a bus.

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

6. CAPITAL ASSETS

Capital asset activity is as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>
GOVERNMENTAL ACTIVITIES				
NONDEPRECIATED CAPITAL ASSETS				
Land	\$ 153,080	\$ -	\$ -	\$ 153,080
DEPRECIATED CAPITAL ASSETS				
Buildings	6,892,496	-	-	6,892,496
Site improvements	4,001,725	-	-	4,001,725
Equipment and vehicles	1,036,993	161,205	41,000	1,157,198
Total Depreciated Capital Assets	<u>11,931,214</u>	<u>161,205</u>	<u>41,000</u>	<u>12,051,419</u>
Totals at Historical Cost	<u>\$ 12,084,294</u>	<u>\$ 161,205</u>	<u>\$ 41,000</u>	<u>\$ 12,204,499</u>
LESS: ACCUMULATED DEPRECIATION				
Buildings	\$ 4,009,167	\$ 181,715	\$ -	\$ 4,190,882
Site improvements	2,341,420	149,383	-	2,490,803
Equipment and vehicles	824,416	45,568	41,000	828,984
Total Accumulated Depreciation	<u>7,175,003</u>	<u>376,666</u>	<u>41,000</u>	<u>7,510,669</u>
Total Depreciated Capital Assets - Net	<u>4,756,211</u>	<u>(215,461)</u>	<u>-</u>	<u>4,540,750</u>
Governmental Activities Capital Assets - Net	<u>\$ 4,909,291</u>	<u>\$ (215,461)</u>	<u>\$ -</u>	<u>\$ 4,693,830</u>

Depreciation expense was charged to governmental activities as follows:

GOVERNMENTAL ACTIVITIES	
Instruction	\$ 282,514
Instruction-related services	19,130
Pupil services	58,534
General administration	4,335
Plant services	12,153
Total Depreciation Expense - Governmental Activities	<u>\$ 376,666</u>

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

*Durham Unified
School District***7. ACCOUNTS PAYABLE**

Accounts payable at June 30, 2011, consists of the following:

	General Fund	Other Governmental Funds
Vendors	\$ 303,113	\$ 961
Salaries and benefits	489,487	9,844
Other	143	501
Total Accounts Payable	\$ 792,743	\$ 11,306

8. DUE TO OTHER GOVERNMENTS

Due to other governments at June 30, 2011, consists of the following:

	General Fund
Due to federal government	\$ 2,493
Due to state government	93,229
Total Due To Other Governments	\$ 95,722

9. 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
2012	\$ 16,717
2013	16,717
2014	5,481
Total	\$ 38,915

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment. Rent expenditures were \$15,479 for the year ended June 30, 2011.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

*Durham Unified
School District*

10. CHANGES IN LONG-TERM DEBT

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

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Compensated absences	\$ 27,449	\$ 1,801	\$ -	\$ 29,250	\$ -

11. FUND BALANCES COMPONENTS

Fund balances as of June 30, 2011, are composed of the following:

	General Fund	Other Governmental Funds
NONSPENDABLE		
Reserved for revolving cash	\$ 2,551	\$ 500
Reserved for stores inventories	-	9,084
Reserved for principal portion of permanent fund	-	73,698
Total Nonspendable	\$ 2,551	\$ 83,282
RESTRICTED		
Restricted for capital projects	\$ -	\$ 379,575
Restricted for music and library programs	-	19,624
Restricted for federal and state categoricals	84,516	6,941
Total Restricted	\$ 84,516	\$ 406,140
ASSIGNED		
Assigned for site budget carryover	\$ 31,688	\$ -
Assigned for Durham High School technology	7,660	-
Assigned for staff development	5,656	-
Assigned for Medi-Cal administrative activities	52,611	-
Assigned for transportation equipment	-	1,621
Assigned for capital projects	-	455,693
Assigned for deferred maintenance	-	333,054
Total Assigned	\$ 97,615	\$ 790,368
UNASSIGNED		
Designated for economic uncertainties	\$ 527,372	\$ -
Designated for unrealized gain	32,374	-
Unassigned	1,584,733	-
Total Unassigned	\$ 2,144,479	\$ -

12. 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 Bay Area Schools Insurance Group (BASIC). 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, 2010, is as follows:

	BSSP	NVSIG	BASIC
Total assets	\$ 15,534,166	\$ 3,925,675	\$ 1,532,392
Total liabilities	5,683,776	2,561,727	1,087,721
Net Assets (Liabilities)	\$ 9,850,390	\$ 1,363,948	\$ 444,671
Operating revenues	\$ 48,767,065	\$ 10,506,677	\$ 3,272,763
Operating expenses	46,837,825	10,384,768	3,447,399
Other income	248,334	14,716	11,598
Excess Revenues (Expenses)	\$ 2,177,574	\$ 136,625	\$ (163,038)

13. 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.

14. 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.

15. 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 2010-11 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, 2011, 2010, and 2009, were \$328,138, \$330,492, and \$371,209, 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 2010-11 fiscal year was 10.707%. 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, 2011, 2010, and 2009, were \$122,342, \$121,069, and \$129,230, respectively, and equaled 100% of the required contributions for each year.

16. EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2010-11, pursuant to *California Education Code*, Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

17. 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, 2011, 20 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, 2011, 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	(112)
Adjustment to annual required contribution	145
Annual OPEB Cost	115,900
Contributions	124,845
Change in Net OPEB Obligation (Deferred Charge)	(8,945)
Net OPEB Obligation (Deferred Charge) - Beginning of Year	(2,231)
Net OPEB Obligation (Deferred Charge) - End of Year	\$ (11,176)

The District’s annual OPEB cost (benefit), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (deferred charge) for the year ended June 30, 2011, and the preceding year were as follows:

Year Ended	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net Ending OPEB Obligation (Deferred Charge)
June 30, 2010	\$ 115,867	\$ 118,098	101.93%	\$ (2,231)
June 30, 2011	\$ 115,900	\$ 124,845	107.72%	\$ (11,176)

Fiscal year 2010 was the year of implementation of GASB Statement No. 45, and the District has elected to implement prospectively. Therefore, three-year comparative data is not available. In 2012, three-year trend information will be presented.

Funded Status and Funding Progress

The funded status of the plan as of the actuarial valuation date below, was as follows:

	July 1, 2009
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, 2011, was 28 years.

Required Supplementary Information

**BUDGETARY COMPARISON SCHEDULE –
GENERAL FUND**

*Durham Unified
School District*

Year Ended June 30, 2011	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 2,294,671	\$ 2,367,812	\$ 2,473,067	\$ 105,255
State revenue	4,656,285	4,951,431	4,842,662	(108,769)
Federal revenue	491,208	617,268	646,429	29,161
Interest and investment earnings	36,500	50,600	27,327	(23,273)
Other local revenue	280,037	313,533	322,116	8,583
Total Revenues	7,758,701	8,300,644	8,311,601	10,957
EXPENDITURES				
Certificated salaries	3,998,547	4,026,473	4,021,524	4,949
Classified salaries	1,083,522	1,120,905	1,123,789	(2,884)
Employee benefits	1,864,150	1,802,126	1,774,493	27,633
Books and supplies	330,223	320,413	276,419	43,994
Services and other operating	590,270	519,169	513,140	6,029
Capital outlay	-	10,000	16,716	(6,716)
Other outgo	191,000	183,759	206,795	(23,036)
Total Expenditures	8,057,712	7,982,845	7,932,876	49,969
Excess (Deficiency) of Revenues Over Expenditures	(299,011)	317,799	378,725	60,926
OTHER FINANCING SOURCES (USES)				
Transfers out	(20,000)	(2,000)	(15,200)	(13,200)
Net Change in Fund Balances	(319,011)	315,799	363,525	47,726
Fund Balances - Beginning of Year	1,965,636	1,965,636	1,965,636	-
Fund Balances - End of Year	\$ 1,646,625	\$ 2,281,435	\$ 2,329,161	\$ 47,726

See the accompanying notes to this budgetary comparison schedule.

**NOTES TO THE BUDGETARY
COMPARISON SCHEDULE**

June 30, 2011

*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, 2011, expenditures exceeded appropriations by the following amounts:

	General Fund
Classified salaries	\$ 2,884
Capital outlay	\$ 6,716
Other outgo	\$ 23,036

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

OTHER SUPPLEMENTARY INFORMATION SECTION

**LOCAL EDUCATION AGENCY ORGANIZATION
STRUCTURE**

June 30, 2011

*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, and one high school.

GOVERNING BOARD

Name	Office	Term Expires
Bob Bultema	President	2012
Robert Kermen	Clerk	2014
Greg Johnson	Member	2012
Mark Kimmelshue	Member	2012
Lance Smith	Member	2014

ADMINISTRATION

Mary L. von Rotz Sakuma
Superintendent

Connie Cavanaugh
Business Manager

SCHEDULE OF AVERAGE DAILY ATTENDANCE

June 30, 2011

*Durham Unified
School District*

	Originally Reported		Final	
	Second Period Report	Annual Report	Second Period Report	Annual Report
ELEMENTARY				
Kindergarten	66	66	66	66
Grades 1 through 3	207	208	207	208
Grades 4 through 6	210	209	210	209
Grades 7 and 8	145	146	145	146
Home and hospital	1	1	1	1
Special education - special day class	24	23	24	23
Elementary Totals	653	653	653	653
HIGH SCHOOL				
Grades 9 through 12	320	321	320	321
Special education - special day class	14	13	14	13
High School Totals	334	334	334	334
ADA Totals	987	987	987	987

See the accompanying note to the other supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME

Year Ended June 30, 2011

Durham Unified School District

	1986-87 Minutes Requirement	1982-83 Actual Minutes	2010-11 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	54,120	180	N/A	Complied
Grade 2	50,400	52,200	54,900	180	N/A	Complied
Grade 3	50,400	52,200	55,080	180	N/A	Complied
Grade 4	54,000	55,260	56,820	180	N/A	Complied
Grade 5	54,000	55,260	56,820	180	N/A	Complied
Grade 6	54,000	55,260	64,033	180	N/A	Complied
Grade 7	54,000	55,260	64,033	180	N/A	Complied
Grade 8	54,000	55,260	64,033	180	N/A	Complied
Grade 9	64,800	64,800	72,580	180	N/A	Complied
Grade 10	64,800	64,800	72,580	180	N/A	Complied
Grade 11	64,800	64,800	72,580	180	N/A	Complied
Grade 12	64,800	64,800	72,580	180	N/A	Complied

See the accompanying note to the other supplementary information.

**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

Year Ended June 30, 2011

*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	\$ 97,245
NCLB - ARRA Title I, Part A, Basic Grants	84.389	15005	<u>31,068</u>
Total Title I, Part A Cluster			<u>128,313</u>
Special Education Cluster			
Special Education - IDEA Basic Local Assistance	84.027	13379	91,502
Special Education - ARRA IDEA Basic Local Assistance	84.391	15003	<u>66,084</u>
Total Special Education Cluster			<u>157,586</u>
ARRA State Fiscal Stabilization Fund - Education State Vocational Programs - Vocational and Applied Technical Secondary IC, Section 131	84.394	25008	58,893
NCLB - Title IV, Part A, Drug-Free Schools	84.048	13924	5,041
NCLB - Title II, Part A, Teacher Quality	84.186	14347	959
NCLB - Title II, Part A, Teacher Quality	84.367	14341	51,350
NCLB - Title III, Immigrant Education	84.365	14346	945
NCLB - Title III, Limited English Proficiency Student Program	84.365	10084	<u>22,525</u>
Total U.S. Department of Education			<u>425,612</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education			
Child Nutrition Cluster			
School Breakfast	10.553	13390	54,796
National School Lunch	10.555	13391	<u>130,659</u>
Total Child Nutrition Cluster			185,455
Pass Through Butte County Office of Education Schools and Roads - Grants to Counties	10.666	10044	<u>4,622</u>
Total U.S. Department of Agriculture			<u>190,077</u>
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	206,022
Passed Through State of California Medical Assistance Program (Medi-Cal)	93.778	10013	<u>10,173</u>
Total U.S. Department of Health and Human Services			<u>216,195</u>
Total Federal Programs			831,884
NONMONETARY ASSISTANCE			
Food Donation	10.550		<u>21,200</u>
Total Expenditures of Federal Awards			<u>\$ 853,084</u>

See the accompanying note to the other supplementary information.

**SCHEDULE OF FINANCIAL TRENDS
AND ANALYSIS**

*Durham Unified
School District*

<u>Year Ended June 30</u>	<u>(Budget) 2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
GENERAL FUND				
Revenues and Other Financial Sources	\$ 8,056,234	\$ 8,311,601	\$ 8,332,629 *	\$ 9,415,277 *
Expenditures	8,074,987	7,932,876	8,013,550	9,058,044
Other uses and transfers out	15,000	15,200	10,000	8,991
Total Outgo	<u>8,089,987</u>	<u>7,948,076</u>	<u>8,023,550</u>	<u>9,067,035</u>
Change in Fund Balance	\$ (33,753)	\$ 363,525	\$ 309,079 *	\$ 348,242 *
Ending Fund Balance	<u>2,295,408</u>	<u>2,329,161</u>	<u>1,965,636</u> *	<u>1,656,557</u> *
Available Reserves	<u>2,236,063</u>	<u>2,242,094</u>	<u>1,931,605</u> *	<u>1,194,594</u> *
Designated for Economic Uncertainties	<u>537,180</u>	<u>527,372</u>	<u>524,037</u> *	<u>548,244</u> *
Undesignated Fund Balance	<u>1,638,363</u>	<u>1,584,733</u>	<u>1,319,459</u>	<u>478,717</u>
Available Reserves as a Percentage of Total Outgo	<u>28%</u>	<u>28%</u>	<u>24%</u> *	<u>13%</u> *
Total Long-Term Debt	<u>29,250</u>	<u>29,250</u>	<u>27,449</u>	<u>22,844</u>
Average Daily Attendance at P-2	<u>957</u>	<u>987</u>	<u>1,019</u>	<u>1,053</u>

**As restated for GASB Statement No. 54 adoption to include the Special Reserve Special Revenue Fund.*

The General Fund balance has increased by \$672,604 over the past two years. The fiscal year 2011-12 budget projects a decrease of \$33,753 (1.4%). For a district this size, the state recommends available reserves of at least 4% 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 2011-12 fiscal year. Total long-term debt has increased by \$6,406 over the past two years.

Average daily attendance has decreased by 66 over the past two years. The District anticipates ADA to decline by 30 during fiscal year 2011-12.

See the accompanying note to the other supplementary information.

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

*Durham Unified
School District*

Year Ended June 30, 2011

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 note to the other supplementary information.

SCHEDULE OF CHARTER SCHOOLS

Year Ended June 30, 2011

*Durham Unified
School District*

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

See the accompanying note to the other supplementary information.

**NOTE TO THE OTHER SUPPLEMENTARY
INFORMATION**

June 30, 2011

*Durham Unified
School District*

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.

OTHER REPORTS SECTION



matson and isom

Founded in 1962 by
Robert M. Matson and
W. Howard Isom

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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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 11-1). 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.

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*.

**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

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

December 2, 2011



matson and isom

Founded in 1962 by
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
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, 2011. 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, 2011.

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

Continued

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

December 2, 2011



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INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Durham Unified School District
Durham, California

We have audited the Durham Unified School District's (the District) compliance with the types of state compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11*, published by the Education Audit Appeals Panel, for the year ended June 30, 2011. The applicable state compliance requirements are identified in the table below. Compliance with the requirements referred to above is the responsibility of the District's management. Our responsibility is to express an opinion on District's compliance with the state laws and regulations based on our audit.

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 2010-11*, published by the Education Audit Appeals Panel. Those standards and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on compliance with the state laws and regulations described in the schedule below. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
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

Since the District did not participate in the following programs during 2010-11, all steps related to them were not performed:

- Continuation education
- 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 2010-11, 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

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

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

December 2, 2011

FINDINGS AND QUESTIONED COSTS SECTION

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2011

*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. 10.553	School Breakfast
CFDA No. 10.555	National School Lunch
CFDA No. 93.778	Medi-Cal Administrative Activities (MAA)
Threshold for distinguishing types A and B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Internal control over state programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Type of auditors' report issued on compliance for state programs	Unqualified

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2011

*Durham Unified
School District*

**SECTION II
FINANCIAL STATEMENTS AUDIT**

INTERNAL CONTROL (Student Body – Durham Intermediate School)

300000 (11-1)

Significant Deficiency

Condition

Four of five cash receipts tested were not deposited in a timely manner.

Criteria

Internal controls should be in place to provide for all student body cash and checks being deposited on a weekly basis.

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 cash receipts.

Response

The District's administration will adopt procedures during the 2011-12 fiscal year to comply with the recommendation.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2011

*Durham Unified
School District*

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None.

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

None.

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

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2011

*Durham Unified
School District*

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.

Current Status

Fully implemented.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2011

*Durham Unified
School District*

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.

Current Status

Fully implemented.