

**Durham Unified School District  
Proposition 39 and Measure X  
General Obligation Bonds**

Durham, California

FINANCIAL AND PERFORMANCE AUDITS

June 30, 2020



**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**

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June 30, 2020

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**FINANCIAL AUDIT SECTION**

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Durham Unified School District  
Durham, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Measure X Bond Building Fund (the Bonds) of Durham Unified School District (the District), as of and for the thirteen months ended June 30, 2020, and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting—Appendix A*, published by the Education Audit Appeals Panel. Those standards and the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **INDEPENDENT AUDITORS' REPORT**

(Continued)

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bonds of the District as of June 30, 2020, and the changes in financial position thereof for the thirteen months then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

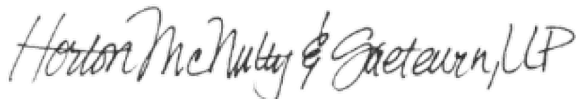
As discussed in note 1, the financial statements present only the Bonds and do not purport to, and do not, present fairly the financial position of the District, as of June 30, 2020, and the changes in its financial position for the thirteen months then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

### ***Report on Other Legal and Regulatory Requirements***

In accordance with the requirements of Proposition 39, as incorporated in the California Constitution, Article 13A, we have also issued our performance audit report dated March 25, 2021, on our consideration of the Bonds' compliance with the requirements of Proposition 39. That report is an integral part of the Bonds for the thirteen months ended June 30, 2020, and should be considered in assessing the results of our financial audit.



March 25, 2021  
Chico, California

## **Financial Section**

**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**  
BALANCE SHEET

June 30, 2020

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<b>ASSETS</b>	
Cash and investments	\$ 6,049,534

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<b>LIABILITIES AND FUND BALANCE</b>	
<b>Liabilities</b>	
Accounts payable	\$ 413,632
<b>Fund Balance</b>	
Restricted	5,635,902

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<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 6,049,534</b>
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*The accompanying notes are an integral part of these financial statements.*

**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

Thirteen Months Ended June 30, 2020

<b>Revenues</b>	
Other local revenue	\$ 257,618
<b>Expenditures</b>	
Debt service:	
Issuance costs and discounts	228,856
Capital outlay	1,476,716
<b>Total Expenditures</b>	<b>1,705,572</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(1,447,954)</b>
<b>Other Financing Sources (Uses)</b>	
Proceeds from sale of bonds	7,000,000
Other sources	83,856
<b>Total Other Financing Sources (Uses)</b>	<b>7,083,856</b>
<b>Net Change in Fund Balance</b>	<b>5,635,902</b>
<b>Fund Balance - Beginning of Year</b>	<b>-</b>
<b>Fund Balance - End of Year</b>	<b>\$ 5,635,902</b>

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



**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**  
NOTES TO THE FINANCIAL STATEMENTS

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**1. SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

Durham Unified School District (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. These financial statements present only the Measure X Bond Building Fund (the Bonds). These financial statements do not include financial information of the remainder of the District's funds, which accounting principles generally accepted in the United States of America require to be presented with the financial statements of the District.

On November 6, 2018, \$19,700,000 in general obligation bonds were authorized by an election held within the District. A citizens' oversight committee was appointed on September 30, 2019, to comply with the California Constitution and the *California Education Code*. The purpose of the committee is to inform the public, at least annually, regarding the appropriate use of bond proceeds. On June 13, 2019, bonds in the amount of \$7,000,000 were issued at a premium of \$532,890. The total proceeds from the bond issuance were received by the District and were to be used to repair or replace deteriorating electrical, plumbing, and sewer systems; replace leaky roofs; update agriculture and vocational teaching facilities; repair or replace outdated heating, ventilation, and air conditioning systems; modernize and renovate outdated classrooms, restrooms, and school facilities; and remove portables. The District paid issuance costs totaling \$228,856 from the proceeds.

The board of supervisors for Butte County are empowered and obligated to levy property taxes, without limitation as to rate or amount (except for certain property which is taxable at limited rates), for payment of principal and maturity value of, and interest on, the bonds.

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 the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP, and used by the District, are discussed below.

# Durham Unified School District

## Proposition 39 and Measure X General Obligation Bonds

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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#### **Basis of Presentation**

**Fund Financial Statements** Fund financial statements 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. 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 or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The Measure X Bond Building Fund is a major governmental fund, the Building Fund, of the District. The Building Fund is used to account for proceeds from the sale of bonds and expenditures for purposes authorized in the ballot measure.

#### **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** 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.

**Basis of Accounting** In the fund financial statements, governmental 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 one year. 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.

# Durham Unified School District

## Proposition 39 and Measure X General Obligation Bonds

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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These budgets are revised by the District's Governing Board and the District's Superintendent during the year to give consideration to unanticipated income and expenditures.

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.

#### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **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 maturities of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

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 (the County) 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 include accrued interest. The pool has deposits and investments with a weighted-average maturity of more than one year. As of June 30, 2020, the fair value of the County pool was 102.07% 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 increase in the fair value of investment during the thirteen months ended June 30, 2020, was \$122,630. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the period. The unrealized gain on investments held at June 30, 2020 was \$122,630.

**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**Bond Premiums**

In the governmental funds, bond premiums are reported as an other financing source when the related liability is incurred.

**Equity Classifications**

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, 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 of the District that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

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.

**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**  
 NOTES TO THE FINANCIAL STATEMENTS  
 (Continued)

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**Expenditures**

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.

**2. CASH AND INVESTMENTS**

The following is a summary of cash and investments:

June 30, 2020	Maturities	Fair Value
<b>Investments That Are Not Securities (1)</b>		
County treasurer's investment pool	1.7 years average	\$ 6,049,534

**(1) 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.

All cash and investments are restricted to expenditures for purposes authorized in the ballot measure.

**Investment Credit Risk**

*California Government Code*, Section 53601, limits investments in commercial paper to “prime” quality of the highest ranking, or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. The District does not have an investment policy that would further limit investment choices. The District’s investment in the County investment pool is unrated.

**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**Fair Value Measurements**

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2020:

- County treasurer's investment pool of \$6,049,534 is valued using quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in markets that are not active (level 2 inputs).

**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 reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**3. ACCOUNTS PAYABLE**

Accounts payable consisted of the following:

June 30, 2020	
Vendors	\$ 413,157
Salaries and benefits	79
Other	396
<b>Total</b>	<b>\$ 413,632</b>

**4. FUND BALANCE COMPONENTS**

Fund balance is composed of the following:

June 30, 2020	
<b>Restricted</b>	
Restricted for capital projects	\$ 5,635,902

**5. CONSTRUCTION PROJECT COMMITMENTS**

Construction project commitments are as follows:

June 30, 2020	<b>Remaining Construction Commitment</b>
Modernization phase one - roof and HVAC	\$ 1,802,307

**6. SUBSEQUENT EVENT**

On January 20, 2021, the District issued the Election of 2018, Series B general obligation bonds totaling \$9,000,000, at a premium of \$896,644. The issuance consisted of current interest bonds with interest rates ranging from 3.00% to 4.00%. The bonds mature through August 1, 2050. The proceeds will be used to modernize existing facilities.

## **Other Report 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 GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Durham Unified School District  
Durham, California

We have audited, 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 of America, the financial statements of the Measure X Bond Building Fund of Durham Unified School District (the District) as of and for the thirteen months ended June 30, 2020; and the related notes to the financial statements; and have issued our report thereon dated March 25, 2021.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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**

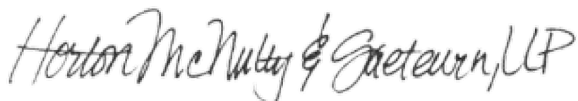
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***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the financial statements of the Measure X Bond Building Fund of the District are free from 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 financial statements. 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*.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



March 25, 2021  
Chico, California

## **Findings and Recommendations Section**

**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**  
SCHEDULE OF AUDIT FINDINGS  
June 30, 2020

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None.

**PERFORMANCE AUDIT SECTION**

## INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

To the Board of Trustees  
Durham Unified School District  
Durham, California

We have conducted a performance audit of the Durham Unified School District's (the District) Proposition 39 and Measure X General Obligation Bonds (the Bonds) for the thirteen months ended June 30, 2020.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States of America, and the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting—Appendix A*, published by the Education Audit Appeals Panel. Those standards and the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was limited to the objectives listed on page 22 of this report, which includes determining the District's compliance with the performance requirements for the Bonds under the applicable provisions of Section 1(b)(3)(C) of Article XIII A of the California Constitution and Sections 15264 and 15272–15286 of the *California Education Code* as they apply to the Bonds and the net proceeds thereof. Management is responsible for the District's compliance with those requirements.

Solely to assist us in planning and performing our performance audit, we obtained an understanding of the internal control of the District to determine if internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution and Sections 15264 and 15272–15286 of the *California Education Code*. Accordingly, we do not express any assurance on internal control.

The results of our tests indicated that, in all significant aspects, the District expended the Bonds for the thirteen months ended June 30, 2020, only for the specific projects developed by the District's Board of Trustees, as approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution and Sections 15264 and 15272–15286 of the *California Education Code*.

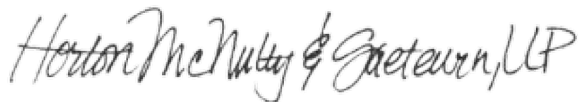
## **INDEPENDENT AUDITORS' REPORT ON PERFORMANCE**

(Continued)

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance with the requirements of Sections 15272-15286 of the *California Education Code*, which are described in the accompanying schedule of performance audit findings as item 2020-001. Our conclusion is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of performance audit findings. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



March 25, 2021  
Chico, California

**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**  
PERFORMANCE AUDIT

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**OBJECTIVES**

The objectives of our performance audit were to document the expenditures charged to the voter-approved Proposition 39 and Measure X General Obligation Bonds (the Bonds); determine whether expenditures for the thirteen months ended June 30, 2020, charged to the building fund, have been made in accordance with project budgets and guidelines; note any incongruities or system weaknesses; provide recommendations for improvements; and to provide the District's Board of Trustees and Citizens' Oversight Committee with a performance audit as required under the California Constitution and Proposition 39.

**SCOPE OF THE AUDIT**

The scope of our performance audit covered the thirteen months ended June 30, 2020. The expenditures included all object and project codes associated with the Bonds' projects. The propriety of expenditures for capital projects and maintenance projects funded through other state or local funding sources were not included within the scope of our audit. Expenditures incurred subsequent to June 30, 2020, were not reviewed or included within the scope of our audit or in this report.

**BACKGROUND INFORMATION**

On November 6, 2018, \$19,700,000 in general obligation bonds were authorized by an election held within the District. A citizens' oversight committee was appointed on September 30, 2019, to comply with the California Constitution and the *California Education Code*. The purpose of the committee is to inform the public, at least annually, regarding the appropriate use of bond proceeds. On June 13, 2019, bonds in the amount of \$7,000,000 were issued at a premium of \$532,890. The total proceeds from the bond issuance were received by the District and were to be used to repair or replace deteriorating electrical, plumbing, and sewer systems; replace leaky roofs; update agriculture and vocational teaching facilities; repair or replace outdated heating, ventilation, and air conditioning systems; modernize and renovate outdated classrooms, restrooms, and school facilities; and remove portables. The District paid issuance costs totaling \$228,856 from the proceeds.

California Constitution, Article 13A, Section 1(b)(3) requires an annual performance audit be conducted to ensure that funds have been expended only on the specific projects publicized by the District.



**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**  
PERFORMANCE AUDIT  
(Continued)

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**AUDIT METHODOLOGY**

The methodologies used in planning and performing the audit include:

- We interviewed District personnel to gain an understanding of the District’s bidding and disbursement procedures.
- We reviewed policies and procedures and evaluated significant internal controls relevant to the audit objectives.
- We reviewed the District’s bond project publicized list of intended projects.
- We compared total project expenditures to budgets to determine if there were any expenditures in excess of appropriation.
- We reviewed documentation, including the District’s website, that the Measure X Bond Oversight Committee reviewed project expenditures and issued reports on the results of its activities at least annually.
- We obtained the building fund general ledger and the project expenditure summary reports and detail prepared by the District for the thirteen months ended June 30, 2020. Within the period audited, we obtained the actual invoices and other supporting documentation for a representative sample of expenditures to review compliance with Proposition 39 and Measure X General Obligation Bonds funding. We performed the following procedures:
  - We reviewed invoices for evidence of proper approval in accordance with District policy.
  - We reviewed supporting documentation to ensure that funds were properly expended on the specific projects as outlined in the publicized list. This includes that the funds were expended for the construction, renovation, furnishing, and equipping of school facilities on specified projects included in the Measure X election documents.
  - We reviewed bid documentation to verify that bidding requirements were met, if applicable.
  - We verified that funding was not used for salaries or school administrators or other operating expenditures of the District.

**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**

PERFORMANCE AUDIT  
 (Continued)

**RESULTS OF PROCEDURES**

The District utilized bond funds for two projects. The District incurred total expenditures of \$1,705,572 for the following projects:

Thirteen Months Ended June 30, 2020	Budget	Expenditures			Status
		Prior	Current	Total	
Bond issuance costs	\$ 228,856	\$ -	\$ 228,856	\$ 228,856	Complete
Modernization phase one - roof and HVAC	5,398,349	-	1,052,956	1,052,956	In progress
Modular buildings	423,760	-	423,760	423,760	Complete
<b>Total</b>	<b>\$ 6,050,965</b>	<b>\$ -</b>	<b>\$ 1,705,572</b>	<b>\$ 1,705,572</b>	

Each of the projects has been given a specific project identification number within the District's building fund. Budgets for each project are included in the financial reporting system, and actual expenditures are matched against this budget.

**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**  
PERFORMANCE AUDIT  
(Continued)

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**CONCLUSION**

The results of our tests indicated that, in all significant respects, the District has properly accounted for the expenditures of the Measure X General Obligation Bonds and that such expenditures were made only for the specific projects developed by the District's Board of Trustees and approved by the voters. Further, it was noted that the funds were not used for salaries of school administrators or other operating expenditures. In addition, the results of our tests indicated that, in all significant respects, the District complied with certain provisions of the *California Education Code* requirements for which the purpose of the Citizens' Oversight Committee is established. The results of our auditing procedures disclosed instances of noncompliance with the requirements of Sections 15272-15286 of the *California Education Code*, which are described in the accompanying schedule of performance findings as item 2020-001. Our conclusion is not modified with respect to these matters. Our audit does not provide a legal determination on the District's compliance with the specific requirements.

**VIEW OF RESPONSIBLE OFFICIAL**

District management has reviewed the submitted draft final report for the performance audit dated March 25, 2021 of the Proposition 39 and Measure X General Obligation Bonds. District management agrees with the auditors' conclusion and has no additional comments.

**Durham Unified School District**  
**Proposition 39 and Measure X General Obligation Bonds**  
SCHEDULE OF PERFORMANCE AUDIT FINDINGS  
June 30, 2020

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**STATE COMPLIANCE (Citizens' Oversight Committee)**  
2020-001

**Condition** During our testing of the District's compliance with the performance requirements for the Bonds, we noted the following:

- Measure X was approved by the voters on November 6, 2018, and the results of the election were entered into the District's minutes on November 14, 2018. The Citizens' Oversight Committee was established by the Board of Trustees on May 15, 2019. The Citizens' Oversight Committee was then appointed on September 30, 2019.
- During the thirteen months ended June 30, 2020, the Citizens' Oversight Committee only met on September 30, 2019.
- The Citizens' Oversight Committee has not issued an annual report on the results of its activities.

**Criteria** Pursuant to *California Education Code*, Section 15278(a), the Citizens' Oversight Committee must be established and appointed within sixty days from the date the Board of Trustees enters the election results into its minutes.

Pursuant to *California Education Code*, Section 15280(b), the Citizens' Oversight Committee should issue regular reports on the results of its activities and must issue a report of its activities at least annually. The Citizens' Oversight Committee's bylaws require at least a quarterly review of expenditures. Minutes of the Citizens' Oversight Committee, as well as all documents received and reports issued shall be made available on the District's website.

**Effect** The District was not in compliance with the provisions of *California Education Code*, Sections 15278(a) and 15280(b).

**Cause** Transitions in District personnel, as well as interruptions related to the Camp Fire and COVID-19 restrictions led to delays in carrying out the Citizens' Oversight Committee's responsibilities.

**Recommendation** Future citizens' oversight committees must be established and appointed within sixty days of entering the election results into the Board of Trustees' minutes. We recommend that the Citizens' Oversight Committee meet at least quarterly to review expenditure reports. The Citizens' Oversight Committee should issue an annual report on the results of its activities. All documents received and reports issued shall be made available on the District's website.

**Response** The District's administration will adopt procedures during fiscal year 2020-21 to comply with the recommendation.