

**DURHAM UNIFIED SCHOOL DISTRICT
COUNTY OF BUTTE
DURHAM, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2013

TITTLE & COMPANY, LLP

Durham Unified School District
Audit Report
For The Year Ended June 30, 2013

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Audit Report
For The Year Ended June 30, 2013

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Financial Section



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

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 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 opinions.

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 Durham Unified School District as of June 30, 2013, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A to the financial statements, in 2013, Durham Unified School District adopted new accounting guidance, Government Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2013, Durham Unified School District adopted new accounting guidance, Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress for other postemployment benefits plan identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Durham Unified School District's basic financial statements. The 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 not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis as required by the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13*, published by the Education Audit Appeals Panel, and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013 on our consideration of Durham Unified School 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Durham Unified School District's internal control over financial reporting and compliance.

Little & Company, LLP

Chico, CA
December 9, 2013

DURHAM UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013

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, 2013. Please read it in conjunction with the independent auditors' report and the District's financial statements, which immediately follow this section.

Financial Highlights

- Total current year revenues fell short of total current year expenses by \$1,048,859.
- Capital assets, net of depreciation, decreased by \$367,017.
- ADA in the District decreased by 28. 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 2012-13, General Fund expenditures and other financing uses totaled \$8,343,460 at June 30, 2013; the District has available reserves of \$878,604 in the General Fund, which represents a reserve of 10.5%.

The Financial Report

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

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

Notes to the financial statements, which are included in the financial statements, provide more detailed data and explain some of the information in the financial 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.

Reporting the District as a Whole

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 position. 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 nonfinancial 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.

DURHAM UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013

In the statement of net position and the statement of activities, the activities are divided into two categories:

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. Nonbasic services, such as child nutrition and child development are also included here, but are financed by a combination of state and federal contracts 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 financial statements provide detailed information about the District's most significant funds, not the District as a whole. Some funds are required to be established by state law and bond covenants. However, the District establishes other funds as needed to control and manage money for specific purposes.

Governmental Funds

The major governmental funds of the District are the General Fund, the Capital Facilities Fund, and the Special Reserve for Capital Outlay Projects Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting measures cash and all other financial assets that can readily be converted to cash. The governmental fund 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 the Enterprise funds and Internal Service funds. Enterprise funds are considered business-type activities and are also reported under a full accrual method. Proprietary funds are reported in the same way as the government-wide financial statements. The District does not operate a proprietary fund.

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 fund financial statements. The District excludes 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 Position

The District's net position was \$6,530,683 for the fiscal year ended June 30, 2013. Of this amount \$1,709,929 is unrestricted. Restricted net assets are reported separately and are not available for day-to-day operations or their use is constrained to a particular purpose by statutes, rules or entities with authority over the District. The District's net position decreased by \$1,048,859 during fiscal year 2012-13.

DURHAM UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013

Table 1: Statement of Net Position - Governmental Activities

	Governmental Activities		Total Percentage Change
	2012	2013	
ASSETS			
Cash and investments	\$ 3,030,696	\$ 2,479,465	-18.2%
Receivables	1,201,847	821,936	-31.6%
Stores inventories	8,194	8,193	0.0%
Prepaid expenses	8,612	7,438	-13.6%
Net OPEB deferred charge	10,219	46,658	356.6%
Capital assets, net	4,328,460	3,961,443	-8.5%
Total assets	<u>\$ 8,588,028</u>	<u>\$ 7,325,133</u>	-14.7%
LIABILITIES			
Accounts payable and other current liabilities	\$ 975,831	\$ 752,255	-22.9%
Unearned revenue	-	10,462	-
Long-term obligations	32,655	31,733	-2.8%
Total liabilities	<u>\$ 1,008,486</u>	<u>\$ 794,450</u>	-21.2%
NET POSITION			
Net investment in capital assets	\$ 4,328,460	\$ 3,961,443	-8.5%
Restricted	190,553	859,311	351.0%
Unrestricted	3,060,529	1,709,929	-44.1%
Total net position	<u>\$ 7,579,542</u>	<u>\$ 6,530,683</u>	-13.8%

DURHAM UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013

Table 2: Changes in Net Position from Operating Results - Governmental Activities

	Governmental Activities		Total Percentage Change
	2012	2013	
REVENUES			
Program Revenues			
Charges for services	\$ 146,523	\$ 164,654	12.4%
Operating grants and contributions	1,353,800	1,144,802	-15.4%
General Revenues			
Unrestricted federal & state sources	4,192,609	3,870,697	-7.7%
Property taxes	2,493,317	2,630,023	5.5%
Other	210,648	209,644	-0.5%
Total revenues	<u>8,396,897</u>	<u>8,019,820</u>	-4.5%
EXPENSES			
Instruction	5,384,581	5,272,560	-2.1%
Instruction-related services	760,890	755,465	-0.7%
Pupil services	1,100,211	1,128,816	2.6%
General administration	589,412	619,528	5.1%
Plant services	919,393	913,722	-0.6%
Ancillary Services	140,202	132,463	-5.5%
Other Outgo	207,373	246,125	18.7%
Total expenses	<u>9,102,062</u>	<u>9,068,679</u>	-0.4%
Change in net position	<u>\$ (705,165)</u>	<u>\$ (1,048,859)</u>	<u>48.7%</u>

DURHAM UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013

Governmental Activities

- The District's total revenues were \$8,019,820. The majority of the revenue (81.1%) comes from Federal and State aid not restricted for specific programs and property taxes.
- The total cost of all programs and services was \$9,068,679. The District's expenses were predominately related to educating and caring for students (78.9%). Administrative activities accounted for 6.8% of total costs.
- The net cost of all governmental activities this year was \$7,759,223.

Table 3 presents 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.

Table 3: Net Cost of Governmental Activities

	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2012	2013		2012	2013	
Instruction	\$ 5,384,581	\$ 5,272,560	-2.1%	\$ 4,681,244	\$ 4,729,745	1.0%
Instruction-related services	790,890	755,465	-4.5%	734,274	723,806	-1.4%
Pupil services	1,100,211	1,128,816	2.6%	587,908	615,686	4.7%
General administration	589,412	619,528	5.1%	530,431	575,564	8.5%
Plant services	919,393	913,722	-0.6%	852,672	862,681	1.2%
Ancillary services	140,202	132,463	-5.5%	140,202	132,463	-5.5%
Other outgo	207,373	246,125	18.7%	75,008	119,278	59.0%
Total	<u>\$ 9,132,062</u>	<u>\$ 9,068,679</u>	<u>-0.7%</u>	<u>\$ 7,601,739</u>	<u>\$ 7,759,223</u>	<u>2.1%</u>

Governmental Funds

The District's governmental funds reported a combined fund balance of \$2,554,315, which is a decrease of \$719,203 from the previous year. Following is a summary of the District's fund balances.

Table 4: Governmental Fund Balances

	2012	2013	Increase (Decrease)
General	\$ 2,051,431	\$ 1,360,833	\$ (690,598)
Cafeteria Special Revenue	7,855	4,671	(3,184)
Deferred Maintenance	266,190	202,225	(63,965)
Pupil Transportation Equipment	1,308	1,301	(7)
Capital Facilities	333,623	386,695	53,072
County School Facilities	61,306	61,306	-
Special Reserve for Capital Outlay Projects	459,974	452,660	(7,314)
Foundation Permanent Trust	91,831	84,624	(7,207)
Total	<u>\$ 3,273,518</u>	<u>\$ 2,554,315</u>	<u>\$ (719,203)</u>

The General Fund decrease is primarily due to the use of one-time reserves for on-going expenditures.

The Deferred Maintenance Fund decrease is due to the addition of a classified position to support deferred maintenance needs.

The Capital Facilities Fund increase is due to the collection of developer impact fees.

DURHAM UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013

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 May revise figures and updated 45 days after the state approves its final budget. In addition, the District revises its budget at first and second interim. The budget amendments for the year typically fell into the following categories:

- Adjustment of revenue to actual enrollment and ADA data.
- Decrease in expenditures due to reduction in one-time expenditures of computers from prior year.

Capital Asset and 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

At June 30, 2013, the District had invested \$12,218,035 in a broad range of capital assets including land, school buildings, equipment, and administrative offices.

Table 5: Capital Assets - Governmental Funds

	Governmental Activities		Total Percentage Change
	2012	2013	
Land	\$ 153,080	\$ 153,080	0.0%
Improvements	4,001,725	4,007,704	0.1%
Buildings	6,892,496	6,892,496	0.0%
Vehicles and equipment	1,156,340	1,156,340	0.0%
Work in progress	-	8,415	-
Subtotal	12,203,641	12,218,035	0.1%
Less: Accumulated depreciation	(7,875,181)	(8,256,592)	4.8%
Total	<u>\$ 4,328,460</u>	<u>\$ 3,961,443</u>	<u>-8.5%</u>

Long-Term Debt

The District did not enter into any new debt-financing arrangements in 2012-13.

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

Table 6: Outstanding Debt

	Governmental Activities		Total Percentage Change
	2012	2013	
Net OPEB obligation (deferred charge)	\$ (10,219)	\$ (46,658)	356.6%
Compensated absences	32,655	31,733	-2.8%
Total	<u>\$ 22,436</u>	<u>\$ (14,925)</u>	<u>-166.5%</u>

DURHAM UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013

Economic Factors Bearing on the District's Future

- Enrollment projections indicate continued decline as large classes continue to graduate from 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 additional financial information, contact:

Karen Gosting, Business Manager

Durham Unified School District
9420 Putney Drive
Durham, CA 95938
Phone: (530) 895-4675

Basic Financial Statements

DURHAM UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities
ASSETS	
Cash	\$ 2,479,465
Receivables	821,936
Stores	8,193
Prepaid Expenses	7,438
Net OPEB Deferred Charge	46,658
Capital Assets:	
Land	153,080
Improvements	4,007,704
Buildings	6,892,496
Equipment	1,156,340
Work in Progress	8,415
Less Accumulated Depreciation	(8,256,592)
Total Assets	<u>7,325,133</u>
LIABILITIES	
Accounts Payable and Other Current Liabilities	752,255
Unearned Revenue	10,462
Long-Term Liabilities:	
Due Within One Year	<u>31,733</u>
Total Liabilities	<u>794,450</u>
NET POSITION	
Net Investment in Capital Assets	3,961,443
Restricted for:	
Capital Projects	651,527
Educational Programs	123,160
Other Purposes (Expendable)	10,926
Other Purposes (Nonexpendable)	73,698
Unrestricted	1,709,929
Total Net Position	<u>\$ 6,530,683</u>

The accompanying notes are an integral part of this statement.

DURHAM UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

Functions	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating	Revenues and
		Services	Grants and	Changes in
			Contributions	Net Position
				Governmental
				Activities
Governmental Activities:				
Instruction	\$ 5,272,560	\$ 24,793	\$ 518,022	\$ (4,729,745)
Instruction-Related Services:				
Instructional Supervision				
and Administration	63,767	--	12,768	(50,999)
Instructional Library, Media				
and Technology	164,860	--	2,919	(161,941)
School Site Administration	526,838	--	15,972	(510,866)
Pupil Services:				
Home-to-School Transportation	291,469	6,209	121,253	(164,007)
Food Services	328,913	97,807	203,245	(27,861)
All Other Pupil Services	508,434	10,237	74,379	(423,818)
General Administration:				
All Other General				
Administration	619,528	2,760	41,204	(575,564)
Plant Services	913,722	7,608	43,433	(862,681)
Ancillary Services	132,463	--	--	(132,463)
Other Outgo	246,125	15,240	111,607	(119,278)
Total Governmental Activities	\$ 9,068,679	\$ 164,654	\$ 1,144,802	(7,759,223)
General Revenues:				
Taxes and Subventions:				
Taxes Levied for General Purposes				2,630,023
Federal and State Aid Not Restricted to Specific Programs				3,870,697
Interest and Investment Earnings				(15,136)
Interagency Revenues				111,601
Miscellaneous				113,179
Total General Revenues				6,710,364
Change in Net Position				(1,048,859)
Net Position - Beginning				7,579,542
Net Position - Ending				\$ 6,530,683

The accompanying notes are an integral part of this statement.

DURHAM UNIFIED SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Capital Facilities Fund
ASSETS:		
Cash in County Treasury	\$ 1,290,157	\$ 385,957
Cash in Revolving Fund	2,598	--
Accounts Receivable	796,199	738
Due from Other Funds	17,328	--
Stores Inventories	--	--
Prepaid Expenditures	7,438	--
Total Assets	<u>\$ 2,113,720</u>	<u>\$ 386,695</u>
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts Payable	\$ 742,425	\$ --
Due to Other Funds	--	--
Unearned Revenue	10,462	--
Total Liabilities	<u>752,887</u>	<u>--</u>
Fund Balance:		
Nonspendable Fund Balances:		
Revolving Cash	2,597	--
Stores Inventories	--	--
Prepaid Items	7,438	--
All Others	--	--
Restricted Fund Balances	118,489	386,695
Assigned Fund Balances	353,705	--
Unassigned:		
Reserve for Economic Uncertainty	878,604	--
Total Fund Balance	<u>1,360,833</u>	<u>386,695</u>
Total Liabilities and Fund Balances	<u>\$ 2,113,720</u>	<u>\$ 386,695</u>

The accompanying notes are an integral part of this statement.

Special Reserve For Capital Outlay Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 451,772	\$ 348,521	\$ 2,476,407
--	460	3,058
888	24,111	821,936
--	--	17,328
--	8,193	8,193
--	--	7,438
<u>\$ 452,660</u>	<u>\$ 381,285</u>	<u>\$ 3,334,360</u>
\$ --	\$ 9,830	\$ 752,255
--	17,328	17,328
--	--	10,462
<u>--</u>	<u>27,158</u>	<u>780,045</u>
--	460	3,057
--	8,193	8,193
--	--	7,438
--	73,698	73,698
--	69,551	574,735
452,660	202,225	1,008,590
--	--	878,604
<u>452,660</u>	<u>354,127</u>	<u>2,554,315</u>
<u>\$ 452,660</u>	<u>\$ 381,285</u>	<u>\$ 3,334,360</u>

DURHAM UNIFIED SCHOOL DISTRICT
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balances, Governmental Funds \$ 2,554,315

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in the governmental funds because:

Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets relating to governmental activities, at historical cost	12,218,035	
Accumulated depreciation	(8,256,592)	
	Net	3,961,443

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Net OPEB obligation (Deferred charge)	(46,658)	
Compensated absences payable	31,733	
	Total	14,925

Total Net Position, Governmental Activities \$ 6,530,683

The accompanying notes are an integral part of this statement.

DURHAM UNIFIED SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Capital Facilities Fund
Revenues:		
Revenue Limit Sources:		
State Apportionments	\$ 2,870,493	\$ --
Local Sources	2,624,969	--
Federal Revenue	293,888	--
Other State Revenue	1,548,451	--
Other Local Revenue	315,061	53,072
Total Revenues	<u>7,652,862</u>	<u>53,072</u>
Expenditures:		
Instruction	5,010,058	--
Instruction - Related Services	738,269	--
Pupil Services	759,127	--
Ancillary Services	132,739	--
General Administration	624,322	--
Plant Services	821,838	--
Other Outgo	246,125	--
Total Expenditures	<u>8,332,478</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(679,616)</u>	<u>53,072</u>
Other Financing Sources (Uses):		
Transfers In	--	--
Transfers Out	(10,982)	--
Total Other Financing Sources (Uses)	<u>(10,982)</u>	<u>--</u>
Net Change in Fund Balance	(690,598)	53,072
Fund Balance, July 1	2,051,431	333,623
Fund Balance, June 30	<u>\$ 1,360,833</u>	<u>\$ 386,695</u>

The accompanying notes are an integral part of this statement.

Special Reserve For Capital Outlay Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 2,870,493
--	--	2,624,969
--	192,586	486,474
--	17,089	1,565,540
--	104,212	472,345
<u>--</u>	<u>313,887</u>	<u>8,019,821</u>
--	7,207	5,017,265
--	--	738,269
--	304,091	1,063,218
--	--	132,739
--	--	624,322
7,314	87,934	917,086
--	--	246,125
<u>7,314</u>	<u>399,232</u>	<u>8,739,024</u>
<u>(7,314)</u>	<u>(85,345)</u>	<u>(719,203)</u>
--	10,982	10,982
--	--	(10,982)
<u>--</u>	<u>10,982</u>	<u>--</u>
(7,314)	(74,363)	(719,203)
459,974	428,490	3,273,518
<u>\$ 452,660</u>	<u>\$ 354,127</u>	<u>\$ 2,554,315</u>

DURHAM UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Net Change in Fund Balances-Governmental Funds

\$ (719,203)

Amounts reported for governmental activities in the statement of activities are different because:

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:

Expenditures for capital outlay
Depreciation expense

	14,394	
	(381,411)	
Net		(367,017)

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:

922

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:

36,439**Change in Net Position of Governmental Activities**\$ (1,048,859)

The accompanying notes are an integral part of this statement.

DURHAM UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2013

ASSETS:

Cash in County Treasury
 Cash on Hand and in Banks
 Investments
 Accounts Receivable
 Stores Inventories
 Total Assets

Private- Purpose Trust Fund	Agency Fund
Scholarships	Student Body Fund
\$ 193,437	\$ 68,529
--	85,232
63,988	--
371	135
--	1,536
<u>\$ 257,796</u>	<u>\$ 155,432</u>

LIABILITIES:

Accounts Payable
 Due to Student Groups
 Total Liabilities

\$ 11,795	\$ --
--	155,432
<u>11,795</u>	<u>155,432</u>

NET POSITION:

Held in Trust
 Total Net Position

246,001	--
<u>\$ 246,001</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

DURHAM UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Private- Purpose Trust Fund
	Scholarships
Additions:	
Interest and Investment Earnings	\$ 10,271
Net Increase in Fair Value of Investments	855
Total Additions	11,126
Deductions:	
Scholarship Disbursements	11,115
Total Deductions	11,115
Change in Net Position	11
Net Position-Beginning of the Year	245,990
Net Position-End of the Year	\$ 246,001

The accompanying notes are an integral part of this statement.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

A. Summary of Significant Accounting Policies

Durham Unified School District (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 accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

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.

For fiscal year 2013, the District implemented Governmental Accounting Standards Board (GASB) Statements Nos. 63 and 65. Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, provides financial reporting guidance for deferred outflows and inflows of resources, originally introduced and defined in GASB Concepts Statement No. 4, Elements of Financial Statements, as a consumption of net assets applicable to a future reporting period and an acquisition of net asset applicable to a future reporting period, respectively. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position.

Statement No. 65, Items Previously Reported as Assets and Liabilities reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements:

Deferred outflows of resources
Outflows of resources
Deferred inflows of resources
Inflows of resources

Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance.

1. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions.

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. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the 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, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

Capital Facilities Fund. This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

Special Reserve Fund for Capital Outlay Projects Fund. This fund is used to account for resources designated for capital outlay projects.

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service or capital outlay, and that compose a substantial portion of the fund's resources.

Capital Projects Funds: These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital outlay acquisitions.

Foundation Permanent Funds: These 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.

Private-Purpose Trust Funds: These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

2. Assets, Liabilities, and Equity

a. Deposits and Investments

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the Butte County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with Butte County Treasury was not available.

b. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. Inventories of the General Fund are immaterial and have been omitted from these statements.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Classes</u>	<u>Estimated Useful Lives</u>
Buildings	20-50
Improvements	20-30
Equipment	5-20
Vehicles	8

d. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

e. Unearned Revenue

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

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

g. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments, on December 10 and April 10. Unsecured property taxes are payable in one installment, on or before August 31. The County of Butte bills and collects the taxes for the District.

h. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose 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.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

i. Use of Estimates

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

B. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Butte County Treasury as part of the common investment pool (\$2,491,578 as of June 30, 2013). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$2,476,407. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

2. Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks and in the revolving fund are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only 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. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not exposed to credit risk. The District's investment in the county investment pool is unrated.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

4. Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

C. Accounts Receivable

There are no significant receivables which are not scheduled for collection within one year of year end. Accounts receivable balances as of June 30, 2013 consisted of:

	General Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Nonmajor Funds	Total Governmental Funds
Federal Government:					
Federal programs	\$ 61,752	\$ --	\$ --	\$ 21,529	\$ 83,281
State Government:					
Revenue limit	413,353	--	--	--	413,353
Lottery	87,001	--	--	--	87,001
Other state programs	232,677	--	--	1,849	234,526
Local Sources:					
Interest	1,416	738	888	733	3,775
Total	<u>\$ 796,199</u>	<u>\$ 738</u>	<u>\$ 888</u>	<u>\$ 24,111</u>	<u>\$ 821,936</u>

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

D. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 153,080	\$ --	\$ --	\$ 153,080
Work in progress	--	8,415	--	8,415
Total capital assets not being depreciated	153,080	8,415	--	161,495
Capital assets being depreciated:				
Buildings	6,892,496	--	--	6,892,496
Improvements	4,001,725	5,979	--	4,007,704
Equipment	1,156,340	--	--	1,156,340
Total capital assets being depreciated	12,050,561	5,979	--	12,056,540
Less accumulated depreciation for:				
Buildings	(4,368,777)	(177,895)	--	(4,546,672)
Improvements	(2,640,186)	(149,533)	--	(2,789,719)
Equipment	(866,218)	(53,983)	--	(920,201)
Total accumulated depreciation	(7,875,181)	(381,411)	--	(8,256,592)
Total capital assets being depreciated, net	4,175,380	(375,432)	--	3,799,948
Governmental activities capital assets, net	\$ 4,328,460	\$ (367,017)	\$ --	\$ 3,961,443

Depreciation was charged to functions as follows:

Instruction	\$ 274,378
Instruction-related services	18,687
Pupil services	67,716
General administration	5,649
Plant services	14,981
Total	\$ 381,411

E. Accounts Payable

Accounts payable balances as of June 30, 2013 consisted of:

	General Fund	Nonmajor Funds	Total Governmental Funds
Vendor payables	\$ 41,720	\$ 3,954	\$ 45,674
Payroll and benefits	325,720	5,876	331,596
Due to governments	374,985	--	374,985
Total	\$ 742,425	\$ 9,830	\$ 752,255

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

F. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2013 consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Cafeteria Fund	\$ 16,235	Retiree medical costs and indirect costs.
General Fund	Deferred Maintenance Fund	1,093	Retiree medical costs and PERS Reduction.
	Total	<u>\$ 17,328</u>	

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2013 consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Deferred Maintenance Fund	\$ 10,982	Matching contribution.
	Total	<u>\$ 10,982</u>	

G. Long-Term Obligations

Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2013 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities:</u>					
Compensated absences *	\$ 32,655	\$ --	\$ 922	\$ 31,733	\$ 31,733
Net OPEB Obligation *	(10,219)	--	36,439	(46,658)	--
Total governmental activities	<u>\$ 22,436</u>	<u>\$ --</u>	<u>\$ 37,361</u>	<u>\$ (14,925)</u>	<u>\$ 31,733</u>

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	The fund for which the employee worked.
Net OPEB Obligation	Governmental	The fund for which the employee worked.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

H. Fund Balances

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2013 are as follows:

	General Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Revolving fund	\$ 2,597	\$ --	\$ --	\$ 460	\$ 3,057
Stores inventories	--	--	--	8,193	8,193
Prepaid expenditures	7,438	--	--	--	7,438
Principal portion of permanent fund	--	--	--	73,698	73,698
Restricted:					
Educational programs	118,489	--	--	--	118,489
Food services	--	--	--	(3,982)	(3,982)
Capital projects	--	386,695	--	62,607	449,302
Music and library programs	--	--	--	10,926	10,926
Assigned:					
Capital projects	--	--	452,660	202,225	654,885
Subsequent years expenditures	353,705	--	--	--	353,705
Unassigned:					
Economic uncertainties	878,604	--	--	--	878,604
Total	<u>\$ 1,360,833</u>	<u>\$ 386,695</u>	<u>\$ 452,660</u>	<u>\$ 354,127</u>	<u>\$ 2,554,315</u>

I. Joint Ventures (Joint Powers Agreements)

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

	June 30, 2013		June 30, 2012
	BSSP	BASIC	NVSIG
Total assets	\$ 15,341,940	\$ 1,508,206	\$ 3,160,975
Total liabilities	6,347,638	1,448,292	2,157,879
Net assets (liabilities)	<u>\$ 8,994,302</u>	<u>\$ 59,914</u>	<u>\$ 1,003,096</u>
Operating revenues	\$ 50,238,508	\$ 3,946,897	\$ 9,492,174
Operating expenses	49,354,099	4,259,028	9,703,356
Other income (expenses)	(50,119)	3,505	10,435
Excess revenues (expenses)	<u>\$ 834,290</u>	<u>\$ (308,626)</u>	<u>\$ (200,747)</u>

J. Employee Retirement Systems

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

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

PERS:

Plan Description

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

Funding Policy

Active plan members are required to contribute 7% 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 fiscal year 2012-13 was 11.417% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2013, 2012 and 2011 were \$136,763, \$130,475 and \$122,342, respectively, and equal 100% of the required contributions for each year.

STRS:

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8% 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-13 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2013, 2012 and 2011 were \$345,453, \$343,777 and \$328,138, respectively, and equal 100% of the required contributions for each year.

K. Postemployment Benefits Other Than Pension Benefits

Plan Description

The District provides postemployment health care benefits to qualifying employees through a single-employer defined benefit health care 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 provide 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 on July 31 of each year commencing with July 31 immediately following the retirement date.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

The District also provides postemployment health care benefits to all classified employees who retire from the District on or after attaining age 55 and under the age of 65 with at least 15 years of service 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 provide a reduced amount for each additional year of coverage to a maximum of \$505 per month for ten years.

At June 30, 2013, 19 retirees met these eligibility requirements.

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 OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan (including implicit subsidy), and the changes in the District's net OPEB obligation:

Annual required contribution	\$	130,173
Interest adjustment		(511)
Amortization of unfunded actuarial liabilities		665
Annual OPEB cost (expense)		<u>130,327</u>
Contributions made, adjusted for implicit subsidy		<u>166,766</u>
Decrease in net OPEB obligation		<u>(36,439)</u>
Net OPEB obligation (deferred charge), July 1		<u>(10,219)</u>
Net OPEB obligation (deferred charge), June 30	\$	<u><u>(46,658)</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/11	\$ 115,900	\$ 124,845	108%	\$ (11,176)
6/30/12	\$ 116,035	\$ 115,078	99%	\$ (10,219)
6/30/13	\$ 130,327	\$ 166,766	128%	\$ (46,658)

Funding Status and Funding Progress

The projected benefit payments for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far 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. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, will present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of 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, 2012 actuarial valuation, the projected unit credit using full accrual at full eligibility age actuarial method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses) and an annual health care cost trend rate of eight percent initially, reduced by decrements to an ultimate rate of five percent after three years. The actuarial method used for valuing assets is market. The plan's unfunded actuarial accrued liability is being amortized over 30 years in level dollar amounts on a closed basis. Demographic and other assumptions include (1) mortality rates; (2) public education retirement rates; (3) termination rates by age, gender and years of service; and (4) district salary schedules.

L. Commitments and Contingencies

State and Federal Allowances, Awards, and Grants

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

M. Budget Issues

The District received a qualified certification on its 2012-13 Second Interim Budget Report because the multi-year projection indicated negative unrestricted fund balance and a lack of economic reserves for 2014-15. The County Office of Education approved the District's 2013-14 Original Budget Report but invoked the provisions of Education Code Section 42127.6(a) due to the District's inability to meet the 4.00% minimum reserve requirement in the 2014-15 fiscal year. The District is working with a consultant from School Services of California to review and update their Fiscal Stabilization Plan and to identify restructuring opportunities.

N. Risk Management

The District is exposed to various risks including loss or damage to property, general liability and injuries to the 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 JPAs for property and liability, health benefits and workers' compensation coverage.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

DURHAM UNIFIED SCHOOL DISTRICT

EXHIBIT B-1

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 2,760,351	\$ 3,057,910	\$ 2,870,493	\$ (187,417)
Local Sources	2,367,087	2,442,095	2,624,969	182,874
Federal Revenue	363,463	301,966	293,888	(8,078)
Other State Revenue	1,528,411	1,553,135	1,548,451	(4,684)
Other Local Revenue	317,704	320,617	315,061	(5,556)
Total Revenues	<u>7,337,016</u>	<u>7,675,723</u>	<u>7,652,862</u>	<u>(22,861)</u>
Expenditures:				
Current:				
Certificated Salaries	4,173,048	4,218,366	4,207,655	10,711
Classified Salaries	1,152,077	1,173,466	1,162,584	10,882
Employee Benefits	1,891,338	1,878,029	1,877,261	768
Books And Supplies	444,558	298,876	281,514	17,362
Services And Other Operating Expenditures	558,243	561,004	542,945	18,059
Other Outgo	275,063	275,037	246,125	28,912
Direct Support/Indirect Costs	(14,000)	(14,000)	--	(14,000)
Capital Outlay	--	6,000	14,394	(8,394)
Total Expenditures	<u>8,480,327</u>	<u>8,396,778</u>	<u>8,332,478</u>	<u>64,300</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,143,311)</u>	<u>(721,055)</u>	<u>(679,616)</u>	<u>41,439</u>
Other Financing Sources (Uses):				
Transfers Out	<u>(31,010)</u>	<u>(30,982)</u>	<u>(10,982)</u>	<u>20,000</u>
Total Other Financing Sources (Uses)	<u>(31,010)</u>	<u>(30,982)</u>	<u>(10,982)</u>	<u>20,000</u>
Net Change in Fund Balance	<u>(1,174,321)</u>	<u>(752,037)</u>	<u>(690,598)</u>	<u>61,439</u>
Fund Balance, July 1	2,051,431	2,051,431	2,051,431	--
Fund Balance, June 30	<u>\$ 877,110</u>	<u>\$ 1,299,394</u>	<u>\$ 1,360,833</u>	<u>\$ 61,439</u>

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR OTHER
POSTEMPLOYMENT BENEFITS PLAN
YEAR ENDED JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2012	\$ --	\$ 1,187,392	\$ 1,187,392	--	\$ 5,509,850	22%
July 1, 2009	\$ --	\$ 1,083,391	\$ 1,083,391	--	\$ 5,334,936	20%

Supplementary Information Section

DURHAM UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY

ORGANIZATION STRUCTURE

JUNE 30, 2013

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 Expiration
Bob Bultema	President	2016
Lance Smith	Clerk	2014
Robert Kerman	Trustee	2014
Mark Kimmelshue	Trustee	2016
Ed McLaughlin	Trustee	2016

Administration

Mary Sukuma

Superintendent

Karen Gosting

Business Manager

DURHAM UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
 YEAR ENDED JUNE 30, 2013

TABLE C-1

	Second Period Report		Annual Report	
	Original	Revised	Original	Revised
Elementary:				
Kindergarten	61	N/A	61	N/A
Grades 1 through 3	192	N/A	193	N/A
Grades 4 through 6	221	N/A	222	N/A
Grades 7 and 8	153	N/A	152	N/A
Special education - special day class	10	N/A	10	N/A
Elementary totals	637	N/A	638	N/A
High School:				
Grades 9 through 12, regular classes	299	N/A	298	N/A
Special education - special day class	9	N/A	9	N/A
High school totals	308	N/A	307	N/A
ADA totals	945	N/A	945	N/A

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.

DURHAM UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
 YEAR ENDED JUNE 30, 2013

TABLE C-2

Grade Level	1982-83 Actual Minutes	1982-83 Adjusted & Reduced	1986-87 Minutes Requirement	1986-87 Adjusted & Reduced	2012-13 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	N/A	36,000	N/A	36,000	180	Complied
Grade 1	52,200	N/A	50,400	N/A	54,750	180	Complied
Grade 2	52,200	N/A	50,400	N/A	54,750	180	Complied
Grade 3	52,200	N/A	50,400	N/A	54,750	180	Complied
Grade 4	55,260	N/A	54,000	N/A	56,180	180	Complied
Grade 5	55,260	N/A	54,000	N/A	56,180	180	Complied
Grade 6	55,260	N/A	54,000	N/A	60,090	180	Complied
Grade 7	55,260	N/A	54,000	N/A	60,090	180	Complied
Grade 8	55,260	N/A	54,000	N/A	60,090	180	Complied
Grade 9	64,800	N/A	64,800	N/A	71,760	180	Complied
Grade 10	64,800	N/A	64,800	N/A	71,760	180	Complied
Grade 11	64,800	N/A	64,800	N/A	71,760	180	Complied
Grade 12	64,800	N/A	64,800	N/A	71,760	180	Complied

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. This schedule is required of all districts, including basic aid districts.

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 Education Code Sections 46200 through 46206.

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
YEAR ENDED JUNE 30, 2013

TABLE C-3

General Fund	Budget 2014 (see note 1)	2013	2012	2011
Revenues and other financial sources	\$ 7,703,131	\$ 7,652,862	\$ 8,044,329	\$ 8,311,601
Expenditures	8,127,468	8,332,478	8,281,049	7,932,876
Other uses and transfers out	31,010	10,982	41,010	15,200
Total outgo	8,158,478	8,343,460	8,322,059	7,948,076
Change in fund balance (deficit)	(455,347)	(690,598)	(277,730)	363,525
Ending fund balance	\$ 905,486	\$ 1,360,833	\$ 2,051,431	\$ 2,329,161
Available reserves (see note 2)	\$ 566,102	\$ 878,604	\$ 1,859,169	\$ 2,144,479
Available reserves as a percentage of total outgo	6.9%	10.5%	22.3%	27.0%
Total long-term debt	\$ 31,733	\$ 31,733	\$ 32,655	\$ 29,250
Average daily attendance at P-2	943	945	973	987

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.

The General Fund balance has decreased by \$968,328 (42%) over the past two years. The fiscal year 2013-2014 budget projects a decrease of \$455,347 (33.5%). For a district of this size, the State recommends available reserves of at least four percent of total general fund expenditures, transfers out and other uses (total outgo).

The District has incurred an operating deficit in two of the past three years and anticipates a deficit during the 2013-2014 fiscal year. Total long-term debt has increased by \$2,483 over the past two years.

Average daily attendance has decreased by 42 over the past two years. A decrease of 2 ADA is anticipated during the fiscal year 2013-2014.

NOTES:

- 1 Budget 2014 is included for analytical purposes only and has not been subjected to audit.
- 2 Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainties contained within the General Fund.
- 3 For financial reporting purposes in the fund financial statements, the Special Revenue Fund for Other than Capital Outlay (Fund 17) has been combined as part of the General Fund to be in compliance with GASB Statement No. 54. This report is a reflection of activity in the General Fund and the Special Revenue Fund for Other than Capital Outlay (Fund 17).

DURHAM UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

TABLE C-4

	General Fund	Special Reserve For Other Than Capital Outlay Fund
June 30, 2013, annual financial and budget report fund balances	\$ 1,148,826	\$ 294,276
Adjustments and reclassifications:		
Increasing (decreasing) the fund balance:		
Understatement of accounts payable	(82,269)	--
Reclassification for financial statement presentation*	294,276	(294,276)
Net adjustments and reclassifications	212,007	(294,276)
June 30, 2013, audited financial statement fund balances	\$ 1,360,833	\$ --

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

*This audit reclassification is made for financial presentation purposes only, pursuant to GASB Statement 54 which, when applied, does not recognize these funds as special revenue fund types. Therefore, the fund balances are consolidated with the General Fund. However, the District is permitted under current State law to account for these funds as special revenue fund type for interim reporting and budgeting purposes.

No charter schools are chartered by Durham Unified School District.

<u>Charter Schools</u>	<u>Included In Audit?</u>
None	N/A

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

TABLE C-6

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through State of California:			
Medi-Cal Billing Option *	93.778	10013	\$ 1,568
Total U. S. Department of Health and Human Services			<u>1,568</u>
<u>U. S. DEPARTMENT OF EDUCATION</u>			
Passed Through Butte County Office of Education:			
Special Ed - Basic Local Assistance Entitlement *	84.027	13379	115,641
Passed Through State Department of Education:			
NCLB - Title I Basic Grants *	84.010	14329	104,424
Vocational Programs - Secondary, Carl D. Perkins Act	84.048	14894	5,012
NCLB - Title III Limited English Proficient	84.365	14346	18,707
NCLB - Title II Teacher Quality	84.367	14341	45,453
Total Passed Through State Department of Education			<u>173,596</u>
Total U. S. Department of Education			<u>289,237</u>
<u>U. S. DEPARTMENT OF AGRICULTURE</u>			
Direct Program:			
USDA Food Distribution (Non-Cash Assistance)	10.550	No PCA	16,345
Passed Through Butte County Office of Education:			
Forest Reserve *	10.665	No PCA	3,083
Passed Through State Department of Education:			
School Breakfast Program *	10.553	13525	55,192
National School Lunch Program *	10.555	13524	137,394
Total Child Nutrition Cluster			<u>192,586</u>
Total Passed Through State Department of Education			<u>192,586</u>
Total U.S. Department of Agriculture			<u>212,014</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 502,819</u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

DURHAM UNIFIED SCHOOL DISTRICT**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**Basis of Presentation

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

Other Independent Auditors' Reports



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

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

Members of the Board of Trustees:

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durham Unified School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Durham Unified School District's basic financial statements, and have issued our report thereon dated November 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Durham Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Durham Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Durham Unified School 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 entity'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 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item(s) 13-1 and 13-2, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Durham Unified School District's financial statements 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 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*.

Durham Unified School District's Response to Findings

Durham Unified School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Durham Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Little + Company, LLP

Chico, CA
December 9, 2013



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

Independent Auditors' Report on Compliance for Each Major Program and
on Internal Control Over Compliance Required by OMB Circular A-133

Board of Trustees
Durham Unified School District
Durham, California

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited Durham Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Durham Unified School District's major federal programs for the year ended June 30, 2013. Durham Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Durham Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Durham Unified School 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Durham Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Durham Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Durham Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Durham Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Durham Unified School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Chico, CA
December 9, 2013



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

Independent Auditors' Report on State Compliance

Board of Trustees
Durham Unified School District
Durham, California

Members of the Board of Trustees:

Report on State Compliance

We have audited the District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13*, published by the California Education Audit Appeals Panel that could have a direct and material effect on each of the District's state programs identified below for the fiscal year ended June 30, 2013.

Management's Responsibility for State Compliance

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13* published by the Education Audit Appeals Panel. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the State's audit guide *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13* published by the Education Audit Appeals Panel. Those standards and audit guide 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 direct and material effect on the state programs noted below. 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 connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

Description	Procedures In Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	N/A
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	N/A
Instructional Materials, General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	N/A
GANN Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	N/A
Class Size Reduction (Including Charter Schools):		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	N/A
Only One School Serving Grades K-3	4	N/A
After School Education and Safety Program:		
General Requirements	4	N/A
After School	5	N/A
Before School	6	N/A
Charter Schools		
Contemporaneous Records of Attendance	1	N/A
Mode of Instruction	1	N/A
Nonclassroom-Based Instruction/Independent Study	15	N/A
Determination of Funding for Nonclassroom-Based Instruction	3	N/A
Annual Instructional Minutes - Classroom Based	4	N/A

The term "N/A" is used above to mean either the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

Opinion on State Compliance

In our opinion, Durham Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the year ended June 30, 2013.

Little & Company, LLP

Chico, CA
December 9, 2013

Findings and Questioned Costs Section

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.137, 84.391, 84.392	Special Education Cluster (IDEA)
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

3. State Awards

Internal control over state programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that
are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance
for state programs: Unmodified

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

B. Financial Statement Findings

Internal Control (Student Body)
13-1 (30000)
Significant Deficiency

Criteria

Internal controls should be in place to provide that prenumbered receipts be issued for all cash collections.

Condition

During our tests over internal controls for student body cash receipts we noted the following:

1. Cash receipts were not being issued for cash received by the Durham Intermediate School student body.
2. Cash receipts issued by Durham Intermediate School yearbook group were not traceable to bank deposits.

Effect

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

Recommendation

Internal control procedures should be put into place to ensure that all cash received by the student body have a corresponding prenumbered receipt issued at the time of collection. All cash receipts should be able to be traced to corresponding bank statements.

LEA's Response

The District's administration will implement procedures during the 2013-14 fiscal year to comply with the recommendation.

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Internal Control (Bill Warrants)
13-2 (30000)
Significant Deficiency

Criteria

Internal control procedures should provide reasonable assurance that bill warrants paid are properly reviewed and approved prior to processing the corresponding expenditure transactions.

Condition

During our test of internal controls over the bill warrant accounting system, there was one expenditure without proper approval prior to the expenditure being made.

Effect

Without strengthening internal controls over disbursements, expenditures may be improperly paid to vendors and employees.

Recommendation

In order to strengthen internal controls over expenditures, all expenditures should require proper approval prior to being incurred.

LEA's Response

The District's management will adopt procedures during the fiscal 2013-14 to properly review and approve expenditures prior to submitting the information for payment.

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

C. Federal Award Findings and Questioned Costs

NONE

D. State Award Findings and Questioned Costs

NONE

DURHAM UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Finding/Recommendation

None

DURHAM UNIFIED SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2013

There are no current year findings related to federal awards.