

DURHAM UNIFIED SCHOOL DISTRICT

County of Butte
Durham, California

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

Year Ended June 30, 2018

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FINANCIAL SECTION



TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA ■ CHANDESE D. MEGHDADI, 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 the Durham Unified School District (the District) as of and for the year ended June 30, 2018, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity'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 entity'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 the Durham Unified School District, as of June 30, 2018, 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.

Change in Accounting Principle

As discussed in Note 11 to the financial statements, in 2018 the District adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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, schedule of changes in total OPEB liability, schedule of District OPEB contributions, schedules of proportionate share of net pension liability, and schedules of District pension contributions 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Durham Unified School District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was 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 supplementary information is 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 December 14, 2018, 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.

Tittle & Company, LLP

Chico, California
December 14, 2018

DURHAM UNIFIED SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2018

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, 2018. Please read it in conjunction with the independent auditors' report and the District's financial statements, which immediately follow this section.

Financial Highlights

- Total net position was (\$4,555,938) at June 30, 2018. This was a decrease of \$2,511,804 from the prior year.
- Capital assets, net of depreciation, increased by \$58,905.
- 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 2017-18, General Fund expenditures and other financing uses totaled \$10,886,206 at June 30, 2018; the District has available reserves of \$655,105 in the General Fund, which represents a reserve of 6.02%.

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

DURHAM UNIFIED SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2018

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.

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 and Cafeteria 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.

**DURHAM UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended June 30, 2018

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 (\$4,555,938) for the fiscal year ended June 30, 2018. Of this amount (\$8,778,634) 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 \$2,511,804 during fiscal year 2017-18.

Table 1: Statement of Net Position – Governmental Activities

	Governmental Activities		Total Percentage Change
	2017	2018	
ASSETS			
Cash and investments	\$ 2,684,067	\$ 1,852,286	-31.0%
Accounts receivable	503,622	221,708	-56.0%
Inventories	2,428	5,015	106.5%
Prepaid expenses	47,775	25,577	-46.5%
Net OPEB deferred charge	87,825	-	-100.0%
Capital assets, net	4,684,585	4,743,490	1.3%
Total Assets	8,010,302	6,848,076	-14.5%
Deferred Outflows of Resources	1,672,330	3,002,357	79.5%
LIABILITIES			
Accounts payable and other current liabilities	809,469	675,265	-16.6%
Unearned revenue	126,105	1,433	-98.9%
Long-term obligations	9,906,985	12,873,798	29.9%
Total Liabilities	10,842,559	13,550,496	25.0%
Deferred Inflows of Resources	884,207	855,875	-3.2%
NET POSITION			
Net investment in capital assets	3,367,023	3,572,514	6.1%
Restricted	1,158,688	650,182	-43.9%
Unrestricted	(6,569,845)	(8,778,634)	-33.6%
Total Net Position	\$ (2,044,134)	\$ (4,555,938)	-122.9%

**DURHAM UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended June 30, 2018

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

	Governmental Activities		Total Percentage Change
	2017	2018	
REVENUES			
Program Revenues			
Charges for services	\$ 96,104	\$ 137,083	42.6%
Operating grants and contributions	1,745,307	1,836,247	5.2%
General Revenues			
Unrestricted federal & state sources	4,926,755	5,108,466	3.7%
Property taxes	3,500,808	3,584,840	2.4%
Other	249,898	224,928	-10.0%
Total Revenues	10,518,872	10,891,564	3.5%
EXPENSES			
Instruction	6,499,747	6,948,173	6.9%
Instruction-related services	972,232	896,515	-7.8%
Pupil services	1,496,570	1,523,582	1.8%
General administration	840,056	800,928	-4.7%
Plant services	871,427	1,104,355	26.7%
Ancillary Services	142,749	154,323	8.1%
Interest on long-term debt	3,148	-	-100.0%
Other outgo	321,475	409,766	27.5%
Total Expenses	11,147,404	11,837,642	6.2%
Change in Net Position	\$ (628,532)	\$ (946,078)	-50.5%

Governmental Activities

- The District's total revenues were \$10,891,564. The majority of the revenue (79.8%) comes from Federal and State aid not restricted for specific programs and property taxes.
- The total cost of all programs and services was \$11,837,642. The District's expenses were predominately related to educating and caring for students (79.1%). Administrative activities accounted for 6.8% of total costs.
- The net cost of all governmental activities this year was \$9,864,312.

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.

**DURHAM UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended June 30, 2018

Table 3: Net Cost of Governmental Activities

	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2017	2018		2017	2018	
Instruction	\$ 6,499,747	\$ 6,948,173	6.9%	\$ 5,354,460	\$ 5,749,995	7.4%
Instruction-related services	972,232	896,515	-7.8%	940,317	861,774	-8.4%
Pupil services	1,496,570	1,523,582	1.8%	1,025,368	1,074,659	4.8%
General administration	840,056	800,928	-4.7%	809,350	746,761	-7.7%
Plant services	871,427	1,104,355	26.7%	833,289	1,013,955	21.7%
Ancillary services	142,749	154,323	8.1%	140,462	151,820	8.1%
Interest on long-term debt	3,148	-	-100.0%	3,148	-	-100.0%
Other outgo	321,475	409,766	27.5%	199,599	265,348	32.9%
Total	\$ 11,147,404	\$ 11,837,642	6.2%	\$ 9,305,993	\$ 9,864,312	6.0%

Governmental Funds

The District's governmental funds reported a combined fund balance of \$1,427,888, which is a decrease of \$874,430 from the previous year. Following is a summary of the District's fund balances.

Table 4: Governmental Fund Balances

	2017	2018	Increase (Decrease)
General	\$ 1,193,097	\$ 966,233	\$ (226,864)
Cafeteria	2,888	5,515	2,627
Pupil Transportation Equipment	1,354	1,356	2
Capital Facilities	585,627	215,752	(369,875)
County School Facilities	62,357	62,354	(3)
Special Reserve for Capital Outlay Projects	374,031	94,527	(279,504)
Foundation Permanent Trust	82,964	82,151	(813)
Total	\$ 2,302,318	\$ 1,427,888	\$ (874,430)

The General Fund decrease is primarily due to a \$50,248 increase in repairs to vehicles and buses. There was an increase in contributions to restricted programs for Title I of \$16,546 and Special Education of \$155,704. In addition, the final \$61,244 of the Educator Effectiveness Grant was expended in 2017/18.

The Cafeteria Fund increase is due to an increase in stores inventory on hand at the close of the year.

The Capital Facilities Fund decrease is due to the installation of a video surveillance system for \$120,106 and an upgrade to the District's technology wiring infrastructure totaling \$310,239.

The Special Reserve for Capital Outlay Projects Fund decrease is due to the purchase of a tractor for grounds maintenance of \$32,934 plus a \$250,000 transfer of funds to the General Fund.

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

**DURHAM UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended June 30, 2018

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.
- Changes to LCFF funding levels based upon revised factors such as the gap funding percentage.
- Decrease in expenditures due to one-time expenditures of computers, technology and other expenditures expected in the current year but not incurred until the subsequent year.
- Increase in expenditures for staffing adjustments and bargaining unit settlements.

The District's original and final budgets compared with actual operations are provided in the budgetary comparison schedule for the General Fund.

The District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$668,029. The actual results for the year show a decrease of \$444,608.

This increase is a result of teacher salary savings of \$91,954 and classified savings of \$65,365 from temporary vacancies plus the associated payroll taxes and benefits. There was also an administrator position that was erroneously over-budgeted by \$33,915.

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, 2018, the District had invested \$4,743,490 in a broad range of capital assets including land, school buildings, equipment, and administrative offices.

Table 5: Capital Assets – Governmental Funds

	Governmental Activities		Total
	2017	2018	Percentage Change
Land	\$ 215,131	\$ 215,131	0.0%
Improvements	5,683,278	5,711,337	0.5%
Buildings	6,986,885	7,398,652	5.9%
Equipment and vehicles	1,515,973	1,573,867	3.8%
Construction in progress	114,554	120,106	4.8%
Subtotal	14,515,821	15,019,093	3.5%
Less: accumulated depreciation	(9,831,236)	(10,275,603)	4.5%
Total	\$ 4,684,585	\$ 4,743,490	1.3%

Long-Term Debt

Notes payable decreased by \$111,531 due to monthly lease payments made on solar project.

**DURHAM UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended June 30, 2018

Capital lease decreased by \$35,055 due to the cancellation of lease with Ray Morgan.

The Net OPEB Obligation is the liability for retiree health benefits calculated under the provisions of GASB 75 which was implemented during the year ending June 30, 2018.

The Net Pension Liability represents the District's share of pension costs for PERS and STRS in accordance with GASB 68.

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
	2017	2018	Percentage Change
Compensated absences	\$ 84,687	\$ 81,191	-4.1%
Note payable	1,282,507	1,170,976	-8.7%
Capital lease	35,055	-	-100.0%
Net OPEB	1,477,901	1,537,559	4.0%
Net pension liability	8,504,736	10,084,072	18.6%
Total	\$ 11,384,886	\$ 12,873,798	13.1%

Economic Factors Bearing on the District's Future

- Enrollment has continued to steadily increase. Enrollment in 2018/19 has increased to 1,082 compared to 985 in 2016/17 and we expect to see increases going forward. It is important we carefully monitor our enrollment to react to unexpected variations and continue efforts to attract students to our schools.
- Health benefits, workers' compensation rates, and fuel and energy costs continue to escalate. In addition, the District's share of contributions to both STRS and PERS have increased substantially and are expected to keep rising by 2% of total payroll each year for the next several years with no additional resources provided to absorb those costs. These increases in expenditure are likely to exceed the additional funding provided by the State each year.
- 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.
- The District's student demographics are well below the threshold for additional concentration funding under the state's new LCFF model. Accordingly, the District's funding per ADA remains well below other comparable school districts.

**DURHAM UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended June 30, 2018

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:

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

**DURHAM UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION**

June 30, 2018

	Governmental Activities
ASSETS	
Cash and investments	\$ 1,852,286
Accounts receivable	221,555
Inventories	5,015
Prepaid expenses	25,577
Capital assets, not depreciated	335,237
Capital assets, net of accumulated depreciation	4,408,253
Total Assets	6,847,923
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	3,002,357
LIABILITIES	
Accounts payable and other current liabilities	675,112
Unearned revenue	1,433
Long-term liabilities:	
Due within one year	111,531
Due in more than one year	12,762,267
Total Liabilities	13,550,343
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	855,875
NET POSITION	
Net investment in capital assets	3,572,514
Restricted for:	
Capital projects	279,465
Educational programs	288,566
Other purposes (expendable)	8,453
Other purposes (nonexpendable)	73,698
Unrestricted	(8,778,634)
Total Net Position	\$ (4,555,938)

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

DURHAM UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities				
Instruction	\$ 6,948,173	\$ 17,196	\$ 1,180,982	\$ (5,749,995)
Instruction-related services:				
Instructional supervision and administration	92,265	-	6,423	(85,842)
Instructional library, media and technology	125,185	-	1,533	(123,652)
School site administration	679,065	-	26,785	(652,280)
Pupil services:				
Home-to-school transportation	425,859	-	1,757	(424,102)
Food services	377,467	82,944	239,159	(55,364)
All other pupil services	720,256	11,347	113,716	(595,193)
General administration:				
Centralized data processing services	71,577	-	4,160	(67,417)
All other general administration	729,351	4,249	45,758	(679,344)
Plant services	1,104,355	5,141	85,259	(1,013,955)
Ancillary services	154,323	-	2,503	(151,820)
Other outgo	409,766	16,206	128,212	(265,348)
Total Governmental Activities	\$ 11,837,642	\$ 137,083	\$ 1,836,247	(9,864,312)
General Revenues				
Property taxes, levied for general purposes				3,584,840
Federal and state aid not restricted to specific purposes				5,108,466
Interest and investment earnings				19,327
Interagency revenues				31,000
Miscellaneous				174,601
Total General Revenues				8,918,234
Change in Net Position				(946,078)
Net Position - Beginning, as Previously Reported				(2,044,134)
Restatement				(1,565,726)
Net Position - Beginning, As Restated				(3,609,860)
Net Position - Ending				\$ (4,555,938)

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

**DURHAM UNIFIED SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS**

June 30, 2018

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,379,429	\$ 33,322	\$ 439,535	\$ 1,852,286
Accounts receivable	162,444	56,241	2,870	221,555
Due from other funds	143,874	54,141	15,441	213,456
Inventories	-	5,015	-	5,015
Prepaid expenditures	25,577	-	-	25,577
Total Assets	\$ 1,711,324	\$ 148,719	\$ 457,846	\$ 2,317,889
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 669,076	\$ 1,036	\$ -	\$ 670,112
Due to other funds	74,582	142,168	1,706	218,456
Unearned revenue	1,433	-	-	1,433
Total Liabilities	745,091	143,204	1,706	890,001
FUND BALANCES				
Nonspendable	28,077	5,515	73,698	107,290
Restricted	283,051	-	287,915	570,966
Assigned	-	-	94,527	94,527
Unassigned	655,105	-	-	655,105
Total Fund Balances	966,233	5,515	456,140	1,427,888
Total Liabilities and Fund Balances	\$ 1,711,324	\$ 148,719	\$ 457,846	\$ 2,317,889

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

**DURHAM UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2018**

Total Fund Balance - Governmental Funds		\$	1,427,888
<p>Amounts reported for assets, deferred outflows of resources, liabilities, and deferred inflows of resources for governmental activities in the statement of net position are different from amounts reported in governmental funds because:</p>			
<p>Capital assets:</p>			
<p>In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:</p>			
Capital assets	\$	15,019,093	
Accumulated depreciation		<u>(10,275,603)</u>	4,743,490
<p>Long-term liabilities:</p>			
<p>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:</p>			
Compensated absences		81,191	
Note payable		1,170,976	
Net OPEB liability		1,537,559	
Net pension liability		<u>10,084,072</u>	(12,873,798)
<p>Deferred outflows and inflows of resources relating to pensions:</p>			
<p>In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.</p>			
Deferred outflows of resources related to pensions		3,002,357	
Deferred inflows of resources related to pensions		<u>(855,875)</u>	2,146,482
Total Net Position - Governmental Activities		\$	<u>(4,555,938)</u>

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

DURHAM UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 8,349,310	\$ -	\$ -	\$ 8,349,310
Federal revenue	269,206	237,784	-	506,990
Other state revenue	1,354,475	17,846	-	1,372,321
Other local revenue	436,351	93,747	65,630	595,728
Total Revenues	10,409,342	349,377	65,630	10,824,349
EXPENDITURES				
Current:				
Instruction	6,426,319	-	-	6,426,319
Instruction-related services	844,160	-	836	844,996
Pupil services	1,066,454	347,641	-	1,414,095
Ancillary services	152,733	-	-	152,733
General administration	677,725	17,013	1,707	696,445
Plant services	1,057,012	14,352	-	1,071,364
Other outgo	409,766	-	-	409,766
Capital outlay	101,534	-	463,280	564,814
Debt service:				
Principal	118,247	-	-	118,247
Total Expenditures	10,853,950	379,006	465,823	11,698,779
Excess (Deficiency) of Revenues Over Expenditures	(444,608)	(29,629)	(400,193)	(874,430)
Other Financing Sources (Uses)				
Interfund transfers in	250,000	32,256	-	282,256
Interfund transfers out	(32,256)	-	(250,000)	(282,256)
Total Other Financing Sources (Uses)	217,744	32,256	(250,000)	-
Net Change in Fund Balance	(226,864)	2,627	(650,193)	(874,430)
Fund Balance - Beginning	1,193,097	2,888	1,106,333	2,302,318
Fund Balance - Ending	\$ 966,233	\$ 5,515	\$ 456,140	\$ 1,427,888

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

DURHAM UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

<hr/>			
Net Change in Fund Balances - Governmental Funds		\$	(874,430)
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds 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	\$	555,495
	Depreciation expense		(457,422)
			<hr/>
			98,073
Debt service:			
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:			
			111,531
Gain or loss from disposal of capital assets:			
In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from the disposal of capital assets and the resulting gain or loss is:			
			(4,113)
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 amount earned. The difference between compensated absences paid and compensated absences earned was:			
			3,496
Pensions:			
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was:			
			(220,977)
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:			
			(59,658)
			<hr/>
Change in Net Position - Governmental Activities		\$	(946,078)
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The accompanying notes are an integral part of these financial statements.

DURHAM UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
June 30, 2018

	<u>Trust Fund</u>	<u>Agency Fund</u>
	<u>Scholarship Fund</u>	<u>Student Body Fund</u>
ASSETS		
Cash and investments	\$ 250,139	\$ 214,748
Accounts receivable	968	-
Due from other funds	5,000	-
Inventories	-	410
Total Assets	\$ 256,107	\$ 215,158
LIABILITIES		
Accounts payable	\$ 8,400	\$ -
Due to student groups	-	215,158
Total Liabilities	8,400	\$ 215,158
NET POSITION		
Unrestricted	247,707	
Total Net Position	\$ 247,707	

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

DURHAM UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
Year Ended June 30, 2018

	<u>Trust Fund</u>
	<u>Scholarship Fund</u>
ADDITIONS	
Contributions	\$ 5,000
Investment earnings	3,949
Net change in fair value of investments	(229)
Total Additions	<u>8,720</u>
DEDUCTIONS	
Services and other operating	<u>14,097</u>
Total Deductions	<u>14,097</u>
Change in net position	(5,377)
Net Position - Beginning	<u>253,084</u>
Net Position - Ending	<u>\$ 247,707</u>

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

**DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2018

1. SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District is governed by an elected five member board. The District operates one elementary school, one intermediate school, and one high school in Durham, California. The District has no component units.

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 presented by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

Basis of Presentation

Government-wide Financial 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. Government activities are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by recipients of goods or services offered by the programs and 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 non-major funds.

Major Governmental Funds

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

Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service program.

Non-Major Governmental Funds

Special Revenue 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. The District maintains the following special revenue funds:

**DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2018

1. Pupil Transportation Equipment Fund is used to account for revenues received and expenditures made to operate the District's transportation service program.
2. Special Reserve Fund for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of general fund moneys for general operating purposes other than for capital outlay.

Capital Projects 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. The District maintains the following capital projects fund:

1. Capital Facilities Fund is used to account for resources received from developer impact fees assessed.
2. Special Reserve Fund for Capital Outlay Projects is used to account for resources designated for capital outlay projects.
3. County School Facilities Fund is used primarily to account separately for state apportionments as provided in Education Code sections 17009.5 and 17070.10-17076.10.

Permanent Funds

Foundation Permanent Funds are used to account for resources received from gifts or bequests pursuant to *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.

Fiduciary Funds

Foundation Private-Purpose Trust Funds are used to account separately for moneys received from gifts or bequests per Education Code Section 41031 under which principal and income benefit individuals, private organizations, or other governments and under which neither principal nor income may be used for purposes that support the District's own programs.

Agency Funds are used to account for assets of others for whom the District acts as an agent. The District maintains agency funds for student body accounts, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body.

Basis of Accounting/Measurement Focus

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide, proprietary fund and fiduciary fund financial statements 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 released cash flows take place.

Non-exchange transactions, in which the District's 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

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

the fiscal year in which all eligibility requirements have been satisfied. Agency Funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become available and measurable. The District considers revenues as available if they are collected within 60 days after year end. Revenues susceptible to accrual are property taxes, fiscal year state funding, and interest revenues. All other revenue items are considered to be measurable and available only when cash is received by the government. 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.

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. When an expenditure is incurred for which committed, assigned, or unassigned fund balance are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Deferred inflows of resources are reported in the governmental funds when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the revenue is recognized.

Cash and Investments

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

Accounts Receivable

Accounts receivable represent amounts due from private persons, firms, or corporations based on contractual agreements or amounts billed but not received as of June 30, 2018, and amounts due from other governments including entitlements and grants from federal, state, and local governments that the District has earned or been allocated but has not received as of June 30, 2018. At June 30, 2018, no allowance for doubtful accounts was deemed necessary.

Interfund Transactions

Interfund transactions result from loans, services provided, reimbursements, or transfers between funds. Interfund receivables and payables between funds within governmental

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

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

Inventories

Inventories are valued at average cost for purchased supplies and materials. Expenses are recorded as the supplies and materials are consumed. Donated commodities inventories are valued at its fair value at the time of donation.

Capital Assets

Capital assets, which include property, buildings, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' life is 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>Depreciable Lives of Assets</u>	<u>Years</u>
Buildings	20-50
Improvements	20-30
Equipment	5-20
Vehicles	8

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources for its pension plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows of resources for its pension plan and OPEB plan.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

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 because 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.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the CalPERS Schools Pool Cost-Sharing Multiple-Employer Plan (CalPERS Plan) and CalSTRS Schools Pool Cost-Sharing Multiple Employer Plan (CalSTRS Plan) and additions to/deductions from the CalPERS Plan and CalSTRS Plan's fiduciary net positions have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

Government-Wide Net Position

Net position represents the difference between assets and liabilities. The District's net position is composed of the following:

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

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

Unrestricted net assets consists of all other net assets that do not meet the definition of "restricted" or "net investment in capital assets".

Fund Balance

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. There are two major categories of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the board of trustees-the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board of trustees removes the specified use by taking some type of action imposing the commitment.

Assigned fund balance reflects the amounts constrained by the District's own "intent" to be used for specific purposes, but are neither restricted nor committed. The board of trustees and designee of the board of trustees have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

When both restricted and unrestricted resources are available for use, it is the District’s policy to use externally restricted resources first, and then unrestricted resources-committed, assigned, and unassigned-in order as needed.

Estimates

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

Budgets and Budgetary Accounting

The budgetary process is described by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The original and final revised budgets are presented for the General Fund and each major special revenue fund as required supplementary information. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2018, consisted of the following:

	Governmental Funds	Fiduciary Funds
Cash in county treasury investment pool	\$ 1,806,708	\$ 257,464
Cash on hand and in banks	42,578	142,415
Cash in revolving fund	3,000	-
Investments	-	65,008
Total Cash and Investments	\$ 1,852,286	\$ 464,887

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers' acceptance; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations of first priority security; and collateralized mortgage obligations.

In accordance with *California Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury as part of the common investment pool. The fair value of the District's investment in the pool is based upon the District's pro rata share of the fair value provided by the County Treasurer for the entire portfolio (in related to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. As of June 30, 2018, all of the District's deposits were insured.

Credit Risk - Investments

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. *California Government Code* Section 53601 limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. The District has no investment policy that would further limit its investment choices. The District's investment in the county investment pool is unrated.

Interest Rate Risk - Investments

Interest rate risk the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. *California Government Code* Section 53601 limits the District's investments to maturities of five years. The County Treasurer's investment pool has an average maturity of two years.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2018

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018, consisted of the following:

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Funds	Scholarship Fund
Federal Government					
Categorical programs	\$ 40,182	\$ 51,489	\$ -	\$ 91,671	\$ -
State Government					
LCFF Sources	10,679	-	-	10,679	-
Categorical programs	11,917	4,070	-	15,987	-
Lottery	41,800	-	-	41,800	-
Local Sources					
Other local sources	57,866	682	2,870	61,418	968
Total	\$ 162,444	\$ 56,241	\$ 2,870	\$ 221,555	\$ 968

4. INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Interfund receivable and payable balances at June 30, 2018, were as follows:

	Due From Other Funds	Due to Other Funds
General Fund	\$ 143,874	\$ 74,582
Cafeteria Fund	54,141	142,168
Non-Major Governmental Funds	15,441	1,706
Subtotal	213,456	218,456
Scholarship Fund	5,000	-
Total	\$ 218,456	\$ 218,456

Balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2018

Interfund Transfers

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

Interfund transfers for the year ended June 30, 2018, were as follows:

	Transfers In	Transfers Out
General Fund	\$ 250,000	\$ 32,256
Cafeteria Fund	32,256	-
Non-Major Governmental Funds	-	250,000
Total	\$ 282,256	\$ 282,256

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 215,131	\$ -	\$ -	\$ 215,131
Construction in progress	114,554	125,160	119,608	120,106
Total capital assets not being depreciated	329,685	125,160	119,608	335,237
Capital assets being depreciated:				
Buildings	6,986,885	411,767	-	7,398,652
Improvements of sites	5,683,278	28,059	-	5,711,337
Equipment and vehicles	1,515,973	110,117	52,223	1,573,867
Total capital assets being depreciated	14,186,136	549,943	52,223	14,683,856
Less accumulated depreciation for:				
Buildings	5,210,160	168,736	-	5,378,896
Improvements of sites	3,485,291	211,563	-	3,696,854
Equipment and vehicles	1,135,785	77,123	13,055	1,199,853
Total accumulated depreciation	9,831,236	457,422	13,055	10,275,603
Total capital assets being depreciated, net	4,354,900	92,521	39,168	4,408,253
Governmental activities capital assets, net	\$ 4,684,585	\$ 217,681	\$ 158,776	\$ 4,743,490

Depreciation expense was charged to governmental activities as follows:

Governmental Activities	
Instruction	\$ 266,188
Instructional-related services	17,595
Pupil services	76,259
General administration	10,072
Plant services	87,308
Total Depreciation Expense	\$ 457,422

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2018

6. ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	Cafeteria Fund	Total Governmental Funds	Scholarship Fund
Vendor payables	\$ 288,246	\$ 1,036	\$ 289,282	\$ 8,400
Payroll and benefits	380,830	-	380,830	-
Total	\$ 669,076	\$ 1,036	\$ 670,112	\$ 8,400

7. LONG-TERM OBLIGATIONS

Long-term obligations include debt and other long-term liabilities. A schedule of changes in long-term obligations for the year ended June 30, 2018, is shown below:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year
Compensated absences	\$ 84,687	\$ -	\$ 3,496	\$ 81,191	\$ -
Note payable	1,282,507	-	111,531	1,170,976	111,531
Capital lease	35,055	-	35,055	-	-
Net pension liability	8,504,736	1,579,336	-	10,084,072	-
Net OPEB liability	1,477,901	59,658	-	1,537,559	-
Total	\$ 11,384,886	\$ 1,638,994	\$ 150,082	\$ 12,873,798	\$ 111,531

The compensated absences will be paid by the fund for which the employee worked.

8. CAPITAL LEASE

The District cancelled a lease agreement as lessee for financing the acquisition of software. The District made a change to their software which rendered the older software useless. The assets acquired through this capital lease were written off at June 30, 2018. The District does not currently have any future minimum lease payments.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2018

9. NOTE PAYABLE

During the year ending June 30, 2017, the District entered into an agreement with the California Energy Resources Conservation and Development Commission for a loan up to \$2,000,000 to install solar photovoltaic panels. The loan was disbursed on a cost reimbursement basis. The loan bears interest at 0% and is payable in semi-annual installments of \$55,766 beginning in December of the fiscal year following the completion of the project. The project was completed during the fiscal year ending June 30, 2018. As of June 30, 2018, the District had incurred reimbursable expenditures of \$1,282,507 and had made payments of \$111,531.

The principal and interest payments of the loan are as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ 111,531	\$ -	\$ 111,531
2020	111,531	-	111,531
2021	111,531	-	111,531
2022	111,531	-	111,531
2023	111,531	-	111,531
2024-2028	557,665	-	557,665
2029	55,656	-	55,656
Total	\$ 1,170,976	\$ -	\$ 1,170,976

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2018

10. FUND BALANCES

Fund balances were categorized as follows at June 30, 2018:

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable:				
Revolving cash	\$ 2,500	\$ 500	\$ -	\$ 3,000
Stores inventories	-	5,015	-	5,015
Prepaid expenditures	25,577	-	-	25,577
Principal portion of Permanent Fund	-	-	73,698	73,698
Total Nonspendable	<u>28,077</u>	<u>5,515</u>	<u>73,698</u>	<u>107,290</u>
Restricted:				
Educational programs	283,051	-	-	283,051
Capital projects	-	-	279,462	279,462
Music and library programs	-	-	8,453	8,453
Total Restricted	<u>283,051</u>	<u>-</u>	<u>287,915</u>	<u>570,966</u>
Assigned:				
Capital projects	-	-	94,527	94,527
Total Assigned	<u>-</u>	<u>-</u>	<u>94,527</u>	<u>94,527</u>
Unassigned:				
Economic uncertainties	655,105	-	-	655,105
Total Unassigned	<u>655,105</u>	<u>-</u>	<u>-</u>	<u>655,105</u>
Total	<u>\$ 966,233</u>	<u>\$ 5,515</u>	<u>\$ 456,140</u>	<u>\$ 1,427,888</u>

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)

Plan Description

The District provides postemployment health care benefits to qualifying employees through a single-employer defined benefit healthcare plan administered by the District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. A separate financial report is not prepared for the plan. The plan provides postemployment healthcare benefits to all certificated employees who retire from the District on or after attaining the age of 55 with at least 10 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.

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.

**DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2018

Employees Covered

As of the June 30, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

Active employees	108
Inactive employees or beneficiaries currently receiving benefits	9
Total	117

Contributions

Contribution requirements are established by agreement with the applicable employee bargaining units and may be amended by agreements between the District and the bargaining units. The District contributes the full cost of current year premiums for eligible retired members. For the year ending June 30, 2018, the District's cash payments for premiums was \$78,161.

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017 that was rolled forward to determine the June 30, 2018 total OPEB liability, based on the following actuarial methods and assumptions.

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Discount Rate	3.80%
Inflation	2.75%
Salary Increases	2.75%
Investment Rate of Return	N/A
Mortality Rate	Derived using pension experience related.
Pre-Retirement Turnover	Derived using pension experience related.
Healthcare Trend Rate	Based on recent premium experience assuming 4% increases due to market trends then reduced to a rate reflecting medical price inflation.

The discount rate was based on an index of 20 year General Obligation municipal bonds.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2018

Changes in Total OPEB Liability

The changes in the total OPEB liability for the plan are as follows:

Balance at June 30, 2017	\$ 1,477,901
Changes recognized for the measurement period:	
Service cost	81,635
Interest	56,184
Benefit payments	(78,161)
Net changes	59,658
Balance at June 30, 2018	\$ 1,537,559

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ending June 30, 2018:

	1% Decrease 2.80%	Current Discount Rate 3.80%	1% Increase 4.80%
Total OPEB Liability	\$ 1,631,916	\$ 1,537,559	\$ 1,448,626

Sensitivity of the Total OPEB Liability to Changes in Health Care Cost Trend Rates

The following presents the total OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ending June 30, 2018:

	1% Decrease 3.00%	Current Healthcare Cost Trend Rates 4.00%	1% Increase 5.00%
Total OPEB Liability	\$ 1,462,369	\$ 1,537,559	\$ 1,608,911

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$137,819. At June 30, 2018, the District did not have any deferred outflows of resources and deferred inflows of resources related to OPEB.

Restatement of Net Position

As a result of implementing GASB Statement No. 75 in the year ending June 30, 2018, the beginning net position was restated by a decrease of \$1,565,726. Financial information for the year ending June 30, 2017, was not restated because the necessary actuarial information was not available.

Net Position as of June 30, 2017, as previously reported	\$ (2,044,134)
Change in accounting principle: GASB 75 adjustment	(1,565,726)
Net Position as of June 30, 2017, as restated	\$ (3,609,860)

12. PENSION PLANS

Plan Descriptions

Qualified employees are covered under cost-sharing multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers Retirement System (CalSTRS) and classified employees are members of the School Employer Pool California Public Employees' Retirement System (CalPERS). Benefit provisions are established by state statute, as legislatively amended, within the State Teachers' Retirement Law and the Public Employees' Retirement Law. Support by the state for the CalSTRS plan is such that the plan has a special funding situation as defined by GASB Statement No 68. CalSTRS and CalPERS issue publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on their respective websites at www.calstrs.com and www.calpers.ca.gov.

Benefits Provided

The plans provide pension benefits, including disability and survivor benefits, to eligible plan members and beneficiaries. Benefits are based on members' years of credited service, age, final compensation, and benefit formula.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

The plans' provisions and benefits in effect at June 30, 2018 are summarized as follows:

	CalSTRS		CalPERS	
	Before	On or After	Before	On or After
	Jan. 1, 2013	Jan. 1, 2013	Jan. 1, 2013	Jan. 1, 2013
Hire Date				
Benefit Formula	2% at 60	2% at 62	2% at 55	2% at 62
Benefit Vesting Schedule	5 Years	5 Years	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life
Retirement Age	50-62	55-67	50-62	52-67
Monthly benefits, as a % of eligible compensation	1.1-2.4%	1.0-2.4%	1.1-2.5%	1.0-2.5%

Contributions – CalPERS

Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.5% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contributions to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

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 2018 was 15.531% of annual payroll. Contributions to the plan from the District were \$231,740 for the year ended June 30, 2018.

Contributions – CalSTRS

Active plan members are required to contribute either 10.250% (2% at 60) or 9.205% (2% at 62) of their salary for fiscal year 2018 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$636,599 for the year ended June 30, 2018.

On Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$373,355 to CalSTRS.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liabilities for its proportionate shares of the net pension liability of each plan as follows:

	CalSTRS	CalPERS
District's proportionate share of the net pension liability	\$ 7,398,400	\$ 2,685,672
State's proportionate share of the net pension liability	4,376,867	-
Total	\$ 11,775,267	\$ 2,685,672

The net pension liability of each of the plans was measured as of June 30, 2017, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for each plan was as follows:

	CalSTRS	CalPERS
Proportion - June 30, 2016	0.0080%	0.0103%
Proportion - June 30, 2017	0.0080%	0.0113%
Change - Increase (Decrease)	0.0000%	0.0010%

For the year ended June 30, 2018, the District recognized pension expense of \$1,529,891. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 868,340	\$ -
Differences between actual and expected experience	123,577	129,040
Differences between projected and actual earnings on plan investments	92,906	197,040
Changes in assumptions	1,762,924	31,620
Changes in employer's proportion and differences between employer's contributions and employer's proportionate share of contributions	154,610	498,175
Total	\$ 3,002,357	\$ 855,875

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

\$868,340 reported as deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	684,249	97,892
2020	763,393	354,071
2021	684,918	244,930
2022	(7,663)	145,173
2023	4,560	13,808
2024	4,560	1
Total	\$ 2,134,017	\$ 855,875

Actuarial Assumptions

The total pension liabilities in the June 30, 2016, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CalSTRS	CalPERS
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions		
Inflation	2.75%	2.75%
Wage Growth	3.50%	3.00%
Investment Rate of Return	7.10% (1)	7.15% (1)
Interest on Member Accounts	3.00%	

(1) Net of pension plan investment and administrative expenses

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series table adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries.

The actuarial assumptions used in the CalSTRS June 30, 2016 valuation were based on the results of a 2015 experience analysis.

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the CalPERS June 30, 2016 valuation were based on the January 2014 CalPERS Experience Study.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

The long-term expected rate of return on CalPERS pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	Strategic Allocation	Real Return Years 1-10*	Real Return Years 11+**
Global Equity	51%	5.25%	5.71%
Global Fixed Income	20%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	12%	4.50%	5.13%
Liquidity	1%	-0.55%	-1.05%

* An expected inflation of 2.5% used for this period.

** An expected inflation of 3.0% used for this period.

The long-term expected rate of return on CalSTRS pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance – PCA) as an input to the process. The actuarial investments rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class for the year ending June 30, 2017 are summarized in the following table:

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2018

Asset Class	Assumed Asset Allocation	Long-Term * Expected Real Rate of Return
Global Equity	47%	6.30%
Private Equity	13%	9.30%
Real Estate	13%	5.20%
Inflation Sensitive	4%	3.80%
Fixed Income	12%	0.30%
Absolute Return/Rate Mitigating Strategies	9%	2.90%
Cash/Liquidity	2%	-1.00%

*20-year geometric average

Discount Rate

The discount rate used to measure the total pension liability was 7.10% for CalSTRS and 7.15% for CalPERS. To determine whether the District bond rate should be used in the calculation of a discount rate for each plan, CalSTRS and CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rates are adequate and the use of the District bond rate calculation is not necessary for either plan. The stress test results are presented in a detailed report that can be obtained from the CalPERS and CalSTRS websites.

Sensitivity to the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for each plan, calculated using the discount rate for each plan, as well as the District's proportionate share of the net pension liability if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	CalSTRS	CalPERS
1% Decrease	6.10%	6.15%
Net Pension Liability	\$ 10,863,200	\$ 3,951,484
Current Discount Rate	7.10%	7.15%
Net Pension Liability	\$ 7,398,400	\$ 2,685,672
1% Increase	8.10%	8.15%
Net Pension Liability	\$ 4,586,480	\$ 1,635,575

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

13. PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): Butte Schools Self-Funded Program (BSSP), North Valley Schools Insurance Group (NVSIG), and Self-Insurance Schools of California – Health and Welfare Benefits Program (SISC III). 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 care, and excess liability coverage for their members. Each JPA is governed by a board consisting of a representative from each member district. The Boards control the operations of the JPAs including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPAs. Separately issued financial statements can be requested from each JPA.

14. RISK MANAGEMENT

The District is exposed to various risks including loss or damage to property, general liability, and injuries to employees. Settled claims resulting from these risks have not exceeded insurance coverage in 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 care, and workers' compensation coverage.

15. COMMITMENTS AND CONTINGENCIES

Federal and State Grants

The District receives financial assistance from federal and state government agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual funds or the overall financial position of the District at June 30, 2018.

16. NEW ACCOUNTING PRONOUNCEMENTS

In January 2018, GASB issued Statement No. 84, *Fiduciary Activities*. This standard's objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement is effective for periods beginning after December 15, 2018. The District has not yet determined the impact on the financial statements.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

In March 2018, GASB issued Statement No. 85, *Omnibus 2018*. This statement's objective is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The statement is effective for periods beginning after June 15, 2018. The District has not yet determined the impact on the financial statements.

In May 2018, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This statement's primary objective is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The statement is effective for periods beginning after June 15, 2018. The District has not yet determined the impact on the financial statements.

In June 2018, GASB issued Statement No. 87, *Leases*. This standard's objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement is effective for reporting periods beginning after December 15, 2019. The District has not yet determined the impact on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**DURHAM UNIFIED SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
LCFF sources	\$ 8,345,611	\$ 8,366,050	\$ 8,349,310	\$ (16,740)
Federal revenue	296,813	279,065	269,206	(9,859)
Other state revenue	827,087	1,358,158	1,354,475	(3,683)
Other local revenue	373,537	444,824	436,351	(8,473)
Total Revenues	9,843,048	10,448,097	10,409,342	(38,755)
EXPENDITURES				
Certificated salaries	4,416,664	4,566,386	4,536,769	29,617
Classified salaries	1,470,540	1,552,164	1,491,675	60,489
Employee benefits	2,276,558	2,572,962	2,601,051	(28,089)
Books and supplies	508,428	615,119	509,368	105,751
Services and other operating	624,360	1,145,042	1,102,553	42,489
Other outgo	300,932	390,000	409,766	(19,766)
Direct support/indirect costs	(6,622)	(6,622)	(17,013)	10,391
Capital outlay	131,157	162,828	101,534	61,294
Debt service:				
Principal	185,887	118,247	118,247	-
Total Expenditures	9,907,904	11,116,126	10,853,950	262,176
Excess (Deficiency) of Revenues Over Expenditures	(64,856)	(668,029)	(444,608)	223,421
Other Financing Sources (Uses)				
Interfund transfers in	250,000	250,000	250,000	-
Interfund transfers out	(39,036)	(45,771)	(32,256)	13,515
Total Other Financing Sources (Uses)	210,964	204,229	217,744	13,515
Net Change in Fund Balance	146,108	(463,800)	(226,864)	236,936
Fund Balance - Beginning	1,193,097	1,193,097	1,193,097	-
Fund Balance - Ending	\$ 1,339,205	\$ 729,297	\$ 966,233	\$ 236,936

See the accompanying notes to the required supplementary information.

**DURHAM UNIFIED SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE – CAFETERIA FUND**

Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal revenue	\$ 196,000	\$ 196,000	\$ 237,784	\$ 41,784
Other state revenue	19,000	19,000	17,846	(1,154)
Other local revenue	91,100	91,100	93,747	2,647
Total Revenues	306,100	306,100	349,377	43,277
EXPENDITURES				
Classified salaries	117,459	136,632	137,001	(369)
Employee benefits	51,946	56,366	58,034	(1,668)
Books and supplies	148,808	130,600	147,051	(16,451)
Services and other operating	20,301	21,651	19,907	1,744
Direct support/indirect costs	6,622	6,622	17,013	(10,391)
Total Expenditures	345,136	351,871	379,006	(27,135)
Excess (Deficiency) of Revenues Over Expenditures	(39,036)	(45,771)	(29,629)	16,142
Other Financing Sources (Uses)				
Interfund transfers in	39,036	45,771	32,256	(13,515)
Total Other Financing Sources (Uses)	39,036	45,771	32,256	(13,515)
Net Change in Fund Balance	-	-	2,627	2,627
Fund Balance - Beginning	2,888	2,888	2,888	-
Fund Balance - Ending	\$ 2,888	\$ 2,888	\$ 5,515	\$ 2,627

See the accompanying notes to the required supplementary information.

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
 Last Ten Fiscal Years*

	<u>Year Ended June 30</u> <u>2018</u>
Total OPEB Liability:	
Service cost	\$ 81,635
Interest	56,184
Benefit payments	(78,161)
Net Change in Total OPEB Liability	<u>59,658</u>
Total OPEB Liability - Beginning	1,477,901
Total OPEB Liability - Ending	<u>\$ 1,537,559</u>
Covered-employee payroll	\$ 6,165,445
Total OPEB liability as a percentage of covered-employee payroll	<u>24.94%</u>

*This schedule will eventually present 10 years of information. However, it currently only provides the information for those years in which the information is available.

See the accompanying notes to the required supplementary information.

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT CONTRIBUTIONS – OPEB PLAN
 Last Ten Fiscal Years*

	<u>Year Ended June 30</u>
	<u>2018</u>
Contractually required contribution	\$ 78,161
Contributions in relation to the contractually required contribution	<u>(78,161)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	\$ 6,165,445
Contributions as a percentage of covered employee payroll	<u>1.27%</u>

*This schedule will eventually present 10 years of information. However, it currently only provides the information for those years in which the information is available.

See the accompanying notes to the required supplementary information.

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY - CALSTRS
Last Ten Fiscal Years*

	Year Ended June 30			
	2018	2017	2016	2015
District's proportion of the net pension liability	0.0080%	0.0080%	0.0090%	0.0090%
District's proportionate share of the net pension liability	\$ 7,398,400	\$ 6,470,480	\$ 6,059,160	\$ 5,259,330
State's proportionate share of the net pension liability	4,376,867	3,684,071	3,204,619	3,811,011
Total	\$ 11,775,267	\$ 10,154,551	\$ 9,263,779	\$ 9,070,341
District's covered-employee payroll	\$ 4,536,769	\$ 4,595,807	\$ 4,349,414	\$ 4,191,737
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	163.08%	140.79%	139.31%	125.47%
Plan fiduciary net position as a percentage of total pension liability	69.46%	70.04%	74.02%	76.52%

*This schedule will eventually present 10 years of information. However, it currently only provides the information for those years in which the information is available.

See the accompanying notes to the required supplementary information.

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
Last Ten Fiscal Years*

	Year Ended June 30			
	2018	2017	2016	2015
District's proportion of the net pension liability	0.0080%	0.0080%	0.0090%	0.0090%
District's proportionate share of the net pension liability	\$ 7,398,400	\$ 6,470,480	\$ 6,059,160	\$ 5,259,330
State's proportionate share of the net pension liability	4,376,867	3,684,071	3,204,619	3,811,011
Total	\$ 11,775,267	\$ 10,154,551	\$ 9,263,779	\$ 9,070,341
District's covered-employee payroll	\$ 4,536,769	\$ 4,595,807	\$ 4,349,414	\$ 4,191,737
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	163.08%	140.79%	139.31%	125.47%
Plan fiduciary net position as a percentage of total				

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY - CALPERS
Last Ten Fiscal Years*

	Year Ended June 30			
	2018	2017	2016	2015
Contractually required contribution	\$ 636,599	\$ 554,420	\$ 456,417	\$ 365,556
Contributions in relation to the contractually required contribution	(636,599)	(554,420)	(456,417)	(365,556)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 4,536,769	\$ 4,595,807	\$ 4,349,414	\$ 4,191,737
Contributions as a percentage of covered employee payroll	14.03%	12.06%	10.49%	8.72%

*This schedule will eventually present 10 years of information. However, it currently only provides the information for those years in which the information is available.

See the accompanying notes to the required supplementary information.

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
Last Ten Fiscal Years*

	Year Ended June 30			
	2018	2017	2016	2015
District's proportion of the net pension liability	0.01130%	0.01030%	0.01080%	0.01090%
District's proportionate share of the net pension liability	\$ 2,685,672	\$ 2,034,256	\$ 1,591,931	\$ 1,237,415
District's covered-employee payroll	\$ 1,628,677	\$ 1,548,901	\$ 1,361,382	\$ 1,299,575
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	164.90%	131.34%	116.93%	95.22%
Plan fiduciary net position as a percentage of total pension liability	70.04%	73.90%	79.43%	83.38%

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2018

1. BUDGETS

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

2. TOTAL OPEB LIABILITY

There are no assets held in trust. There were no significant changes in benefits or assumptions.

3. PENSION – CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Benefit Changes

There were no changes in benefits terms that affected measurement of the total pension liability during the measurement period.

Changes in Assumptions

In 2017, the following assumptions were changed: inflation was decreased from 3.00% to 2.75%, investment rate of return was decreased from 7.60% to 7.10%, and wage growth was decreased from 3.75% to 3.50%.

4. PENSION – CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefit Changes

There were no changes in benefits terms that affected measurement of the total pension liability during the measurement period.

Changes in Assumptions

For the measurement date ended June 30, 2017, the accounting discount rate was reduced from 7.65% to 7.15%

SUPPLEMENTARY INFORMATION

**DURHAM UNIFIED SCHOOL DISTRICT
LOCAL EDUCATIONAL AGENCY ORGANIZATION**

June 30, 2018

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

Member	Office	Term Expires
Todd Southam	President	2018
Lance Smith	Secretary	2018
Alex DuBose	Member	2020
Kathy Horn	Member	2020
Ed McLaughlin	Member	2020

ADMINISTRATION

Lloyd Webb, Superintendent
Ron Sherrod, Assistant Superintendent

DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
Year Ended June 30, 2018

	Second Period Report	Annual Report
TK/K through grade 3		
Regular ADA	311	312
Total TK/K through grade 3	311	312
Grades 4 through 6		
Regular ADA	233	233
Nonpublic, Nonsecretarian Schools	1	1
Total grades 4 through 6	234	234
Grades 7 and 8		
Regular ADA	155	155
Total grades 7 and 8	155	155
Grades 9 through 12		
Regular ADA	266	267
Total grades 9 through 12	266	267
ADA Totals	966	968

See the accompanying notes to the supplementary information.

**DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME**

Year Ended June 30, 2018

Grade Level	Minutes Requirement	2017-18 Actual Minutes	Number of Days	Status
Kindergarten	36,000	36,000	180	Complied
Grade 1	50,400	54,500	180	Complied
Grade 2	50,400	54,500	180	Complied
Grade 3	50,400	54,500	180	Complied
Grade 4	50,400	54,500	180	Complied
Grade 5	54,000	54,500	180	Complied
Grade 6	54,000	56,380	180	Complied
Grade 7	54,000	56,380	180	Complied
Grade 8	54,000	56,380	180	Complied
Grade 9	64,800	66,280	180	Complied
Grade 10	64,800	66,280	180	Complied
Grade 11	64,800	66,280	180	Complied
Grade 12	64,800	66,280	180	Complied

See the accompanying notes to the supplementary information.

**DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**

Year Ended June 30, 2018

<u>Year Ended June 30</u>	<u>(Budget) 2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
General Fund**				
Revenues and Other Financing Sources	\$ 10,853,132	\$ 10,659,342	\$ 10,229,278	\$ 10,156,422
Expenditures and Other Financing Uses	10,911,337	10,886,206	10,633,355	9,686,068
Net Change in Fund Balance	\$ (58,205)	\$ (226,864)	\$ (404,077)	\$ 470,354
Ending Fund Balance	\$ 908,028	\$ 966,233	\$ 1,193,097	\$ 1,597,174
Available Reserves*	\$ 681,793	\$ 655,105	\$ 522,887	\$ 845,563
Available Reserves as a Percentage of Total Outgo	6.25%	6.02%	4.92%	8.73%
Total Long-Term Debt	\$ 11,224,708	\$ 12,873,798	\$ 9,906,985	\$ 8,226,880
Average Daily Attendance at P-2	975	966	949	938

The General Fund ending fund balance has decreased by \$630,941 over the past two years. The fiscal year 2018-19 budget projects a decrease of \$58,205 (6.02%). For a district this size, the State recommends available reserves of at least 4 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 incurring an operating deficit during the 2018-19 fiscal year. Total long-term debt has increased by \$4,646,918 over the past two years.

Average daily attendance has increased by 28 over the past two years. An increase of 9 ADA is anticipated during fiscal year 2018-19.

*Available reserves consist of all unassigned fund balance within the General Fund.

**For financial reporting purposes in the fund financial statements, the Special Reserve Fund for Other Than Capital Outlay has been combined as part of the General Fund to be in compliance with GASB Statement 54.

See the accompanying notes to the supplementary information.

**DURHAM UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS**

Year Ended June 30, 2018

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

See the accompanying notes to the supplementary information.

**DURHAM UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS**

Year Ended June 30, 2018

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

See the accompanying notes to the supplementary information.

DURHAM UNIFIED SCHOOL DISTRICT
NOTES TO THE SUPPLEMENTARY INFORMATION

Year Ended June 30, 2018

1. PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46201 through 46206. The District did not meet or exceed its local control funding formula target.

Schedule of Financial Trends and Analysis

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

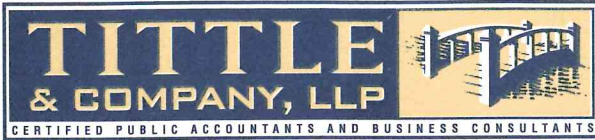
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

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

OTHER INDEPENDENT AUDITORS' REPORTS



TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA ■ CHANDESE D. MEGHDADI, 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*

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

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 the Durham Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) 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 the 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 responses. The 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.

Tittle & Company, LLP

Chico, California
December 14, 2018



TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA ■ CHANDESE D. MEGHDADI, CPA

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited the District's compliance with the types of compliance requirements described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of the District's state programs for the fiscal year ended June 30, 2018, as identified below.

Management's Responsibility

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 of the District's state 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 the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the Education Audit Appeals Panel. Those standards 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 occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In 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:

Program Name	Procedures Performed
LOCAL EDUCATION AGENCIES	
OTHER THAN CHARTER SCHOOLS:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not applicable
Continuation Education	Not applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not applicable
Middle or Early College High Schools	Not applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not applicable
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not applicable
CHARTER SCHOOLS:	
Attendance	Not applicable
Mode of Instruction	Not applicable
Nonclassroom-Based Instruction/Independent Study	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	Not applicable
Annual Instructional Minutes - Classroom Based	Not applicable
Charter School Facility Grant Program	Not applicable

Opinion on State Compliance

In our opinion, Durham Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs listed in the schedule above for the year ended June 30, 2018.

Tittle & Company, LLP

Chico, California
December 14, 2018

SCHEDULE OF FINDINGS AND RESPONSES

**DURHAM UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS**

Year Ended June 30, 2018

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

STATE AWARDS

Internal control over state programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified	No
Type of auditors' report issued on compliance for state programs:	Unmodified

**DURHAM UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENTS FINDINGS**

Year Ended June 30, 2018

INTERNAL CONTROL (CAFETERIA CLEARING)

30000 (2018-001)

Significant Deficiency

Condition

During our tests of internal controls for the cafeteria clearing account, we noted that cafeteria clearing account receipts were not transferred to the County Treasury in a timely manner.

Criteria

Internal controls should be in place to provide that Cafeteria clearing account deposits be transferred to the County Treasury on a monthly basis to allow cash sales to be recorded as local revenue.

Effect

Without strengthening internal controls over cash receipts, cafeteria assets may not be properly safeguarded. Additionally, the clearing account funds do not accrue the eligible Butte County Treasurer interest and are not available for necessary cash disbursements.

Recommendation

Procedures should be implemented to ensure cafeteria clearing account deposits are transferred to the County Treasurer on a monthly basis.

District Response

The District will implement procedures during the 2018-19 fiscal year to comply with the recommendation.

**DURHAM UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENTS FINDINGS**

Year Ended June 30, 2018

INTERNAL CONTROL (STUDENT BODY)

30000 (2018-002)

Significant Deficiency

Condition

During our tests over internal controls for Durham Elementary School and Durham Intermediate School student body funds, we noted that receipts were not being issued to the payer at the time of cash or check collection and that cash receipts were not being counted in the presence of two people. Deposits were also not being made in a timely manner resulting in a significant amount of cash on hand for an extended period of time. At Durham Elementary School, we also determined that duplicate receipts were being issued when deposits were being made.

Criteria

Internal controls should be in place to properly safeguard student body funds. Receipts should be prepared and issued to the payer at the time of cash or check collection. In addition, cash receipts should be counted in the presence of two people and both people should sign off on the amounts received. Duplicate or additional receipts should not be issued at the time of deposit.

Effect

Without having proper cash collection procedures, we are unable to determine if all of the student body funds were properly safeguarded and recorded.

Recommendation

Procedures should be implemented to strengthen internal controls over student body funds including the issuance of a receipt to the payer at the time of collection of funds. Cash receipts should be counted in the presence of two people and duplicate receipts should not be issued at the time of deposit.

District Response

The District administration will implement procedures during fiscal year 2018-19 to comply with the recommendation.

DURHAM UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

None.

DURHAM UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

None.

**DURHAM UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year Ended June 30, 2018

INTERNAL CONTROL (CAFETERIA CLEARING)

30000 (2017-001)

Significant Deficiency

Condition

During our tests of internal controls for the cafeteria clearing account, we noted that cafeteria clearing account receipts were not transferred to the County Treasury in a timely manner. It was done once at the end of fiscal year.

Criteria

Internal controls should be in place to provide that Cafeteria clearing account deposits be transferred to the County Treasury on a monthly basis to allow cash sales to be recorded as local revenue.

Effect

Without strengthening internal controls over cash receipts, cafeteria assets may not be properly safeguarded. Additionally, the clearing account funds do not accrue the eligible Butte County Treasurer interest and are not available for necessary cash disbursements.

Recommendation

Procedures should be implemented to ensure cafeteria clearing account deposits are transferred to the County Treasurer on a monthly basis.

Current Status

See current year finding at 2018-001.

**DURHAM UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year Ended June 30, 2018

INTERNAL CONTROL (STUDENT BODY)

30000 (2017-002)

Significant Deficiency

Condition

During our tests over internal controls of Durham Elementary School and Durham Intermediate School student body funds, we noted that receipts were not being issued to the payer at the time of collection of cash or checks and cash receipts were not being counted in the presence of two people.

Criteria

Internal controls should be in place to properly safeguard student body funds. Receipts should be prepared at the time of collection of funds and a copy of receipt issued to the payer. In addition, cash receipts should be counted in the presence of two people and both people should sign off on the amounts received.

Effect

Without having proper cash collection procedures, we are unable to determine if all of the student body funds were properly safeguarded and recorded.

Recommendation

Procedures should be implemented to strengthen internal controls over student body funds including the issuance of a receipt to the payer at the time of collection of funds and cash receipts being counted in the presence of two people.

Current status

See current year finding at 2018-002.

**DURHAM UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year Ended June 30, 2018

INTERNAL CONTROL (STUDENT BODY)

30000 (2017-003)

Significant Deficiency

Condition

During our test of internal controls over student body cash disbursements at Durham Elementary School, we found that one out of the five disbursements tested did not have proper authorization – the check did not have two signatures. Other cancelled checks were reviewed noting several additional occurrences with only one signature.

Criteria

Internal controls should be in place to provide that all student body expenditures have proper documentation and approval prior to payment.

Effect

Without strengthening internal controls over student body assets, funds may not be properly safeguarded and expensed for valid student body activities.

Recommendation

Procedures should be implemented to ensure that all disbursements have proper documentation and authorization prior to payment including two signatures on checks.

Current status

Fully implemented.

**DURHAM UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year Ended June 30, 2018

SCHOOL ACCOUNTABILITY REPORT CARD

72000 (2017-004)

Significant Deficiency

Condition

The information on the Facility Inspection Tool for Durham Intermediate School did not agree to the information reported on the 2015-16 SARC that was published during the 2017-18 school year.

Criteria

Education Code Section 33126 (b) (8) requires that information on the safety, cleanliness, and adequacy of school facilities be reported in the Schools Accountability Report Card. Pursuant to the provisions of subdivision (d) of Education Code Section 17002, school districts must complete a "Facility Inspection Tool (FIT), School Facility Conditions Evaluation" developed by the Office of Public School Construction or a local evaluation instrument that meets the same criteria.

Effect

The District is not in compliance with Education Code Section 33126 (b) (8) or Education Code Section 17002 (d) for accurate reporting on school facilities information for the school site or use of an evaluation instrument that meets the criteria, respectively.

Recommendation

We recommend that the District utilizes the Facilities Inspection Tool developed by the Office of Public School Construction and reports the results of this tool in the SARC.

Current status

Fully implemented.

**DURHAM UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year Ended June 30, 2018

ATTENDANCE (INDEPENDENT STUDY)

10000 (2017-005)

Significant Deficiency

Condition

During our tests over the Independent Study Program, we noted that apportionment was claimed for one student who was missing an independent study agreement.

Criteria

Pursuant of Education Code Section 51747, the District must maintain a current written agreement for each independent study pupil in order to be eligible to receive apportionment. Each written agreement shall be signed, prior to the commencement of independent study, by the pupil, the pupil's parent, legal guardian, or caregiver, if the pupil is less than 18 years of age, the certificated employee who has been designated as having responsibility for the general supervision of independent study, and all persons who have direct responsibility for providing assistance to the pupil.

Effect

Independent study average daily attendance (ADA) is overstated by 0.86 on the second period report of attendance and 1.00 on the annual report of attendance. The District is not eligible to claim apportionment for any independent study student unless a signed written agreement is completed prior to commencement of independent study. The current year LCFF state aid funding was overstated by \$7,219.

Recommendation

The District must amend both the P2 and Annual attendance reports for the independent study ADA adjustment. The District must maintain a current written agreement for each independent study pupil in order to be eligible to receive apportionment.

Current status

The District no longer participates in an independent study program.

**DURHAM UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year Ended June 30, 2018

ATTENDANCE

10000 (2017-006)

Significant Deficiency

Condition

A clerical error was noted in the calculation of ADA for the second period report of attendance.

Criteria

Pursuant of Education Code Section 46301, average daily attendance shall be computed by dividing the total number of days of pupil attendance allowed by the number of days school was actually taught. Average daily attendance (ADA) reported to the California Department of Education in the Reports of School District Attendance should be supported by an accurate summary of days of apportionment attendance and should be reviewed for accuracy by someone independent of the preparation of the reports.

Effect

ADA is understated by 1.17 on the second period report of attendance. The current year LCFF state aid funding was understated by \$9,822.

Recommendation

We recommend that the attendance worksheets, prepared to summarize the days of apportionment attendance, be reviewed for accuracy prior to preparing the second period and annual reports of attendance. In addition, we recommend that the second period report of attendance be amended for the error noted above.

Current status

Fully implemented.