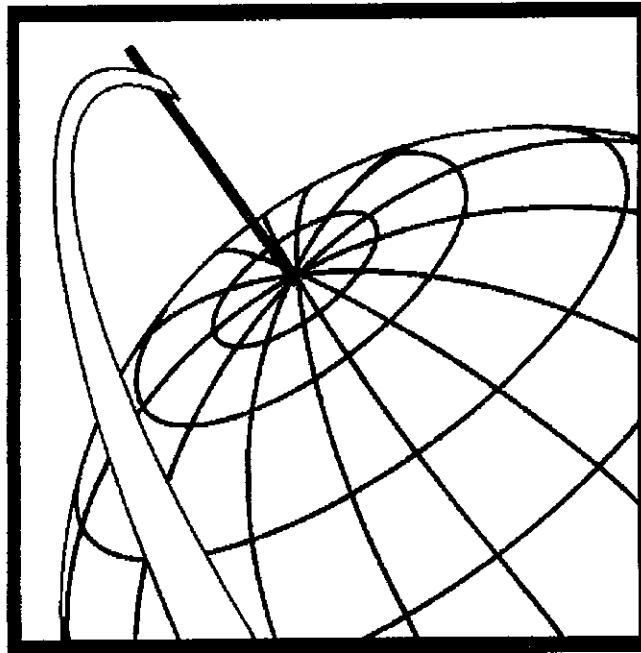


DURHAM PUBLIC SCHOOLS BOARD OF EDUCATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the year ended June 30, 2009



In collaboration with our community and parents, the mission of Durham Public Schools is to provide all students with an outstanding education that motivates them to reach their full potential and enables them to discover their interests and talents, pursue their goals and dreams, and succeed in college, in the workforce and as engaged citizens.

Durham, North Carolina

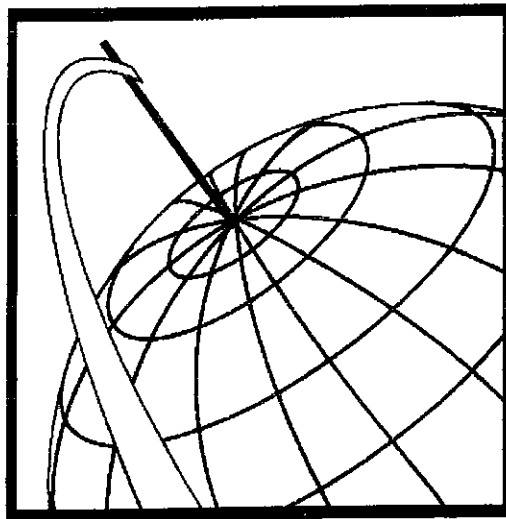
COMPREHENSIVE ANNUAL FINANCIAL REPORT

of the

DURHAM PUBLIC SCHOOLS BOARD OF EDUCATION

DURHAM, NORTH CAROLINA

For the Year Ended June 30, 2009



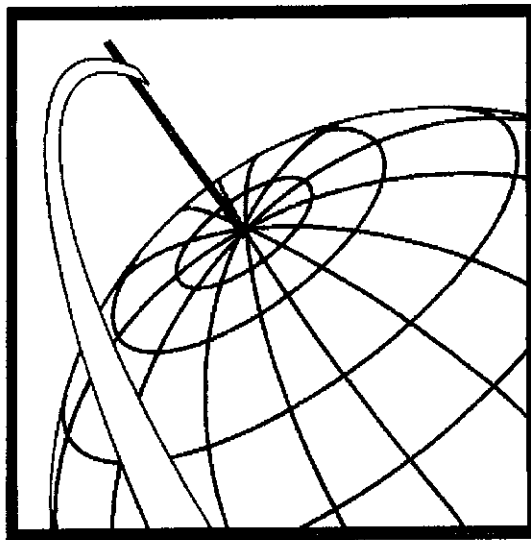
Prepared by

**H. Hank Hurd, Chief Operating Officer of
Administrative Services**

**Carolyn L. Olivarez, CPA
Executive Director of Finance/Finance Officer**

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INTRODUCTORY SECTION



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DURHAM PUBLIC SCHOOLS BOARD OF EDUCATION
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Durham Public Schools Board of Education

P. O. Box 30002 • Durham, NC 27702 • Telephone: 919-560-2000

Letter of Transmittal

December 15, 2009

To the Members of the Durham Public Schools Board of Education and Citizens of Durham County, North Carolina:

We are pleased to present the Comprehensive Annual Financial Report of the Durham Public Schools Board of Education for the year ended June 30, 2009. The Finance Department of Durham Public Schools has prepared this report, which includes the audited financial statements. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the district. To the best of our knowledge, the enclosed financial information is accurate in all material respects and is reported in a manner which fairly presents the financial position and results of operations of the various funds of the district. All disclosures necessary to enable the reader to gain an understanding of the district's financial activities are included.

The Report consists of four sections: Introductory, Financial, Statistical and Compliance. The Introductory Section, of which this transmittal letter is a part, includes a list of the Board members and principal officials, the district's organizational chart, and the Certificates of Achievement for Excellence in Financial Reporting awarded by the Governmental Finance Officers Association and of Excellence in Financial Reporting awarded by the Association of School Business Officials for the fiscal year ending June 30, 2008 Comprehensive Annual Financial Report. The Financial Section includes the independent auditors' report, management's discussion and analysis, the combined financial statements and the individual fund schedules arranged by fund type. The Statistical Section includes various tables of unaudited data providing financial history of the Board as well as demographic and other informative statistics of Durham County. The Compliance Section includes the compliance and internal control reports, the single audit reports, the schedule of findings and questioned costs, the corrective action plan, the schedule of prior year audit findings and the schedule of expenditures of federal and state awards.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Durham Public Schools Board of Education's MD&A can be found immediately following the report of the independent auditors.

**Durham Public Schools Board of Education
Letter of Transmittal (Continued)**

REPORTING ENTITY

Durham City Schools and Durham County Schools merged on July 1, 1992 to become the Durham Public Schools. Durham Public Schools Board of Education has total authority over non-charter public education in Durham County. The seven-member Board of Education is elected by the citizens of the county and is accountable to the citizenry for the educational and fiscal operations of the system's 52 schools. For 2008-2009 the school system served 32,313 students from kindergarten through 12th grade in 29 elementary schools, 9 middle schools, 9 high schools, and 5 special/optional schools. The Board is charged with the responsibility of providing a free and appropriate education for all students of Durham Public Schools. As defined by the Governmental Accounting Standards Board, the Durham Public Schools Board of Education is a separate reporting entity. These statements cover all financial resources of Durham Public Schools -- State, Federal, Local, Child Nutrition and Grants, as well as funds received at each school.

ECONOMIC CONDITION AND OUTLOOK

Durham Public Schools serves the diverse needs of the entire county of Durham, North Carolina, a 299-square-mile area with an approximate population of 265,290. Our enrollment of 32,313 students mirrors the diversity of the community, representing more than 64 nationalities and speaking more than 80 languages.

Durham is home to the Research Triangle Park (RTP), a 6,800-acre business tract established in 1959 by local businesses, academia, and industry. Located near Duke University in Durham, the University of North Carolina in Chapel Hill, and North Carolina State University in Raleigh, a major focus of the park is research. Even though it was established as a regional research park, approximately 75 percent of the park is located in Durham County. The park is home to industry leading firms such as IBM, GlaxoSmithKline, Ericsson, Cisco Systems, Research Triangle Institute and the U. S. Environmental Protection Agency, employing approximately 50,000 people. When one thinks of the computer industry, they typically think of Silicon Valley, but RTP is recognized as one of the hottest markets in the United States for "high tech" industries.

The City of Durham is the only municipality in Durham County and is known as the "City of Medicine" because of the importance that biotechnology, health care, and medical-related industries play in the city's economy. The metropolitan area of Raleigh-Durham-Chapel Hill is consistently ranked among the top U. S. metropolitan areas in economic performance. Our local economy has remained stable because of our diverse industrial base including medicine, research, education, "high-tech," telecommunications, and manufacturing.

Durham is home to the world-renowned Duke University and North Carolina Central University. Durham Technical Community College operates a successful industry-training program, which offers new and expanding companies with industrial, technical, and occupational classes specifically designed to meet their needs. Also located in Durham County is the Museum of Life and Science and the innovative North Carolina School of Science and Mathematics, a statewide residential high school for gifted students. Its strategic location, an excellent quality of life, and its ability to attract and retain quality businesses and industries bolster Durham County's economy.

**Durham Public Schools Board of Education
Letter of Transmittal (Continued)**

MAJOR INITIATIVES

Middle and High School Reform

“All middle schools meet or exceed their ABCs growth targets and their students exiting eighth grade on grade level. All high school students graduate from high school with 80 percent of them meeting UNC admission standards.”

These are among the ambitious goals set by teams of teachers, counselors, and administrators from Durham’s middle and high schools after a process of delving into data, researching what works and asking tough questions. Parents also were involved in the middle and high school reform meetings.

Although there had been some improvements in state test scores, achievement had been relatively flat in middle and high schools. Suspension and dropout numbers were unacceptably high, and too few students were graduating in four years. Middle and high schools implementation of these plans has begun. In addition to the following district goals, schools set additional goals in their school improvement plans.

Goals

Middle School:

- By 2009, 95 percent of students will exit eighth grade on grade level in reading, mathematics and science (as measured by No Child Left Behind’s Adequate Yearly Progress standard).
- Each year, all middle schools will meet or exceed their growth targets set by the State Board of Education and measured by North Carolina tests.

High School:

- By 2013, 100 percent of students will graduate from high school (as measured by the No Child Left Behind’s Adequate Yearly Progress standard).
- By 2009, 90 percent of graduating students will complete a college tech prep or college university prep course of study.
- By 2009, 80 percent of graduating students will meet the course requirements for admission to the University of North Carolina system.

Support of Families and the Durham Community

Increasing the achievement of students requires more than just quality instruction at school. DPS fully recognizes that families and the broader community have an important role to play in reaching these challenging goals. DPS is strengthening partnerships with the faith and business community, reaching out to parents through the hiring of a full-time parent involvement coordinator, bolstering communications and making every effort to be more visible in the community. DPS is committed to ensuring ongoing and clear communication with all stakeholders.

**Durham Public Schools Board of Education
Letter of Transmittal (Continued)**

Choice Programs

During 2005, DPS surveyed more than 3,000 parents and community residents to solicit input toward developing a Choice Schools Plan, expanding and refining DPS' instructional offerings. Both online and print surveys were distributed throughout the community, and DPS officials held more than 90 meetings at schools, communities of faith and neighborhood community centers.

From the input gathered, a Choice Schools Plan was developed. Several public hearings on the plan were held and the plan was presented to the Board of Education.

DPS has opened several small high schools in the last several years. The Josephine D. Clement Early College High School, Middle College High School at Durham Technical Community College, Hillside New Tech High School, Southern School of Engineering and Performance Learning Center all provide small classroom sizes, individualized instruction and a sharpened focus around specific areas of learning and career preparation.

FINANCIAL AND BUDGETARY CONTROLS

The State of North Carolina is the primary funding source for public education in North Carolina. Minimum program criteria are determined and funded per school system. Once minimum programs are established, the remaining funds are allocated on a per-pupil basis. Local funds are appropriated in varying amounts by each county to supplement the basic educational programs. These local monies are derived primarily from the general tax levy of the county. Federal funds are received through the state operating as a conduit to address the needs of identified categorical groups of students qualifying for federal funding.

The management of the school system is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the school system are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

North Carolina General Statutes require all governmental units to adopt a balanced budget by July 1 of each year. Our budget resolution is adopted at the purpose level for the General and Special Revenue Funds. The Capital Projects Fund budget is adopted at the project level. The Enterprise Fund budget is adopted at the fund level. By statute, the Fiduciary Fund is not a part of the budget resolution adopted by the Board of Education. The objective of these budgetary controls is to ensure compliance with legal provisions of the adopted resolution.

Durham Public Schools Board of Education
Letter of Transmittal (Continued)

An encumbrance accounting system is used to record outstanding purchase commitments. Open encumbrances at year end are either canceled or are included as a reservation of fund balance in the subsequent year.

Durham Public Schools uses a fund accounting system. Each fund is a self-balancing set of accounts, segregated for the purpose of accounting for specific activities in accordance with law, sound accounting practice, special regulation or other limitations. There are three categories of funds, Governmental, Proprietary, and Fiduciary. The Governmental Funds have now been expanded to include the individual school funds. Further explanation of these funds has been detailed in the Management's Discussion and Analysis section within the Financial Section of this report.

The Governmental Funds use the modified accrual basis of accounting, while the Proprietary and Fiduciary use the full accrual basis of accounting.

CASH MANAGEMENT

Employees of the school system who collect monies are required to make daily deposits unless the amount on hand is less than \$100. Money belonging to the school system or individual school must be deposited in an official depository.

Durham Public Schools primarily uses the North Carolina State Treasurer's Short-Term Investment Fund to invest idle funds. Funds invested in the Short-Term Investment Fund can be called at any time, and the Fund invests only in high-quality fixed income securities. General Statute 147-69.1 governs what securities are eligible for purchase by the Fund. The Fund can invest in securities with maturities ranging from overnight to seven years.

DPS also invests funds in the North Carolina Cash Management Trust (NCCMT) for many of the same reasons. The NCCMT invests in high quality securities for a shorter term, and the rate of return has been slightly below the North Carolina State Treasurer's Short-Term Investment Fund but above the local banks.

RISK MANAGEMENT

Durham Public Schools has a risk management program which includes a combined program of self-insurance and commercial insurance. This program is reviewed at least quarterly to ensure adequate coverage for the district and that it remains within budgeted resources. The Board does maintain an insurance reserve of approximately 1.8 million dollars for its self-insurance program.

**Durham Public Schools Board of Education
Letter of Transmittal (Continued)**

ADDITIONAL INFORMATION

Independent Audit – Rives & Associates, LLP, Certified Public Accountants, has audited the Financial Statements and the Individual Fund Schedules. These statements, as well as the auditor's unqualified opinion, appear in the Financial Section of this report. These financial statements were audited under the requirements of the Single Audit Act, and the compliance reports appear in the Compliance Section.

Certificates - For the years 1993-94 through 2007-08, the Comprehensive Annual Financial Report for Durham Public Schools earned the Government Finance Officers Association (GFOA) **Certificate of Achievement for Excellence in Financial Reporting**, and the Association of School Business Officials (ASBO) **Certificate of Excellence in Financial Reporting**. These are prestigious national awards which recognize conformance with the highest standards for preparation of state and local government financial reports. To be eligible for these recognitions, the governmental unit must publish a comprehensive annual financial report that is easily readable, efficiently organized, and whose contents conform to program standards. The report must satisfy generally accepted accounting principles and applicable legal requirements. The awards are valid for a period of one year only. We believe the accompanying report continues to conform to GFOA and ASBO requirements, and we will submit it to GFOA and ASBO to determine its eligibility for recognition.

Acknowledgment - The preparation of the Comprehensive Annual Financial Report on a timely basis could not have been accomplished without the efforts and dedication of the staff of Durham Public Schools and the independent audit firm. Separate acknowledgment goes to the finance department for their contributions. We would like to express our appreciation to all of the employees who contributed to the development of this report and to the Durham County government, Durham City government, and the Durham Chamber of Commerce for providing statistical data.

Respectfully submitted,



Carl E. Harris, Ed.D.
Superintendent



H. Hank Hurd
Chief Operating Officer



Carolyn L. Olivarez
Executive Director for Financial Services/Finance Officer

*Durham Public Schools Board of Education
Board of Education Members*

LIST OF PRINCIPAL OFFICIALS
June 30, 2009

BOARD OF EDUCATION

Ms. Minnie Forte-Brown, Chair

Heidi Carter, Vice-Chair
Leigh Bordley
Pastor Fredrick Davis
Kirsten Kainz
Steve Martin
Omega Curtis Parker

SUPERINTENDENT

Dr. Carl E. Harris

CHIEF OPERATING OFFICER

H. Hank Hurd

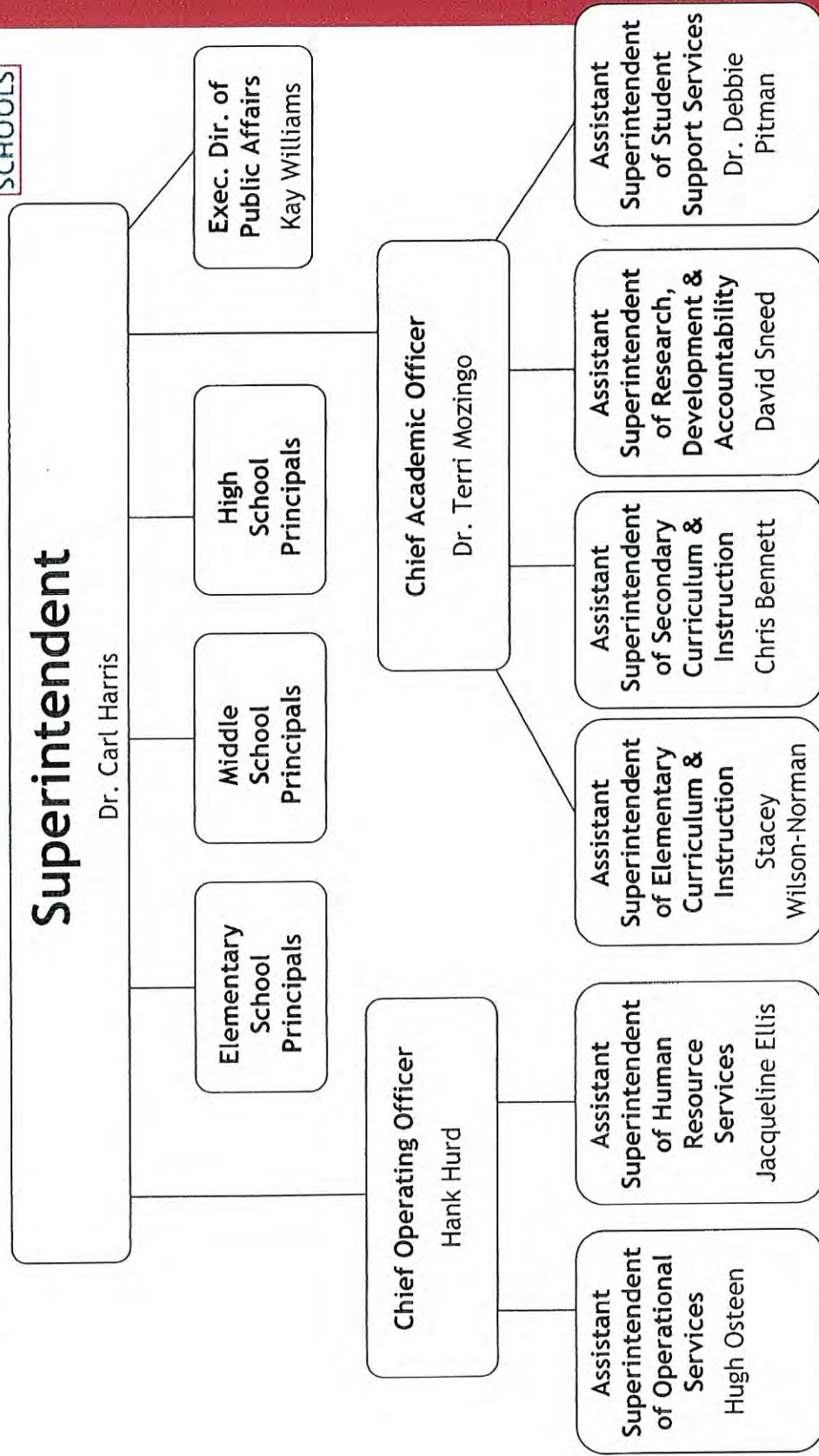
EXECUTIVE DIRECTOR FINANCE/FINANCE OFFICER

Carolyn L. Olivarez

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2008-09

Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Durham Public Schools
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "M. L. R.", written in a cursive style.

President

A handwritten signature in black ink, reading "Jeffrey R. Emer", written in a cursive style.

Executive Director

**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL**



This Certificate of Excellence in Financial Reporting is presented to

DURHAM PUBLIC SCHOOLS

For its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended June 30, 2008

Upon recommendation of the Association's Panel of Review which has judged that the Report substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

Angela Petrucci

President

John D. Quinn

Executive Director

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